



2018 Schedule KF, Beneficiary's Share of Minnesota Taxable Income

Fiduciary: Complete and provide Schedule KF to each nonresident beneficiary with Minnesota source income and any Minnesota beneficiary who has adjustments to income.

Tax year beginning _____, 2018 and ending _____

Amended KF:

Beneficiary's Social Security number			Estate's or trust's federal ID number			Minnesota tax ID number		
Beneficiary's name			Estate's or trust's name					
Address of beneficiary			Address of fiduciary					
City	State	Zip code	City	State	Zip code			

Calculate lines 1–20 the same for all resident and nonresident beneficiaries. Calculate lines 21–27 for nonresident beneficiaries only. Round amounts to the nearest whole dollar.

Additions to income

Beneficiary: Include on:

- 1 State and municipal bond interest from outside Minnesota **1** ■ _____ Line 1, Schedule M1M
- 2 State income tax **2** ■ _____ Line 5, Schedule M1M
- 3 Expenses deducted that are attributable to income not taxed by Minnesota (other than interest or mutual fund dividends from U.S. bonds) **3** ■ _____ Line 6, Schedule M1M
- 4 80 percent of the suspended loss from 2001–2005 or 2008–2017 that was generated by bonus depreciation **4** ■ _____ Line 8 inst., M1M
- 5 80 percent of federal bonus depreciation **5** ■ _____ M1M, see line 3 inst.
- 6 Fines, fees and penalties deducted federally as a trade or business expense **6** ■ _____ Line 7, Schedule M1M
- 7a Beneficiary's pro rata gross profit from installment sale of pass-through entities (see instructions) **7a** ■ _____ Line 1, Schedule M1AR
- 7b Beneficiary's pro rata installment sale income from sales of pass-through entities (see instructions) **7b** ■ _____ Line 2, Schedule M1AR
- 7c Applicable S corporation's or partnership's apportionment percentage of the year of sale (see instructions) **7c** ■ _____ Line 4, Schedule M1AR
- 8 Addition due to federal changes not adopted by Minnesota (KFNC, line 27) **8** ■ _____
- 9 Net operating loss (NOL) carryover adjustment **9** ■ _____ Line 10, Schedule M1M
- 10 Domestic production activities deduction **10** ■ _____ Line 14, Schedule M1M

Subtractions from income

- 11 Interest on U.S. government bond obligations, minus any expenses deducted on the federal return that are attributable to this income **11** ■ _____ Line 16, Schedule M1M
- 12 State income tax refund **12** ■ _____ Line 6, Form M1
- 13 Federal bonus depreciation subtraction **13** ■ _____ Line 19, Schedule M1M
- 14 Subtraction for prior addback of reacquisition of business indebtedness income included in federal taxable income **14** ■ _____ Line 34, Schedule M1M
- 15 Subtraction for railroad maintenance expenses. **15** ■ _____ Line 35, Schedule M1M

(continued)



Beneficiary's Name

Beneficiary's Social Security Number

- 16 Subtraction due to federal changes not adopted by Minnesota (KFNC, line 27 as a positive) 16 ■ _____
- 17 Net operating loss (NOL) carryover adjustment. 17 ■ _____ Line 33, 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 9, Form M1C
- 20 Tax Credit for Owners of Agricultural Assets 20 ■ _____ Line 8, Form M1C
Enter the certificate number from the certificate
you received from the Rural Finance Authority: AO ____ - _____
- 21 Credit for historic structure rehabilitation (enclose certificate) 21 ■ _____ Line 6, M1REF
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, part-
nerships, 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.



2018 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 a Schedule KFNC from the fiduciary you must also report your share of the trust's or estate's nonconformity adjustments on your Minnesota return. Please see Schedule KFNC Instructions for more information.

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. Addition Due to Federal Changes Not Adopted by Minnesota

Enter the amount from the Schedule KFNC, line 27. If the amount is negative, leave line 8 blank and enter it as a positive number on line 16. Use this amount in calculating composite tax.

Line 16. Subtraction Due to Federal Changes Not Adopted by Minnesota

Enter the amount from the Schedule KFNC, line 27 as a positive number. If the amount on Schedule KFNC, line 27 is positive, leave line 16 blank and enter it as a positive on line 8. Use this amount in calculating composite tax.

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 received a credit certificate from the Minnesota Rural Finance Authority for selling or leasing agricultural assets to a beginning farmer, enter the certificate number in the space provided and the beneficiary's distributive share of the credit on line 20.

If you have multiple credits, enter the certificate number your fiduciary received directly from the Rural Finance Authority

Continued

2018 Schedule KF Instructions (continued)

within the certificate number box. If you have multiple credits and received all credits from other pass-through entities, enter the certificate number relating to the largest credit amount within the certificate number box. Subtotal all credit amounts on Line 20.

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 MINR.

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 2018 Minnesota source gross income is \$10,650 or more and you did not elect composite filing, you are required to file Form M1 and Schedule MINR, *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 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 2018 Minnesota source gross income is less than \$10,650 and you are allowed a Minnesota income tax withholding credit, file Form M1 and Schedule MINR 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 (\$10,650 for 2018).

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.