



2018 Schedule M2NC, Federal Adjustments

Minnesota has not adopted the federal law changes enacted after December 16, 2016 that affect federal taxable income for tax year 2018.

Tax year beginning _____, 2018, ending _____

Name of Estate or Fiduciary _____ Federal ID Number _____ Minnesota ID Number _____

Before you complete this schedule, read the instructions which are on a separate sheet.

**Enter amounts as a positive or negative.
Round amounts to the nearest whole dollar.**

Adjustments to federal taxable income (FTI)

- 1 Capitalization Rules Provisions (TCJA Sec. 13207, 13801) **1** ■ _____
- 2 a. Increase in Federal Bonus Depreciation for Certain Assets (TCJA Sec. 13201) **2a** ■ _____
 - b. Enter the amount of allowable depreciation for assets on line 2a **2b** ■ _____
 - c. This line intentionally left blank **2c** ■ _____
- 3 a. Other Depreciation Provisions under Tax Cuts and Jobs Act (Sec. 13202, 13203, 13204, 13205) **3a** ■ _____
 - b. Enter the amount of allowable depreciation for assets on line 3a **3b** ■ _____
- 4 a. This line intentionally left blank **4a** ■ _____
 - b. This line intentionally left blank **4b** ■ _____
- 5 Depreciation for Assets from 2017 Nonconformity Adjustments **5** ■ _____
- 6 Deduction for Qualified Business Income (TCJA Sec.11011, CAA, Div T, Sec 101) **6** ■ _____
- 7 Limitation on Business Losses for Taxpayers Other Than Corporations (TCJA Sec. 11012) **7** ■ _____
- 8 Limitation on Deduction for Interest (TCJA Sec. 13301) **8** ■ _____
- 9 a. Like-Kind Exchange Treatment from Schedule LK (TCJA Sec. 13303) **9a** ■ _____
 - b. Recalculated cost recovery for line 9a property from Schedule LK **9b** ■ _____
- 10 Limitation on Deduction by Employers of Expenses for Fringe Benefits (TCJA Sec. 13304) **10** ■ _____
- 11 Other Deduction Provisions (TCJA Sec. 13307, 13308, 13310, 13603) **11** ■ _____
- 12 Limitation on Allowance of Partner’s Share of Loss (TCJA Sec. 13503) **12** ■ _____
- 13 Cash Distributions from Converted C Corporations (TCJA Sec. 13543(b)) **13** ■ _____
- 14 Tax Treatment of Alaska Native Corporations and Settlement Trusts (TCJA Sec. 13821) **14** ■ _____
- 15 Special Rules for Capital Gains Invested In Opportunity Zones (TCJA Sec. 13823) **15** ■ _____
- 16 a. Section 965 Deferred Foreign Income (TCJA Sec. 14103) **16a** ■ _____
 - b. Section 965 Actual Repatriated Income **16b** ■ _____





17	Inclusion of Global Intangible Low Taxed Income (TCJA Sec. 14201)	17	■	_____
18	Deduction for Foreign Derived Intangible Income (TCJA Sec. 14202).	18	■	_____
19	Related Party Amounts Paid in Hybrid Transactions (TCJA Sec. 14222).	19	■	_____
20	Subpart F Provisions (TCJA Sec. 14211, 14212, 14213, 14214, 14215)	20	■	_____
21	Source of Income from Sales of Inventory (TCJA Sec. 14303)	21	■	_____
22	Restriction on Insurance Business Exception to Passive Foreign Investment Company Rules (TCJA Sec. 14501).	22	■	_____
23	Other Provisions (TCJA Sec. 13309, 13312, 13313, 13314, 13502, 13504, 13522, 13531, 13532, 14502)	23	■	_____
24	Extension of Credits and Tax Incentives (TCJA Sec. 13401, 13403) and (Bipartisan Budget Act of 2018 Sec. 40411)	24	■	_____
25	Other adjustments to federal taxable income	25	■	_____
26	This line intentionally left blank.	26	■	_____
27	This line intentionally left blank.	27	■	_____
28	Total lines 1-27. If the result is positive, enter it on Form M2, line 31. If the amount is negative, enter it as a positive number on Form M2, line 38.	28	■	_____

You must include this schedule when you file Form M2.



2018 Schedule M2NC Instructions

For taxpayers who are affected by federal tax law passed after December 16, 2016.

Purpose of This Schedule

Minnesota defines net income for tax on fiduciary estates and trusts according to the Internal Revenue Code, as amended through December 16, 2016 (referred to as “2016 IRC”). Since that date, federal tax laws were passed that contain changes affecting fiduciary estates and trusts for tax year 2018. The updated Internal Revenue Code (IRC), as amended through March 23, 2018, is referred to as “2018 IRC”. Because Minnesota has not adopted these federal changes, adjustments are required to correctly determine your Minnesota tax when filing your 2018 Form M2 Income Tax Return for Estates and Trusts Return.

Who Must File Schedule M2NC

You must adjust federal taxable income (FTI) on your 2018 Minnesota return if any of the federal provisions included in the following federal acts affect the amount of taxable income reported on your 2018 federal Form 1041, U.S. Income Tax Return for Estates and Trusts:

- Federal Disaster Tax Relief and Airport and Airway Extension Act of 2017 (Pub. L. 115-63),
- Tax Cuts and Jobs Act (Pub. L. 115-97) (TCJA),
- Bipartisan Budget Act of 2018 (Pub. L. 115-123) (BBA), and
- Consolidated Appropriations Act of 2018 (Pub. L. 115-141) (CAA)

Use the Schedule M2NC and these instructions to complete your Minnesota return. The adjustment for each line should reflect the change to your FTI due to the difference between the item calculated on your 2018 federal return and the item calculated under 2016 IRC. Each line will also include the net adjustments received from Schedules KFNC, KPINC, and KSNC for your pro rata share or interest in another business or fiduciary.

If the change results in a reduction of your FTI, enter the adjustment as a negative number. If the change results in an increase of your FTI, enter the adjustment as a positive number. For purposes of calculating the adjustment under 2016 IRC, any federal regulation, ruling, or other guidance issued under 2016 IRC applies.

Save your entire 2018 Minnesota Form M2, Schedule M2NC, and all worksheets you use in determining the adjustments.

