

What's New for 2023?

- Investment partnerships are required to withhold an amount on behalf of their nonresident partners. As a result, Schedule K-1-P(4), Investment Partnership Withholding Calculation for Nonresident Partners, has been created to calculate investment partnership withholding for each of the investment partnership's nonresident partners. Schedule K-1-P, Step 7, Line 55, is now used for both pass-through withholding and investment partnership withholding.

General Information

What is the purpose of Schedule K-1-P and Schedule K-1-P(3)?

Schedule K-1-P —

The purpose of Schedule K-1-P, Partner's or Shareholder's Share of Income, Deductions, Credits, and Recapture, is for you to supply each individual or entity who was a partner or shareholder at any time during your tax year with that individual's or entity's share of the amounts you reported on your federal income tax return and your Illinois business income tax return.

For Illinois Income Tax purposes, you **must** give a completed Schedule K-1-P **and** a copy of the [Schedule K-1-P\(2\), Partner's and Shareholder's Instructions](#), to each partner or shareholder. This must be done by the due date, including any extended due date, of your Form IL-1065 or Form IL-1120-ST.

Schedule K-1-P(3) —

The purpose of Schedule K-1-P(3), Pass-through Withholding Calculation for Nonresident Members, is to calculate the required tax you must report and pay on behalf of your nonresident partners or shareholders that receive business or nonbusiness income from your partnership or S corporation.

Important - Investment partnerships are required to withhold an amount on behalf of their nonresident partners. To calculate investment partnership withholding, investment partnerships must complete a Schedule K-1-P(4) for each of their nonresident partners. Investment partnerships do not complete Schedule K-1-P(3) for any of their partners.

Do not complete Schedule K-1-P(3) for any of your members if you elect to pay Pass-through entity (PTE) Tax.

You are required to report and pay tax on behalf of your members if

- you are an S corporation or partnership with an Illinois filing obligation, and
- you have business or nonbusiness income distributable to Illinois nonresident partners or shareholders who have not provided you with Form IL-1000-E, Certificate of Exemption for Pass-through Withholding.

Do not accept Form IL-1000-E from an individual member. Individuals **may not** make the pass-through withholding exemption election. You are required to report and pay tax on behalf of your nonresident individual members.

You **must** complete a Schedule K-1-P(3) for each such member. The pass-through withholding amount calculated on Schedule K-1-P(3) will be reported to each applicable member on the Schedule K-1-P you issue to them. Each member's amounts from each Schedule K-1-P(3) you complete must also be reported to the Illinois Department of Revenue (IDOR) on your Schedule B.

For Illinois Income Tax purposes, you **must** complete Schedule K-1-P(3) to calculate the amount of pass-through withholding for each of your applicable members **and** keep the schedule with your income tax records. **Do not submit Schedule K-1-P(3) with your income tax return.** You must send us your Schedule K-1-P(3) if we request them.

Do not attach any Schedule K-1-P that you complete and issue to your partners or shareholders or any Schedule K-1-P(3) you complete to your Form IL-1065 or Form IL-1120-ST. However, you must

- keep a copy of each Schedule K-1-P and Schedule K-1-P(3) available for inspection by our authorized agents and employees, and
- attach any Schedule K-1-P issued to you by another partnership or S corporation, as described in Schedule K-1-P(2).

What is a resident?

A resident is

- an individual who is present in Illinois for other than a temporary or transitory purpose;
- an individual who is absent from Illinois for a temporary or transitory purpose but who is domiciled in Illinois;
- the estate of a decedent who at his or her death was domiciled in Illinois;
- a trust created by a will of a decedent who at his or her death was domiciled in Illinois; or
- an irrevocable trust, whose grantor was domiciled in Illinois at the time the trust became irrevocable. For purposes of this definition, a trust is irrevocable to the extent that the grantor is not treated as the owner of the trust under Internal Revenue Code (IRC) Sections 671 through 678.

What is a nonresident?

A nonresident is a person who is not a resident, as previously defined. Corporations, S corporations, partnerships, and exempt organizations are considered nonresident for purposes of Schedule K-1-P, Schedule K-1-P(3), and Schedule K-1-P(4).

What is business income?

Business income means all income, other than employee compensation, that may be apportioned by formula among the states in which you are doing business without violating the Constitution of the United States. All income of a partnership or subchapter S corporation is business income unless it is clearly attributable to only one state and is earned or received through activities totally unrelated to any business you are conducting in more than one state. Business income is net of all deductions attributable to that income.

When is business income allocable to Illinois?

For a resident of Illinois, all income received, regardless of the source, is allocable to Illinois.

For a nonresident of Illinois whose business income is derived

- wholly inside Illinois, the entire amount of business income is allocable to Illinois.
- wholly outside Illinois, none of the business income is allocable to Illinois.
- inside and outside Illinois, Step 6 of Form IL-1065 or Form IL-1120-ST should be completed. See the specific instructions for these forms.
- from trusts, estates, and other partnerships or S corporations, the business income paid to this partnership or S corporation may be allocable to Illinois. See the Schedule K-1-T, Beneficiary's Share of Income and Deductions, furnished by the fiduciary, or Schedule K-1-P furnished by the other partnership or S corporation to determine what income is allocable to Illinois.

What is nonbusiness income?

Nonbusiness income is all income other than business income or employee compensation. It is income you can clearly classify as having no connection to your business. For information about types of nonbusiness income, see the instructions for Illinois Schedule NB, Nonbusiness Income.

When is nonbusiness income allocable to Illinois?

For a resident of Illinois, all nonbusiness income is allocable to Illinois.

