

NDH Investment Group, LLC: Tax Compliance and Research

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The case study incorporates entity tax material, allowing students to transform the theory learned into practical application of the law. Student skills of critical-thinking, problem-solving, and theory-application are developed and enhanced through the completion of this case study. The case describes the operations of a small real estate LLC facing a change in ownership. Students are asked to assist their clients in not only tax compliance, but tax planning. It is flexible in that it could be used for a range of applications from solely cash calculations, IRC §754 exchanges and revaluations to a comprehensive two-year tax return preparation, including memorandums.

LEARNING OUTCOMES

In completing this assignment, students should be able to:

1. Apply sources of rental income and expenses, and determine if and to the extent they are to be included in or excluded from an entity's gross taxable income calculation
2. Identify critical issues and conduct research to support analysis and recommendations
3. Effectively communicate analysis, findings, and recommendations to stakeholders in a written memorandum
4. Calculate tax implications of transactions between LLC's and their partners
5. Research and analyze IRC §754 elections, prepare the corresponding basis and distribution calculation
6. Prepare a basic form 1065 partnership income tax return, including book to tax calculations (Schedule M1 and M2)
7. Using Microsoft Excel, prepare professional quality work papers, calculations, and recommendations

APPLICATION

This case study is designed to be implemented in an entity taxation course that covers partnership taxation, planning, and tax research. Additionally, the case may be broken up, and a variation of requirements can be used depending on the skill set of the student audience.

NDH INVESTMENT GROUP, LLC: TAX COMPLIANCE AND RESERACH

INRODUCTION, TAX YEAR 2014

In February of 1991, three investors, Newsom, Doctor, and Helms purchased a 4-unit apartment building. The purchase price of the property, \$143,158, was allocated to land for \$24,200, building for \$115,958, and appliances \$3,000. The appliances were depreciated over a five-year life under the straight-line method and the building was depreciated over a 27.5 year life, also under the straight-line method.

Each of the four units in the building had its own air conditioning and heating systems. These HVAC systems were originally recorded as a part of the cost of the building. Two of the air conditioning systems were replaced in July of 2012. Straight-line depreciation using a seven year life and the half-year convention was applied to these air conditioning systems. Refrigerators and stoves were provided for each unit. In December 2013, one of the units was rented to a new tenant and a new refrigerator was purchased for that unit. MACRS depreciation using a five year life and the mid-quarter convention was applied to the refrigerator. (All other appliances provided had been fully depreciated and were not shown on the balance sheet.) The new tenant not only paid for the December rent but also paid for two months in advance.

The accounting records of the LLC created to be the controlling entity for the investment had been kept on a tax basis and the balance sheet as of December 31, 2013 was as follows. Additionally, it was noted that the LLC is a cash basis taxpayer.

NDH Investment Group LLC			
Balance Sheet			
As of December 31, 2013			
Assets:		Liabilities:	
Cash	\$10,290.01	Unearned Rent	\$1,600.00
Appliances	4,554.06	Security Deposits Payable	1,325.00
Less: A/D	3,077.00	Various Payables	7,100.00
Air Conditioners	6,899.50	Mortgage Payable	50,782.59
Less: A/D	1,478.00	Total Liabilities	\$60,807.59
Building	115,958.00		
Less: A/D	96,442.00	Owner Equities:	
Land	24,200.00	A. Newsom, Capital	\$32.15
Total Assets	\$60,904.57	P. Doctor, Capital	32.15
		J. Helms, Capital (Rounding Partner)	32.68
		Total Liabilities and Equities	\$60,904.57

In 2014, the summarized transactions for the LLC were as follows:

- Rental Income earned totaled \$35,341.00 (this included the previous Unearned Rent)
- Cash expenses included:
 - Utilities of \$4,164.53;
 - Repairs: \$11,380.17;
 - Mortgage Interest: \$2,817.66;
 - Property Taxes: \$6,177.58;
 - Insurance: \$1,199.00;
 - Other expenses: \$2,147.80.
 - Depreciation for the year was not included in the above items.

- An additional appliance (a stove) was purchased in June of 2014 for \$660.21.
 - MACRS depreciation using a five year life and the half-year convention was applied to this purchase.
- Another of the air conditioning systems was replaced in July of 2014 at a cost of \$3,500.
 - Straight-line depreciation using a seven year life and the half-year convention was applied to this air conditioning system.
- Two old tenants left the building during 2014 and were replaced by two new tenants. As a result, the Security Deposits Payable balance had a net increase to \$2,700.00.
- The Other Payables balance continued to be \$7,100.00 at year-end and the Mortgage Payable balance had been reduced to \$44,559.53.
- The net income for the year was allocated evenly to the three LLC members.

INTRODUCTION, TAX YEAR 2015

In 2015, due to poor health, Newsom decided to sell his share of the LLC. The original LLC contract provided a right of first refusal to the remaining members of the LLC. Thus, both Doctor and Helms had the right to acquire a portion or all of Newsom’s interest. Doctor declined to acquire an additional interest but Helms indicated he wished to acquire all of Newsom’s ownership interest. As part of the overall process the assets of the LLC were appraised. The Mortgage Loan was held by all three members and it would be paid in full before the ownership transfer would occur. The three LLC members each contributed \$13,000 to the LLC in February of 2015. The loan was then paid in full on February 27, 2015. Based on the appraised value of the assets, Helms gave Newsom \$78,700 for his share of the LLC on June 30, 2015. The cash “income statements” for the LLC for the first six months and for the entire year are provided.

NDH Investment Group LLC Income Statement For the period January 1 to June 30, 2015		
Rents		\$17,358.00
Utilities	\$2,036.72	
Repairs and Maintenance	333.01	
Insurance	944.00	
Mortgage Interest	615.67	
Property Tax	3,803.91	
Other Expenses	1,588.95	9,322.26
Net Income		\$8,036.74

NDH Investment Group LLC Income Statement For the period January 1 to December 31, 2015		
Rents		\$38,671.00
Utilities	\$4,337.67	
Repairs and Maintenance	3,225.62	
Insurance	1,887.00	
Mortgage Interest	615.67	
Property Tax	7,607.82	
Other Expenses	2,835.95	20,509.73
Net Income		\$18,161.27

Conversations between the partners in NDH Investment Group LLC were frequent over the last three years, and they sought professional advice on how to account for the transactions that occurred in 2014 and 2015. Not only did the partners seek tax compliance assistance, but they also questioned the partner buyout in 2015 and how it is reflected in the partnerships’ books, tax return and on the remaining partner basis. When Helms purchased Newsom’s partnership interest, the purchase price of \$78,700 reflected what Helms believed the interest in the partnership was worth. Due to the fact that the purchase price differed from Newsom’s basis in the partnership, a discrepancy existed.

NDH Investment Group LLC was aware that there is an optional adjustment election in order to adjust the inside basis of the partnership property to reflect the purchase price paid by the partner. The client asked for assistance in tax compliance for 2014 and 2015. Additionally, the NDH Investment Group LLC partners had concern regarding how the Internal Revenue Code allows the partner buy out to

be reflected and requested research, in memorandum format, specific codes and regulations, and suggestions and an understanding of this election.

TEACHING NOTE

NDH INVESTMENT GROUP, LLC: TAX COMPLIANCE AND RESEARCH

CASE OVERVIEW

You are a tax practitioner and you have been hired by a client to complete tax return compliance, research, tax planning, and significant calculations. Work expands over a two year period, ultimately leading to an ownership change in 2015. Review the client information presented under each year and complete the appropriate calculations and research. The use of tax software is NOT permitted. The necessary tax forms and schedules can be found on IRS.gov. It is up to the tax practitioner to confirm all required forms and schedules are complete. Incomplete forms and schedules will result in a significant penalty. Microsoft Excel or some other spreadsheet software is recommended for calculating the numbers that will fill in the tax return and turn the additional worksheets in with the case study where appropriate.

This case study is most appropriate for courses in entity taxation, tax research, or upper level accounting courses focused on book to tax reconciliation calculations.

RESEARCH METHODS

NDH Investment Group, LLC is an actual real estate investment organization. The information regarding their transactions was obtained through primary financial data as well as secondary interviews with partners. The names of the partners in NDH Investment Group, LLC have been disguised. Information regarding the applicable tax law was obtained from the primary sources cited.

LEARNING OUTCOMES

In completing this assignment, students should be able to:

1. Apply sources of rental income and expenses, and determine if and to the extent they are to be included in or excluded from an entity's gross taxable income calculation
2. Identify critical issues and conduct research to support analysis and recommendations
3. Effectively communicate analysis, findings, and recommendations to stakeholders in a written memorandum
4. Calculate tax implications of transactions between LLC's and their partners
5. Research and analyze IRC §754 elections, prepare the corresponding basis and distribution calculation
6. Prepare a basic form 1065 partnership income tax return, including book to tax calculations (Schedule M1 and M2)
7. Using Microsoft Excel, prepare professional quality work papers, calculations, and recommendations

DISCUSSION QUESTIONS AND REQUIREMENTS

Note that the instructor must take significant time to cover each individual requirement and then review in detail the solution to each requirement. The requirements are written in chronological order, thus it is necessary that students understand the correct answer to the 2014 requirements before moving forward as 2014 becomes the starting point for all of the 2015 requirements and calculations. Each

requirement can be completed individually, in chronological order, and graded prior to the student moving on to the next requirement. This would allow for a decrease in flow-through errors.

NDH Investment Group LLC made the decision that Helms will be designated as the “rounding partner”, thus all rounding errors on the return should be allocated to Helms’ individual capital account when necessary. All calculations should be rounded to the nearest whole dollar.

**Note rounding errors for each requirement are possible. Due to the fact that the answers are rounded to the whole dollar, there is a slight rounding error distributed between partners. Individual answers could potentially vary slightly. There is limited room for alternate solutions, as the case study uses well established tax law and theory that provide rather concrete guidance

2014 Requirements:

1. Calculate the Cash ending balance as of December 31, 2014 using the information given for the tax year. (LO1, LO 6, LO 7)

All calculations should be rounded to the nearest whole dollar.

Cash Calculation as of December 31, 2014	
Beginning Balance	\$ 10,290
Rental Income Earned	\$ 35,341
Unearned Rent (Previously Collected)	\$ (1,600)
Utilities Expense	\$ (4,165)
Repairs and Maintenance Expense	\$ (11,380)
Mortgage Interest Expense	\$ (2,818)
Property Tax Expense	\$ (6,178)
Insurance Expense	\$ (1,199)
Other Expenses	\$ (2,148)
Stove Purchase	\$ (660)
Air conditioner Purchase	\$ (3,500)
Increase Security Deposit	\$ 1,375
Mortgage Paid	\$ (6,223)
Ending Balance	\$ 7,135

2. Calculate the total depreciation for the year. Take into consideration the continued depreciation from previously purchased assets, as well as assets purchased in 2014. (LO 6, LO 7)

Depreciation calculations have little room for error. The Internal Revenue Code identifies the Modified Accelerated Cost Recovery System (MACRS) as the primary method used to calculate depreciation for tax purposes. MACRS provides separate and specific rules governing cost recovery periods, methods, and conventions. Students must use the specified MACRS requirements when calculating depreciation for all realty and personalty property. See specific notes below regarding each asset class.

- Appliances (5 year property), stove (5 year property), and air conditioners (7 year property) are all considered personalty property. Internal Revenue Code (IRC) §168(e) provides examples of each asset in each class. According to IRC §168(b) double declining balance is used for 5 and 7 year property and thus would be used for the assets listed in this paragraph. Additionally, IRC

§168(d)(4)(A) clearly identifies the half-year convention for this asset class, unless more than 40% of the value of the property is placed in service during the last quarter of the year (IRC §168(d)(3)). Review the calculations in the table below using the IRC guidance provided.

- Residential Rental Property is assigned a 27.5 year useful life according to IRC §168(e), thus the actual rental building purchased at the start of the company’s life would be assigned a 27.5 year useful life to begin depreciation. All residential realty property is depreciated using the mid-month convention according to IRC §168(d)(1). Thus, regardless of the actual date of purchase, realty property is deemed to be placed into service in the middle of the month acquired. Review the calculation in the table below using the IRC guidance provided.

According to IRC §704(b) the partner’s share of income and expense items would be determined according to the partner’s interest in the partnership. As stated in the facts, in 2014, each partner holds equal ownership (one third of the entire entity) and thus the depreciation deduction should be divided equally between partners. NDH Investment Group LLC made the decision that Helms will be designated as the “rounding partner”, thus all rounding errors on the return should be allocated to Helms’ individual capital account when necessary.

Assets by classification - ALL NDH INVESTMENT GROUP LLC 12/31/2014								
Description of Property	Date Placed in Service	Cost or Basis	Recovery Period	Method	Convention Code	Prior Accum. Deprec., 179 Bonus	2014 Deprec.	2014 Accum. Deprec.
5-yr Residential rental furnishings and appliances								
APPLIANCES	2/1/1991	3,000	5	200DB	HY	3,000	0	3,000
APPLIANCES	12/1/2013	1,554	5	200DB	MQ4	77	591	668
STOVE	6/1/2014	660	5	200DB	HY	0	132	132
Total: 5-yr Res rental furnishings		5,214				3,077	723	3,800
7-yr Office furniture, fixtures and equipment								
AIR CONDITIONERS	7/1/2012	6,900	7	SL	HY	1,478	986	2,464
AIR CONDITIONER	7/1/2014	3,500	7	SL	HY	0	250	250
Total: 7-yr Office furn, fixtures, equip		10,400				1,478	1,236	2,714
Land								
LAND	2/1/1991	24,200				0	0	0
Total: Land		24,200				0	0	0
27.5-yr Residential rental real estate								
RENTAL PROPERTY	2/1/1991	115,958	27.5	SL/GDS	MM	96,442	4,216	100,658
Totals		155,772				100,997	6,175	107,172

3. Complete the 2014 tax return for NDH Investment Group LLC. (LO 1, LO 6)

- NOTE***As a part of this requirement, NDH Investment Group, LLC is to complete Schedules L, M-1, and M-2; Item F on page 1 of Form 1065; and Item L on Schedule K-1, regardless of the answers on Form 1065, page 2, box 6a-d.***

Using the answers to the 2014 previous requirements, students will be able to prepare the appropriate tax forms. See Appendix A for the entire 2014 Form 1065 and supporting schedules.

