

# Instructions for Form 6198

## At-Risk Limitations

Section references are to the Internal Revenue Code unless otherwise noted.

## General Instructions

### What's New

The following rules apply to amounts borrowed after May 3, 2004.

- You must file Form 6198 if you are engaged in an activity included in (6) under *At-Risk Activities* and you have borrowed amounts described in (3) under *Amounts Not at Risk*.
- You may be considered at risk for amounts described in (3) under *Amounts Not at Risk* secured by real property used in the activity of holding real property (other than mineral property) that, if nonrecourse, would be qualified nonrecourse financing.

### Purpose of Form

Use Form 6198 to figure:

- The current year profit (loss) from an at-risk activity for 2004 (Part I).
- The amount at risk for 2004 (Part II or Part III).
- The deductible loss for 2004 (Part IV).

The at-risk rules of section 465 limit the amount of the loss you can deduct to the amount at risk.

For more details, see Pub. 925, *Passive Activity and At-Risk Rules*.

### Who Must File

Form 6198 is filed by individuals (including filers of Schedules C, E, and F (Form 1040)), estates, trusts, and certain closely held C corporations described in section 465(a)(1)(B), as modified by section 465(a)(3).

File Form 6198 if during the tax year you, a partnership in which you were a partner, or an S corporation in which you were a shareholder had any *Amounts Not at Risk* (see this page) invested in an at-risk activity (defined below) that incurred a loss.

### At-Risk Activities

The at-risk limitation rules apply to losses from the following activities carried on as a trade or business or for the production of income.

- Holding, producing, or distributing motion picture films or video tapes.

- Farming as defined in section 464(e)(1).

- Leasing any section 1245 property as defined in section 1245(a)(3).



*Certain equipment leasing activities by closely held C corporations are not subject to the at-risk rules. See sections 465(c)(4), (5), and (6).*

- Exploring for or exploiting oil and gas resources.

- Exploring for or exploiting geothermal deposits as defined in section 613(e)(2).

- Any other activity that is not included in (1) through (5) above.

**Exception.** Holding real property placed in service before 1987 and holding an interest acquired before 1987 in a partnership, an S corporation, or other pass-through entity already engaged in an activity of holding real property before 1987 are not affected by the at-risk rules. This exception does not apply to holding mineral property.



*A special exception to the at-risk rules applies to a qualifying business of a qualified C corporation. See Pub. 925 for details.*

### Amounts Not at Risk

You are not considered at risk for any of the following.

- Nonrecourse loans used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity (unless the nonrecourse loan is secured by your own property that is not used in the activity). However, you are considered at risk for qualified nonrecourse financing secured by real property used in the activity of holding real property (other than mineral property). See *Qualified Nonrecourse Financing*.

- Cash, property, or borrowed amounts used in the activity that are protected against loss by a guarantee, stop-loss agreement, or other similar arrangement (excluding casualty insurance and insurance against tort liability).

- Amounts borrowed for use in the activity from a person who has an interest in the activity other than as a creditor or who is related under section 465(b)(3)(C) to a person (except you) having such an interest. However, this does not apply to (a) amounts borrowed by a corporation from a person whose only interest in the activity is as a shareholder of the corporation, or (b) amounts borrowed after May 3, 2004, and secured by real property used in the activity of holding real property (other than mineral property) that, if nonrecourse, would be qualified nonrecourse financing. See Pub. 925 for definitions.

- Any cash or property contributed to the activity or to your interest in the activity that is:

- Financed through nonrecourse indebtedness or protected against loss through a guarantee, stop-loss agreement, or other similar arrangement, or

- Borrowed from a person who has an interest in the activity other than as a creditor or who is related under section 465(b)(3)(C) to a person (except you) having such an interest. However, this does not apply to (i) amounts borrowed by a corporation from a person whose only interest in the activity is as a shareholder of the corporation, or (ii) amounts borrowed after May 3, 2004, and secured by real property used in the activity of holding real property (other than mineral property) that, if nonrecourse, would be qualified nonrecourse financing. See Pub. 925 for definitions.

You do not have to file Form 6198 if you are engaged in an activity included in (6) under *At-Risk Activities* and you only have amounts borrowed before May 4, 2004, that are described in (3) under *Amounts Not at Risk*.

