



# Instructions for Schedule K-1 (Form 1041) for a Beneficiary Filing Form 1040

**Note. The fiduciary's instructions for completing Schedule K-1 are in the Instructions for Form 1041.**

Section references are to the Internal Revenue Code unless otherwise noted.

## Future Developments

For the latest information about developments related to Schedule K-1 (Form 1041) and its instructions, such as legislation enacted after they were published, go to [www.irs.gov/form1041](http://www.irs.gov/form1041).

## What's New

### Capital gain and qualified dividends.

Beginning in 2013, the maximum rate for long-term capital gains and qualified dividends is 20%, as amended by the American Taxpayer Relief Act of 2012 (ATRA), P.L. 112-240. For 2013, the 20% rate applies to amounts above \$11,950. The 0% and 15% rates continue to apply to amounts below certain thresholds.

**Income tax brackets.** Beginning in 2013, the top income tax bracket for individuals, estates, and trusts is 39.6%, as amended by ATRA.

**Net investment income tax.** This tax applies to certain investment income of individuals, estates, and trusts. Use Form 8960, Net Investment Income Tax—Individuals, Estates, and Trusts, and its instructions to figure your net investment income tax. Form 8960 is new for 2013.

## Reminders

**Backup withholding.** If Schedule K-1 shows backup withholding in box 13, code B, attach a copy to your return.

## General Instructions

### Purpose of Form

Use Schedule K-1 to report a beneficiary's share of the estate's or trust's income, credits, deductions, etc. on your Form 1040, U.S. Individual Income Tax Return. Keep it for your records. Do not file it with your tax return, unless backup withholding was reported in box 13, code B.

### Inconsistent Treatment of Items

Generally, you must report items shown on your Schedule K-1 (including attached

schedules) the same way that the estate or trust treated the items on its return.

If the treatment of an item on your original or amended return is inconsistent with the estate's or trust's treatment (or if the estate or trust was required to but has not filed a return), you must file Form 8082, Notice of Inconsistent Treatment or Administrative Adjustment Request (AAR), with your original or amended return to identify and explain any inconsistency (or to note that an estate or trust return has not been filed).

If you are required to file Form 8082 but fail to do so, you may be subject to the accuracy-related penalty. This penalty is in addition to any tax that results from making your amount or treatment of the item consistent with that shown on the estate's or trust's return. Any deficiency that results from making the amounts consistent may be assessed immediately.

### Errors

If you believe the fiduciary has made an error on your Schedule K-1, notify the fiduciary and ask for an amended or a corrected Schedule K-1. Do not change any items on your copy. Be sure that the fiduciary sends a copy of the amended Schedule K-1 to the IRS. If you are unable to reach an agreement with the fiduciary regarding the inconsistency, you must file Form 8082.

### Beneficiaries of Generation-Skipping Trusts

If you received Form 706-GS(D)-1, Notification of Distribution From a Generation-Skipping Trust, and paid a generation-skipping transfer (GST) tax on Form 706-GS(D), Generation-Skipping Transfer Tax Return for Distributions, you can deduct the GST tax paid on income distributions on Schedule A (Form 1040), line 8. To figure the deduction, see the Instructions for Form 706-GS(D).

## Specific Instructions

### Part I—Information About the Estate or Trust

#### Item E

If the Item E box is checked, this is the final year of the estate or trust.

**Note.** If the "Final K-1" box at the top of Schedule K-1 is checked, this is the final return for the beneficiary.

### Part III—Beneficiary's Share of Current Year Income, Deductions, Credits, and Other Items

The amounts shown in boxes 1 through 14 reflect your share of income, loss, deductions, credits, etc., from an estate or trust. For Form 1040 filers, page 2 of Schedule K-1 provides summarized reporting information. The summarized reporting information reflects references to forms in use for calendar year 2013.

**Note.** If you are not an individual, report the amounts in each box as instructed on your tax return.

**Codes.** In box 9 and boxes 11 through 14, the fiduciary will identify each item by entering a code in the column to the left of the dollar amount entry space. These codes are identified on page 2 of Schedule K-1.

**Attached statements.** The fiduciary will enter an asterisk (\*) after the code, if any, in the column to the left of the dollar amount entry space for each item for which it has attached a statement providing additional information. For those informational items that cannot be reported as a single dollar amount, the estate or trust will enter an asterisk in the left column and write "STMT" in the dollar amount entry space to indicate the information is provided on an attached statement.

### Box 1—Interest

This box reports the beneficiary's share of the taxable interest income. This amount

is reported on line 8a of Form 1040 and Schedule B, Part I, line 1, if applicable.

### **Box 2a—Ordinary Dividends**

This box reports the beneficiary's share of ordinary dividends. This amount is reported on line 9a of Form 1040 and Schedule B, Part II, line 5, if applicable.

### **Box 2b—Qualified Dividends**

This box reports the beneficiary's share of qualified dividends. This amount is reported on line 9b of Form 1040.