Line Instructions

Line 1 - Capitalization Rules

Provisions

Costs of Replanting Citrus Plants (TCJA Sec. 13207)

The Tax Cuts and Jobs Act (TCJA) provides a special temporary exception when applying the capitalization rules for certain costs of replanting citrus plants lost by reason of casualty. The exception exists for any amounts paid or incurred by a person, other than the person who owned the plants, at the time of the casualty, if—

- (1) The person who owned the plants has an equity interest of not less than 50 percent in the replanted citrus plants at all times during the taxable year in which the amounts were paid or incurred and such other person holds any part of the remaining equity interest, or
- (2) The person who did not own the plants acquired the entirety of the original owner’s equity interest in the land on which the lost or damaged citrus plants were located at the time of the loss or damage, and the replanting is on the same land.

Under 2016 IRC, if a person other than the owner of the plants at the time of the citrus plant casualty incurred expenses, the costs to replant are allowed an exception to the capitalization rules only if both of the following apply—

- (1) The person who owned the plants when damaged owns an equity interest of more than 50 percent at all times during the tax year the replanting costs were paid or incurred, and
- (2) The person who is not the original owner owns any portion of the remaining equity interest and materially participates in the replanting, maintenance, cultivation, or development of the plants during the tax year the amounts are paid or incurred.

If you deducted interest expenses relating to the special temporary exception to the capitalization rules enacted under TCJA, recalculate your interest expense using the exception allowed under 2016 IRC. Enter the interest expense capitalized under 2016 IRC as a positive amount on line 1. Recalculate any depreciation and basis changes using the newly capitalized amounts under 2016 IRC and enter the adjustment on line 1.

Production Period for Beer, Wine, & Distilled Spirits (TCJA Sec. 13801)

The TCJA amended 2018 IRC section 263A to exclude the aging period from the production period for beer, wine, and distilled spirits.

Under 2016 IRC, the aging period was included in the production period for beer, wine, and distilled spirits when determining the uniform interest capitalization (UNICAP) rules.

If you deducted interest expenses relating to the production of beer, wine, or distilled spirits under TCJA capitalization rules, recalculate your production period to include the aging period. Enter the interest expense capitalized under 2016 IRC as a positive amount on line 1. Recalculate any depreciation and basis changes using the newly capitalized amounts under 2016 IRC and enter an adjustment on line 1.

Attach a schedule showing the computation of amounts listed on line 1.

Line 2 - Increase in Federal Bonus Depreciation for Certain Assets (TCJA Sec. 13201)

To calculate your nonconformity adjustments for Line 2, you must complete a Minnesota version of the federal Form 4562 – Depreciation and Amortization. The Minnesota version is referred to as “Minnesota NC 4562”.

You must complete a Minnesota NC 4562 if you claimed bonus depreciation on your federal return. Use the Minnesota NC 4562 for the remainder of your Minnesota return filing as if it was your federal Form 4562 for purposes of bonus depreciation. The instructions and worksheets for line 2 describe the adjustments needed to create the Minnesota NC 4562.

Line 2a

The TCJA changed the type of property that qualifies for bonus depreciation and increased the percentage you are allowed to claim for bonus depreciation on your federal return.

If you claimed federal bonus depreciation on line 14 or 25 of federal Form 4562 for assets placed in service after September 27, 2017, you must make an income adjustment on your Minnesota return using your Minnesota NC 4562. The Minnesota NC 4562 includes the amounts of bonus depreciation allowable under 2016 IRC.

Complete the *Worksheet for line 2a – Bonus Depreciation* to calculate the adjustment required on your Minnesota return if you claimed bonus depreciation during 2018. The Worksheet calculates adjustments needed on lines 14 and 25 of your federal Form 4562 in order to create the Minnesota NC 4562. If you received nonconformity adjustments from another entity, incorporate the adjustments into the Worksheet for Line 2a step 14 and do not report the adjustments directly onto Line 2a.

Include your computation of the worksheet as an attachment to your return.

Line 2b Amount of allowable depreciation for assets on line 2a

For the property entered on steps 5 and 8 of the *Worksheet for Line 2a*, determine the amount of MACRS depreciation (other than bonus depreciation) allowed under 2016 IRC. Use the appropriate recovery period and method for each asset under 2016 IRC using your Minnesota NC 4562 lines 17-20. This will result in negative amount.

If you entered property on step 10 of the *Worksheet for Line 2a*, reverse the portion of MACRS depreciation claimed on the public utility property and vehicle dealer property on your federal return for which you are claiming bonus depreciation for Minnesota purposes. This will result in a positive amount.

Net the amount of depreciation on line 2b.

Line 2c

This line is intentionally left blank.

Line 3 - Other Depreciation Modifications (TCJA Sec. 13202, 13203, 13204, 13205)

Line 3a

If you have an adjustment for one of the provisions below, enter the amount on line 3a. If you have an adjustment for more than one provision listed below, net the adjustments and enter the total on line 3a.

Limitation on Depreciation for Luxury Automobiles (TCJA Sec. 13202)

The Tax Cuts and Jobs Act (TCJA) increased depreciation limits for passenger vehicles placed in service after December 31, 2017. The greatest allowable depreciation deduction is—

- \$10,000 for the first year, but \$18,000 for a vehicle for which bonus depreciation is claimed,
- \$16,000 for the second year,
- \$9,600 for the third year, and
- \$5,760 for each later taxable year in the recovery period.

Worksheet for Line 2a — Bonus Depreciation

1	Enter amounts from lines 14 and 25 of your federal Form 4562	_____
2	Enter the total bonus depreciation received from any non-Minnesota partnership, S corporation, or fiduciary in which you own an interest that was not reported on step 1.	_____
3	Add steps 1 and 2	_____
4	Net like-kind exchange adjustment from Schedule LK. See step instructions.	_____
5	Enter bonus depreciation claimed on used property, television, film, and theatrical production expenses	_____
6	Add steps 4 and 5	_____
7	Subtract step 6 from step 3.	_____
8	Enter amount of bonus depreciation claimed that exceeds 40% of the depreciable base of property in step 7	_____
9	Subtract step 8 from step 7.	_____
10	40% bonus depreciation for public utility property and vehicle dealer property	_____
11	Property for which you are claiming 40% bonus depreciation for Minnesota purposes. See instructions.	_____
12	Add steps 9 through 11.	_____
13	Subtract step 12 from step 3	_____
14	Enter any bonus depreciation nonconformity adjustments you receive from a Minnesota partnership, S corporation, or fiduciary in which you own an interest	_____
15	Add steps 13 and 14. Enter the amount on Schedule M2NC line 2a	_____
16	Total federal bonus depreciation you receive from a Minnesota partnership, S corporation, or fiduciary in which you own an interest that is not reported on step 1 or 2	_____
17	Add steps 3 and 16	_____
18	Subtract step 15 from step 17. Enter this amount on lines 14 or 25 of your Minnesota NC 4562	_____

Instructions for Worksheet for Line 2a – Bonus depreciation

Step 2 – Enter the total bonus depreciation from entities for which you have not received a Minnesota nonconformity schedule. Do not include amounts reported on step 16.

