



March 2011

Dear Cypress Equipment Fund 16, LLC Member:

We are pleased to present your 2010 Federal Form 1065, Schedule K-1, California Form 568, Schedule K-1, Arizona Form 165, Schedule K-1 or K-1(NR), Indiana Form IT-65, Schedule IN K-1 and Mississippi Partnership Form 86-132, Schedule K-1 to assist in the preparation of your tax returns. Included on the Schedule K-1 is a reconciliation of member's capital. Each member's capital account is adjusted by taking into consideration that member's contributions, distributions, allocation of profits and losses and syndication expenses. This reconciliation is based on actual transactions through 12/31/10 in accordance with Federal tax law and generally accepted accounting principles. ***Remember – the Schedule K-1 is not a statement of value, and the capital account balance does not represent the market value of your investment – the Schedule K-1 is strictly a document you may be able to use to prepare your tax return.***

If your investment in the Fund is held in an IRA or other qualified plan, the only portion of these instructions that may apply for Federal and State tax purposes is addressed in the Federal Box 20 instructions below.

Please check that the Custodian and/or other information indicated in the "Partner's name, address and ZIP code" and "Partner's identifying number" sections are correct, and contact us by phone (toll-free – 866.866.9330) or e-mail ([investorservices@cypressleasing.com](mailto:investorservices@cypressleasing.com)) if any corrections or changes need to be made. If you have re-registered (transferred) your investment during the tax year, you will be sent Schedule K-1s for each form of registration. ***Because tax laws are quite complex, we are not qualified to answer any questions regarding tax preparation, and suggest you contact your tax advisor.***

In addition to the basic tax forms, you may need, among others, *Federal Form 8582, Form 990-T, Schedule B, California Form 109, Form 540 or 540NR, Schedule CA(540) or CA(540NR), FTB 3801, FTB 3802, Arizona Form 140NR, Indiana Form IT-40PNR, Schedules A, B, D, G and H, and Mississippi Form 80-205 and Form 85-108* to complete your tax returns. These forms are generally available at post offices and libraries. You may also be able to access Federal forms online at [www.irs.gov](http://www.irs.gov), California forms at [www.ftb.ca.gov](http://www.ftb.ca.gov), Arizona forms at [www.azdor.gov](http://www.azdor.gov), Indiana forms at [www.in.gov/dor](http://www.in.gov/dor), and Mississippi forms at [www.dor.ms.gov](http://www.dor.ms.gov).

## FEDERAL INSTRUCTIONS

**Box 2** Report on Schedule E, line 28, column (f) after completing Form 8582 (Passive Activity Loss Limitations) and follow the instructions for the form.

**Box 3** Report on Schedule E, line 28, column (f) after completing Form 8582 (Passive Activity Loss Limitations) and follow the instructions for the form.

**Box 5** Report on Form 1040, line 8a.

**Box 16** The amounts in Box 16 represent your allocable share of income, expenses and taxes from investments in vessels operated internationally. The Federal Form 1116 is used to claim the foreign tax credit for foreign taxes incurred from the operation of the vessels. The amount of foreign taxes incurred and allocated to you is set forth in Box 16 code L. If Box 16 code L is 0, you were not allocated any foreign tax and should disregard the remaining information in Box 16 unless you are otherwise filing Form 1116. If there is an amount in Box 16 code L, you may be eligible to claim a foreign tax credit on line 47 of the Form 1040 without completing Form 1116 if certain requirements are met. Those requirements are set forth on page 1 of the instructions to the Form 1116.

If you do file the Federal Form 1116, the instructions to Form 1116 should be consulted in addition to the instructions listed below. The income allocated to you is Passive Category Income, therefore "box a" at the top of the Form 1116 should be checked.

**Box 16, Code A** is contained in the “2010 Supplemental Information” that accompanies your Form K-1. The country listed should be entered on Form 1116, Part I, line g. The term “Various” is used when there are multiple countries.

**Box 16, Code B** is the gross income from this limited liability company and the amount should be included on Form 1116, Part I, line 3e along with all of your gross income from other sources.

**Box 16, Code D** is your passive category gross foreign source income and the amount should be entered on Form 1116, Part I, lines 1a and 3d.

**Box 16, Code G** is your interest expense allocated or apportioned to your foreign source income. This amount should be entered on Form 1116, Part I, line 4b.