2015 Requirements:

1. *When Helms purchased Newsom's partnership interest, the purchase price of \$78,700 reflected what Helms believed the interest in the partnership was worth. Due to the fact that the purchase price differs from Newsom's basis in the partnership, a discrepancy exists. NDH Investment Group has approached you regarding this transaction and has asked for your expertise in order to help them structure the sale. The entity is aware that there is an optional adjustment election in order to adjust the inside basis of the partnership property to reflect the purchase price paid by the partner. The client has asked that you do research, provide, in memorandum format, specific codes and regulations, and provide your suggestions and understanding of this election. (LO 2, LO 3, LO 5)*

Students should address a series of IRC sections and regulations. Below these sections are outlined and the primary concept from each source is stated.

- Overall IRC §754 provides guidance to this research assignment. It should be noted by students that IRC §754 does not change the net effect of income/loss recognition, but it does correct, and potentially eliminate, any timing and characteristic limitations that some partners may encounter.
- IRC §754 states, "If a partnership files an election, in accordance with regulations prescribed by the Secretary, the basis of partnership property shall be adjusted, in the case of a distribution of property, in the manner provided in section 734 and in the case of a transfer of partnership interest, in the manner provided in section 743."
- Reg §1.754-1 provides additional guidance with respect to the §754 election. Reg §1.754-1(a) indicates that "a partnership may adjust the basis of the partnership property...if it files an election in accordance with the rules set forth in ..[Reg §1.754-1(b)]." Reg §1.754-1(b) states "an election under section 754...to adjust the basis of partnership property...shall be made in a written statement filed with the partnership return for the taxable year during which the distribution or transfer occurs."
- IRC §743(b) (1) states, "In the case of transfer of an interest in a partnership by sale or exchange..., a partnership with respect to which the election provided in section 754 is in effect...shall: increase the adjusted basis of the partnership property by the excess of the basis to the transferee partner of his interest in the partnership over his proportionate share of the adjusted basis of the partnership property."
- Additionally, IRC §743(b)(1) continues to clarify that "...such increase...shall constitute an adjustment to the basis of partnership property with respect to the transferee partner only."
- IRC §743(c) states "The allocation of basis among partnership properties where subsection (b) is applicable shall be made in accordance with the rules provided in IRC §755 ." This statement is important to determine how to allocate the adjustment in basis, especially related to depreciable property (i.e. land vs. building).
- Lastly, Reg §1.743-1(j)(4)(i)(B) indicates that when the basis adjustment affects a depreciable asset, "...the amount of any positive basis adjustment that is recovered by the transferee in any year is added to the transferee's distributive share of the partnership's depreciation or amortization deductions for the year. The basis adjustment is adjusted under section 1016(a)(2) to reflect the recovery of the basis adjustment. Additionally, "... if the basis of a partnership's recovery property is increased as a result of the transfer of a partnership interest, then the increased portion of the basis is taken into account as if it were newly-purchased recovery property placed in service when the transfer occurs. Consequently, any applicable recovery period and method may be used to determine the recovery allowance with respect to the increased portion of the basis. However, no change is made for purposes of determining the recovery allowance under IRC §168 for the portion of the basis for which there is no increase."

- Moving on to the allocation of basis, IRC §755(a)(1) states “any increase or decrease in the adjusted basis of partnership property under...section 743(b)...shall...be allocated—in a manner which has the effect of reducing the difference between the fair market value and the adjusted basis of partnership properties.”
- Optional adjustments under IRC §734 are available to the partnership when property is distributed to a partner. Because the adjustment is made to the partnership’s tax basis of remaining assets, all partners share in IRC §734 adjustments.
- It should also be mentioned that a partnership may not wish to make an IRC §754 election due to the cost of calculations and record keeping. The costs related to the election may be more than the perceived benefit.

Pre-Sale Calculations (January 1, 2015 – June 30, 2015)

2. Calculate the Cash ending balance as of June 30, 2015 using the information given for the tax year. (LO 1, LO 7)

All calculations should be rounded to the nearest whole dollar.

Cash Calculation as of June 30, 2015	
Beginning Balance	\$ 7,135
Rental Income Earned	\$ 17,358
Utilities Expense	\$ (2,037)
Repairs and Maintenance Expense	\$ (333)
Mortgage Interest Expense	\$ (616)
Property Tax Expense	\$ (3,804)
Insurance Expense	\$ (944)
Other Expenses	\$ (1,588)
Mortgage Paid	\$ (44,560)
Partner Contributions	\$ 39,000
Ending Balance	\$ 9,611

3. Calculate the depreciation as of June 30, 2015 and allocate between the three partners. Take into consideration the continued depreciation from previously purchased assets. (Hint: You can calculate the entire years’ worth of depreciation, and divide the total depreciation expense into two halves of the year). (LO 7)

Review the Internal Revenue Codes in Tax Year 2014, Requirement #2. The same tax law applies to the calculation of depreciation in 2015. Review the calculation in the table below using the IRC guidance provided.

Assets by classification - 8825: 01		NDH INVESTMENT GROUP LLC 11-1111111				12/31/2015			
Description of Property	Date Placed in Service	Cost or Basis	Recovery Period	Method	Convention Code	Prior Accum. Deprec., 179 Bonus	2014 Deprec.	2014 Accum. Deprec.	
5-yr Residential rental furnishings and appliances									
APPLIANCES	2/1/1991	3,000	5	200DB	HY	3,000	0	3,000	
APPLIANCES	12/1/2013	1,554	5	200DB	MQ4	668	354	1,022	
STOVE	6/1/2014	660	5	200DB	HY	132	211	343	
Total: 5-yr Res rental furnishings		5,214				3,800	565	4,365	
7-yr Office furniture, fixtures and equipment									
AIR CONDITIONERS	7/1/2012	6,900	7	SL	HY	2,464	986	3,450	
AIR CONDITIONER	7/1/2014	3,500	7	SL	HY	250	500	750	
Total: 7-yr Office furn, fixtures, equip		10,400				2,714	1,486	4,200	
Land									
LAND	2/1/1991	24,200				0	0	0	
SECTION 755 LAND INC	6/30/2015	11,004				0	0	0	
Total: Land		35,204				0	0	0	
27.5-yr Residential rental real estate									
RENTAL PROPERTY	2/1/1991	115,958	27.5	SL/GDS	MM	96,442	4,216	100,658	
SECTION 755 BUILDING	6/30/2015	52,604	27.5	SL/GDS	MM	0	1,036	1,036	
Total: 27.5-yr Res rental real estate		168,562				100,658	5,252	105,910	
Totals		219,380				107,172	7,303	114,475	

Upon the completion of depreciation for each category, the students must allocate the depreciation deduction appropriately between the partners. According to IRC §704(b) the partner's share of income and expense items would be determined according to the partners' interest in the partnership. As stated in the facts, before the change in ownership, each partner holds equal ownership (one third of the entire entity) and thus for the time period January – June 30, 2015 the depreciation deduction should be divided equally between partners. NDH Investment Group LLC made the decision that Helms will be designated as the "rounding partner", thus all rounding errors on the return should be allocated to Helms' individual capital account when necessary. All calculations should be rounded to the nearest whole dollar. Review the calculation in the table below using the IRC guidance provided.

Depreciation Calculation/Allocation as of June 30, 2015

ASSETS	Depr. Calc for 1/1 - 6/30
5-yr Res Rental Furnishings	\$ 283
7-yr Office Furn, Fixtures, Equip	\$ 743
Land	\$ -
Rental Property	\$ 2,108
Step Up Building Adjustment	\$ -
Depreciation Expense as of June 30, 2015	\$ 3,134

Depreciation Allocation Between Partners for Period 1/1 - 6/30	
A. Newsom	\$ 1,044
P. Doctor	\$ 1,045
J. Helms	\$ 1,045
Total Depreciation	\$ 3,134

4. Calculate the Net Income as of June 30, 2015 using the information given for the tax year, and allocate between the three partners prior to the buyout. (LO 1, LO 7)

As indicated in earlier requirements, IRC §704(b) state that the partner’s share of income and expense items would be determined according to the partner’s interest in the partnership. As stated in the facts, before the change in ownership, each partner holds equal ownership (one third of the entire entity) and thus for the time period January – June 30, 2015 the income and expenses should be divided equally between partners. Investment Group LLC made the decision that Helms will be designated as the “rounding partner”, thus all rounding errors on the return should be allocated to Helms’ individual capital account when necessary. All calculations should be rounded to the nearest whole dollar. Review the calculation in the table below using the IRC guidance provided.

Net Rental Income as of June 30, 2015

Net Income Calculation as of June 30, 2015	
Rental Income Earned	\$ 17,358
Utilities Expense	\$ (2,037)
Repairs and Maintenance Expense	\$ (333)
Mortgage Interest Expense	\$ (616)
Property Tax Expense	\$ (3,804)
Insurance Expense	\$ (944)
Other Expenses	\$ (1,588)
Depreciation Expense	\$ (3,134)
Net Rental Income as of June 30, 2015	\$ 4,902

Net Income Allocation Between Partners for Period 1/1 - 6/30	
A. Newsom	\$ 1,634
P. Doctor	\$ 1,634
J. Helms	\$ 1,634
Total Rental Income	\$ 4,902

5. Calculate Newsom’s basis at the time of the buyout (June 30). Additionally, calculate Helms’ new basis in the partnership immediately after the sale at June 30, 2015. (LO 4, LO 7)

Each partner has a unique basis in the partnership based on several factors including initial contribution, annual increases and decreases according to IRC §722. According to IRC §705(a)(1-2) a partner’s basis is increased by their distributive share of income and decreased by losses. Additionally, contributions and sales of partnership interests will alter each individual partner’s basis. Newsom’s basis must be calculated first to determine the value that was transferred upon the sale. Helms’ basis must be increased by the amount paid for the share of Newsom’s ownership. Newsom’s basis is less than the purchase price that Helms paid, thus IRC §743(b)(1) states, “in the case of transfer of an interest in a partnership by sale or exchange..., a partnership with respect to which the election provided in IRC §754 is in effect...shall: increase the adjusted basis of the partnership property by the excess of the basis to the transferee partner of his interest in the partnership over his proportionate share of the adjusted basis of the partnership property.” Additionally, IRC §743(b)(1) continues to clarify that “...such increase...shall constitute an adjustment to the basis of partnership property with respect to the transferee partner only.” Helms’ basis will increase by the amount paid for Newsom’s ownership interest in the partnership, or a total of \$78,700. Review the calculation below using the IRC guidance provided.

Newsom's Basis June 30, 2015

Beginning Balance	\$ 458.00
Contribution made during February, 2015	13,000.00
1/3 of LLC net income from 1/1/15 to 6/30/15	<u>1,634.00</u>
LLC Capital Basis on 6/30/15	\$15,092.00
Reduction of Basis due to sale of interest in LLC	<u>15,092.00</u>
Ending Balance	\$ - 0 -

Helms' Basis June 30, 2015

Beginning Balance	\$ 459.00
Contribution made during February, 2015	13,000.00
1/3 of LLC net income from 1/1/15 to 6/30/15	<u>1,634.00</u>
LLC Capital Basis on 6/30/15	\$15,093.00
Purchase of Newsom Capital on 6/30/15	15,092.00
Section 754 adjustment to basis for purchase of Newsom Capital on 6/30/15	<u>63,608.00</u>
Balance at 6/30/15	\$93,793.00

For the remaining requirements, assume that the client has taken your suggestions and has asked to make the election you evaluated in requirement #1.

Post-Sale Calculations (June 30, 2015 – December 31, 2015)

6. Calculate the Cash ending balance as of December 31, 2015 using the information given for the tax year. (LO 1, LO 7)

All calculations should be rounded to the nearest whole dollar.

Cash Calculations of December 31, 2015	
Beginning Balance	\$ 7,135
Rental Income Earned	\$ 38,671
Utilities Expense	\$ (4,338)
Repairs and Maintenance Expense	\$ (3,226)
Mortgage Interest Expense	\$ (616)
Property Tax Expense	\$ (7,608)
Insurance Expense	\$ (1,887)
Other Expenses	\$ (2,836)
Mortgage Paid	\$ (44,560)
Partner Contributions	\$ 39,000
Ending Balance	\$ 19,735

7. Calculate the depreciation as of December 31, 2015 and allocate between partners. Take into consideration the continued depreciation from previously purchased assets and the depreciation you already calculated in requirement #3. Do not include depreciation calculations related to the IRC §754 election. (Remember that the ownership has changed, thus there are only two partners who own the assets from July 1 to December 31, 2015.) (LO 5, LO 7)

Review the Internal Revenue Codes in Tax Year 2014, Requirement #2. The same tax law applies to the calculation of depreciation in 2015 for assets not related to the IRC §754 election. Review the calculation in the table below using the IRC guidance provided.

**See below requirement #8 for combined depreciation calculations.

8. *Calculate the depreciation of Helms' basis adjustment immediately after the buyout related to the IRC §754 election. In order to do this, your client has indicated they will allocate the basis adjustment between land and building based on the original purchase price. (Hint: the depreciation calculated related to the basis adjustment is NOT equally distributed between partners, review your analysis in requirement #1). (LO 5, LO 7)*

The election of IRC §754 related to the optional basis adjustment results in further calculations. IRC §743(c) states “The allocation of basis among partnership properties where subsection (b) is applicable shall be made in accordance with the rules provided in IRC §755.” This statement is important to determine how to allocate the adjustment in basis, especially related to depreciable property (i.e. land vs. building). Reg §1.743-1(j)(4)(i)(B) indicates that when the basis adjustment affects a depreciable asset, “...the amount of any positive basis adjustment that is recovered by the transferee in any year is added to the transferee's distributive share of the partnership's depreciation or amortization deductions for the year. The basis adjustment is adjusted under section 1016(a)(2) to reflect the recovery of the basis adjustment.” Additionally, “... if the basis of a partnership's recovery property is increased as a result of the transfer of a partnership interest, then the increased portion of the basis is taken into account as if it were newly-purchased recovery property placed in service when the transfer occurs. Consequently, any applicable recovery period and method may be used to determine the recovery allowance with respect to the increased portion of the basis. However, no change is made for purposes of determining the recovery allowance under IRC §168 for the portion of the basis for which there is no increase.”

