

2021 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*

An individual 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. An individual 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.

Line 1 – Non-Minnesota State and Municipal Bond Interest

Individuals: Include on line 1 of Schedule M1M.

Estates and Trusts: Include on line 38 of Form M2.

Electing Small Business Trusts: Include on line 12 of Form M2SB

Line 2 – State Taxes Deducted

Individuals: Include on line 2 of Schedule M1MB.

Estates and Trusts: Include on line 39 of Form M2.

Electing Small Business Trusts: Include on line 13 of Form M2SB.

Line 3 – Expenses Deducted Attributed to Income Not Taxed by Minnesota

Individuals: Include On line 3 of Schedule M1M.

Estates and Trusts: Include on line 40 of Form M2.

Electing Small Business Trusts: Include on line 14 of Form M2SB.

Line 4 – Federal Bonus Depreciation

Individuals: See Schedule M1MB line 1 instructions, to determine how to report this amount.

Estates and Trusts: Include on line 42 of Form M2.

Electing Small Business Trusts: Include on line 16 of Form M2SB.

Line 5 – Foreign Derived Intangible Income (FDII) Deduction

Individuals: Include on line 3 of Schedule M1MB.

Estates and Trusts: Include on line 46 of Form M2.

Electing Small Business Trusts: Include on line 20 of Form M2SB.

Line 6 – Special Deduction Under Section 965

Individuals: This line does not apply.

Estates and Trusts: Include this amount on step 2 for the worksheet to determine Line 42 of the Form M2.

Electing Small Business Trusts: Include on line 21 of Form M2SB.

Lines 7a, and 7b – Accelerated Installment Sale Gains

Nonresident Individuals: If any information is reported to you on line 7a of Schedule KS, file Form M1AR, *Accelerated Recognition of Installment Sale Gains*, with your Minnesota individual income tax return.

Resident Individuals: If any information is reported to you on line 7 of Schedule KS, 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 nonresident in a future year while payments are being made, you are required to file Form M1AR, *Accelerated Recognition of Installment Sale Gains*, with your final resident tax return.

2021 Schedule KS Instructions (Continued)

Estates and Trusts: Pass through pro rata to your beneficiaries.

Electing Small Business Trusts: This line does not apply.

Line 8 – Addition Due to Federal Changes Not Adopted by Minnesota

Individuals: This line does not apply.

Estates and Trusts: This line does not apply.

Electing Small Business Trusts: This line does not apply.

Lines 9 through 13

These lines are intentionally left blank.

Line 14 – Interest on U.S. Government Bond Obligations

Individuals: Include on line 14 of Schedule M1M.

Estates and Trusts: Include on line 54 of Form M2.

Electing Small Business Trusts: Include on line 28 of Form M2SB.

Line 15 – Deferred Foreign Income (Section 965)

Individuals: Include on line 18 of Schedule M1MB.

Estates and Trusts: Include on line 61 of Form M2.

Electing Small Business Trusts: Include on line 35 of Form M2SB.

Line 16 – Global Intangible Low-Taxed Income (GILTI)

Individuals: Include on line 19 of Schedule M1MB.

Estates and Trusts: Include On line 62 of Form M2.

Electing Small Business Trusts: Include on line 36 of Form M2SB.

Line 17 – Disallowed Section 280E Expenses of Medical Cannabis Manufacturers

Individuals: Include on line 17 of Schedule M1MB.

Estates and Trusts: Include on line 63 of Form M2.

Electing Small Business Trusts: Include on line 37 of Form M2SB.

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

Individuals: This line does not apply.

Estates and Trusts: This line does not apply.

Electing Small Business Trusts: This line does not apply.

Lines 19 through 23

These lines are intentionally left blank.

Line 24 – Credit for Increasing Research Activities

Individuals: Include on line 13 of Form M1C. To claim this credit, you must include this schedule with Form M1.

Estates and Trusts: Include on line 19 of Form M2. To claim this credit, you must include this schedule with Form M2.

Electing Small Business Trusts: This line does not apply.

Line 25-Film Production Tax Credit

Individuals: Include on line 11 of Form M1C and enter the certificate number in the space provided. To claim this credit, you must include this schedule with Form M1.

Estates and Trusts: Include on line 16 of Form M2 and enter the certificate number in the space provided. To claim this credit, you must include this schedule with Form M2.

Electing Small Business Trusts: This line does not apply.

