

2019 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 1-5 and 7-22

If all or part of the fiduciary's income is distributed, then any adjustment shown on lines 25-36 and 38-47 of Form M2 is passed through to the beneficiary(s) in the proportion to their share of distributable net income. From line 49 of Form M2, enter the adjustments to income allocated to each beneficiary.

Line 6

If you checked the box for Installment Sale of Pass-through Assets or Interests and the gain from the sale was distributed, complete line 7 of all applicable Schedules KF to report installment sale information to your beneficiaries.

Nonresident individuals - if any information is reported to you on line 6, file Form M1AR with your Minnesota income tax return.

Resident individuals - if any information is reported to you on line 6, retain a copy of this schedule for your records for the entire period that you, or any entity you have an interest in is receiving installment sale payments. If you become a nonresident in a future year while payments are being made you are required to file Form M1AR with your final resident tax return.

Line 6a. Enter each beneficiary's share of the gross profit from any installment sale of s corporation stock or assets, or partnership interests or assets executed after December 31, 2016.

If the sale was completed by the trust or estate the total gross profit is found on federal Form 6252, line 16. If the sale was executed by an entity owned by the trust or estate, or another entity in a multi-tiered structure, this information is reported on:

- Schedules KS and KPI, line 8a
- Schedule KPC, line 11a
- Schedule KF, line 6a

This amount is allocable amongst the beneficiaries in proportion to their share of distributable net income.

If installment sale information is reported to the trust or estate on informational schedules from other entities, the amount reported to the beneficiaries should equal the total amount reported on all schedules KF, KPI, KS, and KPC.

If the trust or estate receives installment payments from multiple sales executed after December 31, 2016, attach a schedule to form M2 detailing the different sales and distributive allocations.

Line 6b. Enter each beneficiary's share of installment sale income from the sale of S corporation stock, or partnership interests, and any installment sale income from the sale of the assets of any s corporation or partnership. If the sale was completed by the trust or estate completing this schedule, the total installment sale income is found on Form 6252, line 24. If the sale was executed by an entity owned by the trust or estate, or another entity in a multi-tiered structure, this information is reported on:

- Schedules KS and KPI, line 8b
- Schedule KPC, line 11b
- Schedule KF, line 6b

This amount is allocable amongst the beneficiaries in proportion to their share of distributable net income.

If installment sale information is reported to the trust or estate on informational schedules from other entities, the amount reported to the beneficiaries should equal the total amount reported on all schedules KF, KPI, KS, and KPC.

2019 Schedule KF Instructions (continued)

Line 6c. Enter the S corporation's or partnership's apportionment percentage for the year of sale. This information is reported on:

- Schedule KS, line 37, for S corporation shareholders
- Schedule KPI, line 39, for partners in partnerships
- Schedule KF, line 6c, for trust or estate beneficiaries

Enter the amount as a decimal carried to five decimal places.

Note: if you are reporting a gain from an entity in a multi-tiered pass-through structure, you may need to gather information from the tax preparer of the company that executed the sale.

Line 7 — Addition Due to Federal Changes Not Adopted by Minnesota

Individuals: Include on line 3 of Schedule M1NC.

Estates and Trusts: Include on line 31 of Form M2.

Line 12 — Special Deduction Under Section 965

Individuals: Not applicable.

Estates and Trusts: Include on line 34 of Form M2.

Line 18 — Subtraction Due to Federal Changes Not Adopted by Minnesota

Individuals: Include as a negative amount on line 3 of Schedule M1NC.

Estates and Trusts: Include on line 41 of Form M2.

Line 23

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 24

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 17 of Schedule KPI and line 17 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 25

If you received a credit certificate from the Minnesota Rural Finance Authority for selling or leasing agricultural assets to a beginning farmer, enter the certificate number in the space provided and the beneficiary's distributive share of the credit on line 25.

If you have multiple credits, enter the certificate number your fiduciary received directly from the Rural Finance Authority within the certificate number box. If you have multiple credits and received all credits from other pass-through entities, enter the certificate number relating to the largest credit amount within the certificate number box. Subtotal all credit amounts on line 25.

Line 26

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 19 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 27—33

Lines 27-33 apply to nonresident beneficiaries. A nonresident beneficiary will be taxed on the income which is allocable to Minnesota.

Lines 27—30

From the nonresident beneficiary's federal Schedule K-1 (1041), enter the Minnesota portion of amounts on lines 27–30.

Interest or dividend income derived from a trade or business (S corporations and partnerships) that is apportioned to Minnesota should be included on line 29.

On line 30, 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 27-30 on the corresponding lines in column B of Schedule M1NR.

Line 31

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 2019 Minnesota source gross income is \$12,200 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 2019 Minnesota source gross income is less than \$12,200 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.

2019 Schedule KF Instructions (continued)

Composite Income Tax

Line 32

Use the Worksheet for Line 32 to determine line 32.

Worksheet for Line 32	
1	80 percent of bonus depreciation from line 5 of the beneficiary's Schedule KF
2	Combine lines 7, 9 and 12* of the beneficiary's Schedule KF
3	Combine lines 27-30 of the beneficiary's Schedule KF
4	Add steps 1, 2 and 3
5	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
6	Combine lines 18, 20 and 21 of the beneficiary's Schedule KF
7	Add steps 5 and 6
8	Subtract step 7 from step 4

Enter the result from step 8 on line 32 of the beneficiary's Schedule KF. The result in step 8 is the beneficiary's adjusted Minnesota source distributive income from this fiduciary.

* Only include an amount from line 12 of Schedule KF if the beneficiary is an estate or trust.

Line 33

Nonresident beneficiaries must pay tax if their Minnesota gross income is more than the minimum filing requirement for the year (\$12,200 for 2019).

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 33.

If the beneficiary elects to be included in composite income tax but has zero tax due, be sure to enter zero on line 33. 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 33 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.

Worksheet for Line 33	
1	Multiply line 32 of Schedule KF by 9.85% (.0985)
2	Add the credits on lines 23, 25, and 26 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 33 of the beneficiary's Schedule KF and check the box to indicate the beneficiary's election to be included.

Forms and Information

Website: www.revenue.state.mn.us

Phone: 651-556-3075

This information is available in alternate formats.