For a nonresident partner or shareholder, items of income and deduction that constitute nonbusiness income received through the partnership or S corporation completing Schedule K-1-P are treated as if received directly by the partner or shareholder and are allocable to Illinois according to the following rules:

- **Interest and dividend income** received by partnerships or S corporations is allocable to Illinois if the entity's commercial domicile was in Illinois at the time the interest or dividend was paid or accrued. Interest and dividend income received by a nonresident individual, trust, or estate is not allocable to Illinois.
- **Net rents and royalties**
 - Real property** - Rents and royalties from real property are allocable to Illinois if the property is located in Illinois.
 - Tangible personal property** - Rents and royalties from tangible personal property are allocable to Illinois to the extent that the property is used in Illinois. The extent of use of tangible personal property in a state is determined by multiplying the rents and royalties derived from the property by a fraction. The numerator is the number of days of physical location of the property in Illinois during the rental and royalty period in the tax year, and the denominator is the number of days of physical location of the property everywhere during all rental or royalty periods in the tax year.
- **Patent and copyright royalties** are allocable to Illinois to the extent that the patent or copyright is used in Illinois.
 - A **patent** is used in Illinois to the extent that it is employed in production, fabrication, manufacturing, or other processing in Illinois or to the extent that a patented product is produced in Illinois.
 - A **copyright** is used in Illinois to the extent that printing or other publication originates in Illinois.
- **Gains and losses** from sales or exchanges of real or tangible personal property are in Illinois if the property is located in Illinois at the time of the sale or exchange. Gains or losses from the sale or exchange of intangible personal property are allocable to the state of residence or commercial domicile of the partner or shareholder.
- **Income from trusts, estates, and other partnerships or S corporations** paid to this partnership or S corporation is allocable as if your partner or shareholder received it directly. See the Schedule K-1-T furnished by the fiduciary or Schedule K-1-P furnished by the other partnership or S corporation to determine what income is allocable to Illinois.
- **Income from Illinois Lottery prizes and winnings from gambling games** conducted on a riverboat or in a casino or organization gaming facility licensed under the Illinois Gambling Act, pari-mutuel wagering winnings from a facility licensed under the Illinois Horse Racing Act of 1975, and **sports wagering winnings** conducted in accordance with the Sports Wagering Act is allocable to Illinois.
- **Other income allocable to Illinois**, see Schedule NB Instructions for detailed instructions.

What is Pass-through entity (PTE) tax and PTE tax credit?

PTE tax is an amount equal to 4.95 percent (.0495) of the taxpayer's calculated net income for the taxable year paid by a partnership (other than a publicly traded partnership under Section 7704 of the Internal Revenue Code) or subchapter S corporation who elects to pay the tax for taxable years ending on or after December 31, 2021, and beginning prior to January 1, 2026.

PTE tax credit is the distributive share of the credit allowed as a result of a partnership or S corporation having elected to pay the PTE tax.

PTE tax credit is

- reported **to** you on Schedule(s) K-1-P and K-1-T, and
- reported **by** you
 - to IDOR on Form IL-1065 or Form IL-1120-ST, Schedule B, Line K and
 - to your partners and shareholders on Schedule K-1-P, Line 53a.

Note: Investment partnerships may use the PTE tax credit to offset their investment partnership liability, to the extent that such credit would otherwise be distributable to its nonresident partners. See the Form IL-1065 and Schedule K-1-P(4) Instructions for more information.

What if a partner is engaged in a unitary business with this partnership?

If partners owning substantially all of a partnership are engaged in a unitary business with that partnership, the partners and the partnership must be included on a Schedule UB, Combined Apportionment for Unitary Business Group. Substantial ownership is defined as owning more than 90 percent of all the interest in the partnership. Otherwise, if a partner is engaged in a unitary business with this partnership, the partner must determine the portion of its business income taxed by Illinois by adding its share of this partnership's business income and apportionment factors (Illinois and everywhere) to its own business income and apportionment factors (Illinois and everywhere). See [86 Ill. Adm. Code Section 100.3380\(d\)](#) for more information. The business income and factors of this partnership that must be added to the unitary partner's business income and factors must include any business income and factors that flow through to this partnership from another unitary partnership. See the "Unitary instructions" in the following steps to help you report the unitary partner's share.

What if I am an investment partnership?

If you are an investment partnership as defined in the Illinois Income Tax Act (IITA), Section 1501(a)(11.5), you are exempt from Illinois income taxation. Also, all income that one of your partners receives from you is treated as nonbusiness income that is allocable to the partner's state of residence or commercial domicile, unless the partner's investment in you is directly or integrally related to another business activity of the partner; or serves an operational function to another business activity of the partner; or where the partner's contribution to you was made out of working capital from its trade or business. Because you cannot be expected to know the facts necessary to make this determination, you should complete the Schedule K-1-P by filling in only Column A and attaching the Schedule K-1-P(2), to allow the partner to make its own determination.

Investment partnerships are required to withhold an amount on behalf of their nonresident partners. Investment partnerships must complete a Schedule K-1-P(4) for each of its nonresident partners to determine the amount of investment partnership withholding required. See Schedule K-1-P(4) and Schedule K-1-P(4) instructions for more information.

An investment partnership that elects to pay PTE tax will determine its PTE income by completing the PTE Income Worksheet in the Form IL-1065 Instructions as if it did not qualify as an investment partnership.

Note: Electing to pay PTE tax does not exempt the investment partnership from withholding on behalf of its nonresident members. Instead, the investment partnership must calculate its investment partnership withholding prior to calculating PTE tax. The income used to determine the investment partnership withholding will be deducted from the PTE income on the PTE Income Worksheet.

Should I round?

You must round the dollar amounts on Schedules K-1-P and Schedules K-1-P(3) to whole-dollar amounts. To do this, you should drop any amount less than 50 cents and increase any amount of 50 cents or more to the next higher dollar.

What if I need additional assistance or forms?

- For assistance, forms, or schedules, visit our website at tax.illinois.gov or scan the QR code provided.
- Write us at:
ILLINOIS DEPARTMENT OF REVENUE
PO BOX 19001
SPRINGFIELD IL 62794-9001
- Call **1 800 732-8866** or **217 782-3336** (TTY at **1 800 544-5304**).
- Visit a taxpayer assistance office - 8:00 a.m. to 5:00 p.m. (Springfield office) and 8:30 a.m. to 5:00 p.m. (all other offices), Monday through Friday.



