Illinois Department of Revenue

Schedule K-1-T(1)

Instructions for Trusts and Estates Completing Schedule K-1-T

General Information

What is the purpose of Schedule K-1-T?

The purpose of Schedule K-1-T, Beneficiary's Share of Income and Deductions, is for you to supply each individual or entity who was a beneficiary 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 income tax return.

For Illinois Income Tax purposes, you **must** give a completed Schedule K-1-T **and** a copy of the Schedule K-1-T(2), Beneficiary's Instructions, to each beneficiary if any part of your income is paid, credited, distributed, or deemed to have been paid, credited, or distributed by you to that beneficiary. This must be done by the due date, including any extended due date, of your Form IL-1041.

Do not attach any Schedule K-1-T that you complete and issue to your beneficiaries to your Form IL-1041. However, you must

- keep a copy of each Schedule K-1-T available for inspection by our authorized agents and employees, and
- attach any Schedule K-1-T issued to you by another trust or estate, as described in Schedule K-1-T(2), Beneficiary's Instructions.

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 Sections 671 through 678.

What is a nonresident?

A nonresident is a person who is not a resident, as previously defined. Corporations, S corporations, and partnerships are considered nonresidents for purposes of Schedule K-1-T.

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 trust or estate 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, a portion of your business income is allocable to Illinois on your Schedule NR (Form IL-1041), Nonresident Computation of Fiduciary Income, Step 6. See Schedule NR instructions.
- from S corporations, partnerships and other fiduciaries, the business income paid to this fiduciary may be allocable to Illinois. See the Illinois Schedule K-1-P, Partner's or Shareholder's Share of Income, Deductions, Credits, and Recapture, furnished by the S corporation or partnership or the Illinois Schedule K-1-T furnished by the other fiduciary 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.

When is nonbusiness income allocable to Illinois?

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

For a nonresident of Illinois, items of income and deduction that constitute nonbusiness income are allocable to Illinois according to the following rules:

- **Interest and dividend income** received by a nonresident individual, trust, or estate is not allocable to Illinois. Interest and dividend income of partnerships or 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.
- **Net rents and royalties:**

  Real property - Rents and royalties from real property are allocable to Illinois only 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 beneficiary.
- **Illinois State Lottery winnings** are allocable to Illinois.

- **Income from S corporations, partnerships and other fiduciaries** paid to this fiduciary is allocable to Illinois as if your beneficiary received it directly. See the Illinois Schedule K-1-P furnished by the S corporation or partnership or the Illinois Schedule K-1-T furnished by the other fiduciary to determine what income is allocable to Illinois.
- **Other unspecified items** of income or deduction of a nonresident individual or fiduciary are not allocable to Illinois. Unspecified items of income or deduction for partnerships or corporations, including S corporations, are allocable to Illinois if the entity's commercial domicile was in Illinois at the time the item was paid or accrued.

Step-by-Step Instructions

Step 1 — Identify your trust or estate

Line 1 - Check the appropriate box to identify yourself as a trust or an estate.

Line 2 - Write the name of your trust or estate as shown on your Form IL-1041.

Line 3 - Write your federal employer identification number (FEIN).

Line 4 - Write the apportionment factor from Schedule NR (Form IL-1041), Step 6, Line 3. If you were not required to complete a Schedule NR, write "1" on this line.

Step 2 — Identify your beneficiary

Line 5 - Write the name of the beneficiary to whom you will issue the Illinois Schedule K-1-T.

Line 6 - Write the mailing address of the beneficiary.

Line 7 - Write the Social Security number or FEIN of the beneficiary here and in the space provided at the top of Page 2.

Line 8a - Check the appropriate box to identify this beneficiary as an individual, a partnership, a corporation, an S corporation, a trust, or an estate.

Line 8b - 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 beneficiary to complete, as applicable.

Steps 3 through 6 —

Note If you are a beneficiary of another trust or estate, a partner in a partnership, or a shareholder in an S corporation, you need to complete a pro forma Schedule K-1-T that identifies each beneficiary's share of your share of items received from that entity. Write across the top of the pro forma Schedule K-1-T "the following information is included in the Schedule K-1-T from _____" (the name of your trust or estate).

Column A — Beneficiary's share — If any part of your income was paid, credited, or distributed, or deemed to have been paid, credited, or distributed by you to this beneficiary, you must complete Column A of Steps 3 through 6.

