

2013 Schedule KS Instructions

Shareholder's use of information provided on Schedule KS

Purpose of Schedule KS

Schedule KS is a supplemental schedule provided by the S corporation to its shareholders. The shareholders need this information to complete a *Minnesota Individual Income Tax Return*, Form M1.

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

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

You must include Schedule KS 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 KS from the S corporation 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 KS. Be sure to read the following line instructions for additional information.

Line 4

Section 179 Expensing

See Schedule M1M, worksheet for line 7 instructions, to determine how to report this amount.

Line 5

Federal Bonus Depreciation Addition

Include this amount on the appropriate line on the worksheet for line 6 in the Schedule M1M instructions.

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 shareholders 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 attached an additional KS schedules. **Please attach any worksheets or statements with calculations with your Minnesota M8 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

Line 11 – Other General Subtractions

Code	Description of Issue
50	Other general subtractions

Line 12

Employer Transit Pass Credit

Include this amount on line 4 of your Schedule M1C. To claim this credit, you *must* include this schedule with Form M1.

Line 13

Enterprise Zone Credit

Include on line 5 of Schedule M1B. To claim this credit, you *must* include this schedule with Form M1.

Line 14

Increasing Research Activities Credit

This credit is no longer refundable for tax year ending 2013. Include in the total on line 3 of Schedule M1C. To claim this credit, you must include this schedule with Form M1.

Continued

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Line 15

Historic Structure Rehabilitation Credit

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 Zone Jobs Credit

Include this amount on line 3 of Schedule M1B. To claim this credit, you *must* include this schedule with your Form M1.

Line 21

Minnesota Source Gross Income

Minnesota source gross income is used to determine if a nonresident 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 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 35), file Form M1 and Schedule M1NR to receive a refund.

Lines 22–32

Minnesota Portion of Federal Amounts

Lines 22–32 apply to nonresident shareholders. 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 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.

Include the amounts from lines 22–32 on the corresponding lines in column B of Schedule M1NR.

Lines 33–35

Composite Income Tax and Nonresident Withholding

Although Minnesota source gross income (line 21) determines whether you must file a Minnesota return, your Minnesota source distributive income is ultimately taxed.

Lines 33–35 were used to determine your share of the S corporation'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 S corporation is required to withhold tax, unless you elect to have the S corporation pay composite tax to Minnesota on your behalf. If you elected for the S corporation to pay composite tax, you are not required to file Form M1.

Line 33. Your Minnesota source distributive income is considered your Minnesota taxable income from this S corporation.

If there is an amount on line 35 for Minnesota income tax was withheld, you must include your Minnesota source distributive income from line 33 on Schedule M1W, line 7, column B.

Line 34. If you elected composite income tax, the amount paid on your behalf equals 9.85 percent of your Minnesota taxable income on line 33, 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 35. If you did not elect composite income tax, the S corporation may be required to withhold tax from your Minnesota source distributive income. The amount withheld equals 9.85 percent of your Minnesota taxable income on line 33, minus your share of any credits on lines 12–16.

To claim nonresident withholding when you file your Form M1, include the amount from Schedule KS, line 35 on Schedule M1W, line 7, column C. Also include the amount from Schedule KS, line 33 on Schedule M1W, line 7, column B. You must include this schedule when you file your return.