Step 4 -If are you filing Schedule LK, include the difference between your federal depreciable basis and your Minnesota depreciable basis for the property you identified on line 2 of Schedule LK. Include only the portion for which you claimed federal bonus depreciation and that qualifies for bonus depreciation under 2016 IRC.

Step 5 – The TCJA expanded bonus depreciation to include used, television, film, and theatrical production property. This property does not qualify for bonus depreciation under 2016 IRC.

Step 8 – The TCJA increased the percentage of bonus depreciation to 100% of the depreciable base. For Minnesota purposes, the percentage is 40% of the depreciable base for assets placed in service after 2017. Enter the amount of federal bonus depreciation claimed that exceeds 40% of the depreciable base.

Step 10 – Enter the amount of public utility property and vehicle dealer property for which you are claiming bonus depreciation under 2016 IRC. If you do not choose to claim bonus depreciation for this type of property, enter zero.

Step 11 – Enter 40% of the depreciable basis of any property for which you are claiming bonus depreciation for Minnesota purposes. You may only claim bonus depreciation for Minnesota purposes if all of the following are true:

- You claimed a federal deduction for section 179 expensing on the property.
- The property does not qualify as section 179 property under 2016 IRC.
- The property qualifies for bonus depreciation under 2016 IRC.

For most fiduciary taxpayers, this step will be \$0.

Step 14 – Enter on Step 14 any bonus depreciation nonconformity adjustments you received on Schedules KFNC, KSNC, or KPINC for your pro rata interest in another entity.

Step 15 – This is your total nonconformity adjustment for bonus depreciation this year. **Enter this amount on Schedule M2NC, line 2a.**

Step 16 – Enter the total federal bonus depreciation from any entity from which you have received a Minnesota nonconformity schedule. Do not include amounts reported on step 2. The total federal bonus depreciation from another entity equals the sum of the amounts you received on the following:

- Schedule KS line 5 and Schedule KSNC line 2a; or
- Schedule KPI line 5 and Schedule KPINC line 2a; or
- Schedule KF line 5 divided by 80% (.80) and Schedule KFNC line 2a.

Step 18 – This is your Minnesota bonus depreciation under 2016 IRC. Use this amount to calculate your Minnesota modification on Form M2.

The TCJA also removes computer or peripheral equipment from the definition of listed property. Under 2016 IRC computer or peripheral equipment used exclusively at a regular business establishment, and owned or leased by the person operating such establishment, were considered “listed property” and were subject to a stricter business use test with possible reduced tax benefits. This change applies to property placed in service after December 31, 2017.

Enter the total federal depreciation claimed for passenger vehicles that exceed the limit under 2016 IRC as a positive number on line 3a. Refer to line 3b for 2016 IRC limits.

Enter the federal depreciation claimed for computer or peripheral equipment that do not meet the substantiation requirements under 2016 IRC as a positive number on line 3a.

Treatment of Certain Farm Assets (TCJA Sec. 13203)

Under TCJA, any machinery or equipment used in a farming business has a 5-year recovery period to calculate depreciation. The farm machinery or equipment cannot be any grain bins, cotton ginning assets, fences, or other land improvements. The TCJA also repealed the requirement that farm machinery or equipment has to use the 150% declining balance method of depreciation.

Enter the federal depreciation claimed on farm machinery or equipment as a positive number on line 3a.

Recovery Period for Real Property Shortened (TCJA Sec. 13204)

Under TCJA, the Alternative Depreciation System (ADS) recovery period for residential rental property changes from 40 years to 30 years, effective for property placed in service after December 31, 2017.

Also under TCJA, qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property are no longer separately defined under the General Depreciation System (GDS) and given a 39-year recovery period. Finally, TCJA requires a taxpayer electing out of the interest deduction limitation (TCJA section 13301) to use ADS to depreciate its nonresidential real property, residential rental property, and qualified improvement property.

Enter the federal depreciation claimed for these types of property placed in service after December 31, 2017 as a positive number on line 3a.

ADS for Electing Farming Businesses (TCJA Sec. 13205)

The TCJA requires a farming business that is electing out of the interest deduction limitation (TCJA 13301) to use ADS to depreciate any Modified Accelerated Cost Recovery System (MACRS) property with a recovery period of 10 years or more.

Enter the federal depreciation claimed for this property placed in service after December 31, 2017 as a positive number on line 3a.

Line 3b - Amounts of allowable depreciation for assets on line 3a

Determine the amount of depreciation allowed using the appropriate recovery period and method under 2016 IRC for assets entered on line 3a. Enter the amount of depreciation you calculate for the assets included on line 3a as a negative number on line 3b.

Limitation on Depreciation for Luxury Automobiles (TCJA Sec. 13202)

For any passenger vehicle placed in service after December 31, 2017, the greatest allowable depreciation deduction under 2016 IRC is—

- \$3,160 for the first year, but \$9,560 for a vehicle for which bonus depreciation is claimed,
- \$5,000 for the second year,
- \$2,950 for the third year, and
- \$1,775 for each later taxable year in the recovery period.

For any qualified truck or van placed in service after December 31, 2017, the greatest allowable depreciation deduction under 2016 IRC is—

- \$3,560 for the first year, but \$9,960 for a truck or van for which bonus depreciation is claimed,
- \$5,700 for the second year,
- \$3,350 for the third year, and
- \$2,075 for each later taxable year in the recovery period.

Computer or peripheral equipment placed in service after December 31, 2017, that does not meet the substantiation requirements under 2016 IRC is required to use the ADS method for depreciation.

Treatment of Certain Farm Assets (TCJA Sec. 13203)

Under 2016 IRC, machinery or equipment used in a farming business is required to use the 150% declining balance method and is assigned various recovery periods for depreciation.

Recovery Period for Real Property Shortened (TCJA Sec. 13204) and ADS for Electing Farming Businesses (TCJA Sec. 13205)

Under 2016 IRC, the recovery period for residential rental property is 40 years.

