instead

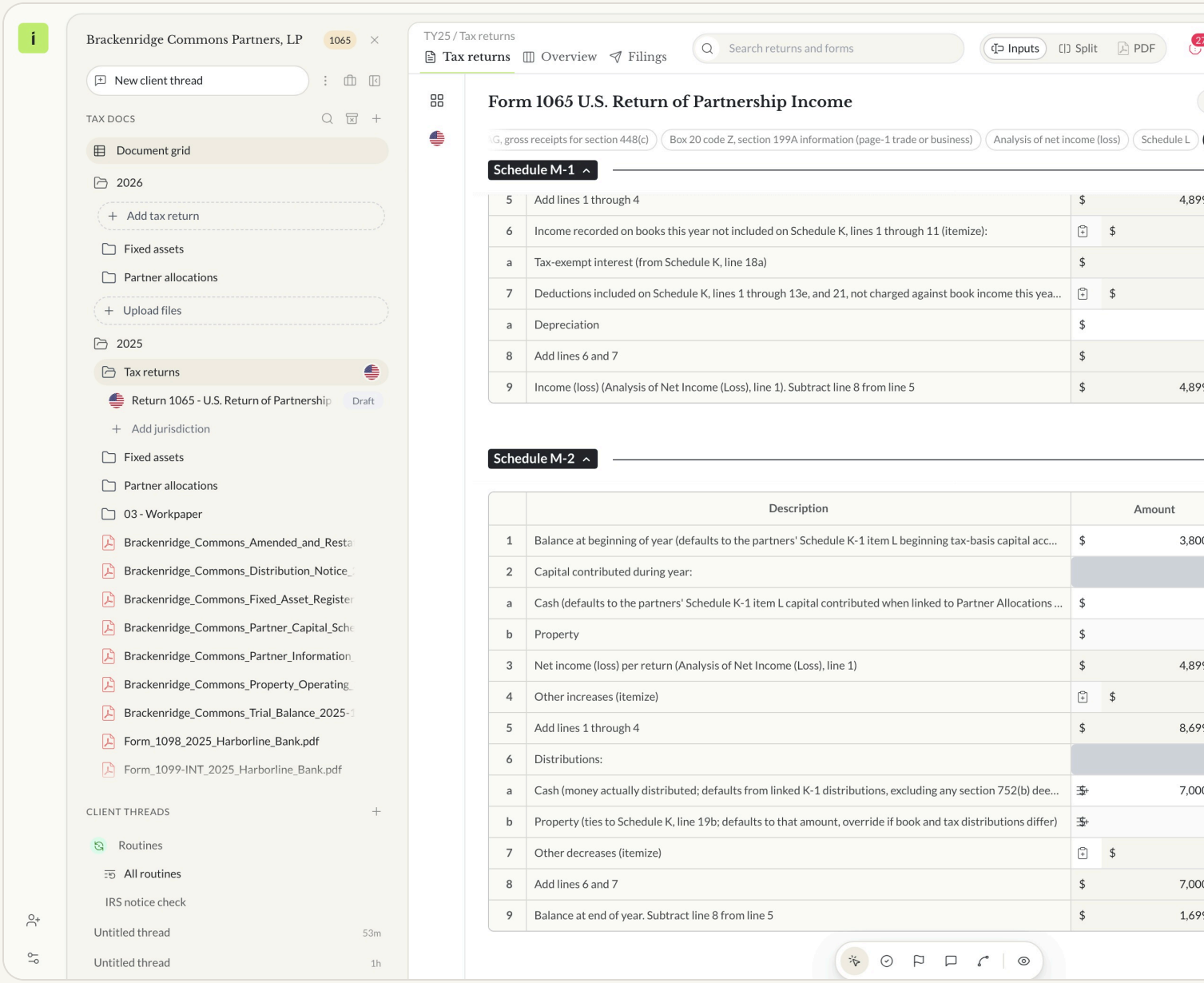
WHITE PAPER

# Traceable partnership returns

## Source to workpaper to return, in three layers

November 2026

instead.com



instead

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INTRODUCTION

## A number on a partnership return should lead somewhere. In Instead it leads down three layers.

This paper follows one fictional partnership through Instead. We dropped in 11 documents and got back a draft 1065, an allocation workpaper and five K-1s. Then we followed the numbers from the source documents to the workpaper, from the workpaper to the return, and from the input screens to the workpaper or the source. The counts in this paper come from that test.

**For** partners and reviewers who sign 1065s

**What it shows** three layers of traces on one return, with the counts

**Scope** one fictional five-partner 1065 in an Instead demo firm

01

## Why partnership review is slow

### The numbers on a 1065 come from many places, and the return does not say which.

A partnership with a waterfall keeps the hard work in a spreadsheet. The trial balance and the agreement feed the workpaper. The workpaper feeds the return. The input screens hold what was typed, from the workpaper or straight from a document.

