

2019 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:

- Form M1, *Minnesota Individual Income Tax Return*
- Form M2, *Minnesota Income Tax Return for Estates and Trusts*
- Form M2SB, *Minnesota Income Tax Computation for S Portion of ESBT*

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* or Form M2X, *Amended Income Tax Return for Estates and Trusts*.

Line Instructions

Include amounts on the appropriate lines as shown on Schedule KS. Be sure to read the following line instructions for additional information.

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

Estates, trusts, and electing small business trusts (ESBTs): Include the amounts from:

Schedule KS:	on Form M2SB for ESBTs:	on Form M2 for all other estates and trusts:
line 1	line 12	line 25
line 2	line 13	line 26
line 3	line 14	line 27
line 4	does not apply	does not apply
line 5	line 16	line 29
line 6	line 20	line 33
line 7	line 21	line 34
line 8	does not apply	does not apply
line 9	line 18	line 31
line 12	line 25	line 38
line 13	line 32	line 45
line 14	line 33	line 46
line 15	line 34	line 47
line 16	line 28	line 41
line 17		line 15f
line 18		line 15d
line 19		line 15c
line 20		line 15f
line 21		line 15c
lines 22 – 25		Form M2MT
lines 26 – 36		see inst. on page 2
line 37		information
lines 38 – 39		do not apply
line 40		line 15b

Line 4 — Section 179 Expensing

See Schedule M1M, worksheet for line 4 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 3 in the Schedule M1M instructions.

Line 7 — Special Deduction under Section 965

Individuals: Not applicable.

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

ESBTs: Include on line 21 of Form M2SB.

2019 Schedule KS Instructions (Continued)

Line 8a and 8b — Accelerated Installment Sale Gains

Nonresident individuals – if any information is reported to you on line 8 of Schedule KS, file Form M1AR with your Minnesota income tax return.

Resident individuals – if information is reported to you on line 8, retain a copy of this schedule for your records for the entire period that you, or an entity you have an interest in is receiving installment sale payments. If you become a non-resident in a future year while payments are being made you are required to file Form M1AR with your final resident tax return.

Line 9 — Addition Due to Federal Changes Not Adopted by Minnesota

Include on line 3 of Schedule M1NC. Enclose a copy of this schedule with Form M1NC.

Line 16 — Subtraction Due to Federal Changes not Adopted by Minnesota

Include as a negative amount on line 3 of Schedule M1NC. Enclose a copy of this schedule with Form M1NC.

Line 17 — Increasing Research Activities Credit

Include in the total on line 9 of Schedule M1C. To claim this credit, you must include this schedule with Form M1.

Line 18 — Tax Credit for Owners of Agricultural Assets

Include on line 8 of Schedule M1C. To claim this credit, you must include this schedule with Form M1.

Line 19 — Historic Structure Rehabilitation Credit

Include in the total on line 6 of Schedule M1REF and enter the NPS project number in the space provided. To claim this credit, you *must* include this schedule with Form M1.

Line 20 — Employer Transit Pass Credit

Any amount of the credit remaining from Form ETP, not claimed on Form M8, line 6, may be passed through to shareholders based on their distributive share.

Include this amount on line 2 of your Schedule M1C. To claim this credit, you *must* include this schedule with Form M1.

Line 21 — Enterprise Zone Credit

Include on line 7 of Schedule M1REF. To claim this credit, you *must* include this schedule with Form M1.

Line 26 — 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 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/Part-Year Residents*.

If your 2019 Minnesota source gross income is less than \$12,200 and you had Minnesota tax withheld (see line 38), file Form M1 and Schedule M1NR to receive a refund.

Lines 27–36 — Minnesota Portion of Federal Amounts

Lines 27–36 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 27–36 on the corresponding lines in column B of Schedule M1NR.

Lines 38–40 — Composite Income Tax and Nonresident Withholding

Although Minnesota source gross income (line 26) determines whether you must file a Minnesota return, your Minnesota source distributive income is ultimately taxed.

Lines 38–40 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 38. Your Minnesota source distributive income is considered your Minnesota taxable income from this S corporation.

If the amount on line 38 for Minnesota income tax was withheld, you must include your Minnesota source distributive income from line 38 on Schedule M1W, line 7, column B.

Line 39. If you elected composite income tax, the amount paid on your behalf equals 9.85 percent of your Minnesota taxable income on line 38, minus your share of any credits on lines 18-21. You are not required to file Form M1.

Line 40. 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 38, minus your share of any credits on lines 18-21.

To claim nonresident withholding when you file your Form M1, include the amount from Schedule KS, line 40 on Schedule M1W, line 7, column C. Also include the amount from Schedule KS, line 38 on Schedule M1W, line 7, column B. You must include this schedule when you file your return.