K-1-P Step-by-Step Instructions

Important: To avoid a common error, before completing any step of Schedule K-1-P, you must enter your tax year ending in the space provided on the front of the Schedule K-1-P. Failure to provide this information will result in processing delays for your partner or shareholder. In addition, they may be advised by IDOR to contact you for a corrected Schedule K-1-P that includes a completed tax year ending.

Step 1 — Identify your partnership or S corporation

Line 1 - Check the appropriate box to identify yourself as a partnership or an S corporation.

Line 2 - Enter the name of your partnership or S corporation as shown on your Form IL-1065 or Form IL-1120-ST.

Line 3 - Enter your entire federal employer identification number (FEIN). If you are a foreign entity and do not have a FEIN, you must receive approval from IDOR to leave this line blank or to provide partial information. Send your request to:

**BUSINESS PROCESSING
ILLINOIS DEPARTMENT OF REVENUE
PO BOX 19004
SPRINGFIELD, IL 62794-9004**

Line 4 - Enter the apportionment factor from Step 6, Line 42, of your Form IL-1065 or Form IL-1120-ST. If you were not required to complete Step 6, enter "1" on this line.

Note: If you are an investment partnership, enter "investment partnership" on Line 4.

Unitary instructions (Form IL-1065 filers only): If the partner to whom you are sending this Schedule K-1-P is engaged in a unitary business with your partnership, enter "see attached schedule of factors" on Line 4. Attach a schedule showing the partner's share of the partnership's apportionment factors (Illinois and everywhere), and business income that the partnership directly earns, plus any factors and business income passed up to your partnership from another unitary partnership. The schedule must direct the partner to include the apportionment factors and business income shown on the schedule with its own apportionment factors and business income in apportioning its business income to Illinois.

Step 2 — Identify your partner or shareholder

Line 5 - Enter the name of the partner or shareholder to whom you will issue the Schedule K-1-P.

Line 6 - Enter the mailing address of the partner or shareholder.

Line 7 - Enter the entire Social Security number or FEIN of the partner or shareholder here and in the space provided at the top of Page 2.

Line 8 - Enter the percentage that represents this partner's or shareholder's share of income, gain, loss, deduction, or credit that was allocated among the members as required by the Internal Revenue Code (IRC) Section 704 for partners, and IRC Section 1366 for shareholders. In the event that the partnership agreement provides for a specific allocation of certain items that differs from that used to allocate income or loss, report the special items and percentage allocation on a separate sheet and attach it to this schedule.

Line 9a - Check the appropriate box to identify this partner or shareholder as an individual, a partnership, a corporation, an S corporation, a trust, or an estate.

If this partner or shareholder is

- an exempt organization and is taxed as a corporation, check the corporation box on this Schedule K-1-P.
- an exempt organization and is taxed as a trust, check the trust box on this Schedule K-1-P.
- a grantor trust or other disregarded entity, check the box on this Schedule K-1-P that corresponds to the tax type of the grantor or owner.

Line 9b - Do not check the grantor trust or disregarded entity checkbox, or enter a name or identification number on this line. These are available for your partner or shareholder to complete, as applicable.

Steps 3 through 6 —

Note: If you are a partner in a partnership, a shareholder in an S corporation, or a beneficiary of a trust or estate, you need to complete a pro forma Schedule K-1-P that identifies each partner's or shareholder's share of your share of items received from that entity. Write across the top of the pro forma Schedule K-1-P "the following information is included in the Schedule K-1-P from _____" (the name of your partnership or S corporation). Send this pro forma Schedule K-1-P along with the Schedule K-1-P you issue to your partners or shareholders.

Column A — Member's share — If the individual or entity was a partner or shareholder at any time during your tax year, you must complete Column A of Steps 3 through 6.

Column B — Illinois share — You must determine how much of each item in Column A is allocable or apportionable to Illinois and enter that amount in Column B for each partner or shareholder. Nonresidents are taxed only on the Illinois share of each item, and residents need to know the Illinois share of each item to compute the credit they are allowed for taxes paid to other states.

For all line items: If you are an investment partnership, leave Column B blank.

Step 3 — Figure your partner's or shareholder's share of your nonbusiness income or loss

Column A - Member's share

Lines 10 through 19 - Enter the partner's or shareholder's share of nonbusiness income reported on the equivalent lines of your federal Schedule K-1. Line 19 should include any items of nonbusiness income or deduction (e.g., IRC Section 179) which are included in the computation of unmodified base income on Step 3, Line 13, of your Form IL-1065 or Form IL-1120-ST and are not included in Schedule K-1-P, Lines 10 through 18.

If you filed a federal Form 1065-B, you should complete a pro forma federal Form 1065, Schedule K-1, for each partner to use as a guide for completing Step 3.

Note: Enter "0" on Lines 10 through 19 if you made the election on your Form IL-1065 or IL-1120-ST to treat all of your income as business income. All items of income and expense from your federal K-1 should be reported in Step 4 - Figure your partner's or shareholder's share of your business income or loss.

Unitary instructions (Form IL-1065 filers only): If the partner to whom you are sending this Schedule K-1-P is engaged in a unitary business with your partnership, report the partner's share of all items of nonbusiness income in the same manner as you would for any other partner.

Column B - Illinois share

For all line items - If you are an investment partnership, leave Column B blank.

Lines 10, 11, and 18 - If the partner or shareholder uses an Illinois address, enter its share of nonbusiness income from Column A. Otherwise, enter "0."

Lines 12 through 17, and 19 - Enter the partner's or shareholder's share of nonbusiness income allocable to Illinois. Income reported on these lines which you allocated to Illinois as reported on your Schedule NB, Column B, or which would have been reported on your Schedule NB if included in your base income, is also allocable to Illinois by your partners or shareholders. Identify any amount reported on Line 19 and, if needed, attach a breakdown of that amount.

Step 4 — Figure your partner's or shareholder's share of your business income or loss

Note: When completing Lines 20 through 31, exclude from these amounts any nonbusiness income reported in Step 3.

