



Dear Partnership Client:

The IRS has released new forms, K-2 (14 pages) & K-3 (20 pages). Form K-2 is attached to the entity's tax return and Form K-3 is attached to the K-1 given to you to prepare your individual tax return. These 2 new forms relate to foreign activity and are meaningful if the partnership conducts foreign activity other than receiving passive foreign dividends on which foreign taxes are withheld. These forms add lots of bulk to the K-1, which is already several pages long. And there are penalties for not filing the forms. See [Schedules K-2 and K-3 Frequently Asked Questions \(Forms 1065, 1120S, and 8865\) | Internal Revenue Service \(irs.gov\)](#) for more details.

The IRS has allowed for an exception to filing Forms K-2 & K-3. The 4 exceptions, all of which must be met, are:

- 1) **No or Limited Foreign Activity** – If the Partnership has no active foreign operations or if the Partnership (not you as an individual) owns passive foreign stocks and these stocks pay dividends on which there has been foreign tax withholding of \$300 or less, you meet this requirement.
  - a. An example of foreign passive stock ownership would be if your Partnership owned 1,000 shares of British Petroleum (BP) and received a dividend of \$2,000, on which the UK government withheld \$290 of UK taxes. It would be exempt since it's less than \$300.
- 2) **All partners are US Citizens or resident aliens**, domestic decedent's estates with only US Citizen or resident alien beneficiaries, domestic grantor trusts with only US Citizen or resident alien beneficiaries, or domestic non-grantor trusts with only US Citizen or resident alien beneficiaries.
- 3) **Partner Notification** – If the partners receive notification that they will not receive K-3s and they do not request that Form K-3 be sent to them, you meet the 2<sup>nd</sup> exception.
- 4) **No K-3 Request by 1 Month Before the Due Date of the Return** – K-1 recipients have until 1 month before the due date of the return to request Form K-3.

**A request for Form K-3 will result in additional fees to the entity!**

Accordingly, you acknowledge the following:

Entity Name:

- 1) We have no or Limited Foreign Activity.
- 2) All partners meet the US Citizen or Resident Alien test listed above.
- 3) We have notified all Partners that Forms K-3 will not be distributed.
- 4) Partners have been notified that they have a right to ask for Form K-3 to be issued and none have asked for the form.

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Printed Name

\_\_\_\_\_  
Title