The IRC provides clear guidance that the step up in basis for Helms will create a new depreciable asset equal to the step up in basis. Furthermore, this new depreciable asset will be deemed to be put into service on the date of the sale and begin depreciation. Per the requirement instructions, the LLC has determined they would like to allocate the basis adjustment between land and building based on the original purchase price, see the allocation calculation below.

$$*115,958/140,158 = 82.7\%$$

$$**24,200/140,158 = 17.3\%$$

It must also be noted that the asset created by the step up in basis is only related to Helms' ownership in the entity. Thus, all depreciation associated with the new asset should be completely allocated to Helms. Additionally, the completion of depreciation for each category, the students must allocate the depreciation deduction appropriately between the partners. According to IRC §704(b) the partner's share of income and expense items would be determined according to the partner's interest in the partnership. As stated in the facts, after the change in ownership, each partner holds equal ownership (one half of the entire entity) and thus for the time period July – December 31, 2015 the depreciation deduction should be divided equally between two partners. All calculations should be rounded to the nearest whole dollar. Review the calculation in the table below using the IRC guidance provided.

Assets by classification - 8825: 01		NDH INVESTMENT GROUP LLC 11-111111					12/31/2015		
Description of Property	Date Placed in Service	Cost or Basis	Recovery Period	Method	Convention Code	Prior Accum. Deprec., 179 Bonus	2014 Deprec.	2014 Accum. Deprec.	
5-yr Residential rental furnishings and appliances									
APPLIANCES	2/1/1991	3,000	5	200DB	HY	3,000	0	3,000	
APPLIANCES	12/1/2013	1,554	5	200DB	MQ4	668	354	1,022	
STOVE	6/1/2014	660	5	200DB	HY	132	211	343	
Total: 5-yr Res rental furnishings		5,214				3,800	565	4,365	
7-yr Office furniture, fixtures and equipment									
AIR CONDITIONERS	7/1/2012	6,900	7	SL	HY	2,464	986	3,450	
AIR CONDITIONER	7/1/2014	3,500	7	SL	HY	250	500	750	
Total: 7-yr Office furn, fixtures, equip		10,400				2,714	1,486	4,200	
Land									
LAND	2/1/1991	24,200				0	0	0	
SECTION 755 LAND INC	6/30/2015	11,004				0	0	0	
Total: Land		35,204				0	0	0	
27.5-yr Residential rental real estate									
RENTAL PROPERTY	2/1/1991	115,958	27.5	SL/GDS	MM	96,442	4,216	100,658	
SECTION 755 BUILDING	6/30/2015	52,604	27.5	SL/GDS	MM	0	1,036	1,036	
Total: 27.5-yr Res rental real estate		168,562				100,658	5,252	105,910	
Totals		219,380				107,172	7,303	114,475	

Depreciation Calculation/Allocation for 1/1 - 12/31	
ASSETS	1 Year Depr.
5-yr Res Rental Furnishings	\$ 565
7-yr Office Furn, Fixtures, Equip	\$ 1,486
Land	\$ -
Rental Property	\$ 4,216
Step Up Building Adjustment	\$ 1,036
Depreciation Expense as of Dec. 31, 2015	\$ 7,303

Depreciation Allocation Between Partners	
A. Newsom	\$ 1,044
P. Doctor	\$ 2,089
J. Helms	\$ 4,170
Total Depreciation	\$ 7,303

Depreciation Calculation/Allocation for 7/1 - 12/31

ASSETS	Depr. Calc for 7/1 - 12/31
5-yr Res Rental Furnishings	\$ 282
7-yr Office Furn, Fixtures, Equip	\$ 743
Land	\$ -
Rental Property	\$ 2,108
Step Up Building Ajustment	\$ 1,036
Depreciation Expense for 7/1 - 12/31	\$ 4,169

Depreciation Allocation Between Partners for Period 7/1 - 12/31	
A. Newsom	\$ -
P. Doctor	\$ 1,044
J. Helms	\$ 3,125
Total Depreciation	\$ 4,169

9. Calculate the Net Income on December 31, 2015 using the information given for the tax year, and allocate between the partners. (Remember that the ownership has changed, thus there are two income allocations for the year, one at June 30th and the remaining earned from July 1 to December 31, 2015.) (LO 1, LO 5, LO 7)

The computation is described in IRC §1.743-1 (j)(2) which states, “The partnership adjusts the transferee’s distributive share of the items of partnership income, deduction, gain, or loss, in accordance with paragraphs (j)(3) and (4) of this section, to reflect the effects of the transferee’s basis adjustment under IRC §743(b).” The partnership’s income will have to take into account the changes that occur when Newsom leaves and Helms adjusts his basis.

There will be two distinct allocations of income and deductions. Student will need to allocate net income taking the following into consideration:

- Before the change in ownership, each partner holds equal ownership (one third of the entire entity) and thus for the time period January – June 30, 2015 the income and expenses should be divided equally between partners.
- After the change in ownership, each partner holds equal ownership (one half of the entire entity) and thus for the time period July – December 31, 2015 the income and expenses should be divided equally between partners.
- The depreciation related to the newly created asset under the IRC §754 election should only be allocated to Helms.

Review the calculation in the table below using the IRC guidance provided.

Net Income Calculation as if December 31, 2015	
Rental Income Earned	\$ 38,671
Utilities Expense	\$ (4,338)
Repairs and Maintenance Expense	\$ (3,226)
Mortgage Interest Expense	\$ (616)
Property Tax Expense	\$ (7,608)
Insurance Expense	\$ (1,887)
Other Expenses	\$ (2,836)
Depreciation Expense	\$ (7,303)
Net Rental Income for year ended Dec 31, 2015	\$ 10,857

Net Income Allocation Between Partners			
	1/1 - 6/30 Net Income	7/1 - 12/31 Net Income	Total Year Net Income
A. Newsom	\$ 1,634	0	\$ 1,634
P. Doctor	\$ 1,634	2330	\$ 3,964
J. Helms	\$ 1,634	3624	\$ 5,258
Total Income	\$ 4,902	\$ 5,954	\$ 10,856

Net Rental Income for 7/1 - 12/31	
Net Income Calculation for 7/1 -12/31	
Rental Income Earned	\$21,313
Utilities Expense	\$ (2,301)
Repairs and Maintenance Expense	\$ (2,893)
Mortgage Interest Expense	\$ -
Property Tax Expense	\$ (3,804)
Insurance Expense	\$ (943)
Other Expenses	\$ (1,248)
Depreciation Expense	\$ (3,134)
Net Rental Income Before Set Up Depreciation	\$ 6,990
Step Up Depreciation Expense Allocated to Helm	\$ (1,036)
Net Rental Income for 7/1 -12/31	\$ 5,954

Net Income Allocation Between Partners for Period 7/1 - 12/31	
A. Newsom	\$ -
P. Doctor	\$ 2,330
J. Helms	\$ 3,624
Total Rental Income	\$ 5,954

10. Calculate each partner's basis changes and new basis at December 31, 2015. Review your calculations completed in requirement #5. (LO 4, LO 5, LO 7)

Review the Internal Revenue Codes in Tax Year 2015, Requirement #5. The same tax law applies to the calculation of partner basis in 2015. Additionally, it should be noted that the two different net income calculations should be taken into consideration for the periods before and after the change in ownership. Lastly, the increase in basis for Helms must be documented from the sale of Newsom's interest. Requirement 5 in Tax Year 2015 should be used as a reference and starting point when determining the partner's basis at the end of the year. Review the calculation in the table below using the IRC guidance provided.

Newsom's Basis December 31, 2015

Beginning Balance	\$ 458.00
Contribution made during February, 2015	13,000.00
1/3 of LLC net income from 1/1/15 to 6/30/15	1,634.00
LLC Capital Basis on 6/30/15	\$15,092.00
Reduction of Basis due to sale of interest in LLC	15,092.00
Ending Balance	\$ - 0 -

Doctor's Basis December 31, 2015

Beginning Balance	\$ 458.00
Contribution made during February, 2015	13,000.00
1/3 of LLC net income from 1/1/15 to 6/30/15	1,634.00
LLC Capital Basis on 6/30/15	\$15,092.00
Net Income from 6/30/15 to 12/31/15	
Original Basis (1/3 of \$6,991.00)	2,330.00
Ending Balance	\$17,422.00

Helms' Basis December 31, 2015

Beginning Balance	\$ 459.00
Contribution made during February, 2015	13,000.00
1/3 of LLC net income from 1/1/15 to 6/30/15	<u>1,634.00</u>
LLC Capital Basis on 6/30/15	\$15,093.00
Purchase of Newsom Capital on 6/30/15	15,092.00
Section 754 adjustment to basis for purchase of Newsom Capital on 6/30/15	<u>63,608.00</u>
Balance at 6/30/15	\$93,793.00
Net Income from 6/30/15 to 12/31/15	
Original Basis (2/3 of \$6,991.00)	4,661.00
Section 754 adjustment depreciation	<u>(1,036.00)</u>
Ending Balance	\$97,418.00

11. *Complete the necessary attachments for the 2015 NDH Investment Group LLC tax return. Review your Internal Revenue Code requirements you analyzed in requirement #1 to determine what information is required on the attachments. (LO 5, LO 6)*

Under Reg. §1.754-1(b)(1) the timing and method of making the election of IRC §754 is done so by filing a written statement with the tax return. This statement is important to determine how to allocate the adjustment in basis, especially related to depreciable property (i.e. land vs. building). In the case of NDH, in order for the election to be correctly made, they must physically file a written statement declaring the election of IRC §754. Also, once a valid election has been made, there is no need to continue to file another written statement declaring the IRC §754 election. The partnership must report the name and addresses of the partnership in order to conduct the election. It must then be signed by at least one of the partners and declare that the partnership itself will be electing IRC §754 to apply for IRC §743 (b). Each partner is required to have an attachment to their provided K-1 indicating the change in their partnership basis. The entity must also file a statement electing IRC §754. See the below sample attachments prepared according to the governing IRC§754 as mentioned earlier.

a. Schedule K-1 Attachment for J. Helms

NDH Investment Group LLC
 Schedule K-1 Attachment
 For tax year ending December 31, 2015

J. Helms
 SSN

Explanation of Capital Account changes for 2015:

Beginning Balance	\$ 459.00
Contribution made during February, 2015	13,000.00
1/3 of LLC net income from 1/1/15 to 6/30/15	<u>1,634.00</u>
LLC Capital Basis on 6/30/15	\$15,093.00
Purchase of Newsom Capital on 6/30/15	15,092.00
Section 754 adjustment to basis for purchase of Newsom Capital on 6/30/15	<u>63,608.00</u>
Balance at 6/30/15	\$93,793.00

Net Income from 6/30/15 to 12/31/15	
Original Basis (2/3 of \$6,991.00)	4,661.00
Section 754 adjustment depreciation	<u>(1,036.00)</u>
Ending Balance	\$97,418.00

Purchase of interest took place outside of LLC on 6/30/15

b. Schedule K-1 Attachment for A. Newsom.

NDH Investment Group LLC
Schedule K-1 Attachment
For tax year ending December 31, 2015

A. Newsom
SSN

Explanation of Capital Account changes for 2015:

Beginning Balance	\$ 458.00
Contribution made during February, 2015	13,000.00
1/3 of LLC net income from 1/1/15 to 6/30/15	<u>1,634.00</u>
LLC Capital Basis on 6/30/15	\$15,092.00
Reduction of Basis due to sale of interest in LLC	<u>15,092.00</u>
Ending Balance	\$ - 0 -

Sale of interest took place outside of LLC on 6/30/15

c. Entity Attachment for Section 743 Basis Adjustment for 2015

NDH Investment Group LLC
11-1111111
c/o J. Helms
Street Address
City, State Zip

Form 1065, Schedule B, Line 12b

On June 30, 2015, LLC member J. Helms purchased the entire interest of LLC member A. Newsom. The exchange took place outside the LLC. Helms gave Newsom \$78,700 for his interest in the LLC. This exchange was deemed an IRC §743 purchase. Newsom's basis in the LLC on that date was \$15,092.

J. Helms SSN
Newsom SSN

Purchase price	\$78,700
Acquired basis	<u>15,092</u>
Adjustment	\$63,608

The adjustment has been allocated, following IRC §755, to the assets Building and Land.

Building increase	\$52,604*
Land increase	<u>11,004**</u>
Adjustment	\$63,608

Allocation between land and building was based on the original purchase price allocation.

*115,958/140,158 = 82.7%

**24,200/140,158 = 17.3%

d. Entity Attachment for Section 754 Election for 2015

NDH Investment Group LLC
 11-1111111
 c/o J. Helms
 ##### Street Address
 City, State Zip

NDH Investment Group LLC declares that it elects, under IRC §754, to apply the provisions of IRC §734(b) and IRC §743(b) for the tax year ending December 31, 2015.

J. Helms, Member
 ##### Street Address
 City, State Zip

12. Complete the 2015 tax return for NDH Investment Group LLC.

- *NOTE***As a part of this requirement, NDH Investment Group, LLC is to complete Schedules L, M-1, and M-2; Item F on page 1 of Form 1065; and Item L on Schedule K-1, regardless of the answers on Form 1065, page 2, box 6a-d.*** (LO 6)*

Using the answers to the 2015 previous requirements students will be able to prepare the appropriate tax forms. See Appendix B for the entire 2015 Form 1065 and supporting schedules.

13. *Reflect on the process and determine if the method chosen was the correct method for the client. Was there a simpler method that the client should have considered? If the client chose the other method, how would that impact their financial and tax positions? (LO 3, LO 4)*

There is no standard answers for this reflection question. Answers will vary based on each individual student reflection. Students may determine that a partnership may not wish to make a §754 election due to the cost of calculations and record keeping. The costs related to the election may be more than the perceived benefit.

There are several main effects from the transfer of partnership interest that would affect Newsom, Helms, and the Partnership.

For Doctor:

- He is unaffected by the transfer of interest between Helms and Newsom.
- His 1/3 interest in the partnership will likewise be unchanged.

For Newsom:

- His sale of his interest in the partnership liquidates him as a partner as of 6/30/15.
- He will recognize some kind of gain, as he is receiving cash far in excess of his basis.
- For the purposes of his tax year due to his sale of interest in the partnership, his effective tax year ends June 30th 2015

For Helms:

- After his purchase, Helms will have a $\frac{2}{3}$ interest in the partnership.
- The discrepancy between his outside basis in Newsom's interest and his inside basis will need to be adjusted using the Section 754 election and by way of IRC §743(b)(1).
- The difference will become an "asset" which will have its depreciation allocated entirely to Helms, as per IRC §755.

For the Partnership:

- The remaining interests in the partnership will be Helms with a $\frac{2}{3}$ interest and Doctor with an $\frac{1}{3}$ interest.
- The difference for Helms, as stated above, will be included as a new "asset" for the partnership that will adjust the overall property basis.