A reviewer who wants to check one number opens all of them. Find the workpaper cell. Find the document line the cell came from. Find the return line the cell feeds. Then do it again for the next number.

That work is finding, not judging. Traces change it. A number stays tied to the place it came from, so the reviewer clicks it and checks it.

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### Review becomes checking, not hunting.

02

# The test case, 11 documents

## Brackenridge Commons Partners, LP is fictional. We built it to be hard to review.

It is a real estate partnership with five partners, a four-tier distribution waterfall, a GP promote, a guaranteed payment and $3.2 million of Section 704(c) built-in gain on land that one partner contributed. The partnership sold that land in 2025.

| | |
|---|---|
| **Brackenridge GP, LLC** | General partner, 1% |
| **Tidewater Pension Trust** | Limited partner, 35% |
| **Halcyon Family Office** | Limited partner, 25% |
| **Corinne A. Vandermeer** | Limited partner, 14% |
| **Ostrander Land Holdings** | Class B limited partner, 25%. Contributed the land. |

We dropped 11 documents into the client's 2025 folder.

1. Amended and restated LP agreement
2. Trial balance
3. Partner capital schedule
4. Partner information sheet
5. Distribution notice
6. Outparcel settlement statement
7. Fixed asset register
8. Property operating statement
9. K-1 from a lower-tier fund
10. Form 1098 from the bank
11. Form 1099-INT from the bank

03

# What Instead built

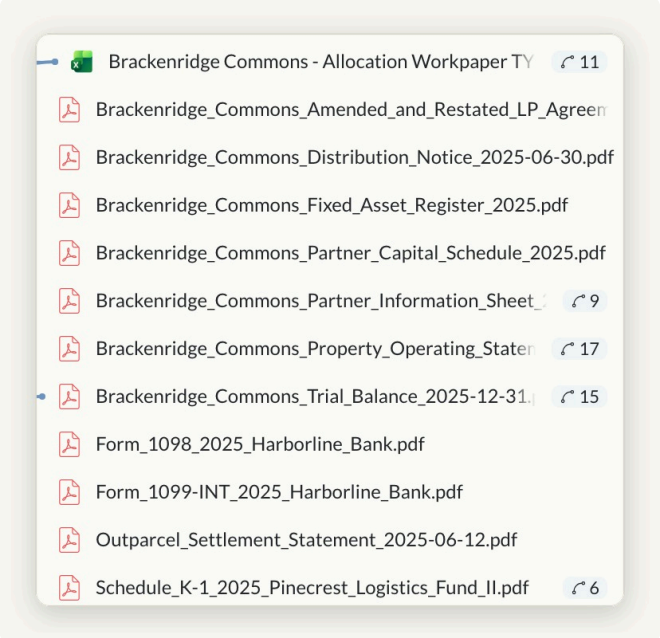
## A draft 1065, an allocation workpaper and five K-1s came back.

The allocation workpaper has five tabs.

| | |
|---|---|
| **Distribution Waterfall** | the Section 5.2 waterfall, by partner |
| **Promote & 704(c) Gain** | the three layers of the $4,700,000 gain |
| **Schedule K Allocation** | Schedule K lines, by partner |
| **Capital Accounts** | each partner's capital |
| **Reconciliation** | the K-1s tied back to Schedule K |

The K-1s come from the Partner Allocations module and cross-foot to Schedule K. The return is a draft that the preparer reviews. The Related panel lists the workpaper and the source documents, with a tie count beside each tied one.

**Figure 1.** The Related panel lists the workpaper and the source documents, with a tie count beside each tied one.



04

## The three layers

Each layer is a real click in Instead. We counted the links and ties in each one.

Source document to workpaper. 51 of the 56 typed amounts in the workpaper link to the source document line they came from, and 10 of the 11 source documents feed it.