### Qualified Nonrecourse Financing

Qualified nonrecourse financing is financing for which no one is personally liable for repayment and is:

- Borrowed by you in connection with holding real property,
- Secured by real property used in the activity,

- Not convertible debt, and
- Loaned or guaranteed by any federal, state, or local government, or borrowed by you from a qualified person (defined below).

See Regulations section 1.465-27 for details, including rules for partnership liabilities and disregarded entities. This section is effective for any financing incurred on or after August 4, 1998, but taxpayers can apply the section retroactively.

A qualified person is a person who actively and regularly engages in the business of lending money (for example, a bank or savings and loan association).

A qualified person is not:

- A person related to you unless the person would be a qualified person but for the relationship and the nonrecourse financing is commercially reasonable and on the same terms as loans to unrelated persons,
- The seller of the property (or a person related to the seller), or
- A person who receives a fee as a result of your investment in the property (or a person related to that person).

## Aggregation or Separation of Activities

File one form if your activities are listed under the aggregation rules. File a separate form for each activity if your activities are listed under the separation rules.

**Aggregation rules.** All section 1245 properties that are leased or held for lease and placed in service in any tax year of a partnership or an S corporation are treated as one activity. A partner in a partnership or an S corporation shareholder can aggregate and treat as a single activity all of the properties of that partnership or S corporation that are included within each of categories (1), (2), (4), and (5) under *At-Risk Activities* on page 1.

Activities described in (6) under *At-Risk Activities* on page 1 that constitute a trade or business are treated as one activity if (a) the taxpayer actively participates in the management of that trade or business, or (b) the business is carried on by a partnership or an S corporation and 65% or more of the losses for the tax year are allocable to persons who actively participate in the management of the trade or business. Similar rules apply to activities described in (1) through (5) under *At-Risk Activities* on page 1.

**Separation rules.** Your activity with respect to each film, video tape, section 1245 property that is leased or held for

lease, farm, holding of real property, oil and gas property (as defined in section 614), or geothermal property (as defined in section 614) that is not aggregated with other activities under the above rules is treated as a separate activity.

Each investment that is not a part of a trade or business is treated as a separate activity.

## Specific Instructions

If you are engaged in more than one at-risk activity or in both at-risk activities and not-at-risk activities, you must allocate income, gains, losses, and deductions to each activity.

Partnerships and S corporations must give their partners and shareholders a separate statement of income, expenses, and deductions for each at-risk and not-at-risk activity.

When filling in Parts I, II, and III, enter only amounts that relate to the activity included on this form. Use accepted tax accounting methods to figure the amounts to enter.

If you are a partner or an S corporation shareholder, enter any items for the activity that are from your investment in the activity or were passed through to you on Schedule K-1 or a similar statement.

**Description of activity.** After the description of the activity, if applicable, enter the name and identifying number of the partnership or S corporation.

## Part I—Current Year Profit (Loss) From the Activity, Including Prior Year Nondeductible Amounts

**Taxpayers other than partners or S corporation shareholders.** If you have losses or deductions from an earlier tax year that you could not deduct because of the at-risk rules, include those amounts on the appropriate form or schedule of your current year tax return before starting Part I. For example, if in 2003 your Schedule C had a \$1,500 loss on line 31, but because of the at-risk rules your loss was limited to \$500, include the \$1,000 on your 2004 Schedule C in Part V, *Other Expenses*, and identify it as a prior year loss.

**Partners and S corporation shareholders.** If you have a loss or a deduction from an earlier tax year that you could not deduct because of the at-risk rules, these losses and deductions must be included in the

current year amounts you enter in Part I. For example, if in 2003 your Schedule K-1 had a \$1,500 loss on line 1, but because of the at-risk rules your loss was limited to \$500, include both the \$1,000 loss from 2003 and the amount from your 2004 Schedule K-1 on line 1 of Form 6198.

**Closely held corporations.** A closely held corporation must apply the limitation on the deduction for interest expense under section 163(j) before applying the at-risk limitations.

## Line 1

### Ordinary Income (Loss)

**Taxpayers other than partners or S corporation shareholders.** Enter your ordinary income or loss from the at-risk activity without regard to the at-risk limitations. This is the amount you get when you subtract your total deductions (including prior year deductions that were not allowed because of the at-risk rules) from your total income from the activity for the current year.

Do not include on line 1 capital or ordinary gains and losses from the sale or other disposition of assets used in the activity or of an interest in the activity. These amounts, casualty or theft gains and losses, and investment interest expense are entered on lines 2a, 2b, 2c, and 4.