Column B — Illinois share — If this beneficiary was a nonresident of Illinois on the last day of your tax year, you must complete Column B of Steps 3 through 6.

Step 3 — Figure your beneficiary's share of your nonbusiness income

Note **Do not complete Step 3 if** you made the election on your Illinois Schedule NR (Form IL-1041) to treat all of your income as business income. All items of income and expense from your federal Schedule K-1 should be reported in Step 4, Figure your beneficiary's share of your business income.

Column A - Beneficiary's share

Lines 9 through 18 - Write this beneficiary's share of items of income, net of deductions, that constitutes nonbusiness income.

Column B - Illinois share

Lines 9, 10, and 17 - If this beneficiary is a partnership, a corporation, or an S corporation with an Illinois address, write its share of nonbusiness income from Column A. Otherwise, write "0."

Lines 11 through 16, and Line 18 - Write this beneficiary's share of nonbusiness income allocable to Illinois. Identify any amount reported on Line 18 and, if needed, attach a breakdown of that amount.

Step 4 — Figure your beneficiary's share of your business income

Note When completing Lines 19 through 29, be sure to exclude from these amounts any nonbusiness income reported in Step 3.

Column A - Beneficiary's share

Lines 19 through 29 - Write this beneficiary's share of business income identified on these lines. See the information on this beneficiary's federal Schedule K-1 and the amounts written on the lines in Step 3, Column A.

Column B - Illinois share

Lines 19 through 29 - Write this beneficiary's share of business income apportioned to Illinois. If the business income is from this fiduciary, multiply the amount in Column A by the factor on Step 1, Line 4. If you received business income from any other trust, estate, partnership, or S corporation, see the Illinois Schedule K-1-T or Illinois Schedule K-1-P from that entity. Write the total in Column B. Identify any amount reported on Line 29 and, if needed, attach a breakdown of that amount.

Note **Do not apportion any amounts from Column A, Lines 23, 24, 26, and 27 to Column B. Apportion only the net amounts on Lines 25 and 28.**

Step 5 — Figure your beneficiary's share of Illinois additions and subtractions

Column A - Beneficiary's share

Line 30 - Write this beneficiary's share of the federally tax-exempt interest income reported on your Form IL-1041, Step 2, Column A, Line 6.

Line 31 - Write this beneficiary's share of Illinois income and replacement tax deducted in arriving at federal taxable income and reported on your Form IL-1041, Step 2, Column A, Line 5.

Line 32 - Write this beneficiary's share of Illinois Special Depreciation that must be added to the federal taxable income, as reported on your Form IL-1041, Step 2, Column A, Line 7.

Line 33 - Write this beneficiary's share of Related-Party Expenses that must be added to the federal taxable income, as reported on your Form IL-1041, Step 2, Column A, Line 8.

Line 34 - Write this beneficiary's share of additions from any partnership, S corporation, trust, or estate from which you received income, as reported on your Form IL-1041, Step 2, Column A, Line 9.

Line 35 - Write this beneficiary'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-1041, Step 2, Column A, Line 10.

Line 36a - Write this beneficiary's share of the interest from U.S. government obligations that is included as business income on your Form IL-1041, Step 3, Column A, Line 15.

Line 36b - Write this beneficiary's share of the interest from U.S. government obligations that is included as nonbusiness income on your Form IL-1041, Step 3, Column A, Line 15.

Line 37 - Write this beneficiary's share of the payment from certain retirement plans reported on your Form IL-1041, Step 3, Column A, Line 14.

Line 38 - Write this beneficiary's share of retirement payments to retired partners reported on your Form IL-1041, Step 3, Column A, Line 16.

Line 39a - Write this beneficiary's share of Enterprise Zone Dividend Subtraction, included in the total amount of your Form IL-1041, Step 3, Column A, Line 17.

Line 39b - Write this beneficiary's share of River Edge Redevelopment Zone Dividend Subtraction, included in the total amount of your Form IL-1041, Step 3, Column A, Line 17.

Line 40 - Write this beneficiary's share of High Impact Business within a Foreign Trade Zone (or sub-zone) Dividend Subtraction, from your Form IL-1041, Step 3, Column A, Line 18.

Line 41 - Write this beneficiary's share of contributions to certain job training projects from your Form IL-1041, Step 3, Column A, Line 19.