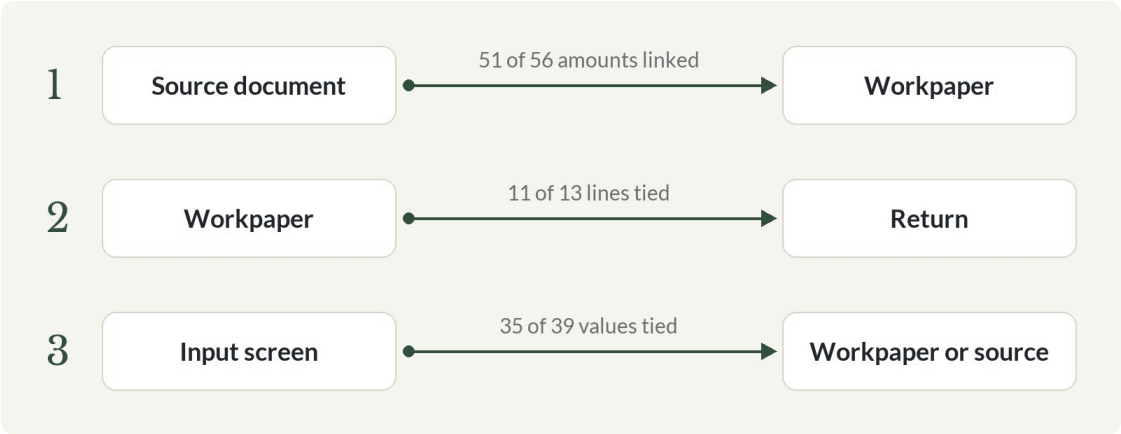
Workpaper to return. 11 of the 13 return lines that match a workpaper cell are tied to that exact cell.

Input screens to the workpaper or the source. Every typed value on the Form 8825 rental screen is tied to its source, and 35 of 39 typed values across the input screens are tied to a source document or the workpaper.

THE COUNT AND THE SCOPE FOR EACH LAYER

| Layer | Count | Scope |
|---|---|---|
| **1. Source document to workpaper** | 51 of 56 typed workpaper amounts linked. 10 of 11 source PDFs feed the workpaper. 103 document links. | The 56 typed, nonzero amounts on the 4 calculation tabs. Formula cells and the tie-out tab restate totals and are out of scope. |
| **2. Workpaper to return** | 11 of 13 matching return lines tied to the exact cell. | Form 1065 and Form 4797 lines whose value is shown in a workpaper cell for the same item. K-1 amounts are engine outputs with no field to tie. |
| **3. Input screens to workpaper or source** | Form 8825 15 of 15. Received K-1 4 of 4. Form 1065 main screen 16 of 20. Total 35 of 39 typed values, amounts 30 of 31. | Typed values on the data-entry input screens. Calculated rows, checkboxes and empty dates are excluded. |