REFERENCES

The following lists the resources consulted during the research and development of the tax case study. Please note, due to the nature of the material, the majority of the sources offer current tax law information that is distributed via online sources so that updates may be made immediately when necessary.

- Amato, Neil. (2012). Succession planning on the rise, but about half of CPA firms haven't implemented a plan. *Journal of Accountancy*.
- Bagley, P. L., and N. L. Harp. (2012). Shoe Zoo, Inc.: A practice in electronic work papers, tick mark preparation, and client communication through the audit of property, plant, and equipment. *Issues in Accounting Education* 27 (4): 1131–1151.
- Blazovich, J. L., G. R. Huston, and J. M. Huston.(2014). Creating an executive compensation plan: A corporate tax planning case. *Issues in Accounting Education* 29 (4): 545–556.
- Dunn, Rita, "Capitalizing on College Students' Learning Styles: Theory, Practice, and Research", in R. Dunn and R. Griggs (Eds.) *Practical Approaches to Using Learning Styles in Higher Education*, Bergin & Garvey Publishers, Westport, CT, Pages 3-18, 2000...
- Huston, G. R., and J. M. Huston. (2013). Life's two certainties: An estate and gift tax consulting case. *Issues in Accounting Education* 28 (3): 617–628.
- Hutchings, Pat (1993). *Using Cases to Improve College Teaching*. AAHE.
- Internal Revenue Code §168: Accelerated cost recovery system
- Internal Revenue Code §703: Partnership computations.
- Internal Revenue Code §704: Partner's distributive share.
- Internal Revenue Code §705: Determination of basis of partner's interest.
- Internal Revenue Code §722: Basis of property contributing partner's interest.
- Internal Revenue Code §734: Adjustment to basis of undistributed partnership property where section 754 election or substantial basis reduction.
- Internal Revenue Code §743: Special rules where section 754 election or substantial built-in loss.
- Internal Revenue Code §754: Manner of electing optional adjustment to basis of partnership property.
- Internal Revenue Code §755: Rules for allocation of basis.
- Internal Revenue Code §1016: Adjustments to basis.
- Internal Revenue Code Reg. §1.754-1: Time and manner of making election to adjust basis of partnership property.
- Internal Revenue Code Reg. §1.743-1: Optional adjustment to basis of partnership property.
- Morrow, M.L., and S.R. Stinson. (2016). Mr. and Mrs. Smith: A Student Introduction to Federal Tax Compliance and Documentation. *Issues in Accounting Education*: 31 (1): 119-132.
- Nevuis, Alistair M. (2012). Successor tax liability in business purchase. *Journal of Accountancy*.

Sonnier, B. M. (2010). Utopia Home Health, Inc.: A case study on C Corporation taxation from cradle to grave. *Issues in Accounting Education* 25 (4): 755–774.

IMPLEMENTATION GUIDANCE

To meet the needs of an ever changing economy, tax laws are regularly modified. It is essential to remain current in this constantly evolving field. As such, tax students need additional resources in the classroom to effectively learn and apply the material presented. Allowing students to see the transformation from tax law into tax application (or tax compliance) assists them in truly understanding the material presented and allows them to be able to adapt to future changes.

This tax case study emphasizes a multiple member limited liability company's (LLC) tax status, tax calculations, ownership strategies, and member buy-out planning strategies.

As multiple member LLCs may be taxed as Partnerships under the Internal Revenue Code (IRC), this case study augments vital information learned in the Partnership portion of the entity taxation course. Regardless of the classroom text, to fully appreciate and be involved in this case, students should also be exposed to the following related material:

- The operations of the partnership
 - Measuring and reporting partnership income
 - Partner allocations and reporting
 - Calculation of partner's basis
 - Partner's capital account
- Sale of partnership interest
 - General rules
 - Effects on the partner's and partnership's basis
- Optional adjustments to property basis (IRC §754 Election)
 - Adjustment: sale or exchange of an interest
 - Adjustment: partnership distributions

The overlying objective of this case is to provide a professional experience in the classroom environment. Through the course of the case, students should expand both their professional and technical skills, and as such there are two categories of learning objectives for the case.

This case has a significant amount of versatility for adaptation. The case was originally intended to be used as an in-class project staggered throughout the entire term, in the undergraduate Entity Income Tax course. Upon classroom trials and feedback from students and other tax professors, it has been determined that there are three individual methods to implement this case study into an entity taxation course. See the discussion below related to the three methods that have been identified:

1. NDH's 2014 and 2015 requirements used as an in-class case study
2. NDH's 2014 requirements used as an out-of-class case study assignment, and NDH's 2015 requirements directed and studied in-class, primarily the IRC§754 election.
3. NDH's 2014 data used as an individual project for those courses that are not advanced enough to cover the IRC §754 election.

The case study presents tax concepts in the preparation of the 2014 return that align with the core material covered in entity taxation courses, and the case topics include most entity income tax text book topics. The concepts and requirements for the 2015 tax year also align with the primary material. This case study is intended to be used as an additional teaching resource after core material has been presented in class.

SUGGESTED AUDIENCE AND BACKGROUND KNOWLEDGE

This case was specifically intended for use in an entity income tax course, or the entity section of a comprehensive tax course. At this time, the case has only been used at the undergraduate level, but as discussed above, could be used at the graduate level for graduate students who are being introduced to entity tax and/or tax research for the first time. Additionally, the case may be broken up, and a variation of requirements can be used depending on the skill set of the student audience. For example, if the IRC §754 election is not covered in the undergraduate course, one can assign all requirements except for the material related to the IRC §754 election. Then, the IRC §754 election research and memorandum would be used in a graduate course where the election is discussed. Students do not necessarily need to have any background or experience in the area of taxation, as the case study is intended to be used alongside additional corresponding material that has already been discussed and addressed in class.

After implementation, one area that students and fellow educators felt may be an issue was whether the level of difficulty is appropriate for the undergraduate entity tax course. As mentioned in the teaching notes, the case can be divided up into several components to accommodate multiple student populations and/or multiple courses. The 2014 requirements parallel an undergraduate course, but it has been argued that the 2015 requirements and IRC §754 election may be more appropriate for an upper level or graduate course. A fellow colleague stated “The 2014 Case Study (calculate cash, depreciation, and prepare the return) is much more at an undergraduate level (in my opinion). However, the 2015 component of the Case Study (with the Section 754 consideration) is much more at a graduate level. I might have asked my graduate students to continue with the 2015 Case Study as the ‘extra/final’ project.”

TEACHING METHODS

Traditionally undergraduate tax courses have been divided into two distinct components: tax technical theory and practice/compliance. It is suggested that in order to develop the students’ core skill set, especially analytical thinking and problem solving skills, the course be designed to introduce students to the different theories of taxation. Additionally, it would be suggested that the students review the introduced material through review problems and exercises to validate the students’ understanding. However, once students become comfortable with the general theory and practice, another way to validate comprehension would be to incorporate this comprehensive tax case study.

Although this case was written as a comprehensive case study to include two tax years, intense IRC §754 calculations, and professional memorandums, it can easily be adapted to meet the specific instructor’s needs. The case can be used as one final, comprehensive, tax return at the end of the term, or be broken up throughout the term to align with certain concepts discussed during the class meeting time. The instructor could also elect to use only certain parts of the case in order to focus on concepts they deem need more attention in their course. If the instructor elects only to use certain sections (such as only the 2015 requirements), the instructor will need to provide the students with enough background and subsequent data determined in the previous case sections.

Many approaches can be taken to utilize this case study. The students can work independently or together in small groups to interpret the theory previously learned and apply it to an actual tax return preparation case. Or small groups can be developed for the case and the preparation of the entity return. Small group work enables students to assist with the education of their peers. In the small groups, students will normally verbally work through their questions. This, in turn, should foster new discussions and resolve other questions. The use of this group activity requires students to work on many skills including: communication, team building, and discussion techniques. This practical application allows students to see how their understanding of tax theory may be applied to day-to-day issues. The team working environment parallels what students will be exposed to in their professional career, especially as a first year staff member. The case holds a significant amount of detailed work and thus collaborating with other students only adds to the experience by promoting in-depth discussions of each requirement.

The case study can also be used as either an in-class project or out-of-class project. Regardless of where the students will be completing the majority of the work, it is essential that the instructor take significant time to cover each individual requirement and then review in detail the solution to each requirement. The case is written in chronological order, thus it is necessary that students understand the correct answer to the 2014 requirements before moving forward as 2014 becomes the starting point for all of the 2015 requirements and calculations. Each requirement can be completed individually, in chronological order, and graded prior to the student moving on to the next requirement. This would allow for a decrease in flow-through errors.

The amount of time it will take students to complete each year's requirement will depend on many factors, such as: the knowledge level of the course (undergraduate vs. graduate course), a student's understanding of the concepts learned and course content, whether students work independently or in small groups, and the thoroughness of the student's work.

As discussed earlier in this section, this case has been utilized as an out-of-class project at an undergraduate level. Although it was intended that the majority of the work was to be completed outside the classroom, significant time was dedicated in the classroom to review requirements, discuss questions, and provide guidance. During the planning of implementation, four in-class work days were intentionally provided to allow students to work with their groups and utilize the instructor to answer questions and confirm calculations. As previously stated, the instructor is free to allow as much in-class time desired or required. Based on student feedback and the results of the term the case was implemented at the undergraduate level, it may be necessary to provide as much guidance and in-class instruction as possible.

In order to break up the requirements and stagger the available points, the case study was broken into four individual submissions (example rubrics can be found in the appendix of the teaching note). The staggered due dates also allowed students to receive appropriate feedback and guidance so they could continue onto the next requirement:

1. (30 points) NDH Investment LLC 2014 Return Preparation: Requirements #1-3
2. (50 points) NDH Investment LLC 2015 IRC §754 Memorandum: Requirement #1
3. (50 points) NDH Investment LLC 2015 Return Calculations: Requirements #2-11
4. (30 points) NDH Investment LLC 2015 Return Preparation: Requirement #12

Figure 1 is an example of the implementation schedule used for a class that meets three days a week for seventy minutes during a ten week term (MWF 10:40-11:50AM):

FIGURE 1			
Example Implementation Schedule			
Week	Topic	In Class Activities	NDH Case Activities
1	Introduction to Tax and Tax Research	Students bring electronic device to class for research practice. (laptop, tablet, phone, etc.)	Provide NDH Case Study Handout. Have class review it and determine groups.
2	Introduction to Corporations and Operating Rules	Complete 1120 in class to aid students with NDH.	
3	Corporation Organization and Capital Structure	2014 Return Work Day	Provide NDH 2014 Work Day
4	Corporation Earning & Profits and Distributions		NDH Investment LLC 2014 Return Preparation: Requirements #1-3 Due
5	Corporate Redemptions and Liquidations		
6	Corporate Reorganizations		
7	Partnership Formation, Operation and Basis	IRC §754 Research Work Day	Provide NDH 2015 IRC §754 Research Work Day
8	Partnership Formation, Operation and Basis	Complete additional 1065 in class to aid students with NDH.	
9	Partnership Distributions, Transfer of Interest and Terminations	Two 2015 Calculations Work Days scheduled AFTER the memo is due	Provide two NDH 2015 Calculation Work days after the memo has been completed NDH Investment LLC 2015 IRC §754 Memorandum: Requirement #1 Due
10	S Corporations		NDH 2015 Requirements #2-12 Due

CASE VALIDATION

This case was developed to be used during an entity tax course. At the time of this submission, the entire 2014 and 2015 case study requirements have been used as an in-class project, staggered during the term, in a traditional undergraduate classroom. Each of the requirements was due in accordance to the timeline provided in the Implementation Guidance, after topics were reviewed in class and time was allowed to examine the requirements. Thirty-four (34) students completed all of the 2014 and 2015 requirements in small groups primarily outside of the classroom meeting time, but as mentioned earlier four (4) class days were provided for students to work together. After each of the due dates, significant time was provided to go over the submissions, review questions, and discuss errors before moving on to the next phase.

To evaluate the effectiveness of this case study, critical feedback from fellow educators and students who recently completed the entity tax course was sought. The survey was sent to students at the end of the academic year, intending that students not relate their honest feedback to any final grade earned in the course. The survey consisted of twenty nine (29) quantitative questions on a five-point scale: 1 being “strongly agree” and 5 being “strongly disagree.” The survey also contained three (3) qualitative/open ended questions. A total of thirty four (34) surveys were sent out to recent students, and a total of eighteen (18) students chose to complete the survey, with a total response rate of 52.94%.

Table 1 provides the quantitative student assessment of the case study. The results of the student comments can be made available upon request, but due to the significant amount of feedback, student comments have not been included. Overall, the students provided favorable responses to the use of the case in the entity tax course. The responses provided indicate that the learning objectives of this case are being met and students generally agree that the case is encouraging critical thinking and tax compliance

research. More specifically the students felt that the requirements of the case compelled them to go beyond memorization (1.67) and explicitly met the Tax Technical Learning Objectives with regard to analyzing IRC §754 elections and preparing the corresponding basis and distribution calculation (1.61 and 1.67 respectively).

All of the responses in Table 1 have statistically significant student agreement relative to the neutral point of 3. As presented in the “Lower CI” column, all but two questions show responses below the neutral point (indicating agreement with the statement) in a 99 percent confidence interval. Those two questions do show statistical significance at the 95 percent confidence interval. This outcome solidifies the fact that the student assessments are statistically greater than the neutral point at very high confidence interval.

The written feedback students provided was overall positive with relation to the case. Generally, students positively commented on the challenging nature of the case, the effective way to present tax research and compliance, as well as the real world application. The two questions that do not meet the lower confidence at a 99 percent interval relate to the level of difficulty and the fact that the case was clear. Comments and concerns related to these two questions can also be found in the three open ended questions, and were related to the students’ expressed concern with the amount of work that was required. Students also requested more guidance and in-class time to work on the project. It can be concluded that students in this course feel as though the case study may have been too difficult, thus needed more specific guidance and time to complete. As previously discussed this case can be tailored to each class based on student enrollment, the knowledge level of the course (undergraduate vs. graduate course), a student’s understanding of the concepts learned and course content, whether students work independently or in small groups, and the thoroughness of the student’s work.

Additional feedback has been sought from other taxation professors and past students. Based on feedback and discussions from colleagues, students and alumni, I am confident this case study is an effective teaching method. Additionally, a case study of this nature reinforces material covered in the course and provides a professional experience within the classroom environment.