Line 42 - Write this beneficiary's share of any Illinois Special Depreciation subtraction allowed for property placed in service after September 11, 2001 from your Form IL-1041, Step 3, Column A, Line 20.

Line 43 - Write this beneficiary's share of any Related-Party Expenses subtraction allowed from your Form IL-1041, Step 3, Column A, Line 21.

Line 44 - Write this beneficiary's share of subtractions from any partnership, S corporation, trust, or estate from which you received income from your Form IL-1041, Step 3, Column A, **Line 22**. Do not include any August 1, 1969, appreciation amounts included in the share. Those subtractions are passed through to the beneficiary in Step 6.

Line 45 - Write this beneficiary's share of ESBT loss reported on your Form IL-1041, Step 3, Column A, Line 23.

Line 46 - Write this beneficiary's distributive share of each of the "other subtractions" figured on Illinois Schedule M (for businesses), and reported on your Form IL-1041, Step 3, Column A, Line 24.

Do not include any August 1, 1969, appreciation amounts included in the share.

Column B - Illinois share

Lines 30 through 35 - Write this beneficiary's share of additions apportioned to Illinois. If the amount is business income, multiply the amount of business income in Column A by the 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 trust, estate, partnership, or S corporation, see the Schedule K-1-T or Schedule K-1-P from that entity. Write the total in Column B.

Note If you reported recaptured business expenses on Line 35, multiply those expenses in Column A by the fraction on Line f of the Illinois Schedule NR (Form IL-1041) Instructions, Apportionment Factor Worksheet.

Note Do not include any amount in Column B of Lines 36a, 36b, 39a, 39b, or 40, unless the item was included in Column B in Step 3 or 4 of this Schedule K-1-T. This same rule applies to certain items from Illinois Schedule M (for businesses), including any income exempt from taxation by Illinois by reasons of its statutes or Constitution, or the Constitution, treaties, or statutes of the United States.

Lines 36a, and 37 through 46 - Write this beneficiary's share of subtractions apportioned to Illinois. If the amount is business income, multiply the amount of business income in Column A by the 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 trust, estate, partnership, or S corporation, see the Schedule K-1-T or Schedule K-1-P from that entity. Write the total in Column B.

Line 36b - If this beneficiary is a partnership, a corporation, or an S corporation with an Illinois address, write the amount from Column A. Otherwise, write "0."

Step 6: Figure your beneficiary's (except a corporate beneficiary) 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-1041) for detailed instructions and information necessary to complete Lines 47 through 49.

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 - Beneficiary's share

Line 47 - Write this beneficiary's share of the August 1, 1969, appreciation amount for Sections 1245 and 1250 gains reported on your Form IL-1041, Schedule F, Column 2, Line 7.

Line 48 - Write this beneficiary's share of the August 1, 1969, appreciation amount for Section 1231 gain reported on your Form IL-1041, Schedule F, Column 2, Line 8.

Line 49 - Write this beneficiary's share of the August 1, 1969, appreciation amount for capital gain reported on your Form IL-1041, Schedule F, Column 2, Line 9.

Column B - Illinois Share

Lines 47 through 49 - Write this beneficiary'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 located in Illinois, allocate them to Illinois. See "When is nonbusiness income allocable to Illinois" in the General Information for the rules governing the allocation of nonbusiness income.

If these appreciation amounts result from gain on the disposition of business property, apportion them to Illinois by multiplying the amount on Lines 47 through 49, Column A, by the factor on Step 1, Line 4. If you received amounts from any other trust, estate, partnership, or S corporation, see the Illinois Schedule K-1-T or Illinois Schedule K-1-P from that entity. Write the total in Column B.

Step 7: Figure your beneficiary's share of pass-through entity payments

Line 50 - Write this beneficiary's share of pass-through entity payments that you made on behalf of your nonresident beneficiaries on Form IL-1000. This amount should also be reported on your Form IL-1041, Schedule D, Beneficiary Information.

Note **If you underestimated your Illinois business income** when you filed your Form IL-1000, you should file Form IL-1000-X and pay the additional pass-through entity amount promptly to minimize penalties and interest. Report the total payments you made for this beneficiary here.

If you overestimated your Illinois business income when you filed your Form IL-1000, do not file Form IL-1000-X to claim a refund. Report the total payments you made for this beneficiary here, and the beneficiary must claim any refund due.