**Figure 2.** The three layers and the count for each.

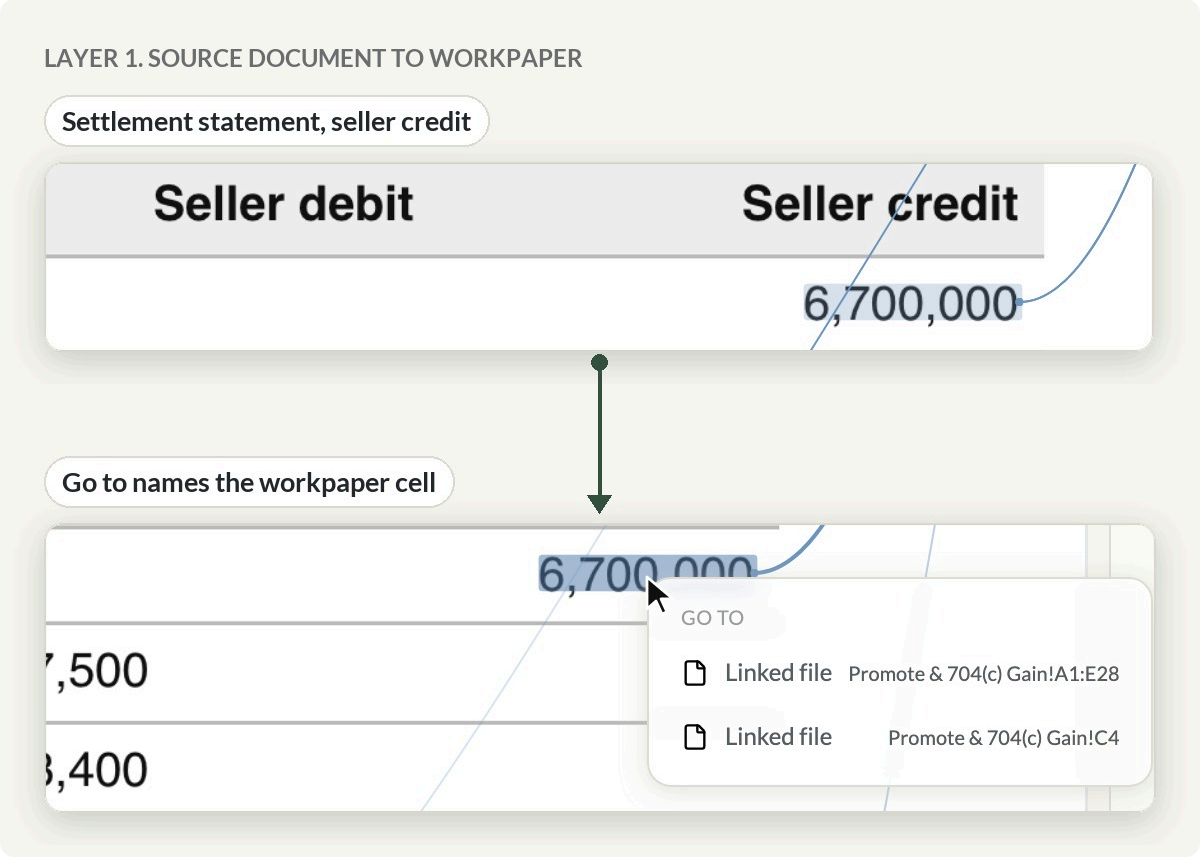


## Layer 1

### Source document to workpaper.

Click a linked value on a source document and Instead names the workpaper cell it feeds. The seller credit of $6,700,000 on the settlement statement names cell C4 on the Promote & 704(c) Gain tab.