**Box 16, Code I** are your deductions allocated or apportioned to your foreign source income. This amount should be entered on Form 1116, Part I, line 2.

**Box 16, Code L** are your paid foreign taxes and should be entered on Form 1116, Part II, column (r).

**Box 18, Code C** Represents non-deductible expenses that reduce your tax basis in the Fund but have no current income tax impact.

**Box 19, Code A** This figure represents the dollar amount of cash distributions paid during the year to this account. This figure is for informational purposes only and this line is not reported on your tax return.

**Box 20 Other Information – Please also refer to the enclosed “2010 Supplemental Information” page for additional details.**

**Code A** Report on Form 4952, line 4a.

**Code V Supplemental Information is provided for tax-exempt entities, including IRAs.** Tax-exempt entities and IRAs – report Unrelated Business Taxable Income from operations, located on the “2010 Supplemental Information” page under Box 20 Code V, on Federal Form 990-T and attachment. This information should also be utilized in completing California Form 109. For other states, please consult your tax advisor.

**Item L Income Reconciliation.** This information, located on the “2010 Supplemental Information” page, reconciles the various items of income and loss reported on the Form K-1 with the current year increase (decrease) listed in the partner’s capital account analysis reported in Box L on the Form K-1. This reconciliation is for informational purposes only and these lines are not reported on your current year tax return.

## CALIFORNIA INSTRUCTIONS

California taxes its residents on their entire income, regardless of its source. The tax on a non-resident is computed by (1) computing the tax on the taxpayer’s entire taxable income as though the taxpayer was a California resident, and then, (2) multiplying that amount by the ratio of California adjusted gross income to total adjusted gross income from all sources. Therefore, it is likely that you may be required to file a California return even if you are not a resident of California. Please consult your tax advisor.

**Line 2** Report this on the applicable line of Form FTB 3801 (Passive Activity Loss Limitations) or Form FTB 3802 (Corporate Passive Activity Loss and Credit Limitations). The Form 3801 will indicate the amount to include on Schedule CA, line 17. Follow the instructions for the applicable forms.

**Line 3** Report this on the applicable line of Form FTB 3801 (Passive Activity Loss Limitations) or Form FTB 3802 (Corporate Passive Activity Loss and Credit Limitations). The Form 3801 will indicate the amount to include on Schedule CA, line 17. Follow the instructions for the applicable forms.

**Line 5** Report this amount on line 8 of Schedule CA(540) or CA(540NR). Follow the instructions for the applicable forms.

**Line 18c Non-deductible Expenses.** Represents non-deductible expenses that reduce your tax basis in the Fund.

**Line 19a** This figure represents the dollar amount of cash distributions paid during the year to this account. This figure is for informational purposes only and this line is not reported on your tax return.

**Line 20a** Report this on FTB Form 3526, line 4a.

**Line 20c Other Information.** – Please refer to the enclosed “2010 Supplemental Information” page for additional details.

**Column (b) is Supplemental Information for tax-exempt entities, including IRAs.** See instructions and amounts for Federal Schedule K-1 (Form 1065) Box 20 Code V and amounts on the “2010 Supplemental Information” page under Box 20 Code V.

**Column (d) is the Proportionate Interest of Aggregate Gross Receipts.** This information is provided to help you determine if you are a “qualified taxpayer” for purposes of the California AMT and is located on the “2010 Supplemental Information” page under “California Other Information”. See also Schedules P(540) or P(540NR).

## ARIZONA INSTRUCTIONS

Arizona taxes its non-residents on their Arizona source income. Please consult your tax advisor with regard to your Arizona non-resident filing requirements. The following are general instructions for Arizona non-resident individuals filing Arizona Form 140NR.

**Line 2, column (c)** Represents your allocable share of Arizona source rental income (loss). Report on line B11 after determining if the passive activity loss (PAL) is currently deductible for Arizona income tax purposes. In general, the amount of the PAL which is derived from Arizona sources is the amount that may be allowed. Any portion of the PAL which is not allowed on the federal return due to PAL limitations will be limited on the Arizona return. The portion of the PAL derived from Arizona sources which is required to be carried forward for federal purposes will similarly be carried forward for Arizona purposes.