### **Boxes 3 and 4a—Net Short-Term and Net Long-Term Capital Gain**

Net short-term capital gains are reported on line 5 of Schedule D (Form 1040) and net long-term capital gains are reported on line 12 of Schedule D (Form 1040).

If there is an attachment to this Schedule K-1 reporting a disposition of a passive activity, see the Instructions for Form 8582, *Passive Activity Loss Limitations*, for information on the treatment of a disposition of an interest in a passive activity.

### **Boxes 4b and 4c—28% Rate Gain and Unrecaptured Section 1250 Gain**

A 28% rate gain is reported on line 4 of the 28% Rate Gain Worksheet—Line 18 in the Schedule D (Form 1040) instructions.

An unrecaptured section 1250 gain is reported on line 11 of the Unrecaptured Section 1250 Gain Worksheet—Line 19 in the Schedule D (Form 1040) instructions.

### **Box 5—Other Portfolio and Nonbusiness Income**

The amount reported in this box is your distributive share of royalties, annuities, and other income that is not subject to the passive activity rules. It also includes income in respect of a decedent (IRD), which is not included in boxes 1, 2a, 3, 4a, 6, 7, or 8.

### **Boxes 6 through 8—Ordinary Business Income, Net Rental Real Estate Income, and Other Rental Income**

The fiduciary will provide you with a separate schedule showing your distributive share of income from each trade or business, net rental real estate, or other rental activity.

Any losses reported in boxes 6 through 8 may be subject to the passive loss limitations of section 469, which generally

limits deducting passive losses only from passive activity income. The rules for applying these limitations to beneficiaries have not yet been issued. For more details, see Pub. 925, *Passive Activity and At-Risk Rules*.

### **Box 9—Directly Apportioned Deductions**

The fiduciary must attach a statement showing depreciation, depletion, and amortization directly apportioned to you, if any, for each activity reported in boxes 5 through 8.

### **Box 10—Estate Tax Deduction (Including Certain Generation-Skipping Transfer Taxes)**

If an estate or trust distributes income in respect of a decedent (IRD) to a beneficiary, the beneficiary is entitled to deduct the portion of the estate tax imposed on the decedent's estate which is attributable to the IRD distributed to the beneficiary. You may claim this amount on line 28 of Schedule A (Form 1040) as a miscellaneous itemized deduction *not* subject to the 2% floor. For an example on how this amount was computed, see Regulations section 1.691(c)-2 and Pub. 559, *Survivors, Executors, and Administrators*.

### **Box 11, Code A—Excess Deductions on Termination**

If this is the final return of the estate or trust, and there are excess deductions on termination, you may deduct the beneficiary's share of the excess deductions on line 23 of Schedule A (Form 1040) as a miscellaneous itemized deduction subject to the 2% floor.

Excess deductions on termination occur only during the last tax year of the trust or decedent's estate when the total deductions (excluding the charitable deduction and exemption) are greater than the gross income during that tax year. Only the beneficiary of an estate or trust that succeeds to its property is allowed to deduct that entity's excess deductions on termination. A beneficiary who does not have enough income in that year to absorb the entire deduction may not carry the balance over to any succeeding year.

### **Box 11, Codes B and C—Unused Capital Loss Carryover**

Upon termination of the trust or decedent's estate, the beneficiary succeeding to the property is allowed to deduct any unused capital loss carryover under section 1212.

A short-term capital loss carryover, reported as code B, is reported on Schedule D (Form 1040), line 5.

A long-term capital loss carryover, reported as code C, is reported, as appropriate, on Schedule D (Form 1040), line 12; line 5 of the 28% Rate Gain Worksheet for Schedule D, line 18; and line 16 of the Unrecaptured Section 1250 Gain Worksheet for Schedule D, line 19.

### **Box 11, Codes D and E—NOL Carryover**

Upon termination of a trust or decedent's estate, a beneficiary succeeding to its property is allowed to deduct any unused net operating loss (NOL) if the carryover would be allowable to the trust or estate in a later tax year but for the termination. The deduction for regular tax purposes, reported as code D, is reported on Form 1040, line 21.

A deduction for an Alternative Tax NOL (ATNOL) carryover for Alternative Minimum Tax (AMT) purposes, reported as code E, is reported on Form 6251, line 11.

### **Box 12—Alternative Minimum Tax Items**

The information reported in box 12, codes A through I is used to prepare your Form 6251, *Alternative Minimum Tax—Individuals*. Code A, *Adjustment for minimum tax purposes*, is the total amount reported on Form 6251, line 15. Codes B through F represent the portion, if any, of the amount included in code A.

**Codes B through F.** If you have an amount in box 12 with code B, C, D, E, or F, see the instructions for lines 37, 38, and 39 of Form 6251.