**Figure 3.** The seller credit names the workpaper cell it feeds.



The link works from the other side too. Click cell C4 in the workpaper and Instead names the settlement statement line it came from. On the trial balance, a line runs from each linked value.

**Figure 4.** Workpaper cell C4 names the settlement statement line.

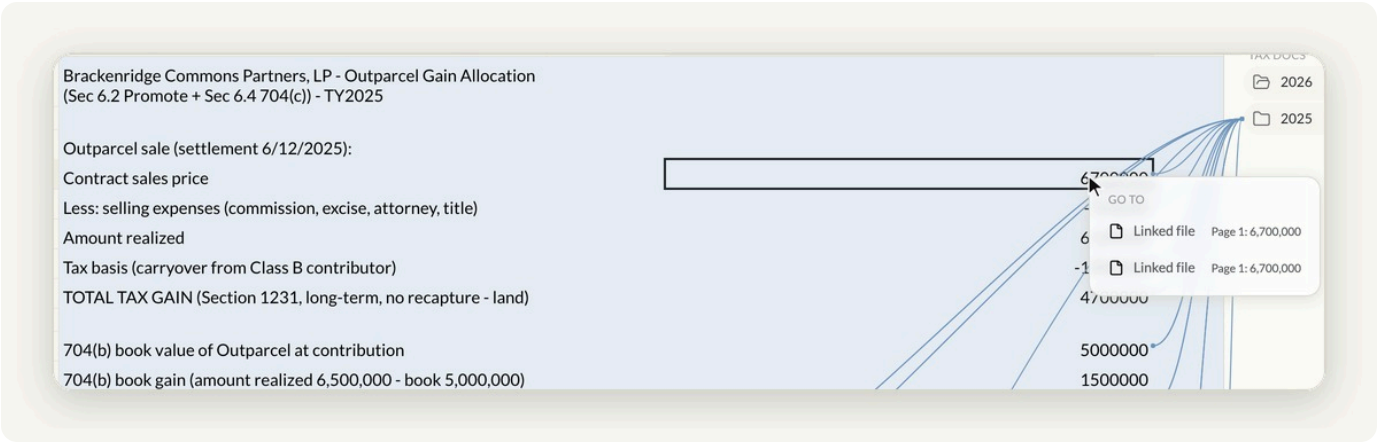
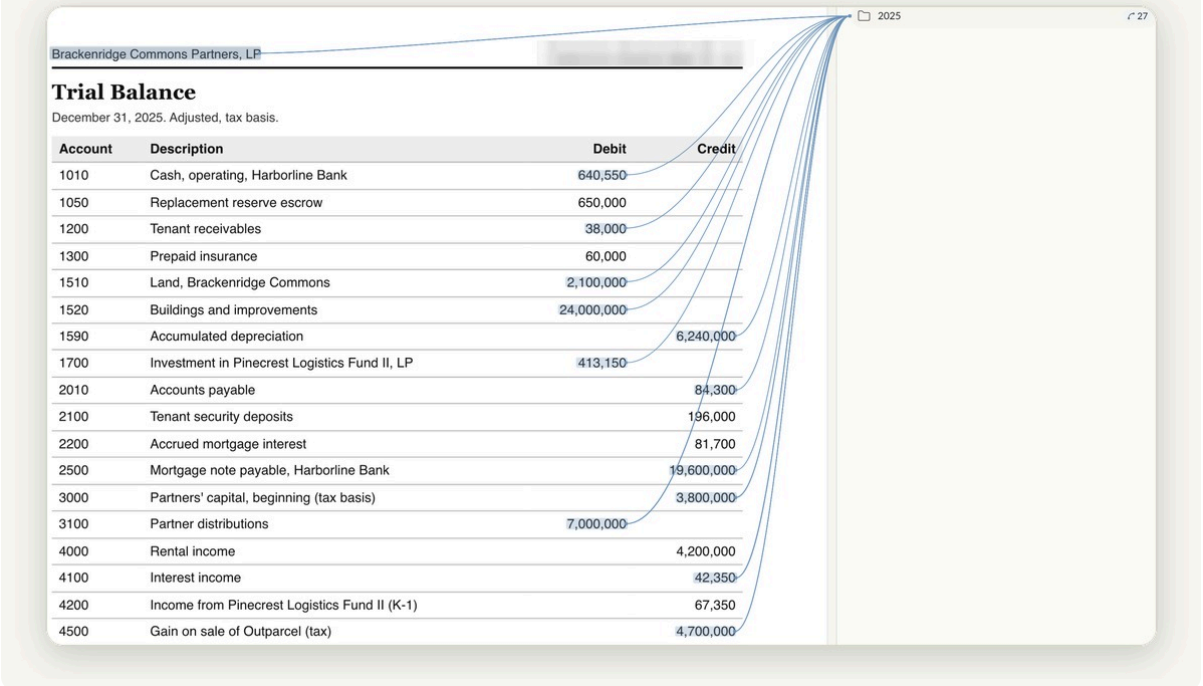