TABLE 1			
Student Assessment of Case			
Question^a	Mean (Std. Dev.)	Mean Difference^b	Lower CI^c
Overall Professional Skills Evaluation			
This case improved my ability to describe the general formula underlying LLC income tax	1.94 (1.16)	1.06***	2.74
This case was an additional resource in the classroom that helped me effectively learn and apply the material presented during the course	1.83 (1.10)	1.17***	2.58
This case study required me to not simply memorize the material, but rather truly understand the knowledge I have learned during class	1.67 (1.08)	1.33***	2.41
The level of difficulty of the case was appropriate.	2.50 (1.20)	0.5**	3.32
The case was clear and helped reinforce/substantiate my learning in the class.	2.39 (1.14)	0.61**	3.17
This case study improved my ability to use accounting and other information to make informed business decision and/or recommendations	2.11 (1.23)	0.89***	2.95
This case study improved my ability to use analytical skills and tools to manage and evaluate data	1.78 (1.17)	1.22***	2.57
This case incorporated multiple aspects of entity tax concepts	1.72 (1.18)	1.28***	2.53
This case offered an effective way to learn entity taxation concepts	2.00 (1.19)	1.00***	2.81
2014 & 2015 Return Compliance Skills			
During this case I used critical thinking skills to make sense of information that can be unclear from a client.	1.72 (1.13)	1.28***	2.49
Due to the requirements of this case, I can identify missing information that is necessary to complete a tax return for a client.	2.22 (1.06)	0.78***	2.95
This case improved my ability to explain how income (or loss) affects the entity's gross income.	1.89 (1.13)	1.11***	2.66
Due to the requirements of this case, I now know how to prepare Form 1065 and supporting forms and schedules.	1.83 (1.04)	1.17***	2.55
Due to the requirements of this case, I know how to calculate taxable income for an entity, specifically an LLC.	1.83 (1.04)	1.17***	2.55
This case allowed me to see the transformation from tax law into tax application (or tax compliance).	1.83 (1.10)	1.17***	2.58
This case required me to identify tax law sources – statutory, administrative, and judicial and assess each source.	1.83 (1.04)	1.17***	2.55
This case taught me how to complete comprehensive tax research and navigate my way through the Internal Revenue Code to find appropriate tax law.	1.83 (1.34)	1.17***	2.75

TABLE 1 Continued
Student Assessment of Case

Question^a	Mean (Std. Dev.)	Mean Difference^b	Lower CI^c
2014 & 2015 Return Compliance Skills Continued			
Due to the requirements of this case I know how to assess the validity and weight of tax law sources.	2.00 (1.19)	1.00***	2.81
After this case I understand IRC 754 elections and the corresponding tax law that guides the calculation of basis, gains, and losses and the “new” stepped up assets	1.61 (1.09)	1.39***	2.36
Professional Communication Skills			
This case study improved my ability to effectively communicate analyses, findings, and recommendations to stakeholders.	1.89 (1.08)	1.11***	2.63
This case improved my ability to know how to communicate technical tax concepts in a non-technical manner that a client with no tax background can understand.	1.83 (1.15)	1.17***	2.62
Work papers and Calculations			
This case study made me feel comfortable preparing professional quality work papers and calculations using excel.	1.94 (1.00)	1.06***	2.22
Due to the requirements of the case, I know how to calculate the LLC taxable income and separately stated items.	1.94 (1.06)	1.06***	2.67
Due to the requirements of this case, I understand the requirements for allocating income, gains, losses, and deductions among the partners and describe how that income is reported.	1.89 (1.18)	1.11***	2.70
Due to the requirements of this case, I can determine a partner’s basis in the partnership interest, before and after the sale of interest.	1.67 (1.14)	1.33***	2.44
Due to the requirements of this case, I understand how liabilities affect a partnership basis.	1.89 (1.18)	1.11***	2.70
Due to the requirements of this case, I can calculate the selling partner’s amount and character of gain or loss on the sale or exchange of a partnership interest.	1.72 (1.02)	1.28***	2.42
Due to the requirements of this case, I can calculate the buying partner’s amount and character of increased capital account.	1.83 (1.10)	1.17***	2.58
Due to the requirements of this case, I can calculate the optional adjustments to basis under IRC Section 754, including the step up basis allocated to partners.	1.67 (1.03)	1.33***	2.37
This student survey and reporting mechanism was adapted from Marrow and Stinson (2016), Blazovich et al. (2014), Huston and Huston (2013), Bagley and Harp (2012), and Sonnier (2010).			
*, **, *** Significant at the 0.10, 0.05, and 0.01 levels, respectively.			
^a Scale: 1 (Strongly Agree) to 5 (Strongly Disagree), with 3 (neutral).			
^b Mean difference from neutral point of 3. Positive mean differences indicate agreement and negative differences indicate disagreement.			
^c Lower confidence interval using a 99 percent confidence level, based on 18 observations.			

Appendix A

Form 1065 Department of the Treasury Internal Revenue Service	U.S. Return of Partnership Income For calendar year 2014, or tax year beginning _____, ending _____ Information about Form 1065 and its separate instructions is at www.irs.gov/form1065 .	OMB No. 1545-0123 2014													
A Principal business activity REAL ESTATE B Principal product or service REAL ESTATE C Business code number 531110	<table border="1" style="width:100%; border-collapse: collapse;"> <tr> <td rowspan="4" style="width:5%; text-align: center; vertical-align: middle;">Type or Print</td> <td colspan="3">Name of partnership NDH INVESTMENT GROUP LLC</td> </tr> <tr> <td colspan="3">Number, street, and room or suite no. If a P.O. box, see the instructions. 109 SOUTH LOOMIS</td> </tr> <tr> <td>City or town CHICAGO</td> <td>State IL</td> <td>ZIP code 60606</td> </tr> <tr> <td>Foreign country name</td> <td>Foreign province/state/county</td> <td>Foreign postal code</td> </tr> </table>	Type or Print	Name of partnership NDH INVESTMENT GROUP LLC			Number, street, and room or suite no. If a P.O. box, see the instructions. 109 SOUTH LOOMIS			City or town CHICAGO	State IL	ZIP code 60606	Foreign country name	Foreign province/state/county	Foreign postal code	D Employer identification number 11-1111111 E Date business started 2/1/1991 F Total assets (see the instructions) \$ 55,735
Type or Print	Name of partnership NDH INVESTMENT GROUP LLC														
	Number, street, and room or suite no. If a P.O. box, see the instructions. 109 SOUTH LOOMIS														
	City or town CHICAGO		State IL	ZIP code 60606											
	Foreign country name	Foreign province/state/county	Foreign postal code												
G Check applicable boxes: (1) <input type="checkbox"/> Initial return (2) <input type="checkbox"/> Final return (3) <input type="checkbox"/> Name change (4) <input type="checkbox"/> Address change (5) <input type="checkbox"/> Amended return (6) <input type="checkbox"/> Technical termination - also check (1) or (2)															
H Check accounting method: (1) <input checked="" type="checkbox"/> Cash (2) <input type="checkbox"/> Accrual (3) <input type="checkbox"/> Other (specify) _____															
I Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year _____ 3															
J Check if Schedules C and M-3 are attached <input type="checkbox"/>															

Caution. Include *only* trade or business income and expenses on lines 1a through 22 below. See the instructions for more information.

Income	1a Gross receipts or sales	1a				
	b Returns and allowances	1b				
	c Balance. Subtract line 1b from line 1a				1c	0
	2 Cost of goods sold (attach Form 1125-A)				2	
	3 Gross profit. Subtract line 2 from line 1c				3	0
	4 Ordinary income (loss) from other partnerships, estates, and trusts (attach statement)				4	
	5 Net farm profit (loss) (attach Schedule F (Form 1040))				5	
	6 Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)				6	
7 Other income (loss) (attach statement)				7		
8 Total income (loss). Combine lines 3 through 7				8	0	
Deductions <small>(see the instructions for limitations)</small>	9 Salaries and wages (other than to partners) (less employment credits)				9	
	10 Guaranteed payments to partners				10	
	11 Repairs and maintenance				11	
	12 Bad debts				12	
	13 Rent				13	
	14 Taxes and licenses				14	
	15 Interest				15	
	16a Depreciation (if required, attach Form 4562)	16a				
	b Less depreciation reported on Form 1125-A and elsewhere on return.	16b			16c	0
	17 Depletion (Do not deduct oil and gas depletion.)				17	
	18 Retirement plans, etc.				18	
	19 Employee benefit programs				19	
	20 Other deductions (attach statement)				20	
	21 Total deductions. Add the amounts shown in the far right column for lines 9 through 20				21	0
22 Ordinary business income (loss). Subtract line 21 from line 8				22	0	

Sign Here	Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than general partner or limited liability company member manager) is based on all information of which preparer has any knowledge.		
	_____ Signature of general partner or limited liability company member manager	_____ Date	May the IRS discuss this return with the preparer shown below (see instructions)? <input type="checkbox"/> Yes <input type="checkbox"/> No
Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature SELF-PREPARED RETURN	Check <input type="checkbox"/> if PTIN self-employed
	Firm's name	Firm's EIN	Phone no.
	Firm's address	City	State
			ZIP code

For Paperwork Reduction Act Notice, see separate instructions. Form 1065 (2014)

HTA

Schedule B Other Information (continued)

	Yes	No
11 At any time during the tax year, did the partnership receive a distribution from, or was it the grantor of, or transferor to, a foreign trust? If "Yes," the partnership may have to file Form 3520, Annual Return To Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts. See instructions		X
12a Is the partnership making, or had it previously made (and not revoked), a section 754 election? See instructions for details regarding a section 754 election.		X
b Did the partnership make for this tax year an optional basis adjustment under section 743(b) or 734(b)? If "Yes," attach a statement showing the computation and allocation of the basis adjustment. See instructions		X
c Is the partnership required to adjust the basis of partnership assets under section 743(b) or 734(b) because of a substantial built-in loss (as defined under section 743(d)) or substantial basis reduction (as defined under section 734(d))? If "Yes," attach a statement showing the computation and allocation of the basis adjustment. See instructions		X
13 Check this box if, during the current or prior tax year, the partnership distributed any property received in a like-kind exchange or contributed such property to another entity (other than disregarded entities wholly owned by the partnership throughout the tax year) <input type="checkbox"/>		
14 At any time during the tax year, did the partnership distribute to any partner a tenancy-in-common or other undivided interest in partnership property?		X
15 If the partnership is required to file Form 8858, Information Return of U.S. Persons With Respect To Foreign Disregarded Entities, enter the number of Forms 8858 attached. See instructions ▶		
16 Does the partnership have any foreign partners? If "Yes," enter the number of Forms 8805, Foreign Partner's Information Statement of Section 1446 Withholding Tax, filed for this partnership. ▶ 0		X
17 Enter the number of Forms 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships, attached to this return. ▶		
18a Did you make any payments in 2014 that would require you to file Form(s) 1099? See instructions		X
b If "Yes," did you or will you file required Form(s) 1099?		X
19 Enter the number of Form(s) 5471, Information Return of U.S. Persons With Respect To Certain Foreign Corporations, attached to this return. ▶		
20 Enter the number of partners that are foreign governments under section 892. ▶		

Designation of Tax Matters Partner (see instructions)

Enter below the general partner or member-manager designated as the tax matters partner (TMP) for the tax year of this return:

Name of designated TMP	▶ NEWSOM	Identifying number of TMP	▶
If the TMP is an entity, name of TMP representative	▶	Phone number of TMP	▶
Address of designated TMP	▶		

Schedule K Partners' Distributive Share Items		Total amount	
Income (Loss)	1 Ordinary business income (loss) (page 1, line 22)	1	
	2 Net rental real estate income (loss) (attach Form 8825)	2	1,278
	3a Other gross rental income (loss)	3a	
	b Expenses from other rental activities (attach statement)	3b	
	c Other net rental income (loss). Subtract line 3b from line 3a	3c	0
	4 Guaranteed payments	4	
	5 Interest income	5	
	6 Dividends: a Ordinary dividends	6a	
	b Qualified dividends	6b	
	7 Royalties	7	
	8 Net short-term capital gain (loss) (attach Schedule D (Form 1065))	8	
9a Net long-term capital gain (loss) (attach Schedule D (Form 1065))	9a		
b Collectibles (28%) gain (loss)	9b		
c Unrecaptured section 1250 gain (attach statement)	9c		
10 Net section 1231 gain (loss) (attach Form 4797)	10		
11 Other income (loss) (see instructions) Type ▶	11		
Deductions	12 Section 179 deduction (attach Form 4562)	12	
	13a Contributions	13a	
	b Investment interest expense	13b	
	c Section 59(e)(2) expenditures: (1) Type ▶ (2) Amount ▶	13c(2)	
d Other deductions (see instructions) Type ▶	13d		
Self-Employment	14a Net earnings (loss) from self-employment	14a	
	b Gross farming or fishing income	14b	
	c Gross nonfarm income	14c	
Credits	15a Low-income housing credit (section 42(j)(5))	15a	
	b Low-income housing credit (other)	15b	
	c Qualified rehabilitation expenditures (rental real estate) (attach Form 3468, if applicable)	15c	
	d Other rental real estate credits (see instructions) Type ▶	15d	
	e Other rental credits (see instructions) Type ▶	15e	
	f Other credits (see instructions) Type ▶	15f	
Foreign Transactions	16a Name of country or U.S. possession ▶		
	b Gross income from all sources	16b	
	c Gross income sourced at partner level	16c	
	Foreign gross income sourced at partnership level		
	d Passive category ▶ e General category ▶ f Other ▶	16f	
	Deductions allocated and apportioned at partner level		
	g Interest expense ▶ h Other ▶	16h	
	Deductions allocated and apportioned at partnership level to foreign source income		
	i Passive category ▶ j General category ▶ k Other ▶	16k	
l Total foreign taxes (check one): ▶ Paid <input type="checkbox"/> Accrued <input type="checkbox"/>	16l		
m Reduction in taxes available for credit (attach statement)	16m		
n Other foreign tax information (attach statement)			
Alternative Tax (AMT) Items	17a Post-1986 depreciation adjustment	17a	
	b Adjusted gain or loss	17b	
	c Depletion (other than oil and gas)	17c	
	d Oil, gas, and geothermal properties—gross income	17d	
	e Oil, gas, and geothermal properties—deductions	17e	
	f Other AMT items (attach statement)	17f	
Other Information	18a Tax-exempt interest income	18a	
	b Other tax-exempt income	18b	
	c Nondeductible expenses	18c	
	19a Distributions of cash and marketable securities	19a	
	b Distributions of other property	19b	
	20a Investment income	20a	
b Investment expenses	20b		
c Other items and amounts (attach statement)			

Analysis of Net Income (Loss)

1	Net income (loss). Combine Schedule K, lines 1 through 11. From the result, subtract the sum of Schedule K, lines 12 through 13d, and 16l					1	1,278
2	Analysis by partner type:						
	(i) Corporate	(ii) Individual (active)	(iii) Individual (passive)	(iv) Partnership	(v) Exempt Organization	(vi) Nominee/Other	
a	General partners						
b	Limited partners						
	1,278						

Schedule L	Balance Sheets per Books	Beginning of tax year		End of tax year	
		(a)	(b)	(c)	(d)
Assets					
1	Cash		10,290		7,135
2a	Trade notes and accounts receivable				
b	Less allowance for bad debts		0		0
3	Inventories				
4	U.S. government obligations				
5	Tax-exempt securities				
6	Other current assets (attach statement)				
7a	Loans to partners (or persons related to partners)				
b	Mortgage and real estate loans				
8	Other investments (attach statement)				
9a	Buildings and other depreciable assets	127,412		131,572	
b	Less accumulated depreciation	100,997	26,415	107,172	24,400
10a	Depletable assets				
b	Less accumulated depletion		0		0
11	Land (net of any amortization)		24,200		24,200
12a	Intangible assets (amortizable only)				
b	Less accumulated amortization		0		0
13	Other assets (attach statement)				
14	Total assets		60,905		55,735
Liabilities and Capital					
15	Accounts payable				
16	Mortgages, notes, bonds payable in less than 1 year		50,783		44,560
17	Other current liabilities (attach statement)		10,025		9,800
18	All nonrecourse loans				
19a	Loans from partners (or persons related to partners)				
b	Mortgages, notes, bonds payable in 1 year or more				
20	Other liabilities (attach statement)				
21	Partners' capital accounts		97		1,375
22	Total liabilities and capital		60,905		55,735

Schedule M-1 Reconciliation of Income (Loss) per Books With Income (Loss) per Return

Note. The partnership may be required to file Schedule M-3 (see instructions).

