However, the conversion may change some of the partners' bases in their partnership interests if the partnership has recourse liabilities that become nonrecourse liabilities. Because the partners share recourse and nonrecourse liabilities differently, their bases must be adjusted to reflect the new sharing ratios. If a decrease in a partner's share of liabilities exceeds the partner's basis, they must recognize gain on the excess. For more information, see *Effect of Partnership Liabilities* under *Basis of Partner's Interest*, later.

The same rules apply if an LLC classified as a partnership is converted into a partnership.

Electronic Filing

Certain partnerships with more than 100 partners are required to file Form 1065; Schedule K-1; and related forms and schedules electronically. For tax years beginning after July 1, 2019, a religious or apostolic organization exempt from income tax under section 501(d) must file Form 1065 electronically. Other partnerships generally have the option to file electronically. For details about electronic filing, see the Instructions for Form 1065.

Exclusion From Partnership Rules

Certain partnerships that do not actively conduct a business can choose to be completely or partially excluded from being treated as partnerships for federal income tax purposes. All the partners must agree to make the choice, and the partners must be able to figure their own taxable income without figuring the partnership's income. However, the partners are not exempt from the rule that limits a partner's distributive share of partnership loss to the adjusted basis of the partner's partnership interest. Nor are they exempt from the requirement of a business purpose for adopting a tax year for the partnership that differs from its required tax year.

Investing partnership. An investing partnership can be excluded if the participants in the joint purchase, retention, sale, or exchange of investment property meet all the following requirements.

- They own the property as co-owners.
- They reserve the right separately to take or dispose of their shares of any property acquired or retained.
- They do not actively conduct business or irrevocably authorize some person acting in a representative capacity to purchase, sell, or exchange the investment property. Each separate participant can delegate authority to purchase, sell, or exchange their share of the investment property for the time being for their account, but not for a period of more than a year.

Operating agreement partnership. An operating agreement partnership group can be excluded if the participants in the joint production, extraction, or use of property meet all the following requirements.