**Figure 5.** Trial balance values with their link lines.



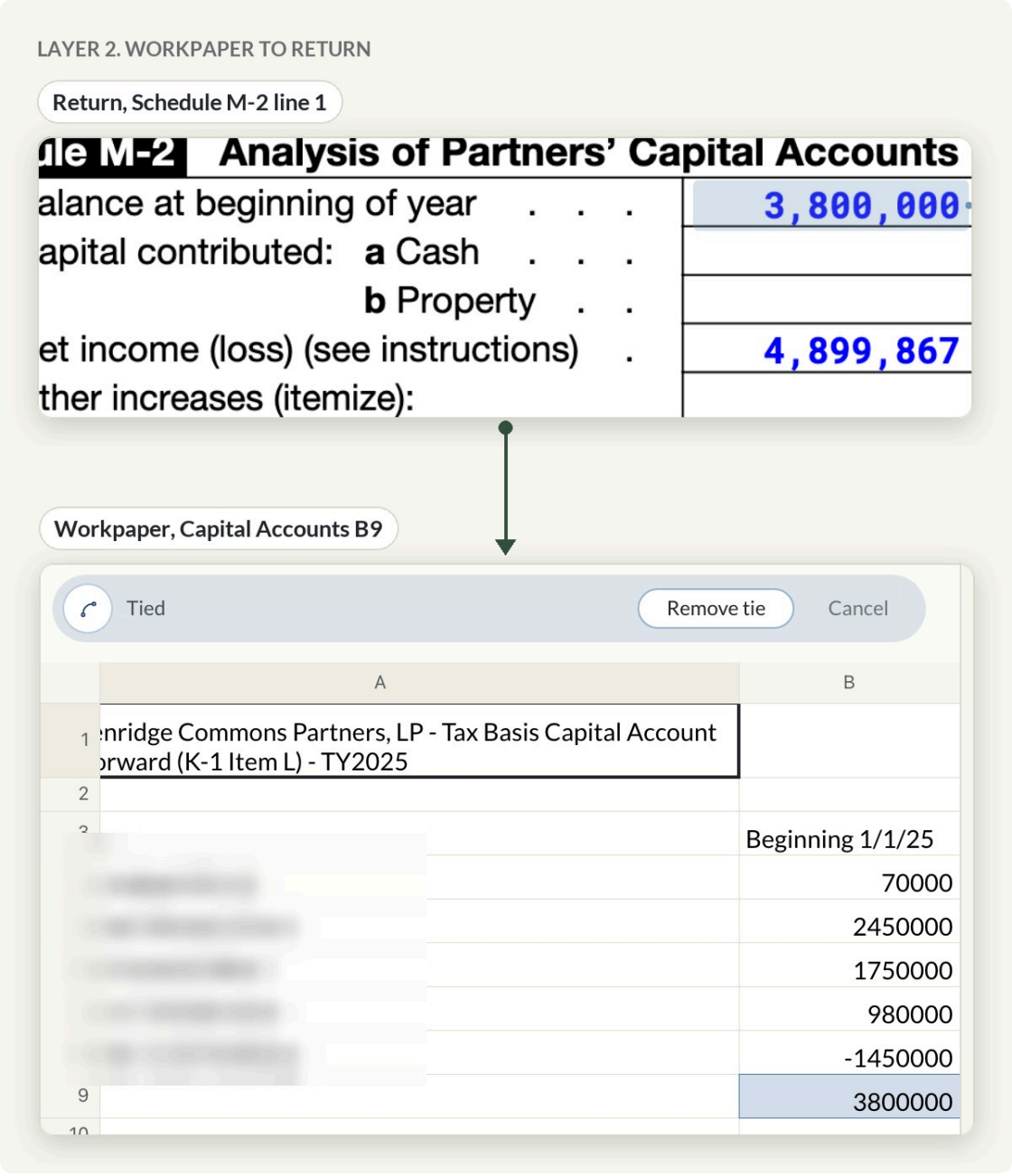

| Account | Description | Debit | Credit |
|---|---|---|---|
| 1010 | Cash, operating, Harborline Bank | 640,550 | |
| 1050 | Replacement reserve escrow | 650,000 | |
| 1200 | Tenant receivables | 38,000 | |
| 1300 | Prepaid insurance | 60,000 | |
| 1510 | Land, Brackenridge Commons | 2,100,000 | |
| 1520 | Buildings and improvements | 24,000,000 | |
| 1590 | Accumulated depreciation | | 6,240,000 |
| 1700 | Investment in Pinecrest Logistics Fund II, LP | 413,150 | |
| 2010 | Accounts payable | | 84,300 |
| 2100 | Tenant security deposits | | 196,000 |
| 2200 | Accrued mortgage interest | | 81,700 |
| 2500 | Mortgage note payable, Harborline Bank | | 19,600,000 |
| 3000 | Partners' capital, beginning (tax basis) | | 3,800,000 |
| 3100 | Partner distributions | 7,000,000 | |
| 4000 | Rental income | | 4,200,000 |
| 4100 | Interest income | | 42,350 |
| 4200 | Income from Pinecrest Logistics Fund II (K-1) | | 67,350 |
| 4500 | Gain on sale of Outparcel (tax) | | 4,700,000 |

## Layer 2

### Workpaper to return.

Click Schedule M-2 line 1, beginning capital of $3,800,000. Pick the workpaper in the Related panel and it opens at Capital Accounts cell B9, marked Tied. Schedule M-2 line 6a, cash distributions of $7,000,000, opens Distribution Waterfall cell H10.