**Partners and S corporation shareholders.** Enter the amount from box 1 of your current year Schedule K-1 (Form 1065 or Form 1120S) (plus any prior year ordinary loss that you could not deduct because of the at-risk rules). In the case of a partner in an electing large partnership, a partner's share of at-risk activity income or loss may be reported in box 1 or 2a of Schedule K-1 (Form 1065-B), Partner's Share of Income (Loss) From an Electing Large Partnership.

### Lines 2a, 2b, and 2c

#### Gain (Loss)

Combine long- and short-term capital gains and losses and ordinary gains and losses from the sale or other disposition of assets used in the activity or of your interest in the activity. Enter gains and losses without regard to the at-risk limitations, the limitation on capital losses, or the passive activity loss limitations. If more than one item is included on a line, attach a statement describing each item.

Do not include amounts on lines 2a and 2b that are included on line 2c. Enter the form number or schedule letter to the left of the entry space for line 2c. For example, if you file Form 4684, Casualties and Thefts,

and carry amounts from that form to Form 4797, Sales of Business Property, either (a) enter the amounts attributable to the activity from Form 4684 on line 2c and enter "Form 4684" on the dotted line next to the entry space, or (b) enter the amount attributable to the activity carried from Form 4684 to Form 4797 on line 2b. If you carry a loss from Form 4684 to Schedule A (Form 1040), enter on line 2c either the loss from Schedule A or the loss from Form 4684.

**Taxpayers other than partners or S corporation shareholders.** Include on your current year Schedule D, Form 4797, or other forms and schedules any prior year losses that you could not deduct because of the at-risk rules.

**Partners and S corporation shareholders.** Include on lines 2a, 2b, and 2c your current year gains and losses and prior year losses attributable to the activity that you could not deduct because of the at-risk rules.

## Line 3

### Other Income and Gains From the Activity

If you were a partner or S corporation shareholder, include on line 3 other income and gains from Schedule K-1 that you did not include on lines 1 through 2c.

## Line 4

### Other Deductions and Losses From the Activity

If you were a partner or S corporation shareholder, include on line 4 other deductions and losses from Schedule K-1 that you did not include on lines 1 through 2c.

If you have investment interest expense from your at-risk activity, first complete Form 4952, Investment Interest Expense Deduction, to figure your allowable investment interest deduction.

If you have investment interest expense from other activities on Form 4952, determine the allowable investment interest deduction attributable to the at-risk activity included on line 8 of Form 4952, and enter that amount on line 4 of Form 6198. You must reduce the allowable investment interest deduction on Form 4952 by the amount you carry to Form 6198. If you filed Form 6198 in 2003, include on line 4 of Form 6198 any investment interest expense from 2003 that was limited because of the at-risk rules.

## Line 5

### Current Year Profit (Loss)

If line 5 shows a current year profit, you may not have to complete the rest of this form. Report all of the income, gains, deductions, and losses shown on lines 1 through 4 on the forms and schedules normally used, and attach them to your tax return. Also attach Form 6198 and keep a copy for your records.

If your current year profit is from a passive activity and you have a loss from any other passive activity, see the Instructions for Form 8582, Passive Activity Loss Limitations, or the Instructions for Form 8810, Corporate Passive Activity Loss and Credit Limitations, whichever applies.



*Even if you have a current year profit on line 5, you may have recapture income if you received a distribution or had a transaction during the year that reduced your amount at risk in the activity to less than zero at the close of the tax year. See Pub. 925 for information on the recapture rules.*

If line 5 shows a current year loss, your loss may be limited to the income or gains, if any, included on lines 1, 2, and 3. Separate the items of income, gains, deductions, and losses on lines 1 through 4. The income and gains are fully reportable on your tax return. The deductions and losses are allowable (subject to any other limitation such as the passive activity rules) to the extent of the income and gains. To determine the allowable portion of each deduction or loss, divide each deduction or loss from the activity by the total loss from the activity on line 5. Then, multiply the total income and gains by this fraction.

Complete the rest of the form to see how much, if any, of the excess loss can be deducted.

**Example.** Jill has a Schedule C loss of \$4,600 on line 1 and a Schedule D gain of \$3,100 on line 2a. Line 5 shows a current year loss of \$1,500. Jill reports the \$3,100 gain on Schedule D and can deduct \$3,100 of the \$4,600 loss on Schedule C. Jill completes Part II or Part III of Form 6198 and determines that only \$600 of the \$1,500 excess loss on line 5 is deductible in the current year. She replaces the \$4,600 loss first entered on Schedule C with \$3,700 (\$3,100 + \$600), the total loss allowed in the current year.