Under 2016 IRC, qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property are separately defined and given a 15-year recovery period.

If you were required to use the ADS method of depreciation by electing out of the interest deduction limitation, you may recalculate your depreciation using another method allowable under 2016 IRC.

Only enter an amount on line 3b for a corresponding amount on line 3a.

Attach a schedule showing the computation of amounts listed on line 3b.

Lines 4a and 4b

These lines are intentionally left blank.

Line 5 – Depreciation for Assets from 2017 Nonconformity Adjustments

Changes made by the federal Disaster Tax Relief and Airport and Airway Extension Act of 2017, Tax Cuts and Jobs Act, and Bipartisan Budget Act of 2018 may have affected the depreciation reported on your 2017 federal Form 1041.

If you made any adjustments for nonconformity on your 2017 Minnesota return relating to asset basis or depreciation, enter the asset’s second year depreciation for Minnesota purposes. If you claimed depreciation on your federal return for the same asset, net the difference between the federal and Minnesota cost recovery on this line.

For example, in 2017 you claimed depreciation on your federal return for a passenger vehicle placed in service in excess of 2016 IRC limits. On your 2017 Minnesota return you reported a nonconformity adjustment for the difference between the federal and Minnesota depreciation amounts. This year you must calculate the passenger vehicle’s second year depreciation based on the lower depreciation limit allowed under 2016 IRC. Enter the nonconformity adjustment amount as a negative number on line 5.

Line 6 - Deduction for Qualified Business Income (TCJA Sec. 11011, CCA, Div T, Sec 101)

Under 2018 IRC, a noncorporate taxpayer is allowed a deduction for qualified business income (QBI). QBI is the net amount of qualified items of income, gain, deduction, and loss of a partnership, S corporation, or sole proprietorship. Trusts and estates are eligible for the deduction to reduce taxable income for the apportionable W-2 wages and unadjusted basis immediately after the acquisition of qualified property.

The QBI deduction was not allowed under 2016 IRC. Therefore, any trust or estate that claimed the QBI deduction must enter the amount of the federal deduction on M2NC as a positive number on line 6. Only a trust or estate that retains current income must addback the federally deducted QBI.

Line 7 - Limitation on Business Losses (TCJA Sec. 11012)

The Tax Cuts and Jobs Act created a new limitation on excess business losses for noncorporate taxpayers. The excess farm loss limitation that applied under 2016 IRC was repealed.

The new excess business loss limitation applies to an estate and trust at both the fiduciary and beneficiary levels. For income and losses distributed to a beneficiary, the excess business loss limitation is calculated on the beneficiary's return.

An excess business loss is the excess of the taxpayer's aggregate deductions attributable to trades or businesses of the taxpayer, over the sum of—

- (1) The taxpayer's aggregate gross income or gain attributable to those trades or businesses, plus
- (2) \$250,000 for a fiduciary taxpayer.

The amount of business loss that is in excess of the limit described above is disallowed in the current tax year and must be carried forward as a net operating loss carryover to the following tax years. In addition, the excess business loss limitation is applied after the passive loss limitation.

Under 2016 IRC, there was not an excess business loss limitation. Instead, a noncorporate taxpayer that received an applicable subsidy had excess farm loss limited for the tax year. The disallowed excess farm loss could be carried forward to the next taxable year and treated as a deduction attributable to farming businesses.

The threshold amount for the excess farm loss was the greater of—

- (1) \$150,000 for a fiduciary taxpayer, or
- (2) The excess of the aggregate amount of gross income or gain attributable to the farming business over the aggregate deductions attributable to the farming business for the five consecutive year period preceding the taxable year.

If your business losses were limited under the excess business loss limitation, then a nonconformity adjustment on your Minnesota return is required. For any excess business loss you were disallowed due to the limitation, recalculate your passive losses. Enter the remaining amount of the loss carryforward on your Schedule M2NC as a negative number on line 7.

In addition, if your farming business received an applicable subsidy, then you may need to limit your farm losses on your Minnesota return. Determine the amount of excess farm loss you cannot deduct on your Minnesota return by using the threshold amount under 2016 IRC (threshold amount described above), and enter the result on your Schedule M2NC as a positive number on line 7.

If you made nonconformity adjustments for both excess business losses and excess farm losses described above, net the amounts and enter the total on line 7.

Line 8 – Limitation on Deduction for Interest (TCJA Sec. 13301)

The Tax Cuts and Jobs Act (TCJA) changed the calculation of the limitation for the deduction of business interest expense under 2018 IRC section 163(j), as well as modified the definition of business interest income and expense for this purpose. The amount allowed as a deduction is limited by the sum of business interest income, 30% of adjusted taxable income, and floor plan financing interest. TCJA expanded the limit to apply to business interest expenses of pass-through entities in addition to corporations.

For pass-through entities, enter the amount of disallowed interest expense on M2NC, as a negative number on line 8.

Line 9 – Like-Kind Exchange Treatment (TCJA Sec. 13303)

Use Minnesota Schedule LK to calculate your nonconformity adjustment for like-kind exchange treatment of personal property. The Schedule LK should be completed at the fiduciary level. Enter the amount from Schedule LK, line 25 on line 9a. Enter the amount from Schedule LK, line 28 on line 9b.

Attach a complete Schedule LK to your return.

Line 10 - Limitation on Deduction by Employers of Expenses for Fringe Benefits (TCJA Sec. 13304)

If you have an adjustment for one of the expenses listed below, enter the amount on line 10. If you have an adjustment for more than one expense listed below, net the adjustments and enter the total on line 10.

Business Deductions for Entertainment Expenses

Under the Tax Cuts and Jobs Act (TCJA), no deduction is allowed for the following entertainment expenses paid or incurred after December 31, 2017—

- (1) Entertainment, amusement, or recreation activities,
- (2) Membership dues for clubs organized for business, pleasure, recreation, or other social purposes, or

- (3) A facility used in connection with either of the above items.

Under 2016 IRC, no deduction is allowed for ordinary and necessary expenses for any activity of a type generally considered to be entertainment, amusement, or recreation, or for a facility used in connection with such an activity. An exception is allowed if the taxpayer establishes that the expense was directly related to or associated with the active conduct of the taxpayer's trade or business or income producing activity. The deduction is limited to 50% of the deductible amount of the entertainment expense.

If you incurred a business expense related to entertainment, amusement, or recreation activities and can establish the expense was directly related to or associated with the active conduct of your trade or business, enter 50% of the allowable amount of entertainment expenses as a negative number on line 10.