**Figure 6.** Schedule M-2 line 1 opens the workpaper at Capital Accounts B9. Partner names are blurred in this figure.

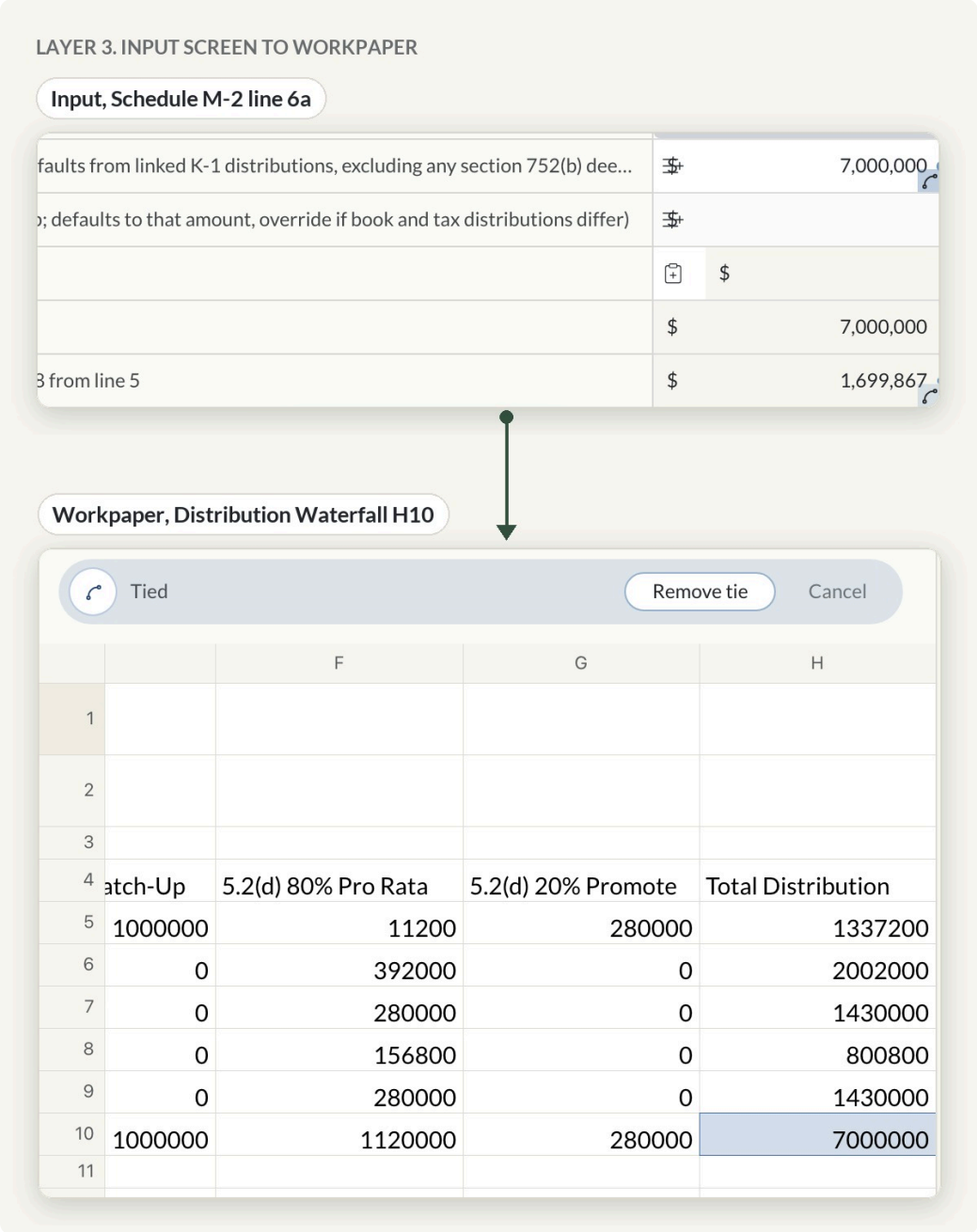


## Layer 3

### Input screens to the workpaper or the source.

A tied input carries a trace badge. Click the badge on Schedule M-2 line 6a and pick the workpaper. It opens at Distribution Waterfall cell H10. On the Form 8825 screen, gross rents of $4,200,000 open the property operating statement.

