2013 Schedule KPI Instructions

Individual, estate and trust partner's use of information provided on Schedule KPI

Purpose of Schedule KPI

Schedule KPI is a supplemental schedule provided by the partnership to its individual, estate or trust partners.

The partners will need this information to complete a Minnesota Form M1, *Individual Income Tax Return*, or Form M2, *Income Tax Return for Estates and Trusts*.

A partner who is a Minnesota resident will be taxed by Minnesota on all of his or her distributive income from the partnership even if the income is apportioned between Minnesota and other states. A nonresident partner will be taxed on the Minnesota distributive income from the partnership.

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

You must include Schedule KPI when you file your Form M1. If you do not include the schedule with your return as required, the department will disallow any credits and assess the tax or reduce your refund.

If you received an amended Schedule KPI from the partnership and your income or deductions have changed, you must file an amended Minnesota return.

Individuals: Use Form M1X, *Amended Minnesota Income Tax Return*, for the year you are amending.

Estates and trusts: You must use the current version of Form M2X, *Amended Income Tax Return for Estates and Trusts*, regardless of the year you are amending.

Line Instructions

Individuals: Include amounts as shown on Schedule KPI. For additional information, read the appropriate line instructions.

Estates and trusts: Include the amounts from

Schedule KPI:	on Form M2:
line 1	line 25
line 2	line 26
line 3	line 27
line 4	does not apply
line 5	line 29
line 6	line 33
line 7	line 30
line 8	does not apply
line 9	line 35
line 10	line 38
line 11	does not apply

Estates and trusts (continued): Include the amounts from

Schedule KPI:	on Form M2:
line 12	see M2 instructions
line 13	see M2 instructions
line 14	line 15e
line 15	line 15f
line 16	line 15c
lines 17–20	see M2MT
lines 21–33	see inst. on this page
line 34	information
lines 35–36	do not apply
line 37	line 15b

Line 8 – Other Additions

Minnesota defines net income according to Internal Revenue Code, as amended through April 14, 2011. Since that date there have been changes to the federal tax laws which contain a number of provisions affecting the 2013 tax year. Minnesota has not adopted all of the federal changes. You must provide your partners with this information in order for them to correctly and accurately complete their M1 and M1NC schedule for nonconformity issues.

The following codes each reference a single nonconformity issue which requires an adjustment to Minnesota income. Place the code in the first available box on line 8 and the amount on the corresponding line. If you need additional lines because you have more than three nonconformity issues please attach additional KPI schedules. **Please attach any worksheets or statements with calculations with your Minnesota M3 return.**

Code	Description of Issue
10	If you claimed depreciation for business property on an Indian reservation on federal schedule 4562 using the alternative depreciation class life, you must use this code in the first available box on line 8. Enter "10" in the first available box and enter the difference between the depreciation allowed federally at the alternative class life and the recomputed amount using the regular class life on the corresponding line. Individual taxpayers enter this amount on line 9 of schedule M1NC.
11	If you claimed the modified treatment of qualified television productions on federal form 4562, you must use this code in the first available box on line 8. Enter "11" in the first available box and enter the difference between the modified amount reported federally and the recomputed amount using the conventional method on the corresponding line. Individual taxpayers enter this amount on line 10 of schedule M1NC.
12	If you placed in service in 2013 qualified leasehold improvement, restaurant or retail improvement property, you must use this code in the first available box on line 8. Enter "12" in the first available box and enter the difference between the depreciation allowed federally over 15 years, (amount on the federal 4562) and the recomputed amount allowed under a 39 year life on the corresponding line. Individual taxpayers enter this amount on line 11 of schedule M1NC.
13	If you utilized the 7 year recovery period for property used for land improvements and support facilities for motor sports entertainment, you must use this code in the first available box on line 8. Enter "13" in the first available box and enter the difference between the amount of the special 7 year cost recovery period and the amount of depreciation using a 15 or 39 year life (as appropriate) on the corresponding line. Individual taxpayers enter this amount on line 12 of schedule M1NC.
14	If you elected to expense 50% of the cost of qualified mine safety equipment placed in service in 2012, you must use this code in the first available box on line 8. Enter "14" in the first available box and enter the difference between the total amount expensed federally and recomputed amount of depreciation using the conventional method on the corresponding line. Individual taxpayers enter this amount on line 13 of schedule M1NC.
40	Other Additions

Continued

Line 11 – Other General Subtractions

Code	Description of Issue
50	Other general subtractions

Line 12 — Employer Transit Pass Credit
Individuals: Include in the total on line 4 of Schedule M1C. To claim this credit, you *must* include this schedule with Form M1.