## Part II—Simplified Computation of Amount At Risk

Part II is a simplified method of figuring your amount at risk. It can be used only if you know your adjusted basis in the activity or in your interest in the partnership's or S corporation's at-risk activity.

Part III is a longer method of figuring your amount at risk, which may allow a larger amount at risk. You do not need to complete Part II if you use Part III.

## Line 6

### Adjusted Basis on the First Day of Tax Year

**Sole proprietors.** Filers of Schedules C and F (Form 1040) must not reduce the amount on this line by any liabilities. See Pub. 551, Basis of Assets, for rules on adjusted basis.

**Partners.** To figure the adjusted basis, see Pub. 541, Partnerships.

**S corporation shareholders.** To figure the adjusted basis, see the Instructions for Form 1120S.



*If the partnership or S corporation is engaged in more than one at-risk activity or in both at-risk activities and not-at-risk activities, you must figure the part of your adjusted basis that is allocable to each at-risk activity. See Aggregation or Separation of Activities on page 2 to determine each at-risk activity in which a partnership or S corporation is engaged.*

## Line 7

### Increases for the Tax Year

Do not include the current year income or gains shown on lines 1 through 3.

Include changes during the current tax year in amounts that increase your amount at risk, such as the following.

1. Net fair market value (FMV) of property you own (not used in the activity) that secures nonrecourse loans used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity. Include the nonrecourse loans on line 9 (if included on line 6). Generally, the net FMV is determined when the property is pledged as security for the loan.

Do not enter the net FMV if (a) the nonrecourse loan was from a person who has an interest in the activity other than as a creditor or who is related under section 465(b)(3)(C) to a person (except you) having such an interest, and (b) the activity is described in (1)

through (5) or (6) for amounts borrowed after May 3, 2004) under *At-Risk Activities* on page 1. However, (a) does not apply to amounts borrowed by a corporation from a person whose only interest in the activity is as a shareholder of the corporation. See Pub. 925 for definitions.

2. Cash and the adjusted basis of other property (determined at the time of the contribution) contributed to the activity during the tax year. However, if you used your own assets to repay a nonrecourse debt and you included an amount in (1) beginning on page 3, the amount included as repayments cannot be more than the amount by which the balance of the loan at the time of repayment exceeds the net FMV of property you own (not used in the activity) that secures the debt.

3. Loans used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity for which you are personally liable, and qualified nonrecourse financing (defined on page 1). Do not enter amounts included in (2) above or on line 6.

4. Percentage depletion for this year deducted in excess of the adjusted basis of depletable property for the activity.

## Line 9

### Decreases for the Tax Year

Do not include the current year deductions or losses shown on lines 1 through 4.

Include changes during the current tax year in amounts that decrease your amount at risk, such as the following.

1. Nonrecourse loans (including recourse loans changed to nonrecourse loans) other than qualified nonrecourse financing (defined on page 1) used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity. Only amounts included on line 6 can be entered on line 9.

2. Cash, property, or borrowed amounts protected against loss by a guarantee, stop-loss agreement, or other similar arrangement. Enter this amount only if it was included on line 6. Do not include items covered by casualty insurance or insurance against tort liability.

3. Amounts borrowed from a person who has an interest in the activity other than as a creditor or who is related under section 465(b)(3)(C) to a person (except you) having such an interest. This does not apply to (a) amounts borrowed by a corporation from a person whose only interest in the activity is as a shareholder of the

corporation, or (b) amounts borrowed after May 3, 2004, and secured by real property used in the activity of holding real property (other than mineral property) that, if nonrecourse, would be qualified nonrecourse financing. Enter these amounts only if they were included on line 6 and not included under (1) or (2) above. This applies only to activities described in (1) through (5) under *At-Risk Activities* on page 1. See Pub. 925 for definitions and more details.

4. Withdrawals and distributions during the tax year — both cash and the adjusted basis of noncash items (less nonrecourse liabilities to which the noncash items are subject) — including assets used in the activity to repay certain debts.

5. Nonrecourse liabilities included on line 6 of property you contributed to the activity.

## Line 10b

### Amount At Risk

If the amount on this line is smaller than your overall loss from the activity (line 5), you may want to complete Part III to see if Part III gives you a larger amount at risk.