1	Net income (loss) per books	1,278	6	Income recorded on books this year not included on Schedule K, lines 1 through 11 (itemize):	
2	Income included on Schedule K, lines 1, 2, 3c, 5, 6a, 7, 8, 9a, 10, and 11, not recorded on books this year (itemize):	0	a	Tax-exempt interest \$	0
3	Guaranteed payments (other than health insurance)	0	7	Deductions included on Schedule K, lines 1 through 13d, and 16l, not charged against book income this year (itemize):	
4	Expenses recorded on books this year not included on Schedule K, lines 1 through 13d, and 16l (itemize):		a	Depreciation \$	0
a	Depreciation \$		8	Add lines 6 and 7	0
b	Travel and entertainment \$	0	9	Income (loss) (Analysis of Net Income (Loss), line 1). Subtract line 8 from line 5	1,278
5	Add lines 1 through 4	1,278			

Schedule M-2 Analysis of Partners' Capital Accounts

1	Balance at beginning of year	97	6	Distributions:	
2	Capital contributed:		a	Cash	
a	Cash		b	Property	
b	Property		7	Other decreases (itemize):	
3	Net income (loss) per books	1,278	8	Add lines 6 and 7	0
4	Other increases (itemize):	0	9	Balance at end of year. Subtract line 8 from line 5	1,375
5	Add lines 1 through 4	1,375			

Rental Real Estate Income and Expenses of a Partnership or an S Corporation

▶ See instructions on back.
▶ Attach to Form 1065, Form 1065-B, or Form 1120S.

Name: **NDH INVESTMENT GROUP LLC** Employer identification number: **11-1111111**

1	Show the type and address of each property. For each rental real estate property listed, report the number of days rented at fair rental value and days with personal use. See instructions. See page 2 to list additional properties.			
	Physical address of each property—street, city, state, ZIP code	Type—Enter code 1-8; see page 2 for list	Fair Rental Days	Personal Use Days
A	4 UNIT APARTMENT BUILDING - 2864 HARRISON AVE CHICAGO, IL 60606		365	
B				
C				
D				

		Properties			
		A	B	C	D
2	Rental Real Estate Income Gross rents	2 35,341			
3	Rental Real Estate Expenses Advertising	3			
4	Auto and travel	4			
5	Cleaning and maintenance	5			
6	Commissions	6			
7	Insurance	7 1,199			
8	Legal and other professional fees	8			
9	Interest	9 2,818			
10	Repairs	10 11,380			
11	Taxes	11 6,178			
12	Utilities	12 4,165			
13	Wages and salaries	13			
14	Depreciation (see instructions)	14 6,175			
15	Other (list) ▶	15 2,148			
16	Total expenses for each property. Add lines 3 through 15	16 34,063			
17	Income or (Loss) from each property. Subtract line 16 from line 2	17 1,278			
18a	Total gross rents. Add gross rents from line 2, columns A through H	18a 35,341			
18b	Total expenses. Add total expenses from line 16, columns A through H	18b (34,063)			
19	Net gain (loss) from Form 4797, Part II, line 17, from the disposition of property from rental real estate activities	19			
20a	Net income (loss) from rental real estate activities from partnerships, estates, and trusts in which this partnership or S corporation is a partner or beneficiary (from Schedule K-1)	20a			
20b	Identify below the partnerships, estates, or trusts from which net income (loss) is shown on line 20a. Attach a schedule if more space is needed: (1) Name (2) Employer identification number				
21	Net rental estate income (loss). Combine lines 18a through 20a. Enter the result here and on: • Form 1065 or 1120S: Schedule K, line 2, or • Form 1065-B: Part I, line 4	21 1,278			

**Schedule K-1
(Form 1065)**

Department of the Treasury
Internal Revenue Service

2014

For calendar year 2014, or tax
year beginning _____, 2014
ending _____, 20____

**Partner's Share of Income, Deductions,
Credits, etc.**

▶ See back of form and separate instructions.

Final K-1 Amended K-1

651113
OMB No. 1545-0123

Part I Information About the Partnership																
A	Partnership's employer identification number 11-1111111															
B	Partnership's name, address, city, state, and ZIP code NDH INVESTMENT GROUP LLC 109 SOUTH LOOMIS CHICAGO, IL 60606															
C	IRS Center where partnership filed return e-file															
D	<input type="checkbox"/> Check if this is a publicly traded partnership (PTP)															
Part II Information About the Partner																
E	Partner's identifying number Partner: 1															
F	Partner's name, address, city, state, and ZIP code NEWSOM															
G	<input type="checkbox"/> General partner or LLC member-manager <input checked="" type="checkbox"/> Limited partner or other LLC member															
H	<input checked="" type="checkbox"/> Domestic partner <input type="checkbox"/> Foreign partner															
I1	What type of entity is this partner? <u>Active Individual</u>															
I2	If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here <input type="checkbox"/>															
J	Partner's share of profit, loss, and capital (see instructions):															
	<table border="1"> <thead> <tr> <th></th> <th>Beginning</th> <th>Ending</th> </tr> </thead> <tbody> <tr> <td>Profit</td> <td>33.3333333%</td> <td>33.3333333%</td> </tr> <tr> <td>Loss</td> <td>33.3333333%</td> <td>33.3333333%</td> </tr> <tr> <td>Capital</td> <td>33.3333333%</td> <td>33.3333333%</td> </tr> </tbody> </table>		Beginning	Ending	Profit	33.3333333%	33.3333333%	Loss	33.3333333%	33.3333333%	Capital	33.3333333%	33.3333333%			
	Beginning	Ending														
Profit	33.3333333%	33.3333333%														
Loss	33.3333333%	33.3333333%														
Capital	33.3333333%	33.3333333%														
K	Partner's share of liabilities at year end:															
	<table border="1"> <tbody> <tr> <td>Nonrecourse</td> <td>\$</td> <td>3,267</td> </tr> <tr> <td>Qualified nonrecourse financing</td> <td>\$</td> <td>14,853</td> </tr> <tr> <td>Recourse</td> <td>\$</td> <td></td> </tr> </tbody> </table>	Nonrecourse	\$	3,267	Qualified nonrecourse financing	\$	14,853	Recourse	\$							
Nonrecourse	\$	3,267														
Qualified nonrecourse financing	\$	14,853														
Recourse	\$															
L	Partner's capital account analysis:															
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Beginning capital account	\$	32														
Capital contributed during the year	\$															
Current year increase (decrease)	\$	426														
Withdrawals & distributions	\$	()														
Ending capital account	\$	458														
	<input checked="" type="checkbox"/> Tax basis <input type="checkbox"/> GAAP <input type="checkbox"/> Section 704(b) book <input type="checkbox"/> Other (explain)															
M	Did the partner contribute property with a built-in gain or loss? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No If "Yes," attach statement (see instructions)															

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items		
1	Ordinary business income (loss)	15 Credits
2	Net rental real estate income (loss) 426	
3	Other net rental income (loss)	16 Foreign transactions
4	Guaranteed payments	
5	Interest income	
6a	Ordinary dividends	
6b	Qualified dividends	
7	Royalties	
8	Net short-term capital gain (loss)	
9a	Net long-term capital gain (loss)	17 Alternative minimum tax (AMT) items
9b	Collectibles (28%) gain (loss)	
9c	Unrecaptured section 1250 gain	
10	Net section 1231 gain (loss)	18 Tax-exempt income and nondeductible expenses
11	Other income (loss)	
		19 Distributions
12	Section 179 deduction	
13	Other deductions	20 Other information
14	Self-employment earnings (loss)	

*See attached statement for additional information.

For IRS Use Only

**Schedule K-1
(Form 1065)**
Department of the Treasury
Internal Revenue Service

2014

For calendar year 2014, or tax
year beginning _____, 2014
ending _____, 20 _____

**Partner's Share of Income, Deductions,
Credits, etc.** ▶ See back of form and separate instructions.

651113

Final K-1 Amended K-1

OMB No. 1545-0123

Part I Information About the Partnership																
A	Partnership's employer identification number 11-1111111															
B	Partnership's name, address, city, state, and ZIP code NDH INVESTMENT GROUP LLC 109 SOUTH LOOMIS CHICAGO, IL 60606															
C	IRS Center where partnership filed return e-file															
D	<input type="checkbox"/> Check if this is a publicly traded partnership (PTP)															
Part II Information About the Partner																
E	Partner's identifying number Partner: 2															
F	Partner's name, address, city, state, and ZIP code P. DOCTOR															
G	<input type="checkbox"/> General partner or LLC member-manager <input checked="" type="checkbox"/> Limited partner or other LLC member															
H	<input checked="" type="checkbox"/> Domestic partner <input type="checkbox"/> Foreign partner															
I1	What type of entity is this partner? <u>Active Individual</u>															
I2	If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here <input type="checkbox"/>															
J	Partner's share of profit, loss, and capital (see instructions):															
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Loss	33.333333%	33.333333%														
Capital	33.333333%	33.333333%														
K	Partner's share of liabilities at year end:															
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M	Did the partner contribute property with a built-in gain or loss? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No If "Yes," attach statement (see instructions)															

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items			
1	Ordinary business income (loss)	15	Credits
2	Net rental real estate income (loss) 426		
3	Other net rental income (loss)	16	Foreign transactions
4	Guaranteed payments		
5	Interest income		
6a	Ordinary dividends		
6b	Qualified dividends		
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11	Other income (loss)		
12	Section 179 deduction		19 Distributions
13	Other deductions		20 Other information
14	Self-employment earnings (loss)		
*See attached statement for additional information.			
For IRS Use Only			

**Schedule K-1
(Form 1065)**

2014

Department of the Treasury
Internal Revenue Service

For calendar year 2014, or tax
year beginning _____, 2014
ending _____, 20 _____

**Partner's Share of Income, Deductions,
Credits, etc.**

▶ See back of form and separate instructions.

Part I Information About the Partnership																
A	Partnership's employer identification number 11-1111111															
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M	Did the partner contribute property with a built-in gain or loss? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No If "Yes," attach statement (see instructions)															

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14	Self-employment earnings (loss)	
*See attached statement for additional information.		
For IRS Use Only		

Depreciation and Amortization
(Including Information on Listed Property)

Department of the Treasury
Internal Revenue Service (99)

▶ Attach to your tax return.
▶ Information about Form 4562 and its separate instructions is at www.irs.gov/form4562.

Attachment
Sequence No. **179**

Name(s) shown on return

NDH INVESTMENT GROUP LLC

Business or activity to which this form relates

8825: 01 - 4 UNIT APARTMENT BUILDING

Identifying number

11-1111111

Part I Election To Expense Certain Property Under Section 179

Note: If you have any listed property, complete Part V before you complete Part I.

1	Maximum amount (see instructions)	1	
2	Total cost of section 179 property placed in service (see instructions)	2	
3	Threshold cost of section 179 property before reduction in limitation (see instructions)	3	
4	Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	4	0
5	Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions	5	0
6	(a) Description of property	(b) Cost (business use only)	(c) Elected cost
7	Listed property. Enter the amount from line 29	7	
8	Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7	8	0
9	Tentative deduction. Enter the smaller of line 5 or line 8	9	0
10	Carryover of disallowed deduction from line 13 of your 2013 Form 4562	10	
11	Business income limitation. Enter the smaller of business income (not less than zero) or line 5 (see instructions)	11	
12	Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11	12	0
13	Carryover of disallowed deduction to 2016. Add lines 9 and 10, less line 12	13	

Note: Do not use Part II or Part III below for listed property. Instead, use Part V.

Part II Special Depreciation Allowance and Other Depreciation (Do not include listed property.) (See instructions.)

14	Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year (see instructions)	14	
15	Property subject to section 168(f)(1) election	15	
16	Other depreciation (including ACRS)	16	

Part III MACRS Depreciation (Do not include listed property.) (See instructions.)

Section A

17	MACRS deductions for assets placed in service in tax years beginning before 2014	17	6,043
18	If you are electing to group any assets placed in service during the tax year into one or more general asset accounts, check here <input type="checkbox"/>		

Section B—Assets Placed in Service During 2014 Tax Year Using the General Depreciation System

(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment use only—see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
19a 3-year property						
b 5-year property		660	5	HY	200DB	132
c 7-year property						
d 10-year property						
e 15-year property						
f 20-year property						
g 25-year property			25 yrs.		S/L	
h Residential rental property			27.5 yrs.	MM	S/L	
i Nonresidential real property			27.5 yrs.	MM	S/L	
			39 yrs.	MM	S/L	

Section C—Assets Placed in Service During 2015 Tax Year Using the Alternative Depreciation System

20a Class life					S/L	
b 12-year			12 yrs.		S/L	
c 40-year			40 yrs.	MM	S/L	

Part IV Summary (See instructions.)