**Figure 7.** An input opens the workpaper at the cell it came from.



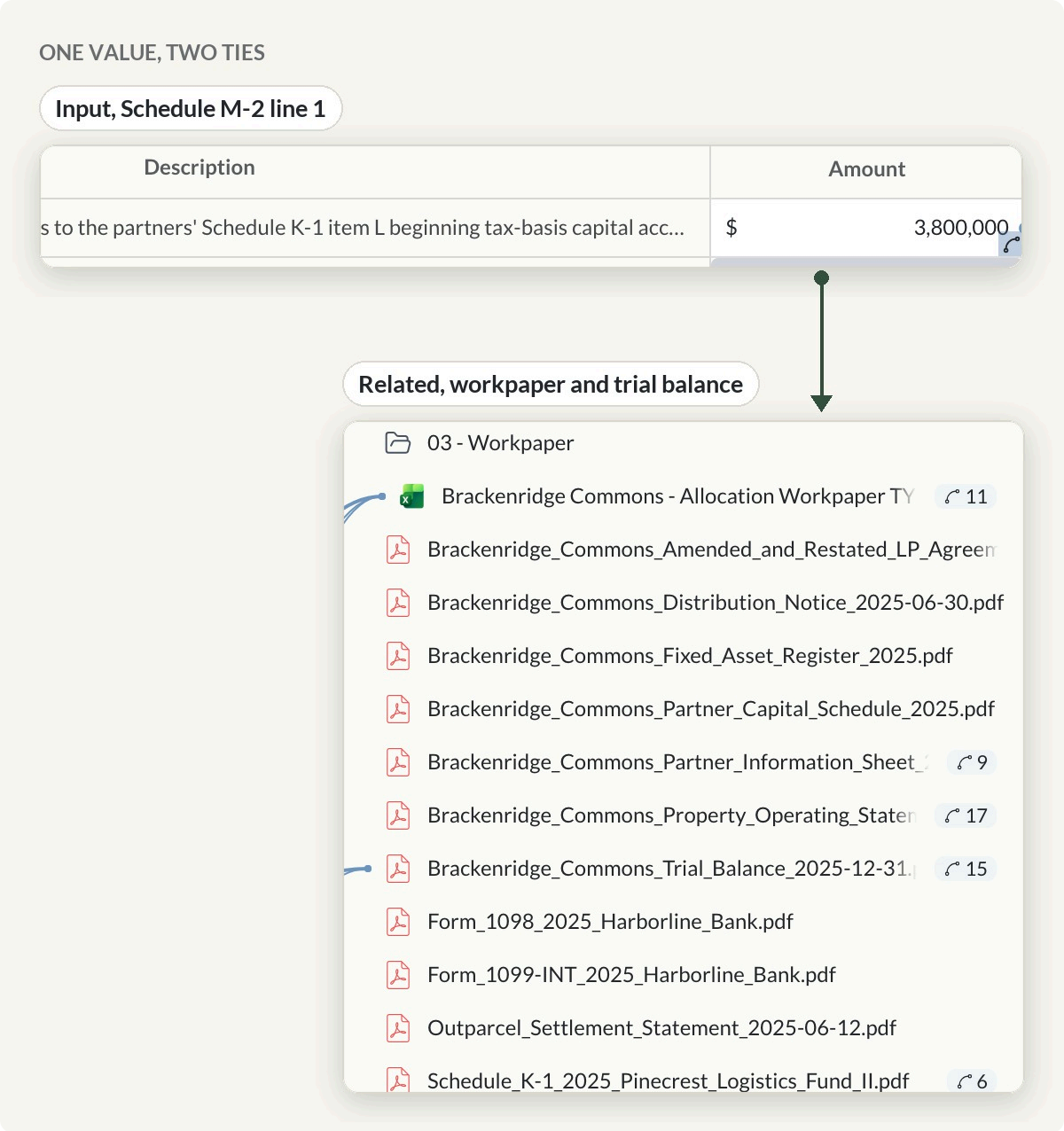
05

# Workpaper or source, you choose

## Some values hold two ties.

Schedule M-2 line 1, beginning capital of $3,800,000, is tied to the workpaper and to the trial balance. Click it and the Related panel lists both, with a line to each. Pick the workpaper and it opens at Capital Accounts cell B9. Go back and pick the trial balance, and it opens at the partners' capital row.

**Figure 8.** One value, two ties. You choose.



06

# The 704(c) and promote walk-through

The workpaper shows the math behind the $4,700,000 Section 1231 gain on the land sale.

The contract sales price of $6,700,000 sits in cell C4 of the Promote & 704(c) Gain tab, linked to the settlement statement. The gain is split in three steps, the way the agreement says.

SECTION 1231 GAIN ON THE LAND SALE, BY STEP, FROM THE WORKPAPER

| Partner | 704(c) built-in gain | Promote | Rest by percentage | Total gain |
|---|---|---|---|---|
| **Brackenridge GP, LLC** | 0 | 1,280,000 | 2,200 | 1,282,200 |
| **Tidewater Pension Trust** | 0 | 0 | 77,000 | 77,000 |
| **Halcyon Family Office** | 0 | 0 | 55,000 | 55,000 |
| **Corinne A. Vandermeer** | 0 | 0 | 30,800 | 30,800 |
| **Ostrander Land Holdings** | 3,200,000 | 0 | 55,000 | 3,255,000 |
| **Total** | **3,200,000** | **1,280,000** | **220,000** | **4,700,000** |

Ostrander contributed the land. $3,200,000 is its built-in gain, the agreed value of $5,000,000 less its tax basis of $1,800,000. $55,000 is its 25% share of the remaining $220,000, for $3,255,000. The GP's $1,282,200 is its $1,280,000 promote plus its 1% share. The three steps add to $4,700,000.

07

# What did not tie

Some counts fall short of complete. Each gap has a reason, and the reviewer closes it by hand.

| Layer | Not tied, and why | How the reviewer closes it |
|---|---|---|
| **Layer 1** | 5 of 56 workpaper amounts. A 100% total, the $220,000 residual gain and three computed percentage splits. The Form 1098 feeds no workpaper cell, because its mortgage interest sits inside the operating statement. | Check each amount against the agreement or the cells it is computed from. |
| **Layer 2** | Schedule K line 5 interest of $45,500, a calculated roll-up that cannot take a tie. The Form 4797 gross sales price, a locked fixed asset row. K-1 amounts, which are engine outputs. | Foot the roll-up to its parts. Open the settlement statement for the sales price. Tie the K-1s out through the allocation. |
| **Layer 3** | 4 of 39 typed values. A beginning cash plug on Schedule L, the two tax period dates and the name control. | Check the plug against the prior year balance sheet, and the dates and name control against the return header. |

A count that names what is not tied tells the reviewer where to look first. The tied numbers are one click from their source. The rest are a short list.

08

## Our policy

Cancel your legacy tax software this season.

09

## Getting started

Try it on one partnership you know well.

1. Drop one partnership's documents into Instead.
2. Run the 1065 workflow.
3. Click a source document value and see which workpaper cell it feeds.
4. Click a return line or an input and open the workpaper or the source.
5. Check what is not tied, then sign.

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instead

# Source to workpaper to return

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