*If the amount on line 10b is zero, you may be subject to the recapture rules. See Pub. 925.*

## Part III—Detailed Computation of Amount At Risk

If you completed Part III of Form 6198 for this activity for 2003, skip lines 11 through 14. Then, see the instructions for lines 15 and 16 that begin on page 5, and the instructions for line 18 on page 7, to determine the amounts to enter on those lines.

If the activity began on or after one of the effective dates shown below and you did not complete Part III of Form 6198 for this activity for 2003, skip lines 11 through 14. Enter -0- on line 15 and complete the rest of Part III.

### Effective Dates

Generally, the effective date is the first day of the first tax year beginning after 1975 if the activity is described in (1) through (4) under *At-Risk Activities* on page 1.

If the activity is described in (5) under *At-Risk Activities* on page 1, the effective date is usually October 1, 1978, for wells started after September 30, 1978. Generally, a well started before October 1, 1978, is not subject to the at-risk rules.

The activity of holding real property is subject to the at-risk rules for property placed in service after 1986, and for an interest acquired after 1986 in an S corporation, partnership, or other pass-through entity engaged in an activity of holding real property. An activity of holding real property does not include the holding of mineral property. Holding mineral property may be subject to at-risk limitations other than the special rules that apply to activities of holding real property.

In most cases, the effective date for all other at-risk activities is the first day of the first tax year beginning after 1978.

If you are a partner or an S corporation shareholder, the date you became a partner or shareholder may determine whether you are subject to the at-risk rules.

## Line 11

### Investment in the Activity at the Effective Date

**Taxpayers other than partners or S corporation shareholders.** Use the Line 11 Worksheet and its instructions on page 5 to figure your investment in the activity at the effective date. Enter all amounts as of the effective date.

**Partners and S corporation shareholders.** Enter on line 11 the basis of your investment in the partnership or S corporation at the effective date. If the partnership or S corporation is engaged in both at-risk and not-at-risk activities, allocate your investment between the at-risk and not-at-risk activities. Enter the part that is allocable to the at-risk activity on line 11.

## Line 12

### Increases at Effective Date

Enter your share of amounts such as the following.

1. Net FMV of your own property (not used in the activity) that secures nonrecourse loans used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity that will be included on line 14. Generally, the net FMV is determined when the property is pledged as security for a loan.

Do not enter the net FMV if (a) the nonrecourse loan was from a person who has an interest in the activity other than as a creditor or who is related under section 465(b)(3)(C) to a person (except you) having such an interest, and (b) the activity is described in (1) through (5) under *At-Risk Activities* on page 1. However, (a) does not apply to amounts borrowed by a corporation from a person whose only interest in

the activity is as a shareholder of the corporation. See Pub. 925 for definitions. If the activity is described in (6) under *At-Risk Activities* on page 1, you can include these amounts.

2. Total losses from years before the effective date for which there were equal or greater amounts not at risk at year end. Use the Line 12 Worksheet and its instructions on page 6 to figure this amount.

Make all entries on a year-by-year basis. Include amounts only for years before the effective date. Do not accumulate totals of earlier losses or nonrecourse debts.



*If you took a deduction for percentage depletion for an item of depletable property in excess of the adjusted basis of the property in a year for which you had a loss for the activity, subtract the amount of the excess from the loss for that year.*

## Line 14

### Decreases at Effective Date

Enter your share of amounts such as the following.

1. Nonrecourse loans outstanding at the effective date used to finance the

activity, to acquire property used in the activity, or to acquire your interest in the activity, including recourse loans changed to nonrecourse loans. Enter this amount only if it was included on line 11.

2. Cash, property, or borrowed amounts, protected against loss by a guarantee, stop-loss agreement, or other similar arrangement outstanding at the effective date. Enter this amount only if it was included on line 11. Do not include items covered by casualty insurance or insurance against tort liability.

3. Amounts outstanding at the effective date borrowed from a person who has an interest in the activity other than as a creditor or who is related under section 465(b)(3)(C) to a person (except you) having such an interest. This does not apply to amounts borrowed by a corporation from a person whose only interest in the activity is as a shareholder of the corporation. Enter these amounts only if they were included on line 11 and not included under (1) or (2) above. This applies only to activities described in (1) through (5) under *At-Risk Activities* on page 1. See Pub. 925 for definitions and more details.