Expenses for Employer-Operated Eating Facilities

Under TCJA, an employer can no longer deduct the full cost of food and beverages offered as a de minimis fringe benefit. Instead the employer must apply a 50% limit to the deduction of food or beverage expenses.

Under 2016 IRC, employers can deduct the full cost of food and beverages that are excludable from the employee's income if they are provided for the convenience of the employer at an employer-operated eating facility as a de minimis fringe benefit.

If you offered food and beverages that qualify as a de minimis fringe benefit under 2016 IRC and are limited to a 50% deduction, enter the amount of the remaining 50% deduction as a negative number on line 10.

Employers' Cost of Providing Qualified Transportation Fringes and Other Transportation Benefits

The TCJA repealed the employer deduction for the expense of a qualified transportation fringe.

Under 2016 IRC, an employer can deduct expenses for providing qualified transportation fringe benefits or other transportation or commuting benefits to an employee.

If you offered qualified transportation fringe benefits or other transportation or commuting benefits to employees that you could not deduct on your federal return, enter the amount of the qualifying transportation expense as a negative number on line 10.

Line 11 – Other Deduction Provisions (TCJA 13307, 13308, 13310, 13603)

If you have an adjustment for one of the provisions below, enter the amount on line 11. If you have an adjustment for more than one provision listed below, net the adjustments and enter the total on line 11.

Denial of Deduction for Settlements Subject to Nondisclosure Agreements Paid in Connection with Sexual Harassment or Sexual Abuse (TCJA Sec. 13307)

Under the Tax Cuts and Jobs Act (TCJA), a taxpayer can no longer deduct as a business expense—

- (1) Any settlement or payment related to sexual harassment or sexual abuse if such settlement or payment is subject to a nondisclosure agreement, or
- (2) Attorney's fees related to such a settlement or payment.

If you incurred expenses described in items (1) or (2) that qualify as a deduction under 2016 IRC section 162, and do not qualify as a deduction under 2018 IRC, enter the amount as a negative number on line 11.

Repeal of Deduction for Local Lobbying Expenses (TCJA Sec. 13308)

Under TCJA, you may no longer deduct amounts paid or incurred in connection with influencing, or attempting to influence, legislation of a local council, similar governing body, or Indian tribal government.

For these specific local government bodies, 2016 IRC allows taxpayers to deduct—

- (1) all ordinary and necessary expenses (including, but not limited to, traveling expenses and the cost of preparing testimony) paid or incurred in carrying on any trade or business—
 - a. In direct connection with appearance before, submission of statements to, or sending communications to the committees, or individual members, of such council or body with respect to legislation or proposed legislation of direct interest to the taxpayer, or
 - b. In direct connection with communication of information between the taxpayer and organization of which the taxpayer is a member with respect to any such legislation or proposed legislation which is of direct interest to the taxpayer and to such organization, or
- (2) The portion of the dues paid or incurred to the organization of which the taxpayer is a member for activities described in Item (1).

If you incurred expenses described in items (1) or (2) that qualify as a deduction under 2016 IRC section 162, and do not qualify as a deduction under 2018 IRC, enter the amount as a negative number on line 11.

Prohibition on Cash, Gift Cards, and Other Nontangible Personal Property as Employee Achievement Awards (TCJA Sec. 13310)

The TCJA allows a deduction for the cost of employee achievement awards with certain limitations. The employee achievement award must be tangible personal property given in recognition of an employee's length of service or safety and awarded as part of a meaningful presentation under specified conditions and circumstances.

The TCJA changed the definition of tangible personal property to exclude—

- (1) Cash, cash equivalents, gift cards, gift coupons, or gift certificates; or
- (2) Vacations, meals, lodging, tickets to theater or sporting events, stocks, bonds, other securities, and other similar items.

As a result, the above items are no longer deductible federally as an employee achievement award.

If you granted employee achievement awards consisting of tangible personal property described in Items (1) or (2) above that qualify for the deduction under 2016 IRC section 274, enter the amount paid or incurred during the taxable year as a negative number on line 11.

Treatment of Qualified Equity Grants (TCJA Sec. 13603)

The TCJA allows a qualified employee to make an election to defer the inclusion of income relating to qualified stock transferred from an employer to the qualified employee. Generally, an employer is allowed a business deduction in the year the employee recognizes the income.

The deferred income must be recognized by the employee and allowed as a deduction by the employer in the taxable year in which the earliest of the following occurs—

- (1) The first date the qualified stock becomes transferable,
- (2) The date the employee first becomes an excluded employee,
- (3) The first date any stock of the corporation becomes readily tradable on an established securities market,
- (4) The date that is 5 years after the first date the rights of the employee in such stock are transferable or are not subject to a substantial risk of forfeiture, whichever occurs earlier, or
- (5) The date the employee revokes the deferral election.

2016 IRC requires an employee to recognize qualified stock as income when the employee's beneficial interest in the stock is either transferable or not subject to substantial risk

of forfeiture (substantially vested). The employee includes the excess of the fair market value of the stock at the time it is recognized over any amount the employee paid for the stock in income.

If a qualified employee elects to defer recognition, you may need to make an adjustment on your Minnesota return. Generally, your business may deduct the amount included in the employee's income for the taxable year.

Enter the total amount of deferred income as a negative number on line 11.

Line 12 - Limitation on Substantial Built-in Loss in the Case of Transfer of Partnership Interest (TCJA Sec. 13503)

The Tax Cuts and Jobs Act provides that a partner's distributive share of the partnership charitable contributions and taxes paid or accrued to foreign countries or United States possessions are taken into account when determining the amount of the partner's loss.

Under 2016 IRC, the basis limitation on a partner's loss does not take into account the partner's share of partnership charitable contributions and foreign taxes paid or accrued.

Enter the **lesser of** the amount of losses suspended by basis limitation, or the sum of charitable contributions and taxes paid or accrued to foreign countries included in the calculation of the partner's adjusted basis as a negative number on line 12.

Line 13 – Cash Distributions from Converted C Corporations (TCJA Sec. 13543(b))

The Tax Cuts and Jobs Act made changes to the tax treatment of distributions made from a C corporation which converted from an S corporation.

Under 2016 IRC, cash distributions made by a C corporation during the period following conversion from an S corporation are treated as tax-free to the shareholder with a reduction in the adjusted basis of stock.