21	Listed property. Enter amount from line 28	21	
22	Total. Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter here and on the appropriate lines of your return. Partnerships and S corporations—see instructions	22	6,175
23	For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs	23	

Appendix B

Form 1065 Department of the Treasury Internal Revenue Service	U.S. Return of Partnership Income For calendar year 2015, or tax year beginning _____, 2015, ending _____, 20____	OMB No. 1545-0123 <div style="font-size: 2em; font-weight: bold;">2015</div>	
▶ Information about Form 1065 and its separate instructions is at www.irs.gov/form1065 .			
A Principal business activity Real Estate	Type or Print	Name of partnership NDI INVESTMENT GROUP LLC	D Employer identification number 11-1111111
B Principal product or service Real Estate		Number, street, and room or suite no. If a P.O. box, see the instructions. 109 SOUTH LOOMIS	E Date business started 2/1/1991
C Business code number 531110		City or town, state or province, country, and ZIP or foreign postal code CHICAGO, IL 60606	F Total assets (see the instructions) \$ 124,655

G Check applicable boxes: (1) Initial return (2) Final return (3) Name change (4) Address change (5) Amended return (6) Technical termination - also check (1) or (2)

H Check accounting method: (1) Cash (2) Accrual (3) Other (specify) ▶ _____

I Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year ▶ _____ 3

J Check if Schedules C and M-3 are attached

Caution. Include **only** trade or business income and expenses on lines 1a through 22 below. See the instructions for more information.

Income	1a Gross receipts or sales	1a		
	b Returns and allowances	1b		
	c Balance. Subtract line 1b from line 1a		1c	0
	2 Cost of goods sold (attach Form 1125-A)		2	
	3 Gross profit. Subtract line 2 from line 1c		3	0
	4 Ordinary income (loss) from other partnerships, estates, and trusts (attach statement)		4	
	5 Net farm profit (loss) (attach Schedule F (Form 1040))		5	
	6 Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)		6	
7 Other income (loss) (attach statement)		7		
8 Total income (loss). Combine lines 3 through 7		8	0	
Deductions <small>(see the instructions for limitations)</small>	9 Salaries and wages (other than to partners) (less employment credits)		9	
	10 Guaranteed payments to partners		10	
	11 Repairs and maintenance		11	
	12 Bad debts		12	
	13 Rent		13	
	14 Taxes and licenses		14	
	15 Interest		15	
	16a Depreciation (if required, attach Form 4562)	16a		
	b Less depreciation reported on Form 1125-A and elsewhere on return	16b	16c	0
	17 Depletion (Do not deduct oil and gas depletion.)		17	
	18 Retirement plans, etc.		18	
	19 Employee benefit programs		19	
	20 Other deductions (attach statement)		20	
	21 Total deductions. Add the amounts shown in the far right column for lines 9 through 20		21	0
22 Ordinary business income (loss). Subtract line 21 from line 8		22	0	

Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than general partner or limited liability company member manager) is based on all information of which preparer has any knowledge.

Signature of general partner or limited liability company member manager _____ Date _____

May the IRS discuss this return with the preparer shown below (see instructions)? Yes No

Paid Preparer Use Only	Print/Type preparer's name	Preparer's signature SELF-PREPARED RETURN	Date	Check <input type="checkbox"/> if self-employed	PTIN
	Firm's name ▶			Firm's EIN ▶	
	Firm's address ▶			Phone no. _____	

Schedule B Other Information			
1 What type of entity is filing this return? Check the applicable box:		Yes	No
a	<input type="checkbox"/> Domestic general partnership		
b	<input type="checkbox"/> Domestic limited partnership		
c	<input checked="" type="checkbox"/> Domestic limited liability company		
d	<input type="checkbox"/> Domestic limited liability partnership		
e	<input type="checkbox"/> Foreign partnership		
f	<input type="checkbox"/> Other ▶		
2 At any time during the tax year, was any partner in the partnership a disregarded entity, a partnership (including an entity treated as a partnership), a trust, an S corporation, an estate (other than an estate of a deceased partner), or a nominee or similar person?			X
3 At the end of the tax year:			
a Did any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt organization, or any foreign government own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital of the partnership? For rules of constructive ownership, see instructions. If "Yes," attach Schedule B-1, Information on Partners Owning 50% or More of the Partnership			X
b Did any individual or estate own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital of the partnership? For rules of constructive ownership, see instructions. If "Yes," attach Schedule B-1, Information on Partners Owning 50% or More of the Partnership		X	
4 At the end of the tax year, did the partnership:			
a Own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of stock entitled to vote of any foreign or domestic corporation? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (iv) below			X
	(i) Name of Corporation	(ii) Employer Identification Number (if any)	(iii) Country of Incorporation
			(iv) Percentage Owned in Voting Stock
b Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in the profit, loss, or capital in any foreign or domestic partnership (including an entity treated as a partnership) or in the beneficial interest of a trust? For rules of constructive ownership, see instructions. If "Yes," complete (i) through (v) below			X
	(i) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Type of Entity
			(iv) Country of Organization
			(v) Maximum Percentage Owned in Profit, Loss, or Capital
5 Did the partnership file Form 8893, Election of Partnership Level Tax Treatment, or an election statement under section 6231(a)(1)(D)(ii) for partnership-level tax treatment, that is in effect for this tax year? See Form 8893 for more details			X
6 Does the partnership satisfy all four of the following conditions?			
a The partnership's total receipts for the tax year were less than \$250,000.			
b The partnership's total assets at the end of the tax year were less than \$1 million.			
c Schedules K-1 are filed with the return and furnished to the partners on or before the due date (including extensions) for the partnership return.			
d The partnership is not filing and is not required to file Schedule M-3		X	
If "Yes," the partnership is not required to complete Schedules L, M-1, and M-2; Item F on page 1 of Form 1065; or Item L on Schedule K-1.			
7 Is this partnership a publicly traded partnership as defined in section 469(k)(2)?			X
8 During the tax year, did the partnership have any debt that was cancelled, was forgiven, or had the terms modified so as to reduce the principal amount of the debt?			X
9 Has this partnership filed, or is it required to file, Form 8918, Material Advisor Disclosure Statement, to provide information on any reportable transaction?			X
10 At any time during calendar year 2015, did the partnership have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? See the instructions for exceptions and filing requirements for FinCEN Form 114, Report of Foreign Bank and Financial Accounts (FBAR). If "Yes," enter the name of the foreign country. ▶			X

Schedule B Other Information (continued)

	Yes	No
11 At any time during the tax year, did the partnership receive a distribution from, or was it the grantor of, or transferor to, a foreign trust? If "Yes," the partnership may have to file Form 3520, Annual Return To Report Transactions With Foreign Trusts and Receipt of Certain Foreign Gifts. See instructions		
12a Is the partnership making, or had it previously made (and not revoked), a section 754 election? See instructions for details regarding a section 754 election.	X	
b Did the partnership make for this tax year an optional basis adjustment under section 743(b) or 734(b)? If "Yes," attach a statement showing the computation and allocation of the basis adjustment. See instructions	X	
c Is the partnership required to adjust the basis of partnership assets under section 743(b) or 734(b) because of a substantial built-in loss (as defined under section 743(d)) or substantial basis reduction (as defined under section 734(d))? If "Yes," attach a statement showing the computation and allocation of the basis adjustment. See instructions		X
13 Check this box if, during the current or prior tax year, the partnership distributed any property received in a like-kind exchange or contributed such property to another entity (other than disregarded entities wholly owned by the partnership throughout the tax year) <input type="checkbox"/>		
14 At any time during the tax year, did the partnership distribute to any partner a tenancy-in-common or other undivided interest in partnership property?		X
15 If the partnership is required to file Form 8858, Information Return of U.S. Persons With Respect To Foreign Disregarded Entities, enter the number of Forms 8858 attached. See instructions ▶		
16 Does the partnership have any foreign partners? If "Yes," enter the number of Forms 8805, Foreign Partner's Information Statement of Section 1446 Withholding Tax, filed for this partnership. ▶		X
17 Enter the number of Forms 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships, attached to this return. ▶		
18a Did you make any payments in 2015 that would require you to file Form(s) 1099? See instructions		X
b If "Yes," did you or will you file required Form(s) 1099?		X
19 Enter the number of Form(s) 5471, Information Return of U.S. Persons With Respect To Certain Foreign Corporations, attached to this return. ▶		
20 Enter the number of partners that are foreign governments under section 892. ▶		

Designation of Tax Matters Partner (see instructions)

Enter below the general partner or member-manager designated as the tax matters partner (TMP) for the tax year of this return:

Name of designated TMP ▶	J. HELMS	Identifying number of TMP ▶	
If the TMP is an entity, name of TMP representative ▶		Phone number of TMP ▶	
Address of designated TMP ▶			

Schedule K		Partners' Distributive Share Items	Total amount
Income (Loss)	1	Ordinary business income (loss) (page 1, line 22)	1
	2	Net rental real estate income (loss) (attach Form 8825)	2
	3a	Other gross rental income (loss)	3a
	b	Expenses from other rental activities (attach statement)	3b
	c	Other net rental income (loss). Subtract line 3b from line 3a	3c
	4	Guaranteed payments	4
	5	Interest income	5
	6	Dividends: a Ordinary dividends	6a
	b	Qualified dividends	6b
	7	Royalties	7
	8	Net short-term capital gain (loss) (attach Schedule D (Form 1065))	8
9a	Net long-term capital gain (loss) (attach Schedule D (Form 1065))	9a	
b	Collectibles (28%) gain (loss)	9b	
c	Unrecaptured section 1250 gain (attach statement)	9c	
10	Net section 1231 gain (loss) (attach Form 4797)	10	
11	Other income (loss) (see instructions) Type ▶	11	
Deductions	12	Section 179 deduction (attach Form 4562)	12
	13a	Contributions	13a
	b	Investment interest expense	13b
	c	Section 59(e)(2) expenditures: (1) Type ▶ (2) Amount ▶	13c(2)
d	Other deductions (see instructions) Type ▶	13d	
Self-Employment	14a	Net earnings (loss) from self-employment	14a
	b	Gross farming or fishing income	14b
	c	Gross nonfarm income	14c
Credits	15a	Low-income housing credit (section 42(j)(5))	15a
	b	Low-income housing credit (other)	15b
	c	Qualified rehabilitation expenditures (rental real estate) (attach Form 3468, if applicable)	15c
	d	Other rental real estate credits (see instructions) Type ▶	15d
	e	Other rental credits (see instructions) Type ▶	15e
	f	Other credits (see instructions) Type ▶	15f
Foreign Transactions	16a	Name of country or U.S. possession ▶	16a
	b	Gross income from all sources	16b
	c	Gross income sourced at partner level	16c
		Foreign gross income sourced at partnership level	
	d	Passive category ▶ e General category ▶ f Other ▶	16f
		Deductions allocated and apportioned at partner level	
	g	Interest expense ▶ h Other ▶	16h
		Deductions allocated and apportioned at partnership level to foreign source income	
	i	Passive category ▶ j General category ▶ k Other ▶	16k
	l	Total foreign taxes (check one): ▶ Paid <input type="checkbox"/> Accrued <input type="checkbox"/>	16l
m	Reduction in taxes available for credit (attach statement)	16m	
n	Other foreign tax information (attach statement)		
Alternative Minimum Tax (AMT) Items	17a	Post-1986 depreciation adjustment	17a
	b	Adjusted gain or loss	17b
	c	Depletion (other than oil and gas)	17c
	d	Oil, gas, and geothermal properties—gross income	17d
	e	Oil, gas, and geothermal properties—deductions	17e
	f	Other AMT items (attach statement)	17f
Other Information	18a	Tax-exempt interest income	18a
	b	Other tax-exempt income	18b
	c	Nondeductible expenses	18c
	19a	Distributions of cash and marketable securities	19a
	b	Distributions of other property	19b
	20a	Investment income	20a
b	Investment expenses	20b	
c	Other items and amounts (attach statement)		

Analysis of Net Income (Loss)

1	Net income (loss). Combine Schedule K, lines 1 through 11. From the result, subtract the sum of Schedule K, lines 12 through 13d, and 16l						1	10,857
2	Analysis by partner type:							
	(i) Corporate	(ii) Individual (active)	(iii) Individual (passive)	(iv) Partnership	(v) Exempt Organization	(vi) Nominee/Other		
a	General partners							
b	Limited partners							

Schedule L Balance Sheets per Books		Beginning of tax year		End of tax year	
Assets		(a)	(b)	(c)	(d)
1	Cash		7,135		19,735
2a	Trade notes and accounts receivable				
b	Less allowance for bad debts		0		0
3	Inventories				
4	U.S. government obligations				
5	Tax-exempt securities				
6	Other current assets (attach statement)				
7a	Loans to partners (or persons related to partners)				
b	Mortgage and real estate loans				
8	Other investments (attach statement)				
9a	Buildings and other depreciable assets	131,572		184,176	
b	Less accumulated depreciation	107,172	24,400	114,475	69,701
10a	Depletable assets				
b	Less accumulated depletion		0		0
11	Land (net of any amortization)		24,200		35,204
12a	Intangible assets (amortizable only)				
b	Less accumulated amortization		0		0
13	Other assets (attach statement)				
14	Total assets		55,735		124,640
Liabilities and Capital					
15	Accounts payable				
16	Mortgages, notes, bonds payable in less than 1 year		44,560		
17	Other current liabilities (attach statement)		9,800		9,800
18	All nonrecourse loans				
19a	Loans from partners (or persons related to partners)				
b	Mortgages, notes, bonds payable in 1 year or more				
20	Other liabilities (attach statement)				
21	Partners' capital accounts		1,375		114,840
22	Total liabilities and capital		55,735		124,640

Schedule M-1 Reconciliation of Income (Loss) per Books With Income (Loss) per Return

Note. The partnership may be required to file Schedule M-3 (see instructions).

