



March 7, 2022

**Re: DiVall Insured Income Properties 2, L.P. (The “Partnership”)
2021 Schedule K-1 Correspondence**

Dear Limited Partner:

Enclosed please find your 2021 Schedule K-1 for the above referenced Partnership. The information below will assist you in completing your 2021 tax returns. We recommend that you read carefully and follow the instructions for each IRS form. The tax laws can be quite complex, and we recommend you consult your tax advisor with any tax questions.

Capital Account. Item L of Schedule K-1 entitled “Partner’s Capital Account Analysis” shows your capital account for the Partnership’s income tax purposes only. **This reconciliation does not reflect the value of your investment.** In addition, if you are not the original owner of your units, the amount reflected as the original carry forward tax basis does not reflect the value of your investment nor does it reflect your new tax basis upon acquisition. The amount listed as your tax basis capital account will generally be lower than your original investment in the Partnership because of depreciation and the way certain income, deductions and distribution items are treated for the Partnership’s income tax purposes.

For your information, Item L, “Withdrawals and distributions”, should, except for rounding differences, equal the cash distributions you received during 2021. These distributions would include the Fourth Quarter 2020, First Quarter 2021, Second Quarter of 2021 and Third Quarter 2021. The Fourth Quarter 2021 distribution will be included on next year’s 2022 Schedule K-1.

Additionally, if your units were transferred to another ownership type or owner during 2021, your Schedule K-1 will recognize the transfer in the amount of tax basis capital at the time the units were transferred. If you were the transferee, refer to the amount in the column “Capital contributed during the year”. If you were the transferor, refer to the amount in the column “Withdrawals and distributions”. Please consult your tax advisor regarding any gain/loss on the disposition or transfer of your units.

Specific Line Item Information Necessary to Complete your Tax Return:

Line 2. This is your taxable income from the Partnership. Please consult your tax advisor to determine the proper treatment of the income. Generally, the income would be passive for a limited partner. Enter this amount on Schedule E, Part II, Line 28, Column (h). If the income is passive, it may be offset by 2021 passive losses or prior year unused passive losses generated by the Partnership or other passive investments. If you have these types of passive losses, also report the income from Line 2 on Form 8582, Line 3a (and related worksheets, if necessary) in order to determine how much passive loss may also be reported on Schedule E.

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Line 5. This amount is interest earned on the Partnership's cash investments that must be reported as portfolio interest income. This amount is **not** included in Line 2 above. Enter this amount on Form 1040, Line 2b, and if required to file Schedule B (Form 1040), then include it on Schedule B (Form 1040), Part I, line 1.

Line 9c. If applicable, this amount represents the amount of unrecaptured Section 1250 gain that is long term capital gain due to depreciation other than excess depreciation and is taxed at 25%. Please refer to the instructions for this line to ensure proper completion of Schedule D. This amount is included with the amount on Schedule K-1, Line 10.

Line 10. If applicable, this amount represents gain/(loss) from the sale of business assets throughout the entire year. This amount is **not** included in Line 2 above. Enter the gain or loss from line 10 on Form 4797, Line 2, Column (g). If the income is passive, the gain/(loss) must also be entered on Form 8582, Line 3a or 3b.

Please follow the instructions for Form 8582 to determine if part or all of your other losses may be utilized. If applicable, enter the loss from line 10 on Form 4797, Line 2, Column (g). If applicable, all, or a portion of, this loss may be disallowed under the passive loss rules. Please consult your tax advisor for the proper completion of this item.

Line 18. This amount represents tax-exempt income or nondeductible expenses incurred by the Partnership. This amount is reflected as an increase or reduction to your Partnership capital account

The following items may not apply to all Limited Partners:

Line 17. The amount listed as Code A is the amount of post-1986 depreciation adjustment. If you are required to file Form 6251, Alternative Minimum Tax – Individuals, you will need to include this amount and similar items from other sources on Form 6251, Line 2L. Please refer to the instructions for this line to ensure proper completion of Form 6251.

Line 17. If applicable, the amount listed as Code B is the amount of adjusted gain or loss. If you are required to file Form 6251, Alternative Minimum Tax – Individuals, you will need to include this amount and similar items from other sources on Form 6251, Line 2K. Please refer to the instructions for this line to insure proper completion of Form 6251.

Line 20. The amount listed as Code A is the amount of interest income included in Line 5 above that can be used to compute your investment interest expense deduction (if any). Include this amount and similar items from other sources on Form 4952, Line 4a.

Line 20. The amount listed as Code Z is the amount of Section 199A qualified publicly traded partnership (PTP) income. Beginning in 2018, you may be able to deduct up to 20% of your qualified PTP income. If applicable, the allowable deduction is reflected on Form 1040, line 13. Please consult your tax advisor to determine proper completion of this line item.

Line 20. The amount listed as Code AE is the amount of excess taxable income that can be used to determine the ability to deduct disallowed business interest. If you are required

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to file Form 8990, Limitation on Business Interest Expense, you will need to include this amount on Form 8990, line 14.

Line 20. The amount listed as Code AG is the amount of Section 448(c) gross receipts of the partnership that can be used to determine average annual gross receipts for purposes of determining whether a taxpayer meets the small business exemption under 163(j) of the Code, for Form 8990. Please consult your tax advisor to determine proper completion of this tax form, if necessary.

Also attached this year is schedule K-3. Schedule K-3 is new for the 2021 tax year and replaces the former line 16 of the schedule K-1 for foreign transactions. It also replaces, supplements, or clarifies reporting of certain amounts formerly reported on form 1065, schedule K-1, line 20, other information. The new schedule assists partnerships in providing partners with the information that may be necessary for completing their returns with respect to the international tax provisions of the internal revenue code. For example, the new schedule K-3 provides information necessary for corporate and individual partners to figure their foreign tax credit on form 1118, foreign tax credit corporations, and form 1116, foreign tax credit (individual, estate or trust), respectively). Please consult your tax advisor.

State Income Tax Information. Generally, most individuals report the Partnership's income (Lines 2, 5 and 10 above) on their state tax return for the state in which they reside. The partnership has filed composite tax returns on behalf of the partners in the partnership. This generally satisfies a non-resident partner's obligation to file in these states, unless the partner has realized income from other sources. If you require your allocable share of income and composite tax paid, please contact the partnership. Because every state has different laws, you may want to consult with your tax advisor to verify the states for which you need to file income tax returns.

Additionally, please note that all amounts on your Schedule K-1 listed as losses are shown in parenthesis.

Once again, we recommend that you consult your personal tax advisor if you have any questions regarding the specific treatment of items on your Schedule K-1. **We are not professional tax advisors and, as such, cannot make recommendations on the handling of items on the Schedule K-1 or your specific tax situation.** You may obtain tax forms and other filing instructions for limited partnerships at most IRS offices or you may call 800-829-3676.

If you have questions with respect to your distributions or other operating activities of the Partnership, you may contact Investor Relations at:

DiVall Investor Relations
c/o Phoenix American Financial Services, Inc.
2401 Kerner Blvd.
San Rafael, CA 94901
844-932-1769



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Sincerely,

**The Provo Group, Inc., as General Partner for
DiVall Insured Income Properties 2, Limited Partnership**

By: 

Bruce A. Provo, President

Enclosures