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Have you ever invested in a Publicly Traded Partnership?

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Have you ever invested in a Publicly Traded Partnership (PTP)? Do you think that the realized gain or loss on a PTP sale reported on your annual brokerage statement is accurate? You may be paying more for your investment and getting less in return than you think if you answered yes to both of these questions.

A PTP is an investment traded on an equity securities market. The income tax reporting for a PTP is reflected on both a federal schedule K-1 (issued by annually by the PTP) as well as the Form 1099 (issued by the brokerage firm through which you purchased the investment). Therefore, typically this may lead to confusion as to what should be reported on your federal individual income tax return.

According to the National Associates on Publicly Traded Partnerships, "PTPs allow the affordability and liquidity of corporate stock and bonds combined with the advantages of investing in a partnership. PTPs generally pay their investors regular cash distributions." Please be advised these cash distributions are often reported as a return of capital (which reduces your tax basis and increases your capital gain on sale) and not a taxable dividend.

When a PTP generates an overall loss for the year, the loss is suspended until the same PTP activity generates income or is disposed of. Losses from one PTP cannot be offset against income related to any other source of income. The loss may not even be offset by another PTP. This is unique to PTPs as compared to Limited Partnerships, Limited Liability Partnerships, S Corporations, etc., where passive losses from one passive investment (or K-1) are allowed to offset passive income from another passive investment. PTP losses offset income from other activities only in the year of sale.

In addition to the losses deferred until the year of disposition (and the effect this has on your tax liability), there is another tax consideration. The cost basis for your investment must be adjusted by all income, losses, contributions and distributions since the investment was purchased. Therefore, your cost basis and realized gain or loss on sale may need to be adjusted from the amount reported to you by your broker.

Lastly, when analyzing your return on investment (ROI), be forewarned that your tax preparation costs may increase due to the additional time required to properly account for PTP activities (annually, and in the year of sale).

Understanding what PTPs are, how they are taxed, and the tax preparation costs associated with them affects your ROI. Consult your tax advisor as well as your broker before investing in a PTP.

If you are in need of tax information, please try www.irs.gov (the IRS's website), www.mscpaonline.org (the Massachusetts Society of Certified Public Accountants' website), or www.recpa.com (Ercolini & Co. LLP's website).

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