

Understanding K-1s

Information for Flower Turbines Projects

Investors in Flower Turbines Projects will receive a K-1 report of their yearly income from the company.

First, you may be wondering why this company is an LLC instead of a C Corporation with “Inc” after its name. The reason is that we pass on profits and tax deductions to the investor directly instead of both company and investor having a lower profit because of “double taxation”. We do this by filing as a partnership LLC.

K-1s are crucial tax documents for investors holding interests in pass-through entities, such as partnerships, LLCs, S-corporations, trusts, and estates. Unlike traditional corporations that pay their own taxes, these entities "pass through" profits and losses to their owners, who then report them on their individual tax returns.

A K-1 provides a detailed breakdown of an investor's share of the entity's financial activity, including:

Income or Loss: Ordinary business income/loss, rental income/loss, interest, and dividends.

Capital Gains and Losses: If the entity sold assets during the year. The management expects this around year 7.

Deductions and Credits: Such as depreciation, interest expenses, and other tax benefits.

Distributions: Cash or property received from the partnership.

Tax implications

Reporting on your tax return: You'll use the information on your K-1 to complete your personal tax return (Form 1040), typically on Schedule E.

Taxable income and deductions: Income reported on the K-1 increases your taxable income, while losses and deductions can potentially reduce it.

"Phantom Income": You may owe taxes on income allocated to you through a K-1 even if you haven't received a cash distribution yet. This is common in real estate partnerships where income is reinvested for growth. This offering will try to avoid that.

Loss Limitations: Certain rules, such as passive activity loss rules, may limit how much you can deduct.

Basis Adjustments: Distributions can reduce your basis in the investment, potentially affecting your capital gains calculation when you sell your interest.

3. Timing and deadlines

Typically due March 15th: Most partnerships and S-corporations must issue K-1s by March 15th.

Extensions are common and should be expected: Entities can request a six-month extension, pushing the deadline to September 15th.

Late K-1s: If your K-1 is delayed, you may need to file for a personal tax extension and estimate your tax liability to avoid penalties.