



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.

Filing Information

Tax year beginning _____, 2016 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.

All Beneficiaries

Additions to income

Beneficiary: Include on:

- 1 State and municipal bond interest from outside Minnesota **1** █ _____ Line 3, Schedule M1M
- 2 State income tax **2** █ _____ Line 7, 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 9, Schedule M1M
- 4 80 percent of the suspended loss from 2001–2005 or 2008–2015 that was generated by bonus depreciation. **4** █ _____ Line 11 inst., M1M
- 5 80 percent of federal bonus depreciation addition **5** █ _____ Line 5, Schedule M1M
- 6 Fines, fees and penalties deducted federally as a trade or business expense **6** █ _____ Line 10, Schedule M1M
- 7 This line intentionally left blank **7a** █ _____ M1NC, See instructions
- 7b** █ _____ M1NC, See instructions
- 8 Net operating loss (NOL) carryover adjustment **8** █ _____ Line 13, Schedule M1M
- 9 Domestic production activities deduction **9** █ _____ Line 8, Schedule M1M

Subtractions from income

- 10 Interest on U.S. government bond obligations, minus any expenses deducted on the federal return that are attributable to this income **10** █ _____ Line 16, Schedule M1M
- 11 State income tax refund **11** █ _____ Line 5, Form M1
- 12 Federal bonus depreciation subtraction **12** █ _____ Line 19, Schedule M1M
- 13 Subtraction for prior addback of reacquisition of business indebtedness income included in federal taxable income. **13** █ _____ Line 34, Schedule M1M
- 14 Subtraction for railroad maintenance expenses (Line 35, Schedule M1M) .. **14** █ _____

(continued)





All Beneficiaries (cont.)

- 15 This line intentionally left blank **15a** _____ M1NC, See instructions
- 15b** _____ M1NC, See instructions
- 16 Net operating loss (NOL) carryover adjustment **16** _____ Line 33, Schedule M1M

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

- 17 Any Minnesota income tax withholding credit received by the fiduciary **17** _____ Line 7, Schedule M1W
- 18 Credit for increasing research activities. **18** _____ Line 3, Form M1C
- 19 Greater Minnesota internship credit **19** _____ Line 3, Form M1B
- 20 Credit for historic structure rehabilitation (*enclose certificate*) **20** _____ 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)

- 21 Capital gain or loss on Minnesota real property **21** _____ Line 4
- 22 **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 22a, 22b and 22c*) **22** _____ Line 6
- 23 Interest and dividend income derived from a trade or business
(S corporations and partnerships) that is assignable to Minnesota **23** _____ Line 2
- 24 Other income **24** _____ Line 8
- 25 Minnesota source gross income
from this fiduciary **25** _____ *information only*
- Composite income tax for electing nonresident beneficiaries**
- 26 Minnesota source distributive income from this fiduciary **26** _____ *information only*
- 27 Minnesota composite income tax paid by fiduciary.
If the beneficiary elected composite income tax, check this box **27** _____ *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.

Nonresident Beneficiaries Only



2016 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 1-16. 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 17. 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 18. 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 10 of Schedule KPI and line 10 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 19. If you are a partner of a partnership or a shareholder of an S corporation

that hired a qualified student for internship, from line 11 of Schedule KPI and the 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 qualified for credit for historic structure rehabilitation, from line 12 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 21-27

Lines 21-27 apply to nonresident beneficiaries. A nonresident beneficiary will be taxed on the income which is allocable to Minnesota.

Lines 21-24. From the nonresident beneficiary's federal Schedule K-1 (1041), enter the Minnesota portion of amounts on lines 21-24.

Interest or dividend income derived from a trade or business (S corporations and partnerships) that is apportioned to Minnesota should be included on line 23.

On line 24, 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 21-24 on the corresponding lines in column B of Schedule M1NR.

Line 25. 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 2016 Minnesota source gross income is \$10,350 or more and you did not elect composite filing, you are required to file Form M1 and Schedule M1NR, *Nonresidents 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.

If your 2016 Minnesota source gross income is less than \$10,350 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 26. 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 20 of the beneficiary's Schedule KF.

Follow the steps in the Worksheet for Line 26 on the next page to determine line 26.

Line 27. Nonresident beneficiaries must pay tax if their Minnesota gross income is more than the minimum filing requirement for the year (\$10,350 for 2016).

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 27 on the next page.

If the beneficiary elects to be included in composite income tax but has zero tax due, be sure to enter zero on line 27. 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 27 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**.

Information is available in other formats upon request for persons with disabilities.

Need forms?

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

2016 Schedule KF instructions (continued)

Worksheet for Line 26

- 1 80 percent of federal bonus depreciation from line 5 of the beneficiary's Schedule KF _____
- 2 Lines 21–24 of the beneficiary's Schedule KF _____
- 3 Add steps 1 and 2 _____
- 4 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 _____
- 5 Subtract step 4 from step 3 _____

Enter the result from step 5 on line 26 of the beneficiary's Schedule KF. The result in step 5 is the beneficiary's adjusted Minnesota source distributive income from this fiduciary.

Worksheet for Line 27

- 1 Multiply line 26 of Schedule KF by 9.85% (.0985) _____
- 2 Add the credits on lines 17 — 20 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 27 of the beneficiary's Schedule KF and check the box to indicate the beneficiary's election to be included.

Federal Changes Not Adopted by Minnesota

Update as of January 2017
A bill signed into law on January 13, 2017, conforms Minnesota law to federal law when determining federal taxable income for tax year 2016. As a result, taxpayers are no longer required to recompute Minnesota taxable income for Minnesota tax purposes, which will require an adjustment to Minnesota Income.

KF, line 7

Code Description of Issue

- 11 If you claimed depreciation for business property on Indian reservation on federal Form 4562 using the alternative depreciation class-life, recalculate depreciation using the regular class-life and enter the difference. Individual taxpayer enter this amount on line 7 of Schedule M1NC.
- 12 If you claimed the modified treatment of certain qualified film and television production expenses on federal Form 4562, recalculate your

- 13 If you placed into service certain qualified leasehold improvements, restaurant or retail improvement property and depreciated the property using a 15-year class life, recalculate your Minnesota depreciation using a 39-year class life and enter the difference. Individual taxpayers enter this amount on line 9 of Scheduled M1NC.
- 14 If you utilized the special 7-year cost recovery period for property used for land improvement and support facilities for motor sports entertainment facilities you must recalculate the depreciation using a 15- or 39-year life (as appropriate).
Enter the difference between the special 7-year depreciation and the recomputed depreciation on the corresponding line. Individual taxpayer enter this amount on line 10 of the Schedule M1NC.

- 15 If you expensed up to the first 50% of the cost of qualified mine safety equipment, calculate the depreciation on the portion of the equipment you expensed. Enter the difference between the amount expensed and the amount allowed as depreciation on the corresponding line. Individual taxpayers enter this amount on line 11 of Schedule M1NC.
- 40 Other Additions. Individual taxpayers enter this amount on line 12 of Schedule M1NC. Include a supplemental schedule or statement with your return regarding your addition.

KF, line 15

Code Description of Issue

- 50 Other subtractions. Individual taxpayers enter this amount on line 14 of Schedule M1NC. Include a supplemental schedule or statement with your return regarding your subtraction.

Continue to check our website for updates.