Column A - Member's share

Lines 20 through 31 - Enter the partner's or shareholder's share of business income identified on these lines. See the information on the partner's or shareholder's federal Schedule K-1 and the amounts entered in Step 3, Column A. Line 31 should include any items of business income or deduction (e.g., IRC Section 179) which are included in the computation of unmodified base income on Step 3, Line 13, of your Form IL-1065 or Form IL-1120-ST, and are not included in Lines 20 through 30.

Note: If you filed a federal Form 1065-B, you should complete a pro forma federal Form 1065, Schedule K-1, for each partner to use as a guide for completing Step 4.

Column B - Illinois share

For all line items - If you are an investment partnership, leave Column B blank.

Lines 20 through 31 - Enter the partner's or shareholder's share of business income apportioned to Illinois. If the business income is from your partnership or S corporation, multiply the amount in Column A by the apportionment factor on Step 1, Line 4. If you received business income from any other partnership, S corporation, or trust, see the Schedule K-1-P or Schedule K-1-T from that entity. Enter the total in Column B. Identify any amount reported on Line 31 and, if needed, attach a breakdown of that amount.

Unitary instructions: If you are included in a Schedule UB, include the combined amount of each item of business income reported in Step 2, Column E of the Schedule UB, multiplied by the apportionment factor in Step 1, Line 4 of this Schedule K-1-P. If you are a partnership and the partner to whom you are sending this Schedule K-1-P is engaged in a unitary business with you, and you are not included in the Schedule UB with this partner, report only this partner's share of the items of business income and expense you derived from non-unitary partnerships, partnerships included on a Schedule UB, S corporations, trusts, or estates.

Step 5 — Figure your partner's or shareholder's share of Illinois additions and subtractions

Column A - Member's share

For each line in Step 5, Column A, multiply the amounts you reported on your Illinois return by the percentage shown on Step 2, Line 8.

Unitary instructions: If you are included in a Schedule UB, include the combined amount of each item of business additions and subtractions reported in Step 3, Column E of the Schedule UB, multiplied by the apportionment factor in Step 1, Line 4 of this Schedule K-1-P. If you are a partnership and the partner to whom you are sending this Schedule K-1-P is engaged in a unitary business with you, and you are not included in the Schedule UB with this partner, report only this partner's share of the items of business income and expense you derived from non-unitary partnerships, partnerships included on a Schedule UB, S corporations, trusts, or estates.

Line 32 - Enter the partner's or shareholder's share of the federally tax-exempt interest income excluded from unmodified base income as reported on Line 15 of your Form IL-1065 or Form IL-1120-ST. This includes state, municipal or other federally tax-exempt interest and all distributions of exempt interest received from regulated investment companies.

Line 33 - Enter the partner's or shareholder's share of Illinois replacement tax, surcharge, and PTE tax deducted in arriving at unmodified base income and reported on Line 16 of your Form IL-1065 or Form IL-1120-ST.

Line 34 - Enter the partner's or shareholder's share of Illinois Special Depreciation that must be added to the unmodified base income, as reported on Line 17 of your Form IL-1065 or Form IL-1120-ST.

Line 35 - Enter the partner's or shareholder's share of Related-Party Expenses that must be added to the unmodified base income, as reported on Line 18 of Form IL-1065 or Form IL-1120-ST.

Line 36 - Enter the partner's or shareholder's share of additions from any partnership, S corporation, trust, or estate from which you received income, as reported on Line 19 of your Form IL-1065 or Form IL-1120-ST.

Line 37 - Enter the partner's or shareholder's share of each of the "other additions" figured on Illinois Schedule M, Other Additions and Subtractions for Businesses, and reported on your Form IL-1065, Line 22, or Form IL-1120-ST, Line 21.

Line 38a - Enter the partner's or shareholder's share of the interest from U.S. government obligations that is included as business income on your Form IL-1065, Line 24, or Form IL-1120-ST, Line 23.

Line 38b - Enter the partner's or shareholder's share of the interest from U.S. government obligations that is included as nonbusiness income on your Form IL-1065, Line 24, or Form IL-1120-ST, Line 23.

Line 39 - Enter the partner's or shareholder's share of River Edge Redevelopment Zone Dividend subtraction from your Form IL-1065, Line 28, or Form IL-1120-ST, Line 25.

Line 40 - Enter the partner's or shareholder's share of High Impact Business within a Foreign Trade Zone (or sub-zone) Dividend subtraction from your Form IL-1065, Line 29, or Form IL-1120-ST, Line 27.

Line 41 - Enter the shareholder's share of the Contribution subtraction from your Form IL-1120-ST, Line 29.

Line 42 - Enter the shareholder's share of the Interest Subtraction - River Edge Redevelopment Zone from your Form IL-1120-ST, Line 26.

Line 43 - Enter the shareholder's share of the Interest Subtraction - High Impact Business within a Foreign Trade Zone (or sub-zone) from your Form IL-1120-ST, Line 28.

Line 44 - Enter the partner's or shareholder's share of any Illinois Special Depreciation subtraction allowed for property placed in service after September 11, 2001, from Line 30 of your Form IL-1065 or Form IL-1120-ST.

Line 45 - Enter the partner's or shareholder's share of any Related-Party Expenses subtraction allowed from Line 31 of your Form IL-1065 or Form IL-1120-ST.

Line 46 - Enter the partner's or shareholder's share of subtractions from any partnership, S corporation, trust, or estate, from which you received income from Line 32 of your Form IL-1065 or Form IL-1120-ST. Do not include any August 1, 1969, appreciation amounts included in the share.

Line 47 - Enter the partner's or shareholder's share of each of the "other subtractions" figured on Illinois Schedule M and reported on Line 33 of your Form IL-1065 or Form IL-1120-ST. Do not include any August 1, 1969, appreciation or foreign dividend amounts included in the share.

Column B - Illinois share

For all line items - If you are an investment partnership, leave Column B blank.