If you received a cash distribution from an eligible terminated S corporation (defined by 2018 IRC section 481(d)), enter any portion of the distribution that would be reported as income under 2016 IRC as a positive number on line 13.

Line 14

If you have an adjustment for one of the provisions below, enter the amount on line 14. If you have an adjustment for more than one provision listed below, net the adjustments and enter the total on line 14.

Tax Treatment of Alaska Native Corporations (TCJA Sec. 13821)

Enter the value from Schedules KPINC, KSNC, or KFNC on line 14.

Tax Treatment of Alaska Native Settlement Trusts (TCJA Sec. 13821)

The Tax Cuts and Jobs Act requires an Alaska Native Settlement Trust to report contributions from an Alaska Native Corporation (ANC) as income if 2018 IRC section 247(e) applies.

Under 2016 IRC, these contributions are not required to be reported as income.

If you reported contributions from an ANC as income, enter the amount as a negative number on line 14.

Line 15 - Special Rules for Capital Gains Invested in Opportunity Zones (TCJA Sec. 13823)

The Tax Cuts and Jobs Act allows—

- (1) A temporary deferral from income for capital gains reinvested in a qualified opportunity fund, and
- (2) A permanent exclusion from income of certain capital gains from the sale or exchange of an investment in the qualified opportunity fund.

If you have deferred or excluded from income one of the two types of capital gains listed above, enter the deferred or excluded amount as a positive number on line 15.

Line 16a – Section 965 Deferred Foreign Income (TCJA Sec. 14103)

Under the Tax Cuts and Jobs Act, U.S. shareholders are required to pay a federal transition tax on the untaxed foreign earnings of certain specified foreign corporations as if those earnings had been repatriated to the United States (referred to as deferred foreign income (DFI)). For federal income tax purposes, these deemed repatriated amounts are subject to a transition tax for the taxable year of the taxpayer in which the foreign corporation's taxable year ends.

Under 2016 IRC, these untaxed foreign earnings are only reported as income when actually distributed to the taxpayer. If you elect to pay federal tax related to DFI in annual installments the election is not applicable for your Minnesota tax liability.

If you reported DFI, enter the net amount (2018 IRC section 965(a) inclusion amount reduced by 2018 IRC section 965(c) participation exemption amount allowed) as a negative number on line 16a.

Line 16b – Section 965 Actual Repatriated Income

If any portion of the DFI was distributed as an actual dividend that would be required to be reported by you under 2016 IRC, enter the amount of the entire actual dividend distribution as a positive number on line 16b.

Line 17 – Inclusion of Global Intangible Low-Taxed Income (TCJA Sec. 14201)

The Tax Cuts and Jobs Act added rules requiring inclusion of global intangible low-taxed income (GILTI) generated by controlled foreign corporations (CFCs) as foreign source income under 2018 IRC section 951A. A U.S. person that owns at least 10 percent of the value or voting rights in one or more CFCs is required to include a portion of GILTI in FTI.

Under 2016 IRC, GILTI is not included in FTI.

If you reported GILTI as a shareholder of a CFC, enter the amount as a negative number on line 17.

Line 18 - Deduction for Foreign Derived Intangible Income (TCJA Sec. 14202)

The Tax Cuts and Jobs Act allows a deduction under 2018 IRC section 250 for a percentage of foreign-derived intangible income (FDII) arising from a trade or business within the United States.

Under 2016 IRC, the FDII deduction is not allowed in the calculation of FTI.

If you deducted a portion of FDII under 2018 IRC section 250, enter the amount as a positive number on line 18.

Line 19 - Related Party Amounts Paid in Hybrid Transactions (TCJA Sec. 14222)

The Tax Cuts and Jobs Act added 2018 IRC section 267A to disallow a deduction for disqualified related party amounts paid or accrued in a hybrid transaction or by, or to, a hybrid entity.

2016 IRC does not explicitly disallow deductions for disqualified related party amounts.

If you have related party amounts disallowed under 2018 IRC section 267A, enter the amount disallowed as a negative number on line 19.

Line 20 - Subpart F Provisions (TCJA Sec. 14211, 14212, 14213, 14214, 14215)

If you have an adjustment for one of the provisions below, enter the amount on line 20. If you have an adjustment for more than one provision listed below, net the adjustments and enter the total on line 20.

Elimination of Inclusion of Foreign Base Company Oil Related Income (TCJA Sec. 14211)

The Tax Cuts and Jobs Act (TCJA) eliminated foreign base company oil related income inclusion in Subpart F income as foreign base company income.

Under 2016 IRC, foreign base company oil related income is included in Subpart F income of a U.S. shareholder if they are at least a 10% shareholder of a controlled foreign corporation (CFC).

If you are a 10% or more shareholder of a CFC that earned foreign base company oil related income, whether or not distributed to you, enter the amount of your pro rata share as a positive number on line 20.

Repeal of Inclusion Based on Withdrawal of Previously Excluded Subpart F Income from Qualified Investment (TCJA Sec. 14212)

The TCJA eliminated the income recapture provision of previously excluded Subpart F income in qualified foreign base company shipping operations when the CFC decreases their qualified shipping investment.

Under 2016 IRC, the previously excluded income of qualified foreign base company shipping operations is recaptured when the income is withdrawn from the qualified shipping investment.

If you are a 10% or more shareholder of a CFC that earned qualified shipping investment income, whether or not distributed to you, enter your pro rata share as a positive number on line 20.

Modification of Stock Attribution Rules for Determining Status as a Controlled Foreign Corporation (TCJA Sec. 14213)

The TCJA changed the constructive attribution rules by allowing stock owned by a foreign person to be treated as owned by a U.S. person when considering whether a 10% shareholder of a CFC must include in income their pro rata share of the CFC's Subpart F income.

Under 2016 IRC, the constructive attribution rules do not apply to a U.S. person when the stock is owned by a foreign person.

If you included a CFC's Subpart F income relating to stock owned by a foreign person under the constructive attribution rules, enter the amount as a negative number on line 20.

Modification of Definition of United States Shareholder (TCJA Sec. 14214)

The TCJA changed the definition of a U.S. shareholder for purposes of determining whether a 10% shareholder of a CFC must include in income their pro rata share of the CFC's Subpart F income. Under 2018 IRC section 951(b), a U.S. shareholder is a U.S. person who owns at least 10% of either—

- (1) The total combined voting power of all classes of stock entitled to vote, or

(2) The total value of shares of all classes of stock of the foreign corporation.

