





- 15 Subtraction for railroad maintenance expenses. . . . . 15 \_\_\_\_\_ Line 37, Schedule M1M
- 16 Subtraction due to federal changes not adopted by Minnesota. . . . .  16a \_\_\_\_\_ See instructions
- 16b \_\_\_\_\_ See instructions
- 17 Net operating loss (NOL) carryover adjustment. . . . . 17 \_\_\_\_\_ Line 35, Schedule M1M

**Credits (you must enclose this schedule with your Form M1 if claiming a credit) Include on:**

- 18 Any Minnesota income tax withholding credit received by the fiduciary . . . . . 18 \_\_\_\_\_ Line 7, Schedule M1W
- 19 Credit for increasing research activities . . . . . 19 \_\_\_\_\_ Line 3, Form M1C
- 20 Greater Minnesota internship credit . . . . . 20 \_\_\_\_\_ Line 3, Form M1B
- 21 Credit for historic structure rehabilitation (enclose certificate) . . . . . 21 \_\_\_\_\_ Line 2, Form M1B

National Park Service (NPS) project number: \_\_\_\_\_

**Nonresident beneficiaries**

**Include on Schedule M1NR, column B on:**

**Minnesota portion of amounts from federal Schedule K-1 (1041)**

- 22 Capital gain or loss on Minnesota real property . . . . . 22 \_\_\_\_\_ Line 4
- 23 a Business income or loss . . . . . a \_\_\_\_\_
- b Income from Minnesota rents, royalties, partnerships, S corporations, estates and trusts . . . . . b \_\_\_\_\_
- c Farm income or loss . . . . . c \_\_\_\_\_
- Total (add lines 23a, 23b, and 23c) . . . . . 23 \_\_\_\_\_ Line 6
- 24 Interest and dividend income derived from a trade or business (S corporations and partnerships) that is assignable to Minnesota . . . . . 24 \_\_\_\_\_ Line 2
- 25 Other income . . . . . 25 \_\_\_\_\_ Line 8
- 26 Minnesota source gross income from this fiduciary . . . . . 26 \_\_\_\_\_ information only

**Composite income tax for electing nonresident beneficiaries**

- 27 Minnesota source distributive income from this fiduciary . . . . . 27 \_\_\_\_\_ information only
- 28 Minnesota composite income tax paid by fiduciary. If the beneficiary elected composite income tax, check this box  . . . . . 28 \_\_\_\_\_ composite income tax

**Fiduciary: Enclose this schedule and copies of all Schedules KF and federal Schedules K-1 with your Form M2.**  
**Beneficiary: See instructions. Include this schedule when you file your Form M1.**



# 2017 Schedule KF Instructions

## Beneficiary's use of information provided on Schedule KF

### Purpose of Schedule KF

Schedule KF is a supplemental schedule provided by the fiduciary to the beneficiaries. The beneficiaries need this information to complete a *Minnesota Individual Income Tax Return*, Form M1.

The schedule shows each beneficiary their specific share of the fiduciary's income, credits and modifications. A beneficiary who is a Minnesota resident must report all income from the trust or estate. A nonresident beneficiary must report income which is allocable to Minnesota.

These instructions are intended to help you report your share of the fiduciary's income, credits and modifications on your Minnesota return.

**If you received an amended Schedule KF** from the fiduciary and your income or deductions have changed, you must file an amended Minnesota return. To amend your return, use Form M1X, *Amended Minnesota Income Tax Return*.

### Line instructions

*Include amounts on the appropriate lines as shown on Schedule KF. Be sure to read the following line instructions for additional information.*

**Lines 1-6 and 9-17.** If all or part of the fiduciary's income is distributed, then any adjustment shown on lines 25-33 and 35-41 of Form M2 is passed through to the beneficiary(s) in the proportion to their share of distributable net income.

From line 43 of Form M2, enter the adjustments to income allocated to each beneficiary.

**Line 7.** If you checked the box for Installment Sale of Pass-through Assets or Interests and the gain from the sale was distributed, complete line 7 of all applicable Schedules KF to report installment sale information to your beneficiaries.

Nonresident individuals - if any information is reported to you on line 7, file Form M1AR with your Minnesota income tax return.