**Codes G through I.** Include the amount with any of these codes on the applicable line of Form 6251.

**Code J.** Exclusion items. If you pay alternative minimum tax in 2013, the amount in box 12, code J will help you figure any minimum tax credit for 2014. See the 2014 Form 8801, *Credit for Prior Year Minimum Tax—Individuals, Estates, and Trusts*, for more information.

### **Box 13—Credits and Credit Recapture**

Codes A through T list all the credits that may be allocated to you as a beneficiary.

Generally, you must file the source credit form along with Form 3800, *General Business Credit*, to claim the general business credits listed on Schedule K-1 (Form 1041), codes C through T.

However, if your only source for the credits listed on Form 3800, Part III is from pass-through entities, you may not be required to complete the source credit form. Instead, you may be able to report the credit directly on Form 3800. See below for the instructions for specific credits.

**Code A. Credit for estimated taxes.**

The beneficiary treats this amount as a payment of estimated tax. To figure any underpayment and penalty on Form 2210, Underpayment of Estimated Tax by Individuals, Estates, and Trusts, treat the amount entered in box 13, code A, as an estimated tax payment made on January 15, 2014.

**Note.** Form 1041-T, Allocation of Estimated Tax Payments to Beneficiaries, must be timely filed by the fiduciary for the beneficiary to get the credit for an estimated tax payment.

**Code B. Credit for backup withholding.**

Include this amount on line 62 of your Form 1040 and attach a copy of Schedule K-1 (Form 1041) to your return.

**Code C. Low-income housing credit.**

The fiduciary will provide you with a statement showing the amount to report on lines 4 and 11 of Form 8586, Low-Income Housing Credit. If your only source for the credit is a pass-through entity, such as an estate or trust, you can report the amounts from lines 4 and 11 of Form 8586 directly on Form 3800, Part III, lines 1d and 4d, respectively.

**Code D. Rehabilitation credit and energy credit.**

The fiduciary must give you a statement that shows the information you will need and where to enter it on Form 3468, Investment Credit, so that you can figure the amount of any rehabilitation credit and energy credit that you may claim.

**Code E. Other qualifying investment credit.**

This code is used to report the

qualified investment for figuring the qualifying advanced coal project credit, the qualifying gasification project credit, the qualifying advanced energy project credit, and the qualifying therapeutic discovery project credit. The fiduciary must provide you with a statement that shows the information you will need and where to report it on Form 3468 so that you can figure the amount of the previously listed credits that you may claim.

**Code H. Biofuel producer credit.** See the Instructions for Form 6478, Biofuel Producer Credit, for more information. Report this amount on Form 3800, Part III, line 4c.

**Code J. Renewable electricity, refined coal, and Indian coal production credit.** Complete Form 8835, Renewable Electricity, Refined Coal, and Indian Coal Production Credit, to figure the amount of your credit. The fiduciary must provide you with a statement showing the amount of credit to report on line 9 in Part I, and how much to report on line 29 in Part II of Form 8835. If your only source for the credit is a pass-through entity and the credit is reported only on line 9 in Part I of Form 8835, you can enter that amount directly on Form 3800, Part III, line 1f. Otherwise, complete Form 8835 as directed.

**Code O. Biodiesel and renewable diesel fuels credit.** If this credit includes the small agri-biodiesel producer credit, the fiduciary will provide additional information on an attached statement. If no statement is attached, report this amount on line 9 of Form 8864, Biodiesel and Renewable Diesel Fuels Credit. If a statement is attached, see the instructions for Form 8864, line 11.

**Code U. Recapture of credits.** If you are required to recapture any credits, the fiduciary will provide a statement with the information you need to figure your credit recapture.

## Box 14—Other Information

**Code C. Qualified production**

**activities income.** If any of the income is oil-related qualified production activities income, the fiduciary must give you a statement that shows the amount. Enter the oil-related amount on Form 8903, line 7, col. (a). Enter the amount from all activities on Form 8903, line 7, col. (b).

**Code F. Gross farming and fishing in-**

**come.** The amount of farming and fishing income is included in box 6. This income is separately stated to help determine if you are subject to a penalty for underpayment of estimated tax. Report the amount of gross farming and fishing income on Schedule E (Form 1040), Supplemental Income and Loss, line 42.

**Code H. Net investment income tax.**

This amount is the beneficiary's adjustment for IRC section 1411 net investment income or deductions. Enter this amount on Line 7 of Form 8960, as applicable. See the Instructions for Form 8960.

**Code I. Other information.** If this code is used, the fiduciary will provide you with any additional information you may need to file your return that is not shown elsewhere on this Schedule K-1.

If you receive a statement regarding the splitting of foreign tax credits from the income to which it relates, section 909 may prevent you from deducting the foreign tax credit until the related foreign income is taken into account. See Form 1116, Foreign Tax Credit (Individuals, Estate, or Trust), and Pub. 514, Foreign Tax Credit for Individuals, for more information.