Under 2016 IRC, a U.S. shareholder is defined as a U.S. person who owns at least 10% of the total combined voting power of all classes of stock entitled to vote.

If you are a U.S. shareholder under 2018 IRC but not under 2016 IRC, enter the amount related to this provision as a negative number on line 20.

Elimination of Requirement a Corporation Must be Controlled for 30 Days Before Subpart F Inclusion Applies (TCJA Sec. 14215)

The TCJA removed the requirement that a foreign corporation must be a CFC for an uninterrupted period of 30 days or more to have its Subpart F income taxable to a U.S. shareholder.

If you are a U.S. shareholder that received a pro rata share of a foreign corporation's Subpart F income but the foreign corporation was not a CFC for an uninterrupted period of 30 days or more, enter the amount as a negative number on line 20.

Line 21 – Source of Income from Sales of Inventory (TCJA Sec. 14303)

The Tax Cuts and Jobs Act specifies that gains, profits, and income from the sale or exchange of inventory are allocated and apportioned between sources within and without the United States based solely on where the production activities occurred for the inventory.

Under 2016 IRC, any gains, profits, and income from the sales or exchange of inventory are sourced based on both the place of production and the place of sale.

If you sold or exchanged inventory during the tax year where the inventory was produced in the U.S. and sold in a foreign country (or vice versa), recalculate the allocation and apportionment of the gains, profits, and income based on both the place of production and the place of sale under 2016 IRC. Enter the adjustment to FTI on line 21.

Line 22 - Restriction on Insurance Business Exception to Passive Foreign Investment Company Rules (TCJA Sec. 14501)

The Tax Cuts and Jobs Act restricts the insurance business exception to passive foreign investment company rules by limiting it to qualifying insurance corporations.

A qualifying insurance corporation is a foreign corporation—

- (1) Which would be subject to tax under Subchapter L of 2018 IRC if it were a domestic corporation, and
- (2) For which the applicable insurance liabilities constitute more than 25-percent

of its total assets, determined on the basis of such liabilities and assets as reported on the corporation's applicable financial statements for the last year ending with or within the taxable year.

If you have included an amount in FTI because of the restriction to the exception under 2018 IRC, reverse the amount on line 22.

Line 23 - Other Provisions (TCJA Sec. 13309, 13312, 13313, 13314, 13502, 13504, 13522, 13531, 13532, 14502)

If you have an adjustment for one of the provisions below, enter the amount on line 23.

If you have an adjustment for more than one provision listed below, net the adjustments and enter the total on line 23.

Certain Gains from Partnership Profits Interests (TCJA Sec. 13309)

The Tax Cuts and Jobs Act (TCJA) changes the tax treatment of gains from a profits interest in a partnership (or carried interest) held in connection with the performance of services by providing that if one or more applicable partnership interests are held by a taxpayer at any time during the tax year, the excess of—

- (1) The taxpayer's net long term capital gain with respect to those interest for that tax year, over
- (2) The taxpayer's net long term capital gain with respect to those interests for that tax year computed by applying 2018 IRC sections 1222(3) and 1222(4) and substituting "3 years" for "1 year,"

will be treated as short term capital gain.

The TCJA also allows a three-year holding period for certain net long-term capital gains relating to any applicable partnership interest held by the taxpayer.

If your long-term gains under 2016 IRC have changed to short-term gains due to changes made by TCJA, enter the adjustment from short-term gains to long-term gains on line 23.

Certain Contributions by Governmental Entities not Treated as Contributions to Capital (TCJA Sec. 13312)

The TCJA requires gross income to include any contributions to the capital of the taxpayer by any governmental entity or civic group (other than a contribution made by a shareholder as such).

Under 2016 IRC section 118, these contributions to capital are excluded from gross income.

If you include the above contributions to capital, and the contributions are excluded under 2016 IRC, enter the amount as a negative number on line 23.

Repeal of Rollover of Publicly Traded Securities Gain into SSBICs (TCJA Sec. 13313)

The TCJA repealed 2016 IRC section 1044 election to postpone gain on certain sales.

Under 2016 IRC, a corporation that sold publicly traded securities can elect to postpone all or part of the gain on that sale if it bought common stock or a partnership interest in a specialized small business investment company (SSBIC) during the 60-day period that began on the date of the sale. The gain a corporation can postpone each tax year is limited to the lesser of—

- (1) \$1 million, reduced by the gain previously excluded under 2016 IRC section 1044(a), or
- (2) \$250,000.

The basis of the SSBIC stock or partnership interest is reduced by any postponed gain.

To make the election for Minnesota under 2016 IRC section 1044, attach a statement showing:

- How the postponed gain was figured
- The name of the SSBIC stock in which the common stock or partnership interest was purchased
- The date of the purchase
- The new basis in that SSBIC stock or partnership interest

For more information, refer to section 1.1044(a)-1 of title 26 of the Code of Federal Regulations, as in effect on December 16, 2016.

The corporation must make the election no later than the federal due date (including extensions) for filing its tax return for the year in which it sold the securities or partnership interest. If the original return was filed on time without making the election, the corporation may make the election on an amended return filed no later than 6 months after the original due date (excluding extensions). Write "Filed pursuant to TCJA Section 13313" at the top of the Minnesota return.

Enter the amount of postponed gain as a negative number on line 23.

Patents, Inventions, Certain Models or Designs, and Secret Formulas or Processes (TCJA Sec. 13314)

The TCJA adds the following items to 2018 IRC sections 1221 and 1231 as items excluded from the definition of a capital asset:

- patent
- invention
- model or design (whether or not patented)
- secret formal or process

Therefore, these assets are no longer eligible for federal capital gain treatment.

Under 2016 IRC, certain self-created intangibles such as copyrights, literary, musical, or artistic compositions, letters or memoranda, or similar property are excluded from the definition of a capital asset if the asset is held either by the taxpayer who created the property, or in certain circumstances a taxpayer for whom the property was produced.

In determining the gain from this property, any self-created intangible that is excluded from the definition of a capital asset is also ineligible to be treated as a capital gain or ordinary losses asset under 2016 IRC section 1231.

If you included income from the sale of a patent, invention, model or design, or a secret formula or process, report it as the sale of capital assets for Minnesota purposes. Recalculate gains and losses under 2016 IRC sections 1221 and 1231. Enter any difference from 2018 IRC on line 23.