Line 13 — Enterprise Zone Credit
Individuals: Include in the total on line 5 of Schedule M1B. To claim this credit, you *must* include this schedule with your Form M1.

Line 14 — Increasing Research Activities Credit
Individuals: Include in the total on line 3 of Schedule M1C. To claim this credit, you *must* include this schedule with Form M1.

Line 15 — Historic Structure Rehabilitation Credit
Individuals: Include in the total on line 2 of Schedule M1B and enter the NPS project number in the space provided. To claim this credit, you *must* include this schedule with Form M1.

Line 16 — JOBZ Jobs Credit
Individuals: Include in the total on line 3 of Schedule M1B. To claim this credit, you *must* include this schedule with Form M1.

Line 21 — Minnesota Source Gross Income
Minnesota source gross income is used to determine if a nonresident individual, estate or trust is required to file a Minnesota income tax return. Gross income is income before business or rental deductions and does not include losses.

Nonresident individuals: If your 2013 Minnesota source gross income is $10,000 or more and you did not elect composite filing, you are required to file Form M1 and Schedule M1NR, *Nonresidents/Part-Year Residents*.

If your 2013 Minnesota source gross income is less than $10,000 and you had Minnesota tax withheld (see line 37), file Form M1 and Schedule M1NR to receive a refund.

Estates and trusts: You are required to file Form M2 and pay tax if the Minnesota gross income is $600 or more.

Lines 22–33
Lines 22–33 apply to nonresident partners. All income of a Minnesota resident is assigned to Minnesota, regardless of the source.

If certain items are not entirely included in your federal adjusted gross income (if an individual) or federal taxable income (if an estate or trust) because of passive activity loss limitations, capital loss limitations, section 179 limitations or for other reasons, include only the amounts that you included in your federal adjusted gross income (individuals) or federal taxable income (estates or trusts).

Nonresident individuals: Include lines 22–33 on the corresponding lines in column B of Schedule M1NR.

Estates and trusts: Lines 22–33 are used to determine the partnership's Minnesota sourced income and non-Minnesota sourced income to include on lines 2 and 7 of Form M2. To determine the non-Minnesota losses and income, subtract the amounts on lines 22–33 from the corresponding amounts on Schedule K-1.

Lines 35–37
Nonresident individuals: Although Minnesota source gross income (line 21) determines whether you must file a Minnesota return, your Minnesota source distributive income is ultimately taxed.

Lines 35–37 were used to determine your share of the partnership's Minnesota source distributive income. You may need to refer to these amounts when you file your home state's income tax return.

If you are required to pay Minnesota tax on your Minnesota source distributive income, the partnership is required to withhold tax, unless you elect to have the partnership pay composite tax to Minnesota on your behalf. If you elected for the partnership to pay composite tax, you are not required to file Form M1.

Line 35. Your Minnesota source distributive income is considered your Minnesota taxable income from this partnership.

Line 36. If you elected, the composite tax paid on your behalf equals 9.85 percent of your Minnesota taxable income (line 35), minus your share of any credits on lines 12, 13, 15 and 16. (You are not entitled to your share of the Increasing Research Activities Credit if you elected composite income tax.)

You are not required to file Form M1.

Line 37. If you did not elect composite income tax, the partnership may be required to withhold tax from your Minnesota source distributive income. The amount withheld equals 9.85 percent of your Minnesota taxable income (line 35), minus your share of any credits on lines 12, 13, 15, and 16.

To claim nonresident withholding when you file your Form M1, you must enclose this schedule showing Minnesota tax was withheld.

Sale of a Partnership Interest
If you sell any portion of your interest in a partnership, some or all of the gain may be taxable. Or you can use any loss on the sale to offset other Minnesota income to the extent the losses are deducted on your federal return.

To determine the ratio of gain or loss that is assigned to Minnesota at the time of the sale, divide the original cost of the partnership's tangible property *in Minnesota* by the original cost of all tangible property of the partnership. (Tangible property includes real estate, inventory and equipment.) If you don't have these numbers, contact the partnership.

If more than 50 percent of the value of the partnership's assets are intangibles, the gain/loss is allocated to Minnesota using the partnership's prior year sales factor. Include the result on Schedule M1NR, line 4, column B.