1	Net income (loss) per books	10,857	6	Income recorded on books this year not included on Schedule K, lines 1 through 11 (itemize):	
2	Income included on Schedule K, lines 1, 2, 3c, 5, 6a, 7, 8, 9a, 10, and 11, not recorded on books this year (itemize):	0	a	Tax-exempt interest \$	0
3	Guaranteed payments (other than health insurance)	0	7	Deductions included on Schedule K, lines 1 through 13d, and 16l, not charged against book income this year (itemize):	
4	Expenses recorded on books this year not included on Schedule K, lines 1 through 13d, and 16l (itemize):		a	Depreciation \$	0
a	Depreciation \$		8	Add lines 6 and 7	0
b	Travel and entertainment \$	0	9	Income (loss) (Analysis of Net Income (Loss), line 1). Subtract line 8 from line 5	10,857
5	Add lines 1 through 4	10,857			

Schedule M-2 Analysis of Partners' Capital Accounts

1	Balance at beginning of year	1,375	6	Distributions: a Cash	
2	Capital contributed: a Cash	39,000	b Property		
	b Property		7	Other decreases (itemize):	
3	Net income (loss) per books	10,857	8	Add lines 6 and 7	0
4	Other increases (itemize):	63,608	9	Balance at end of year. Subtract line 8 from line 5	114,840
5	Add lines 1 through 4	114,840			

Rental Real Estate Income and Expenses of a Partnership or an S Corporation

OMB No. 1545-1186

▶ See instructions on back.

▶ Attach to Form 1065, Form 1065-B, or Form 1120S.

Name NDH INVESTMENT GROUP LLC Employer identification number 11-1111111

1	Show the type and address of each property. For each rental real estate property listed, report the number of days rented at fair rental value and days with personal use. See instructions. See page 2 to list additional properties.	Physical address of each property—street, city, state, ZIP code	Type—Enter code 1-8; see page 2 for list	Fair Rental Days	Personal Use Days
A		4 UNIT APARTMENT BUILDING-2064 HARRISON AVE CHICAGO, IL 60606			
B					
C					
D					

		Properties			
		A	B	C	D
Rental Real Estate Income					
2	Gross rents	38,671			
Rental Real Estate Expenses					
3	Advertising				
4	Auto and travel				
5	Cleaning and maintenance				
6	Commissions				
7	Insurance	1,887			
8	Legal and other professional fees				
9	Interest	616			
10	Repairs	3,226			
11	Taxes	7,608			
12	Utilities	4,338			
13	Wages and salaries				
14	Depreciation (see instructions)	7,303			
15	Other (list) ▶ OTHER EXPENSES	2,836			
16	Total expenses for each property. Add lines 3 through 15	27,814			
17	Income or (Loss) from each property. Subtract line 16 from line 2	10,857			
18a	Total gross rents. Add gross rents from line 2, columns A through H	38,671			
18b	Total expenses. Add total expenses from line 16, columns A through H	(27,814)			
19	Net gain (loss) from Form 4797, Part II, line 17, from the disposition of property from rental real estate activities				
20a	Net income (loss) from rental real estate activities from partnerships, estates, and trusts in which this partnership or S corporation is a partner or beneficiary (from Schedule K-1)				
	b Identify below the partnerships, estates, or trusts from which net income (loss) is shown on line 20a. Attach a schedule if more space is needed:				
	(1) Name (2) Employer identification number				
21	Net rental estate income (loss). Combine lines 18a through 20a. Enter the result here and on: • Form 1065 or 1120S: Schedule K, line 2, or • Form 1065-B: Part I, line 4	10,857			

**SCHEDULE B-1
(Form 1065)**

(Rev. December 2011)
Department of the Treasury
Internal Revenue Service

**Information on Partners Owning 50% or
More of the Partnership**

▶ Attach to Form 1065. See instructions on back.

OMB No. 1545-0099

Name of partnership NDH INVESTMENT GROUP LLC	Employer identification number (EIN) 11-1111111
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Part I Entities Owning 50% or More of the Partnership (Form 1065, Schedule B, Question 3a)

Complete columns (i) through (v) below for any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, tax-exempt organization, or any foreign government that owns, directly or indirectly, an interest of 50% or more in the profit, loss, or capital of the partnership (see instructions).

(i) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Type of Entity	(iv) Country of Organization	(v) Maximum Percentage Owned in Profit, Loss, or Capital

Part II Individuals or Estates Owning 50% or More of the Partnership (Form 1065, Schedule B, Question 3b)

Complete columns (i) through (iv) below for any individual or estate that owns, directly or indirectly, an interest of 50% or more in the profit, loss, or capital of the partnership (see instructions).

(i) Name of Individual or Estate	(ii) Identifying Number (if any)	(iii) Country of Citizenship (see instructions)	(iv) Maximum Percentage Owned in Profit, Loss, or Capital
HELMS		UNITED STATES	66.000%

**Schedule K-1
(Form 1065)**

Department of the Treasury
Internal Revenue Service

2015

For calendar year 2015, or tax
year beginning _____, 2015
ending _____, 20____

Final K-1 Amended K-1

651113
OMB No. 1545-0123

**Partner's Share of Income, Deductions,
Credits, etc.** ▶ See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
11-1111111

B Partnership's name, address, city, state, and ZIP code
NDH INVESTMENT GROUP LLC
109 SOUTH LOOMIS
CHICAGO, IL 60606

C IRS Center where partnership filed return
Cincinnati, OH 45999-0011

D Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's identifying number Partner: 1

F Partner's name, address, city, state, and ZIP code
A. NEWSOM

G General partner or LLC member-manager Limited partner or other LLC member

H Domestic partner Foreign partner

I1 What type of entity is this partner? _____

I2 If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here
.....

J Partner's share of profit, loss, and capital (see instructions):

	Beginning	Ending
Profit	33.333333 %	0.000000 %
Loss	33.333333 %	0.000000 %
Capital	33.333333 %	0.000000 %

K Partner's share of liabilities at year end:

Nonrecourse \$ _____

Qualified nonrecourse financing . . \$ _____

Recourse \$ _____

**Part III Partner's Share of Current Year Income,
Deductions, Credits, and Other Items**

1	Ordinary business income (loss)	15	Credits
2	Net rental real estate income (loss) 1,634		
3	Other net rental income (loss)	16	Foreign transactions
4	Guaranteed payments		
5	Interest income		
6a	Ordinary dividends		
6b	Qualified dividends		
7	Royalties		
8	Net short-term capital gain (loss)		
9a	Net long-term capital gain (loss)	17	Alternative minimum tax (AMT) items
9b	Collectibles (28%) gain (loss)		
9c	Unrecaptured section 1250 gain		
10	Net section 1231 gain (loss)	18	Tax-exempt income and nondeductible expenses
11	Other income (loss)		
12	Section 179 deduction	19	Distributions
13	Other deductions	20	Other information
14	Self-employment earnings (loss)		

L Partner's capital account analysis:

Beginning capital account \$ 458

Capital contributed during the year . . \$ 13,000

Current year increase (decrease) . . \$ 1,634

Withdrawals & distributions . . \$ (15,092)

Ending capital account \$ _____

Tax basis GAAP Section 704(b) book
 Other (explain) _____

M Did the partner contribute property with a built-in gain or loss?
 Yes No
If "Yes," attach statement (see instructions)

*See attached statement for additional information.

For IRS Use Only

Schedule K-1 (Form 1065)

2015

Department of the Treasury Internal Revenue Service

For calendar year 2015, or tax year beginning _____, 2015 ending _____, 20_____

Partner's Share of Income, Deductions, Credits, etc. See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number 11-1111111
B Partnership's name, address, city, state, and ZIP code NDH INVESTMENT GROUP LLC 109 SOUTH LOOMIS STREET CHICAGO, IL 60606
C IRS Center where partnership filed return Cincinnati, OH 45999-0011
D Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's identifying number Partner: 2
F Partner's name, address, city, state, and ZIP code P. DOCTOR
G General partner or LLC member-manager Limited partner or other LLC member
H Domestic partner Foreign partner
I1 What type of entity is this partner?
I2 If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here
J Partner's share of profit, loss, and capital (see instructions):
Beginning Ending
Profit 33.333333% 33.333333%
Loss 33.333333% 33.333333%
Capital 33.333333% 33.333333%
K Partner's share of liabilities at year end:
Nonrecourse \$
Qualified nonrecourse financing \$
Recourse \$
L Partner's capital account analysis:
Beginning capital account \$ 458
Capital contributed during the year \$ 13,000
Current year increase (decrease) \$ 3,964
Withdrawals & distributions \$ ()
Ending capital account \$ 17,422
M Did the partner contribute property with a built-in gain or loss? Yes No

Part III Partner's Share of Current Year Income, Deductions, Credits, and Other Items

Table with 3 columns: Line number, Description, and Code. Rows include: 1 Ordinary business income (loss) 15 Credits; 2 Net rental real estate income (loss) 3,964; 3 Other net rental income (loss) 16 Foreign transactions; 4 Guaranteed payments; 5 Interest income; 6a Ordinary dividends; 6b Qualified dividends; 7 Royalties; 8 Net short-term capital gain (loss); 9a Net long-term capital gain (loss) 17 Alternative minimum tax (AMT) items; 9b Collectibles (28%) gain (loss); 9c Unrecaptured section 1250 gain; 10 Net section 1231 gain (loss) 18 Tax-exempt income and nondeductible expenses; 11 Other income (loss); 12 Section 179 deduction; 13 Other deductions; 14 Self-employment earnings (loss); 19 Distributions; 20 Other information.

*See attached statement for additional information. For IRS Use Only

**Schedule K-1
(Form 1065)**

Department of the Treasury
Internal Revenue Service

2015

For calendar year 2015, or tax
year beginning _____, 2015
ending _____, 20____

Final K-1 Amended K-1

651113
OMB No. 1545-0123

**Partner's Share of Income, Deductions,
Credits, etc.** ▶ See back of form and separate instructions.

Part I Information About the Partnership

A Partnership's employer identification number
11-1111111

B Partnership's name, address, city, state, and ZIP code
NDH INVESTMENT GROUP LLC
109 SOUTH LOOMIS
CHICAGO IL 60606

C IRS Center where partnership filed return
Cincinnati, OH 45999-0011

D Check if this is a publicly traded partnership (PTP)

Part II Information About the Partner

E Partner's identifying number Partner: 3

F Partner's name, address, city, state, and ZIP code
J. HELMS

G General partner or LLC member-manager Limited partner or other LLC member

H Domestic partner Foreign partner

I1 What type of entity is this partner? _____

I2 If this partner is a retirement plan (IRA/SEP/Keogh/etc.), check here

J Partner's share of profit, loss, and capital (see instructions):

	Beginning		Ending	
Profit	33.333333	%	66.666667	%
Loss	33.333333	%	66.666667	%
Capital	33.333333	%	66.666667	%

K Partner's share of liabilities at year end:

Nonrecourse \$ _____

Qualified nonrecourse financing . . . \$ _____

Recourse \$ _____

L Partner's capital account analysis:

Beginning capital account \$ 459

Capital contributed during the year . . . \$ 13,000

Current year increase (decrease) . . . \$ 83,959

Withdrawals & distributions . . . \$ ()

Ending capital account \$ 97,418

Tax basis GAAP Section 704(b) book

Other (explain) _____

M Did the partner contribute property with a built-in gain or loss?
 Yes No
If "Yes," attach statement (see instructions)

**Part III Partner's Share of Current Year Income,
Deductions, Credits, and Other Items**

1	Ordinary business income (loss)	15	Credits
2	Net rental real estate income (loss) 5,259		
3	Other net rental income (loss)	16	Foreign transactions
4	Guaranteed payments		
5	Interest income		
6a	Ordinary dividends		
6b	Qualified dividends		
7	Royalties		
8	Net short-term capital gain (loss)		
9a	Net long-term capital gain (loss)	17	Alternative minimum tax (AMT) items
9b	Collectibles (28%) gain (loss)		
9c	Unrecaptured section 1250 gain		
10	Net section 1231 gain (loss)	18	Tax-exempt income and nondeductible expenses
11	Other income (loss)		
12	Section 179 deduction	19	Distributions
13	Other deductions		
14	Self-employment earnings (loss)	20	Other information

*See attached statement for additional information.

For IRS Use Only

Depreciation and Amortization
(Including Information on Listed Property)

Department of the Treasury
Internal Revenue Service (99)

▶ Attach to your tax return.
▶ Information about Form 4562 and its separate instructions is at www.irs.gov/form4562.

Attachment
Sequence No. **179**

Name(s) shown on return

NDH INVESTMENT GROUP LLC

Business or activity to which this form relates

8825: 01 - 4 UNIT APARTMENT BUILDING

Identifying number

11-1111111

Part I Election To Expense Certain Property Under Section 179

Note: If you have any listed property, complete Part V before you complete Part I.

1 Maximum amount (see instructions)	1	
2 Total cost of section 179 property placed in service (see instructions)	2	
3 Threshold cost of section 179 property before reduction in limitation (see instructions)	3	
4 Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	4	0
5 Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions	5	0
6 (a) Description of property	(b) Cost (business use only)	(c) Elected cost
7 Listed property. Enter the amount from line 29	7	
8 Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7	8	0
9 Tentative deduction. Enter the smaller of line 5 or line 8	9	0
10 Carryover of disallowed deduction from line 13 of your 2014 Form 4562	10	
11 Business income limitation. Enter the smaller of business income (not less than zero) or line 5 (see instructions)	11	
12 Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11	12	0
13 Carryover of disallowed deduction to 2016. Add lines 9 and 10, less line 12 ▶	13	

Note: Do not use Part II or Part III below for listed property. Instead, use Part V.

Part II Special Depreciation Allowance and Other Depreciation (Do not include listed property.) (See instructions.)

14 Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year (see instructions)	14	
15 Property subject to section 168(f)(1) election	15	
16 Other depreciation (including ACRS)	16	

Part III MACRS Depreciation (Do not include listed property.) (See instructions.)

Section A

17 MACRS deductions for assets placed in service in tax years beginning before 2015	17	6,267
18 If you are electing to group any assets placed in service during the tax year into one or more general asset accounts, check here <input type="checkbox"/>		

Section B—Assets Placed in Service During 2015 Tax Year Using the General Depreciation System

(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment use only—see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
19a 3-year property						
b 5-year property						
c 7-year property						
d 10-year property						
e 15-year property						
f 20-year property						
g 25-year property			25 yrs.		S/L	
h Residential rental property	6/30/2015	52,604	27.5 yrs.	MM	S/L	1,036
i Nonresidential real property			39 yrs.	MM	S/L	

Section C—Assets Placed in Service During 2015 Tax Year Using the Alternative Depreciation System

20a Class life					S/L	
b 12-year			12 yrs.		S/L	
c 40-year			40 yrs.	MM	S/L	

Part IV Summary (See instructions.)

21 Listed property. Enter amount from line 28	21	
22 Total. Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter here and on the appropriate lines of your return. Partnerships and S corporations—see instructions	22	7,303
23 For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs	23	