4. If you are not an S corporation shareholder, also include liens and encumbrances on property you contributed to the activity that are included on line 11. If you are an S corporation shareholder, do not include any loans that were assumed by the corporation or that were liens or encumbrances on property you contributed to the corporation if the corporation took the property subject to the debt.

## Line 15

### Amount At Risk

If you completed Part III of Form 6198 for 2003, check box b and enter the amount from line 19b of the 2003 form on this line.



*Do not enter the amount from line 10b of the 2003 form. Also, do not include on this line any amounts that are not at risk.*

## Line 16

### Increases

If you completed Part III of Form 6198 for 2003, check box b and enter on this line any increases described in (1)

## Line 11 Worksheet—Figure Your Investment in the Activity at the Effective Date



(If the activity began on or after the effective date, do not complete this worksheet.)

(keep for your records)

1.	Cash on hand and in banks for the activity . . . . .	1.	_____
2.	Inventories for the activity . . . . .	2.	_____
3a.	Cost or other basis of depreciable assets for the activity (see instructions below) . . . . .	3a.	_____
b.	Accumulated depreciation for the activity . . . . .	3b.	_____
4.	Adjusted basis of depreciable assets for the activity. Subtract line 3b from line 3a . . . . .	4.	_____
5a.	Cost or other basis of depletable assets at the time contributed to the activity . . . . .	5a.	_____
b.	Accumulated depletion taken on or after property was contributed to the activity . . . . .	5b.	_____
6.	Adjusted basis of depletable assets for the activity. Subtract line 5b from line 5a . . . . .	6.	_____
7.	Adjusted basis of land for the activity (net of any amortization) . . . . .	7.	_____
8.	Other assets for the activity . . . . .	8.	_____
9.	Cash basis taxpayer investment in the activity at the effective date. Add lines 1, 2, 4, 6, 7, and 8. Enter here and on Form 6198, line 11. (Accrual basis taxpayers also complete lines 10a through 14 below to figure the amount to enter on Form 6198, line 11.) . . . . .	9.	_____
10a.	Trade notes and accounts receivable for the activity . . . . .	10a.	_____
b.	Reserve for bad debts for the activity (see instructions below) . . . . .	10b.	_____
11.	Net receivables for the activity. Subtract line 10b from line 10a . . . . .	11.	_____
12.	Add lines 9 and 11 . . . . .	12.	_____
13.	Accounts payable for the activity . . . . .	13.	_____
14.	Accrual basis taxpayer investment in the activity at the effective date. Subtract line 13 from line 12. Enter here and on Form 6198, line 11 . . . . .	14.	_____

### Worksheet Instructions

**Lines 3a and 3b.** See the instructions for line 16, item (2), on page 6, for the rules on basis. Generally, the amounts for lines 3a and 3b can be taken directly from your depreciation schedule. Use the depreciation schedule you filed at the effective date, not the schedule for the current tax year.

**Line 10b.** If you use a reserve for bad debts, subtract from your accounts receivable the balance of the reserve on the effective date. But only subtract up to the amount you were allowed as a deduction under repealed section 166(c) for years before the effective date.

through (9) below that occurred since the end of your 2003 tax year.

If you completed Part III of the 2003 form, "since effective date" means since the end of your 2003 tax year.

Enter your share of amounts such as the following.

1. Net FMV of property you own (not used in the activity) that secures nonrecourse loans that were acquired since the effective date and were used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity. Generally, the net FMV is determined when the property is pledged as security for the loan.

Do not enter the net FMV if (a) the nonrecourse loan was from a person who has an interest in the activity other than as a creditor or who is related under section 465(b)(3)(C) to a person (except you) having such an interest, and (b) the activity is described in (1) through (5) (or (6) for amounts borrowed after May 3, 2004) under *At-Risk Activities* on page 1. However, (a) does not apply to amounts borrowed by a corporation from a person whose only interest in the activity is as a shareholder of the corporation. See Pub. 925 for definitions.

2. Cash and the adjusted basis of other property contributed to the activity since the effective date. Adjusted basis is the basis that would be used to figure the loss if the property was sold immediately after you contributed it to the activity. See Pub. 551 for details.

If you are an S corporation shareholder and you contributed property to the corporation subject to a liability, including a liability you are personally required to repay, then you must reduce the total of the adjusted basis of all the property you contributed by the total of all liabilities the property was subject to. This applies whether the corporation took the property subject to, or assumed, the liabilities.