**Line 3, column (c)** Represents your allocable share of Arizona source other rental income (loss). Report on line B11 after determining if the passive activity loss (PAL) is currently deductible for Arizona income tax purposes. In general, the amount of the PAL which is derived from Arizona sources is the amount that may be allowed. Any portion of the PAL which is not allowed on the federal return due to PAL limitations will be limited on the Arizona return. The portion of the PAL derived from Arizona sources which is required to be carried forward for federal purposes will similarly be carried forward for Arizona purposes.

**Line 5, column (c)** Represents your allocable share of Arizona source interest income. Report the amount on line B6 and follow the form’s instructions.

## INDIANA INSTRUCTIONS

Indiana taxes its non-residents on their Indiana source income. Please consult your tax advisor with regard to your Indiana non-resident filing requirements. The following are general instructions for Indiana non-resident individuals filing Indiana Form IT-40PNR.

**Line 2** Represents your allocable share of Indiana source rental income (loss). Report on Form IT-40PNR, Schedule A, line 13 after determining if the passive activity loss (PAL) is currently deductible for Indiana income tax purposes. Please see the Indiana Form IT-40PNR instructions to determine the amount, if any, of the PAL that may be deductible for Indiana income tax purposes.

**Line 3** Represents your allocable share of Indiana source other rental income (loss). Report on Form IT-40PNR, Schedule A, line 13 after determining if the passive activity loss (PAL) is currently deductible for Indiana income tax purposes. Please see the Indiana Form IT-40PNR instructions to determine the amount, if any, of the PAL that may be deductible for Indiana income tax purposes.

**Line 5** Represents your allocable share of Indiana source interest income. Report on Form IT-40PNR, Schedule A, line 3 and follow the form’s instructions.

**Line 15** Represents your allocable share of state income taxes deducted. Report on Form IT-40PNR, Schedule B, line 1 and follow the form’s instructions.

## *Supplemental Information*

**Line 13b A** Represents your allocable share of Indiana source investment income.

**Line 13b V** is **Supplemental Information for tax-exempt entities, including IRAs**. See instructions and amounts for Federal Schedule K-1 (Form 1065) Box 20 Code V and amounts on the “2010 Supplemental Information” page under Box 20 Code V.

## MISSISSIPPI INSTRUCTIONS

Mississippi taxes its non-residents on their Mississippi source income. Please consult your tax advisor with regard to your Mississippi non-resident filing requirements. The following are general instructions for Mississippi non-resident individuals filing Mississippi Form 80-205.

***Line 2*** Represents your allocable share of Mississippi source rental income (loss). Report on Form 80-108, Part 4, Section B after determining if the passive activity loss (PAL) is currently deductible for Mississippi income tax purposes. Please see the Mississippi Form 80-205 instructions to determine the amount, if any, of the PAL that may be deductible for Mississippi income tax purposes. The allowable amounts will carryforward to Form 80-205, line 37B.

***Line 3*** Represents your allocable share of Mississippi source other rental income (loss). Report on Form 80-108 Part 4, Section B after determining if the passive activity loss (PAL) is currently deductible for Mississippi income tax purposes. Please see the Mississippi Form 80-205 instructions to determine the amount, if any, of the PAL that may be deductible for Mississippi income tax purposes. The allowable amounts will carryforward to Form 80-205, line 37B.

***Line 5*** Represents your allocable share of Mississippi source interest income. Report the amount on Form 80-205, line 39B and follow the form’s instructions.

***Line 19 Non-deductible Expenses.*** Represents non-deductible expenses that reduce your tax basis in the Fund.

***Line 20*** This figure represents the dollar amount of cash distributions paid during the year to this account. This figure is for informational purposes only and this line is not reported on your tax return.

### ***Line 21 Other Information. – Supplemental Information***

**Line 21 A** Represents your allocable share of Mississippi source investment income.

**Line 21 V** is **Supplemental Information for tax-exempt entities, including IRAs**. See instructions and amounts for Federal Schedule K-1 (Form 1065) Box 20 Code V and amounts on the “2010 Supplemental Information” page under Box 20 Code V.

## TAX PREPARATION

If you are preparing your tax return yourself using any of the popular computer software tax programs and there are line items on your Schedule K-1 that are not addressed by the software, please consult with the software manufacturer. We are not qualified to answer any questions regarding tax preparation in general or tax software in particular.

Because tax laws are quite complex, we suggest you consult with your tax advisor for an overall assessment of the tax implications of your investment in the Fund.

Sincerely,  
Kenneth W. Park  
Chief Financial Officer