Resident individuals - if any information is reported to you on line 7, retain a copy of this schedule for your records for the entire period that you, or any entity you have an interest in is receiving installment sale payments. If you become a nonresident in a future year while payments are being made you are required to file Form M1AR with your final resident tax return.

**Line 7a.** Enter each beneficiary's share of the gross profit from any installment sale of S corporation stock or assets, or partnership interests or assets executed after December 31, 2016.

If the sale was completed by the trust or estate the total gross profit is found on federal Form 6252, line 16. If the sale was executed by an entity owned by the trust or estate, or another entity in a multi-tiered structure, this information is reported on Schedule KF, KPI or KS on line 7a, or Schedule KPC line 10a. This amount is allocable amongst the beneficiaries in proportion to their share of distributable net income.

If installment sale information is reported to the trust or estate on informational schedules from other entities, the amount reported to the beneficiaries should equal the total amount reported on all schedules KF, KPI, KS, and KPC.

If the trust or estate receives installment payments from multiple sales executed after December 31, 2016, attach a schedule to form M2 detailing the different sales and distributive allocations.

**Line 7b.** Enter each beneficiary's share of installment sale income from the sale of S corporation stock, or partnership interests, and any installment sale income from the sale of the assets of any S corporation or partnership. If the sale was completed by the trust or estate completing this schedule, the total installment sale income is found on Form 6252, line 24. If the sale was executed by an entity owned by the trust or estate, or another entity in a multi-tiered structure, this information is reported on Schedule KF, KPI or KS on line 7b, or Schedule KPC line 10b. This amount is allocable amongst the beneficiaries in proportion to their share of distributable net income.

If installment sale information is reported to the trust or estate on informational schedules from other entities, the amount reported to the beneficiaries should equal the total amount reported on all schedules KF, KPI, KS, and KPC.

**Line 7c.** Enter the S corporation's or partnership's apportionment percentage for the year of sale. This information is reported on:

Schedule KS, line 31, for S corporation shareholders

Schedule KPI, line 33, for partners in partnerships

Schedule KF, line 7c, for trust or estate beneficiaries

Enter the amount as a decimal carried to five decimal places.

**Note:** if you are reporting a gain from an entity in a multi-tiered pass-through structure, you may need to gather information from the tax preparer of the company that executed the sale.

**Line 8.** For Beneficiary:

Report any Code 11 amount on the Schedule M1NC, Line 3.

Report any Code 12 amount on the Schedule M1NC, Line 12.

Report any Code 13 amount on the Schedule M1NC, Line 6.

Report any Code 14 amount on the Schedule M1NC, Line 3.

Report any Code 15 amount on the Schedule M1NC, Line 14.

Retain any Code 16 amount information for your 2018 tax return filing.

**Line 16.** For Beneficiary:

Report any Code 11 amount on the Schedule M1NC, Line 3.

Report any Code 12 amount on the Schedule M1NC, Line 12.

Report any Code 13 amount on the Schedule M1NC, Line 6.

Report any Code 14 amount on the Schedule M1NC, Line 3.

Report any Code 15 amount on the Schedule M1NC, Line 14.

Retain any Code 16 amount information for your 2018 tax return filing.

**Line 18.** If you received a Minnesota income tax withholding credit, enter the beneficiary's distributive share of any credit that is passed through to the beneficiary. Do not include amounts reported on line 15b of Form M2.

**Line 19.** If you are a partner of a partnership or a shareholder of an S corporation that conducted qualified research and development in Minnesota, from line 11 of Schedule KPI and line 11 of Schedule KS, enter the beneficiary's distributive share of the credit that is passed through to the beneficiary. Attach the appropriate schedule when you file your return.

**Line 20.** If you are a partner of a partnership or a shareholder of an S corporation that hired a qualified student for internship, from line 12 of Schedule KPI and the Schedule KS, enter the beneficiary's

*Continued*

**2017 Schedule KF Instructions (continued)**

distributive share of the credit that is passed through to the beneficiary. Attach the appropriate schedule when you file your return.