Line 26 – Tax Credit for Owners of Agricultural Assets

Individuals: Include on line 12 of Form M1C and enter the certificate number in the space provided. To claim this credit, you must include this schedule with Form M1.

Estates and Trusts: Include on line 17 of Form M2 and enter the certificate number in the space provided. To claim this credit, you must include this schedule with Form M2.

Electing Small Business Trusts: This line does not apply.

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Line 27 – Credit for Historic Structure Rehabilitation

Individuals: Include 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.

Estates and Trusts: Include on line 26 of Form M2 and enter the NPS project number in the space provided. To claim this credit, you must include this schedule with Form M2.

Electing Small Business Trusts: This line does not apply.

Line 28 – Employer Transit Pass Credit

Of the credit amount from Schedule ETP, any amount not claimed on line 7 of Form M8 may be passed through to shareholders based on their distributive share.

Individuals: Include on line 5 of Form M1C. To claim this credit, you must include this schedule with Form M1.

Estates and Trusts: Include on line 20 of Form M2. To claim this credit, you must include this schedule with Form M2.

Electing Small Business Trusts: This line does not apply.

Line 29 – Enterprise Zone Credit

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

Estates and Trusts: Include on line 27 of Form M2. To claim this credit, you must include this schedule with Form M2.

Electing Small Business Trusts: This line does not apply.

Line 30-Pass-Through Entity Tax Credit

Individuals: Include on line 9 of Schedule M1REF. To claim this credit, you must include this schedule with Form M1.

Estates and Trusts: Include on line 23 of Form M2. To claim this credit, you must include this schedule with Form M2.

Electing Small Business Trusts: This line does not apply.

Nonresidents: If your only Minnesota source income is from entities making a PTE tax election, or entities in which you elected composite income tax, you do not need to file Form M1.

Line 31 – Minnesota Backup Withholding

Individuals: Include on line 7, column C of Schedule M1W. To claim this credit, you must include this schedule with Form M1.

Estates and Trusts: Pass through pro rata to your beneficiaries. You must include this schedule with Form M2.

Electing Small Business Trusts: This line does not apply.

Lines 32 – 35 Items Relating to Alternative Minimum Tax

Individuals: Use the information on lines 32 through 35 to complete Schedule M1MT.

Estates and Trusts: Use the information on lines 32 through 35 to complete Schedule M2MT.

Electing Small Business Trusts: These lines do not apply.

Lines 36 – 47 Minnesota Portion of Federal Amounts

Lines 36-47 apply to nonresident individual shareholders, and Estate and Trust income tax payers.

If certain items are not entirely included in your federal income because of passive activity loss limitation, capital loss limitations, section 179 limitations or for other reasons, include only the amounts that you included in your federal adjusted gross income.

Individuals: Use the information on lines 36 through 48 to complete Schedule M1NR.

Minnesota source gross income is used to determine if a nonresident is required to file a Minnesota individual income tax return. Gross income is income before business or rental deductions and does not include losses.

If your 2021 Minnesota source gross income is \$12,525 or more and you did not elect composite filing, you are required to file Form M1 and Schedule M1NR, Nonresident/Party-Year Residents.

If your 2021 Minnesota source gross income is less than \$12,525 and you had Minnesota tax withheld (see line 31 and line 37 of Schedule KF), file Form M1 and Schedule M1NR to receive a refund.

Estates and Trusts: Use the information on lines 36 through 47 to complete line 7 of Form M2. See Form M2 instructions for details.

Line 40

Individuals: If you are a nonresident or part-year resident, include the amount on line 2, column B of Schedule M1NR.

Estates and Trusts: Use this information to complete line 7 of Form M2. See Form M2 instructions for details.

Line 48 – Minnesota Source Distributive Income

Although Minnesota source gross income (line 36 of Schedule KS) determines whether you must file a Minnesota return, your Minnesota source distributive income is ultimately taxed.

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Line 49 – Minnesota Composite Income Tax

Individuals: If you elected composite income tax filing, the amount paid on your behalf equals 9.85% of your Minnesota taxable income on line 48, minus your share of any credits on lines 25-31. You are not required to file Form M1.

Estates and Trusts: This line does not apply.

Line 50 – Minnesota Nonresident Withholding

Individuals: Include the amount from line 50 on Schedule M1W, line 7, column C. Also include the amount from line 50 on Schedule M1W, line 7, column B.

Estates and Trusts: Include the amount from line 50 on Form M2, line 24.