Lines 32 through 37 - Enter the partner's or shareholder's share of additions apportioned to Illinois. If the amount is business income from your partnership or S corporation, multiply the amount of business income in Column A by the apportionment factor on Step 1, Line 4. Allocate the amount of nonbusiness income in Column A according to the allocation rules. See "When is nonbusiness income allocable to Illinois?" in the General Information for the rules governing the allocation of nonbusiness income. If you received amounts from any other partnership, S corporation, trust, or estate, see the Schedule K-1-P or Schedule K-1-T from that entity. Enter the total in Column B.

Note: If you reported recaptured business expenses on Line 37, multiply those expenses in Column A by the fraction on Line f of the Schedule NB, Apportionment Factor Worksheet, and include the resulting amount in Column B.

Lines 38a and 39 through 47 - Enter the partner's or shareholder's share of subtractions apportioned to Illinois. If the amount is business income from your partnership or S corporation, multiply the amount of business income in Column A by the apportionment factor on Step 1, Line 4. Allocate the amount of nonbusiness income in Column A according to the allocation rules. See "When is nonbusiness income allocable to Illinois?" in the General Information for the rules governing the allocation of nonbusiness income. If you received amounts from any other partnership, S corporation, trust, or estate, see the Schedule K-1-P or Schedule K-1-T from that entity. Enter the total in Column B.

Line 38b - If the partner or shareholder uses an Illinois address, enter the amount from Column A. Otherwise, enter "0."

Note: Do not include any amount in Column B of Lines 38a, 38b, 39, or 40, unless the item was included in Column B in Step 3 or 4. This same rule applies to certain items from Illinois Schedule M (for businesses), including any refund of an overpayment of Illinois replacement tax, and income exempt from taxation by Illinois by reasons of its statutes or Constitution, or the Constitution, treaties, or statutes of the United States.

Step 6 — Figure your partner's or shareholder's (except a corporate partner or shareholder) share of your Illinois August 1, 1969, appreciation amounts

If you reported a gain on the disposition of property acquired before August 1, 1969, this gain may be reduced by the August 1, 1969, appreciation amount. See Schedule F, Gains from Sales or Exchanges of Property Acquired Before August 1, 1969 (Form IL-1065 or Form IL-1120-ST), for detailed instructions and information necessary to complete Lines 48 through 51.

Note: Corporations are not allowed to subtract the August 1, 1969, appreciation amount. However, S corporations may pass the subtraction through to their shareholders.

Column A - Member's share

For each line in Step 6, Column A, multiply the amounts you reported on your Illinois Schedule F (Form IL-1065 or Form IL-1120-ST) by the partner's or shareholder's share percentage shown on Step 2, Line 8.

Line 48 - Enter the partner's or shareholder's share of the August 1, 1969, appreciation amount for Sections 1245 and 1250 gains reported on your Form IL-1065, or Form IL-1120-ST, Schedule F, Line 3.

Line 49 - Enter the partner's or shareholder's share of the August 1, 1969, appreciation amount for Section 1231 gain reported on your Form IL-1065, or Form IL-1120-ST, Schedule F, Line 4.

Line 50 - Enter the partner's or shareholder's share of the August 1, 1969, appreciation amount for Section 1231 gain, less casualty and theft gain, reported on your Form IL-1065 or Form IL-1120-ST, Schedule F, Line 6. If you do not report casualty or theft gain for federal income tax purposes, leave this line blank.

Line 51 - Enter the partner's or shareholder's share of the August 1, 1969, appreciation amount for capital gain reported on your Form IL-1065, or Form IL-1120-ST, Schedule F, Line 7.

Column B - Illinois share

For all line items - If you are an investment partnership, leave Column B blank.

Lines 48 through 51 - Enter the partner's or shareholder's share of the August 1, 1969, appreciation amounts that are allocated or apportioned to Illinois.

If these appreciation amounts result from a gain on the disposition of nonbusiness property, include the August 1, 1969, amount from Column A in Column B, only if the gain from the disposition of the property was included in Column B.

Unitary instructions: If you are included in a Schedule UB, include the combined amount of each item of Illinois August 1, 1969, appreciation reported in Step 3, Column E of the Schedule UB, multiplied by the apportionment factor in Step 1, Line 4 of this Schedule K-1-P. If you are a partnership and the partner to whom you are sending this Schedule K-1-P is engaged in a unitary business with you, and you are not included in the Schedule UB with this partner, report only this partner's share of the items of business income and expense you derived from non-unitary partnerships, partnerships included on a Schedule UB, S corporations, trusts, or estates.

Step 7 — Figure your partner's or shareholder's share of your Illinois credits, recapture, pass-through withholding, pass-through entity tax credit, and federal income subject to surcharge

Line 52 - Illinois credits - The following credits are reported on your Illinois Schedule 1299-A. You must complete the appropriate line to pass any of these credits through to your partners or shareholders. For each line used in Step 7, multiply the amount reported on your Illinois Schedule 1299-A by the partner's or shareholder's share percentage shown on Step 2, Line 8. Use the line reference chart below to complete Lines 52a through 52x.

On	enter this partner's or shareholder's total share of the Income Tax Credit	from your Schedule 1299-A, Line(s) with Credit Code
Line 52a -	Film Production Services	5000
Line 52b -	Enterprise Zone Investment	5080
Line 52c -	Enterprise Zone Construction Jobs	5120
Line 52d -	High Impact Business Construction Jobs	5160
Line 52e -	Affordable Housing Donations	5260
Line 52f -	EDGE	5300
Line 52g -	New Construction EDGE	5320
Line 52h -	Research and Development	5340
Line 52i -	Wages Paid to Ex-Felons	5380
Line 52j -	Student-Assistance Contributions	5420
Line 52k -	Angel Investment	5460
Line 52l -	New Markets Development	5500
Line 52m -	River Edge Historic Preservation	5540
Line 52n -	River Edge Construction Jobs	5560
Line 52o -	Live Theater Production	5580
Line 52p -	Hospital	5620
Line 52q -	Invest in Kids	5660
Line 52r -	Data Center Construction Employment	5820
Line 52s -	Apprenticeship Education Expense	0160
Line 52t -	Historic Preservation	1030
Line 52u -	REV Illinois Investment	5230
Line 52v -	Agritourism Liability Insurance	5440
Line 52w -	Recovery and Mental Health	0180
Line 52x -	Other income tax credits	

Note: Partnerships may no longer make the election to flow through their investment credits to their partners. Investment credits earned by the partnership or the S corporation and allocable to their partners or shareholders subject to replacement tax will automatically flow through to those partners or shareholders.