**Line 21.** If you are a partner of a partnership or a shareholder of an S corporation that qualified for credit for historic structure rehabilitation, from line 13 of Schedule KPI and Schedule KS, enter the beneficiary's distributive share of the credit that is passed through to the beneficiary. Attach the appropriate certificate when you file your return and enter the NPS project number in the space provided.

**Nonresident beneficiaries**

**Lines 22–28**

Lines 22-28 apply to nonresident beneficiaries. A nonresident beneficiary will be taxed on the income which is allocable to Minnesota.

**Lines 22-25.** From the nonresident beneficiary's federal Schedule K-1 (1041), enter the Minnesota portion of amounts on lines 22–25.

Interest or dividend income derived from a trade or business (S corporations and partnerships) that is apportioned to Minnesota should be included on line 24.

On line 25, only include other income allocable to Minnesota. For example, include other income from services performed in Minnesota, but do not include interest, dividends or distribution from a pension plan.

Include lines 22-25 on the corresponding lines in column B of Schedule M1NR.

**Line 26.** Minnesota source gross income is used to determine if a nonresident individual is required to file a Minnesota income tax return. Gross income is income before business or rental deductions and does not include losses.

If your total 2017 Minnesota source gross income is \$10,400 or more and you did not elect composite filing, you are required to file Form M1 and Schedule M1NR, *Non-residents and Part-Year Residents*. You must include all Minnesota source gross income passed through to you from all fiduciaries, partnerships and S corporations when determining if you are required to file a Minnesota return.

**Worksheet for Line 27**

- 1 80 percent of federal bonus depreciation from line 5 of the beneficiary's Schedule KF .....
- 2 Enter the amount from line 8 of the Schedule KF .....
- 3 Lines 22–25 of the beneficiary's Schedule KF .....
- 4 Add steps 1, 2, and 3. ....
- 5 To the extent allowed by law, enter one-fifth of the beneficiary's share of the federal bonus depreciation that was added back in a year the beneficiary elected to be included in composite income tax .....
- 6 Enter the amount from line 16 of Schedule KF .....
- 7 Add steps 5 and 6 .....
- 8 Subtract step 7 from step 4 .....

Enter the result from step 8 on line 27 of the beneficiary's Schedule KF. The result in step 8 is the beneficiary's adjusted Minnesota source distributive income from this fiduciary.

**Worksheet for Line 28**

- 1 Multiply line 27 of Schedule KF by 9.85% (.0985). ....
- 2 Add the credits on lines 18, 20, and 21 of Schedule KF .....
- 3 Subtract step 2 from step 1. ....

The result in step 3 is the amount you are required to pay on behalf of the electing beneficiary. Enter this amount on line 28 of the beneficiary's Schedule KF and check the box to indicate the beneficiary's election to be included.

If your 2017 Minnesota source gross income is less than \$10,400 and you are allowed a Minnesota income tax withholding credit, file Form M1 and Schedule M1NR to receive a refund.

Although Minnesota source gross income determines whether you must file a Minnesota return, your Minnesota source distributive income is ultimately taxed.

**Composite Income Tax**

**Line 27.** When determining the beneficiary's share of the Minnesota source distributive income from this fiduciary, you must make adjustments for any items you passed through to the beneficiary on lines 1 through 21 of the beneficiary's Schedule KF.

Follow the steps in the Worksheet for Line 27 to determine line 27.

**Line 28.** Nonresident beneficiaries must pay tax if their Minnesota gross income is more than the minimum filing requirement for the year (\$10,400 for 2017).

Skip this line if the nonresident beneficiary did not elect the fiduciary to pay composite income tax on his or her behalf.

To determine the amount of composite income tax to pay on behalf of each electing beneficiary, follow the steps on the Worksheet for Line 28.

If the beneficiary elects to be included in composite income tax but has zero tax due, be sure to enter zero on line 28. Even though the amount may be zero, be sure to check the box to indicate the election.

Once you have completed all the KF schedules for your electing nonresident beneficiaries, add the amounts on line 28 of all the schedules and enter the total on line 13 of Form M2. This is the amount of composite income tax you are required to pay on behalf of your electing beneficiaries.

**Questions?**

Call the department at **651-556-3075**. This information is available in alternate formats.

**Need forms?**

You may download forms and other tax-related information from our website at **www.revenue.state.mn.us**.