

## **2014 Schedule E Instructions**

Personal income taxpayers who have rental, royalty and REMIC income or loss and farm rental income and expenses; income or loss from partnerships and S corporations; and income or loss from grantor-type trusts and non-Massachusetts estates or trusts are required to report income or loss from these sources on a Schedule E. For tax years beginning on or after January 1, 2008, any taxpayer with income or loss reported on a Schedule E must file his or her tax return using computer-generated forms produced by third-party software. The tax return may be generated by the taxpayer or by a tax professional. The taxpayer is encouraged, but not required, to submit the return electronically. Paper forms produced using the third-party software product will contain a two-dimensional (2D) bar code and will also be accepted. If the taxpayer hires an income tax preparer to complete the taxpayer's taxes, the preparer must follow the Commissioner's electronic filing rules. See TIR 08-22 for more information.

If you do not have access to a software package when filing your 2014 income tax return, you may file your Schedule E on paper.

**Schedule E Reconciliation** is to be used as a summary sheet only. Separate Schedule(s) E-1 (Income or Loss from Rental Real Estate and Royalties), E-2 (Partnership and S Corporation Income and Loss) and/or E-3 (Estate, Trust, REMIC and Farm Income and Loss) must be completed for **each type** of income reported on **each schedule**.

Form 1 and Form 1 NR/PY filers must use **Schedule E-1** to report income and loss from rental real estate and royalties. Separate Schedule(s) E-1 must be filed for each individual entity.

Form 1 and Form 1 NR/PY filers must use **Schedule E-2** to report income and loss from partnerships and S corporations. Separate Schedule(s) E-2 must be filed for each individual entity.

Form 1 and Form 1 NR/PY filers must use **Schedule E-3** to report income and loss from estates, trusts, REMICs and farms. Separate Schedule(s) E-3 must be filed for each individual entity.

Nonresidents, report the amount of Massachusetts source income or (loss) from the items listed above on the applicable Schedule E;

Part-year residents, report the amount of income or (loss) from the items listed above, received while a resident of Massachusetts, whether derived from sources inside or outside of Massachusetts on the applicable Schedule E.

Lines without specific instructions are considered to be self-explanatory because they are taken directly from the U.S Schedule E.

**Line 56. Massachusetts Differences**

Enter and explain any differences between total rental, royalty and REMIC income on the U.S. return and the same type of income on your Massachusetts return. Possible differences include trust provisions, deductible royalties from approved U.S. energy conservation patents and passive losses, as described below. Enclose a statement explaining the differences. Be sure to enter (loss) as a negative amount.

**Trust Provisions**

Enter any rental, royalty or REMIC income or loss shown on your U.S. return that is taxed on a Massachusetts Fiduciary Return, Form 2.

**Deductible Royalties from U.S. Energy Conservation Patents**

Enter any income you received from certain U.S. patents that are approved by the Massachusetts Division of Energy Resources as being useful for energy conservation or for alternative energy development. For more information, contact the Division of Energy Resources by calling (617) 727-4732. If such approved patent income is other than royalty income, use the applicable schedule and explain.

**Passive Losses**

As a result of differences in U.S. and Massachusetts rules in 1987, the calculations you made for passive losses on your 1987 U.S. and Massachusetts returns may have differed. Differences in amounts reported in 1987 for U.S. and Massachusetts tax purposes should be adjusted when the property is disposed of or the deduction is used up. In addition, passive losses allowed for Massachusetts tax purposes in 1987, but carried over for U.S. tax purposes, cannot be used again for Massachusetts tax purposes when such carryover losses are eventually allowed for U.S. tax purposes. To the extent there are applicable adjustments for Massachusetts differences, taxpayers must calculate allowable losses on a pro forma U.S. Form 8582, Passive Activity Loss Limitations.

**Note:** Same-sex joint filers should use Federal Form 8582 to recalculate their loss limitations as though they were filing a joint federal return. See TIR 04-17 for more information.

**Line 57. Abandoned Building Renovation Deduction**

Enter in line 57 as a negative amount 10% of the costs of renovating a qualifying abandoned building in an Economic Opportunity Area. For further information, contact the Massachusetts Office of Business Development by calling (617) 973-8600.

**Schedule E-2**

Line 1: Enter your passive loss (from U.S. Schedule K-1) and prior year unallowed passive losses that are now deductible. Enter losses as a positive number. Do not combine or net losses with passive income (line 2). Enclose a statement explaining losses.

Line 3: Enter your non-passive loss (from U.S. Schedule K-1) and prior year unallowed non-passive losses that are now deductible. Enter losses as a positive number. Do not combine or net losses with non-passive income (line 5). Enclose a statement explaining losses.