Investment partnerships - If this member is a nonresident partner, complete Schedule K-1-P(4) prior to completing this line. Refer to the Schedule K-1-P(4) instructions for additional instructions on completing this line.

Line 53a - PTE Tax Credit - Enter the member's

- share of the PTE tax on Form IL-1065, Schedule B, Line K, or Form IL-1120-ST, Schedule B, Line K, and
- distributive share(s) of any PTE tax credit you received on Schedules K-1-P and K-1-T.

The credit on Line 53a is allowed against the tax imposed on the member under IITA subsections 201(a) and (b).

Investment partnerships - If this member is a nonresident partner, complete Schedule K-1-P(4) prior to completing this line. Refer to the Schedule K-1-P(4) instructions for additional instructions on completing this line.

Line 53b - Replacement Tax Investment Credits - Enter this member's share of the Replacement Tax Investment Credit listed on Form IL-477, Step 1, Line 5.

Investment partnerships - If this member is a nonresident partner, complete Schedule K-1-P(4) prior to completing this line. Refer to the Schedule K-1-P(4) instructions for additional instructions on completing this line.

Line 54 - Recapture - Use the line reference chart below to complete Lines 54a through 54d.

On	enter this partner's or shareholder's share of the	from your Schedule 4255,
Line 54a -	Enterprise Zone/River Edge Redevelopment Zone Investment Credit recapture	Step 5, Column A, Line 20
Line 54b -	REV Illinois Investment Credit recapture	Step 5, Column C, Line 20
Line 54c -	Replacement Tax Investment Credit recapture	Step 5, Column D, Line 20
Line 54d	Additional income tax credit recapture	Step 6, Line 27

Each partner's or shareholder's share of any recapture is limited to his or her share of the original investment credit. If a partner or shareholder who shared in the original credit is no longer an owner in the year of recapture, report that former owner's share of the recapture on Lines 54a, 54b, 54c, and 54d. You must send a copy of Schedule K-1-P (that will show an amount only on Lines 54a, 54b, 54c, and 54d) and Schedule 4255, Recapture of Investment Tax Credits, to this former owner.

If the partner's or shareholder's share in the year of the credit is different from his or her share in the year of the recapture, report that member's share of the recapture on Lines 54a, 54b, 54c, and 54d and attach a separate sheet explaining the difference. You must attach a copy of Schedule 4255 to this partner's or shareholder's Schedule K-1-P.

Unitary instructions: If a partner is engaged in a unitary business with your partnership, report the partner's share of credits and recapture amounts in the same manner as you would for any other partner.

Line 55 - If this member is a nonresident and has not submitted Form IL-1000-E to you, complete Schedule K-1-P(3), as applicable, for this member **before** completing this line. After you have completed Schedule K-1-P(3) for this member, enter on Line 55 the partner's or shareholder's share of pass-through withholding from Schedule K-1-P(3), Step 3, Line 19. You must also report specific amounts from Schedule K-1-P(3) on Schedule B of your Form IL-1065 or IL-1120-ST. See the instructions for Schedule K-1-P(3) and the Schedule B instructions for more information. **Do not** complete this line or Schedule K-1-P(3) if you elected to pay PTE tax.

You must complete Schedule K-1-P, Step 1, Line 3, or your member may not be able to claim this pass-through withholding.

Do not accept Form IL-1000-E from an individual member. See "What is the purpose of Schedule K-1-P and Schedule K-1-P(3)?" in the General Information section.

Note: Line 55 is used to report both pass-through withholding and investment partnership withholding. Investment partnerships are required to withhold an amount for their nonresident partners. Investment partnership withholding is calculated using Schedule K-1-P(4) rather than Schedule K-1-P(3). As a result, an investment partnership must complete a Schedule K-1-P(4) for a nonresident partner prior to completing Line 55 for that partner. Refer to the Schedule K-1-P(4) instructions for additional instructions on completing this line.

Line 56 - Enter the partner's or shareholder's share of any taxable gains attributable to transactions subject to the Compassionate Use of Medical Cannabis Program Act surcharge. **Attach** a breakdown of any items reported on this line.

Definitions

Organization registrant means a corporation, partnership, trust, limited liability company (LLC), or other organization, that holds either a medical cannabis cultivation center registration issued by the Illinois Department of Agriculture or a medical cannabis dispensary registration issued by the Illinois Department of Financial and Professional Regulation.

Transactions subject to the surcharge means sales and exchanges of

- capital assets;
- depreciable business property;
- real property used in the trade or business; and
- Section 197 intangibles of an organization registrant.

What is the surcharge?

For each taxable year beginning or ending during the Compassionate Use of Medical Cannabis Program, a surcharge is imposed on all taxpayers on income arising from the transactions subject to the surcharge of an organization registrant under the Compassionate Use of Medical Cannabis Program Act.

The amount of the surcharge is equal to the amount of federal income tax liability for the taxable year attributable to the transactions subject to the surcharge.

To whom does the surcharge apply?

The surcharge is imposed on any taxpayer who incurs a federal income tax liability on the income realized on a "transaction subject to the surcharge", including individuals and other taxpayers who are not themselves the "organization registrant" that engaged in the transaction.

A partnership will not incur a surcharge because it has no federal income tax obligation. An S corporation would incur a surcharge on a transaction subject to built-in gains tax. Partners and shareholders who incur a federal income tax liability on income from a transaction subject to surcharge passed through to them by a partnership or S corporation will incur a surcharge.

Note: Although a unitary business group filing combined Illinois returns is treated as a single taxpayer and its members are jointly and severally liable for any surcharge imposed on the group, the group itself is not an organization registrant and transactions of any member that is not itself an organization registrant are not subject to the surcharge.