3. Loans for which you are personally liable that were used to finance the activity, to acquire property used in the activity, or to acquire your interest in the activity and qualified nonrecourse financing (defined on page 1). Do not enter amounts included in (2) above.

4. Total net income from this activity since the effective date (excess of all items of income received or accrued over the allowable deductions). Do not enter any amount less than zero. Do not include the current year income or gains.

If you are not an S corporation shareholder, enter the total net income

from the activity since the effective date, taking into account only those years the activity had net income. For years since the effective date that the activity had a net loss, see the instructions for line 18, item (5), on page 7.

If you are an S corporation shareholder, enter your total net income from the activity for profit years since the effective date. Income from the activity includes gain recognized under section 357(c) on contributions of property to the activity. Include all distributions you received from the activity as well as your share of the activity's taxable income.

5. Gain recognized on the transfer or disposition of all or part of the activity or of your interest in the activity since the effective date.

6. Amounts you included in income since the effective date because your amount at risk was less than zero.

7. All money from outside the activity used since the effective date to repay loans included on lines 14 and 18. If, however, you used your own assets to repay a nonrecourse debt and you included an amount in (1) above, the amounts included as repayments cannot exceed the amount by which the balance of the loan at the time of repayment exceeds the net FMV of

## Line 12 Worksheet—Figure Your Total Losses From Years Before the Effective Date for Which There Were Equal or Greater Amounts Not At Risk at Year End



(keep for your records)

(a) Year	(b) Amount of loss for the year	(c) Amount not at risk at end of year	(d) Total amounts from column (f) for all prior years	(e) Subtract (d) from (c)	(f) Smaller of (b) or (e)
<b>Total</b> (include on Form 6198, line 12) . . . . .					▶

### Worksheet Instructions

Use the first line of the worksheet for the first year in which you had a loss and amounts not at risk. List each subsequent year in order.

**Column (d).** For each year after the first year, enter the total amount in column (f) for all prior years.

**Example.** John had losses in 1970, 1971, and 1975. At the end of each of those years, John had outstanding amounts not at risk of \$1,000. John had losses of \$500 in 1970, \$300 in 1971, and \$500 in 1975.

For 1970, John enters \$500 in column (b), \$1,000 in column (c), \$1,000 in column (e), and \$500 in column (f).

For 1971, John enters \$300 in column (b), \$1,000 in column (c), \$500 in column (d) (the total amount from column (f) for all prior years), \$500 in column (e), and \$300 in column (f).

For 1975, John enters \$500 in column (b), \$1,000 in column (c), \$800 in column (d) (the total amount from column (f) for all prior years (\$500 + \$300)), \$200 in column (e), and \$200 in column (f). Of the \$500 loss for 1975, only \$200 is a loss for which there was an equal or greater amount not at risk at year end.

John's total loss from years before the effective date for which there were equal or greater amounts not at risk at year end is \$1,000 (the total of the amounts in column (f)).

property you own (not used in the activity) that secures the debt.

8. Percentage depletion deducted in excess of the adjusted basis of the depletable property for the activity since the effective date. Use the Line 16 Worksheet below to figure this amount. Be sure to include the amount for the current year.

9. If you are an S corporation shareholder, enter the loans you made to your S corporation since the effective date. Do not include notes that you have given to the activity that are still outstanding.

## Line 18

### Decreases

If you completed Part III of Form 6198 for 2003, check box b and enter on this line any decreases described in (1) through (8) below that occurred since the end of your 2003 tax year.

If you completed Part III of the 2003 form, "since effective date" means since the end of your 2003 tax year.

Enter your share of amounts such as the following.

1. Cash, property, or borrowed amounts protected against loss by a guarantee, stop-loss agreement, or other similar arrangement entered into since the effective date. Do not include items covered by casualty insurance or insurance against tort liability. Enter this amount only if it was included on line 16. See the instructions at the beginning of Part III on page 4 for information on effective dates.

2. Amounts borrowed since the effective date from a person who has an interest in the activity other than as a creditor or who is related under section 465(b)(3)(C) to a person (except you) having such an interest. However, this does not apply to (a) amounts borrowed by a corporation

from a person whose only interest in the activity is as a shareholder of the corporation, or (b) amounts borrowed after May 3, 2004, and secured by real property used in the activity of holding real property (other than mineral property) that, if nonrecourse, would be qualified nonrecourse financing. Enter these amounts only if they were included on line 16 and not included under (1) above. This applies to activities described in (1) through (5) (or (6) for amounts borrowed after May 3, 2004) under *At-Risk Activities* on page 1. See the instructions at the beginning of Part III on page 4 for information on effective dates.