Mandatory Basis Adjustment Upon Transfers of Partnership Interest Amended (TCJA Sec. 13502)

Under TCJA, a partnership has a substantial built-in loss with respect to a transfer of a partnership interest if either—

- (1) The partnership's adjusted basis in the partnership property exceeds by more than \$250,000 the fair market value of the property, or
- (2) The transferee partner would be allocated a loss of more than \$250,000 if the partnership assets were sold for cash equal to their fair market value immediately after the transfer.

Under 2016 IRC, a partnership has a substantial built-in loss with respect to a transfer of the partnership interest only if the partnership's adjusted basis in the partnership property exceeds by more than \$250,000 the fair market value of the property.

If after December 22, 2017, you became a transferee partner **and** your income was increased because of the change in these rules, enter the increase in income as a negative number on line 23.

If after December 22, 2017, you became a transferee partner **and** a loss was specifically allocated to you because of a sale of an asset due to the change in these rules, enter the amount of the specifically allocated loss as a positive number on line 23.

Repeal of Technical Termination of Partnerships (TCJA Sec. 13504)

Enter the value from Schedule KPINC, KSNC, or KFNC on line 23.

Exceptions to Life Insurance Transfer-for-Value Rule (TCJA Sec. 13522)

The TCJA requires a portion of the death benefit received by a buyer of a life insurance contract to be includable in income when a reportable policy sale occurs.

Under 2016 IRC, reportable policy sales are excluded from the transfer-for-value rule and the acquirer is not required to report income.

If you included income from a reportable policy sale, enter the amount as a negative number on line 23.

Limitation on Deduction for FDIC Premiums (TCJA Sec. 13531)

The TCJA limits the amount of FDIC premiums banks are allowed to deduct based on an applicable percentage defined in 2018 IRC section 162(r)(3).

Under 2016 IRC, FDIC premiums are fully deductible based upon the all-events test.

If you were disallowed a deduction for a portion of FDIC premiums, enter the amount of premiums disallowed for members of your Minnesota combined group as a negative number on line 23.

Repeal of Advance Refunding Bonds (TCJA Sec. 13532)

The TCJA repealed the exclusion relating to interest on bonds issued to advance refund another bond. Instead, 2018 IRC requires any bonds for which the refunding bond is issued more than 90 days before the redemption of the refunded bond to include the interest in gross income.

Under 2016 IRC, the interest on bonds issued to advance refund another bond are excluded from gross income.

If you included advance refunding bond interest, and it is allowed as a deduction under 2016 IRC, enter the amount of interest as a negative number on line 23.

Repeal of Fair Market Value Method of Interest Expense Allocation (TCJA Sec. 14502)

The TCJA amended 2018 IRC section 864(e) (2) to repeal the use of the fair market value method to allocate or apportion interest expense between income from U.S. sources and income from foreign sources. Interest expense is now allocated or apportioned on the basis of assets.

Under 2016 IRC, a taxpayer could use the fair market method to establish the value of its assets.

You may elect to use the fair market value method to value assets and allocate or apportion interest expenses between U.S. and foreign sources for purposes of determining your Minnesota taxable income. Include an explanation that establishes the fair market

value of your assets with this schedule. Determine any adjustments needed to FTI using the fair market value method under 2016 IRC section 864(e). Enter the adjustments on line 23.

Line 24 - Extension of Credits and Tax Incentives (TCJA Sec. 13401, 13403) (BBA Sec. 40411)

If you have an adjustment for one of the provisions below, enter the amount on line 24. If more than one provision listed below requires an adjustment, net the adjustments and enter the total on line 24.

Orphan Drug Credit (TCJA Sec. 13401)

The Tax Cuts and Jobs Act (TCJA) decreased the percentage of qualified clinical testing expenses that can be taken into account in determining the amount of the orphan drug credit. The TCJA also added an election to claim a reduced amount of orphan drug credit in lieu of reducing business expenses.

Under 2016 IRC, a higher percentage of qualified clinical testing expenses is allowed and the election is not available.

If you claimed an orphan drug credit and made the election under 2018 IRC section 280C(b)(3) to reduce the amount of credit, enter the amount of qualified clinical testing expenses that exceeds the amount you could have claimed as a business expense deduction without the election as a positive number on line 24.

Employer Credit for Paid Family and Medical Leave (TCJA Sec. 13403)

The TCJA allows a new credit for certain employers who offer paid family and medical leave to their employees. Generally, wages used to determine the credit are not deductible on the federal return.

If you claimed the employer credit for paid family and medical leave, enter the amount of wages disallowed as a negative amount on line 24.

Energy Credit (BBA Sec. 40411)

The Bipartisan Budget Act of 2018 extended the investment credit for the following energy properties:

- Solar illumination
- Qualified fuel cell
- Qualified microturbine
- Combined heat and power system
- Qualified small wind
- Geothermal heat pump

When claiming the energy credit under the federal investment credit, the basis of the energy property used for determining the credit must be reduced by 50% of the energy credit amount.

If you claimed the energy credit relating to any of the above listed energy properties, adjust the energy property's basis without regard to the 50% basis reduction required for energy property under the federal credit. Enter any adjustments to FTI as a result of this Minnesota change in basis on line 24.

Line 25 - Other Adjustments to Federal Taxable Income (FTI)

If any provision within the Federal Disaster Tax Relief and Airport and Airway Extension Act, Tax Cuts and Jobs Act, Bipartisan Budget Act, or Consolidated Appropriations Act impacts the calculation of FTI and is not included as an adjustment on another line of this schedule, enter an adjustment incorporating the change(s) to FTI on line 25. Common examples of adjustments to FTI are capital contributions limitations, capital loss limitations, basis adjustments, and gain or loss from sales.

For example, in 2017 you placed in service a passenger vehicle and made a nonconformity adjustment on your 2017 Minnesota tax return. This resulted in creating a Minnesota basis in the property different from the federal basis. If you sell the passenger vehicle this year, the difference between the gain or loss recognized using the federal basis and the Minnesota basis should be entered as an adjustment on line 25.

Attach a schedule showing the calculation of any amount entered on line 25.

Lines 26 and 27

These lines intentionally left blank.

Line 28 – Total of lines 1 through 27

Add lines 1 through 27. If the result is positive, enter it on Form M2, line 31. If the result is negative, enter it as a **positive** number on Form M2, line 38.

The nonconformity adjustments will be allocated between the fiduciary and beneficiaries in the percentages reported on the Form M2, line 43 and line 44. Any nonconformity adjustments allocated to beneficiaries should be reported on Schedule KFNC for the beneficiary's pro rata share of each adjustment.