What do I report to my partners or shareholders?

Enter this partner's or shareholder's share of any federal income attributable to transactions subject to the surcharge on Line 56. In order to enable your partner or shareholder to correctly figure the surcharge, attach a report itemizing any amount reported on Line 56 and provide it to your partner or shareholder along with this schedule.

Note: Report **federal income** attributable to transactions subject to the surcharge on Line 56. **Do not** report your federal income tax liability for the taxable year attributable to the transactions subject to the surcharge on this line.

For more information, see [86 Ill. Adm. Code Section 100.2060](#).

Line 57 - Enter the partner's or shareholder's share of any taxable gains attributable to transactions subject to the surcharge on the sale of assets by gaming licensee. **Attach** a breakdown of any items reported on this line.

Definitions

Gaming licensee is an organization licensee under the Illinois Horse Racing Act of 1975 and/or an organization gaming licensee under the Illinois Gambling Act.

Transactions subject to the surcharge means sales and exchanges of

- capital assets;
- depreciable business property;
- real property used in the trade or business; and
- Section 197 intangibles of a gaming licensee.

What is the surcharge?

For each taxable year 2019 through 2027, a surcharge is imposed on all taxpayers on income arising from the transactions subject to the surcharge on the sale of assets by gaming licensee.

The amount of the surcharge is equal to the amount of federal income tax liability for the taxable year attributable to the transactions subject to the surcharge.

To whom does the surcharge apply?

The surcharge is imposed on any taxpayer who incurs a federal income tax liability on the income realized on a "transaction subject to the surcharge," including individuals and other taxpayers who are not themselves the "gaming licensee" that engaged in the transaction.

The surcharge imposed shall not apply if

- the organization gaming license, organization license, or racetrack property is transferred as a result of any of the following:
 - bankruptcy, a receivership, or a debt adjustment initiated by or against the initial licensee or the substantial owners of the initial licensee;
 - cancellation, revocation, or termination of any such license by the Illinois Gaming Board or the Illinois Racing Board;
 - a determination by the Illinois Gaming Board that transfer of the license is in the best interests of Illinois gaming;
 - the death of an owner of the equity interest in a licensee;
 - acquisition of a controlling interest in the stock or substantially all of the assets of a publicly traded company;
 - a transfer by a parent company to a wholly owned subsidiary; or
 - the transfer or sale to or by one person to another person where both persons were initial owners of the license when the license was issued; or
- the controlling interest in the organization gaming license, organization license, or racetrack property is transferred in a transaction to lineal descendants in which no gain or loss is recognized or as a result of a transaction in accordance with Section 351 of the Internal Revenue Code in which no gain or loss is recognized; or
- live horse racing was not conducted in 2010 at a racetrack located within 3 miles of the Mississippi River under a license issued pursuant to the Illinois Horse Racing Act of 1975.

The transfer of an organization gaming license, organization license, or racetrack property by a person other than the initial licensee to receive the organization gaming license is not subject to a surcharge.

A partnership will not incur a surcharge because it has no federal income tax obligation. An S corporation would incur a surcharge on a transaction subject to built-in gains tax. Partners and shareholders who incur a federal income tax liability on income from a transaction subject to surcharge passed through to them by a partnership or S corporation will incur a surcharge.

Note: Although a unitary business group filing combined Illinois returns is treated as a single taxpayer and its members are jointly and severally liable for any surcharge imposed on the group, the group itself is not a gaming licensee and transactions of any member that is not itself a gaming licensee are not subject to the surcharge.

What do I report to my partners or shareholders?

Enter this partner's or shareholder's share of any federal income attributable to transactions subject to the surcharge on Line 57. In order to enable your partner or shareholder to correctly figure the surcharge, attach a report itemizing any amount reported on Line 57 and provide it to your partner or shareholder along with this schedule.

Note: Report **federal income** attributable to transactions subject to the surcharge on Line 57. **Do not** report your federal income tax liability for the taxable year attributable to the transactions subject to the surcharge on this line.

K-1-P(3) Step-by-Step Instructions

Read this information first:

- **Do not** complete Schedule K-1-P(3) if you elected to pay PTE Tax.
- Individuals may **not** complete Form IL-1000-E.
- You **must** complete Schedule K-1-P(3) for each of your nonresident partners or shareholders who have not submitted a Form IL-1000-E to you.
- **Do not** complete Schedule K-1-P(3) for any member who is a resident or who has submitted Form IL-1000-E to you.
- You **must** keep Schedule K-1-P(3) with your income tax records.
- **Do not** send Schedule K-1-P(3) to your partners or shareholders or submit it to the Illinois Department of Revenue (IDOR) unless we request it from you.

Note: See “What is a resident?” and “What is a nonresident?” in the General Information section of these instructions for help determining if your member is a resident or nonresident.

Completion of Schedule K-1-P(3) for each of your applicable members is required and will aid in the completion of your Form IL-1065 or Form IL-1120-ST, Schedule B.

Complete all lines of Schedule K-1-P except Step 7, Line 55 before completing this schedule.

Important: Investment partnerships must use Schedule K-1-P(4) instead of Schedule K-1-P(3) to calculate withholding for its nonresident partners. See Schedule K-1-P(4) instructions for more information.

Step 1 — Identify your partnership or S corporation

Line 1 - Enter the name of your partnership or S corporation as shown on your Form IL-1065 or Form IL-1120-ST.

Line 2 - Enter your entire federal employer identification number (FEIN). If you are a foreign entity and do not have a FEIN, leave Line 2 blank. If you leave this line blank or provide partial information and we request that you submit this schedule, you may be contacted for further information.

Step 2 — Identify your nonresident partner or shareholder

Line 3 - Enter the name of the nonresident partner or shareholder for whom you are reporting pass-through withholding.

Line 4 - Enter the entire Social Security number or FEIN of the nonresident partner or shareholder.

Line 5 - Check the appropriate box to identify this nonresident partner or shareholder as an individual, a partnership, a corporation, an S corporation, a trust, or an estate.