3. Cash and the adjusted basis of other property withdrawn or distributed since the effective date. Adjusted basis is the basis that would be used to figure the loss if the property was sold by the activity at the time you withdrew it or it was distributed to you.

If you are an S corporation shareholder and the property is subject to debt that would be included on line 14 (or on this line except for the fact that there are liens or encumbrances on the property in the activity), reduce the basis of the distributed property by the amount of the debt.

If you are not an S corporation shareholder, reduce the adjusted basis of property withdrawn by the amount, at the time of withdrawal, of any nonrecourse liability to which the property is subject.

Do not include any money from the activity used to repay loans described in the instructions for line 14 on page 5. Include amounts that were withdrawn and recontributed. Recontributed amounts also must be included on line 16.

Partners and S corporation shareholders who recognize gain on distributions from the partnership or S

corporation must include the distributions on line 18. They also must take them into account as income from the activity on line 16 unless the gain is recognized in the current year.

4. Recourse loans (and qualified nonrecourse financing) changed to nonrecourse loans since the effective date.

5. Total losses from this activity deducted since the effective date. Take into account only those years in which you had a net loss. Do not include current year losses or deductions. Also, do not include losses or deductions you could not deduct because of the at-risk rules.



*The 2003 line 21 deductible loss reduces your at-risk investment as of the beginning of your 2004 tax year.*

6. Nonrecourse liabilities of property you contributed to the activity since the effective date.

7. Any other at-risk amounts included on line 15 that changed to amounts that are not at risk since the effective date.

8. If you are an S corporation shareholder, do not include any loans that were assumed by the corporation or that were liens or encumbrances on property you contributed to the corporation since the effective date if the corporation took the property subject to the debt.



*For loans, enter the amount of the loan you incurred, not the current balance of the loan.*

## Line 19b

### Amount At Risk

If the amount on line 19b is zero, you may be subject to the recapture rules. See Pub. 925.

## Line 16 Worksheet (Item 8)—Figure Percentage Depletion Deducted in Excess of the Adjusted Basis of Depletable Property

(keep for your records)



(a) Year	(b) Percentage depletion deduction	(c) Adjusted basis of depletable property before any depletion deduction for the year	(d) Excess percentage depletion (column (b) minus column (c)) but not less than zero
<b>Total</b> . . . . .			

## Part IV—Deductible Loss

### Line 21

#### Deductible Loss

**Note.** When comparing lines 5 and 20, treat the loss on line 5 as a positive number only for purposes of determining the amount to enter on line 21.

If the loss on line 5 is equal to or less than the amount on line 20, report the items in Part I in full on your return, subject to any other limitations such as the passive activity and capital loss limitations. Follow the instructions for your tax return.

If the loss on line 5 is more than the amount on line 20, you must limit your deductible loss to the amount on line 20, subject to any other limitations.

**Examples.** (a) If line 5 is a loss of \$400 and line 20 is \$1,000, enter (\$400) on line 21. (b) If line 5 is a loss of \$1,600 and line 20 is \$1,200, enter (\$1,200) on line 21. (c) If line 5 is a loss of \$800 and line 20 is zero, enter -0- on line 21.

If the amount on line 21 is made up of only one deduction or loss item,

report on your return the amount shown on line 21, subject to any other limitations. Follow the instructions for your tax return to determine where to report the amount on your return.

If the amount on line 21 is made up of more than one deduction or loss item in Part I (such as a Schedule C loss and a Schedule D loss), a portion of each such deduction or loss item is allowed (subject to other limitations) for the year. Determine this portion by multiplying the loss on line 21 by a fraction. Figure the fraction by dividing each item of deduction or loss from the activity by the total loss from the activity on line 5. The remaining portion of each deduction or loss item from the activity is disallowed and must be carried over to next year.

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#### Paperwork Reduction Act Notice.

We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is

subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is:

<b>Recordkeeping</b> . . . . .	1 hr., 12 min.
<b>Learning about the law or the form</b> . . . . .	1 hr.
<b>Preparing the form</b> . . . . .	1 hr., 25 min.
<b>Copying, assembling, and sending the form to the IRS</b> . . . . .	20 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.

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