If this partner or shareholder is

- an exempt organization and is taxed as a corporation, check the corporation box on this schedule and treat it as a corporation for the purposes of completing this schedule.
- an exempt organization and is taxed as a trust, check the trust box on this schedule and treat it as a trust for the purposes of completing this schedule.
- a grantor trust or other disregarded entity, check the box on this schedule that corresponds to the tax type of the grantor or owner and treat it as that type of taxpayer for the purposes of completing this schedule.

Step 3 — Figure your nonresident partner’s or shareholder’s pass-through withholding

Note: If this member is a resident or has submitted Form IL-1000-E to you, do not complete Schedule K-1-P(3) for this member. **Do not** accept Form IL-1000-E from an individual member. See “What is the purpose of Schedule K-1-P and Schedule K-1-P(3)?” in the General Information section.

Line 6 - Add the amounts from this member’s Schedule K-1-P, Step 3, Column B, Lines 12 through 17 and 19; however, you should not double count items reported as both unrecaptured Section 1250 gains and as Section 1231 gains.

If this member is an individual partner or shareholder, do not include itemized deductions such as charitable contributions, investment expenses or portfolio expenses because individuals are not allowed to take these deductions in computing Illinois net income.

Line 7 - Add the amounts from this member’s Schedule K-1-P, Step 4, Column B, Lines 20 through 27 and 29 through 31; however, you should not double count items reported as both unrecaptured Section 1250 gains and as Section 1231 gains.

If this member is an individual partner or shareholder, do not include itemized deductions such as charitable contributions, investment expenses, or portfolio expenses because individuals are not allowed to take these deductions in computing Illinois net income.

If this member is an individual, corporation, estate, trust, partner or shareholder, include any amount of the federal domestic production activity or oil and gas depletion deductions that you are not allowed to claim on your Form IL-1065 or Form IL-1120-ST, but may pass through to your eligible partners or shareholders.

Line 8 through Line 10 - Follow the instructions on the schedule.

Line 11 - Add the amounts from this member's Schedule K-1-P, Column B, Lines 38a through 47 and enter the total here. This is your member's share of subtractions allocable to Illinois.

Note: If this member is an individual, partnership, trust, or estate and received Illinois August 1, 1969, appreciation amounts from you, include those amounts in the total you enter on their Schedule K-1-P(3), Line 11 as follows.

If this member is

- an individual, **and** their Schedule K-1-P, Column B, Line 50 is
 - blank, total the amounts on their Schedule K-1-P, Column B, Lines 48, 49, and 51 and include it in the total you enter on their Schedule K-1-P(3), Line 11.
 - greater than zero, total the amounts on their Schedule K-1-P, Column B, Lines 48, 50, and 51 and include it in the total you enter on their Schedule K-1-P(3), Line 11.
- a partnership, trust, or estate, total the amounts on their Schedule K-1-P, Column B, Lines 48, 49, and 51 and include it in the total you enter on their Schedule K-1-P(3), Line 11. Do not include any amount shown on their Schedule K-1-P, Column B, Line 50.

If this member is a corporation (including S corporations) and received Illinois August 1, 1969, appreciation amounts from you, **do not** include any amounts shown on their Schedule K-1-P, Column B, Lines 48 through 51, in the total you enter on their Schedule K-1-P(3), Line 11.

Line 12 - Follow the instructions on the schedule. Enter this amount here **and** on your Form IL-1065 or Form IL-1120-ST, Schedule B, Section B, Line G, on the line which reports this member's amounts.

Note: Individuals and estates are not subject to replacement tax. If this member is a nonresident individual or estate, enter "0" on Line 13 through Line 15 and continue on Line 16.

Line 13 - Determine your member's tax type, multiply the amount on Line 12 by the applicable percentage, and enter the result on this line.

You must also add the amount on Line 13 and the amount on Line 16 (if applicable) and enter the result on your Form IL-1065 or Form IL-1120-ST, Schedule B, Section B, Line H, on the line which reports this member's amounts.

Line 14 - Enter the total amount of replacement tax investment credit passed through to this member and available for use this year, as shown on their Schedule K-1-P.

You must also add the amount on Line 14 and the amount on Line 17 (if applicable) and enter the result on your Form IL-1065 or Form IL-1120-ST, Schedule B, Section B, Line I, on the line which reports this member's amounts.

Line 15 - Follow the instructions on the schedule.

Line 16 - Multiply your member's share of Illinois income subject to pass-through withholding [Line 12 of Schedule K-1-P(3)] by

- 4.95% (.0495) if they are a **nonresident individual, estate, or trust**, and enter the result here.
- 7.0% (.07) if they are a **corporation** and enter the result here.

You must also add the amount on Line 16 and the amount on Line 13 (if applicable) and enter the result on your Form IL-1065 or Form IL-1120-ST, Schedule B, Section B, Line H, on the line which reports this member's amounts.

Line 17 - Enter the total amount of income tax credits passed through to this member and available for use this year, as shown on their Schedule K-1-P.

Note: If you are a partnership or S corporation who received PTE tax credit and you have not elected to pay PTE tax, then you should include the member's share of any PTE tax credit you received on this line. The PTE tax credit you pass through will be reported on each member's Schedule K-1-P, Line 53a and the pass-through withholding you are paying will be reported on each member's Schedule K-1-P, Line 55.

You must also add the amount on Line 17 and the amount on Line 14 (if applicable) and enter the result on your Form IL-1065 or Form IL-1120-ST, Schedule B, Section B, Line I, on the line which reports this member's amounts.

Line 18 - Follow the instructions on the schedule.

Line 19 - Follow the instructions on the schedule. This is your member's total pass-through withholding. Enter the result on this line and on this member's Schedule K-1-P, Step 7, Line 55.

You must also enter the result on your Form IL-1065 or Form IL-1120-ST, Schedule B, Section B, Line J, on the line which reports this member's amounts.

Note: Complete a separate Schedule K-1-P(3) for each of your nonresident members who have not submitted a Form IL-1000-E to you. Do not submit Schedule K-1-P(3) to IDOR unless we specifically request it from you.