

## General Information

### What is the purpose of 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.

**Do not** attach Schedule K-1-P to your Form IL-1065 or Form IL-1120-ST when you file your return with us. However, you must keep a copy of each Schedule K-1-P available for inspection by our authorized agents and employees.

**Note:** You may elect to file Form IL-1023-C, Illinois Composite Income and Replacement Tax Return, for your selected nonresident partners or shareholders. For more information see Form IL-1023-C Instructions.

### What is business income?

Business income is income resulting from transactions and activity in the regular course of your trade or business, after any allowable deductions are subtracted. It includes income from tangible and intangible property if the acquisition, management, and disposition of the property are integral parts of your regular trade or business operations.

### 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, Part III of Form IL-1065, IL-1120, or IL-1120-ST should have completed. Refer to the specific instructions for these forms.

### What is nonbusiness income?

Nonbusiness income is all income other than business income or 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, Non-business Income.

### 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** for 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 or fiduciary 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 not included in the property factor of the business income apportionment formula 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 not allocable to Illinois.
- **Income from fiduciaries and other partnerships or S corporations** paid to this partnership or S corporation may be allocable to Illinois. Refer to 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.

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

If a corporate partner is engaged in a unitary business with this partnership, the corporation 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 Illinois Administrative Code, Section 100.3380(c) for more information. The business income and factors of this partnership that must be added to the corporate partner's business income and factors should not include business income and factors that flow through to this partnership from another partnership or from a trust. See the "Unitary instructions" in the following steps to help you report the corporate partner's share.

## Step-by-Step Instructions

### Step 1: Identify your partnership or S corporation

**Line 1** - Check the appropriate box to identify if you are a partnership or an S corporation.

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

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

**Line 4** - Write the apportionment factor from Part III, Line 6, of your Form IL-1065 or Form IL-1120-ST. If you were not required to complete Part III, write "1" on this line.

**Unitary instructions:** If this partner is a corporate partner engaged in a unitary business with this partnership, write "see attached schedule of factors" on Line 4. Attach a schedule showing this corporate partner's share of the partnership's apportionment factors (Illinois and everywhere), and business income that the partnership directly earns. The schedule must direct this corporate 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** - Write the name of your partner or shareholder.

**Line 6** - Write the mailing address of your partner or shareholder.

**Line 7** - Write the Social Security number or FEIN of your partner or shareholder.

**Line 8** - Write 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, Section 704, for partners and 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 9** - 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.

### 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.)

**Column A — Member's share** — If this 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 — Nonresident member's share** — If this partner or shareholder was not a resident of Illinois on the last day of your tax year you must complete Column B of Steps 3 through 6.

**Step 7 — Column A — Member's and nonresident member's share** — If you are passing your Illinois credits and recapture through to your partners or shareholders, you must complete Column A of Step 7.

### Step 3: Figure your partner's or shareholder's share of your nonbusiness income

#### Column A - Member's share

**Lines 10 through 19** - Write this partner's or shareholder's share of nonbusiness income. Multiply the amounts reported on your Schedule NB, Column A, by the percentage shown on Step 2, Line 8.

**Unitary instructions:** If this partner is a corporate partner engaged in a unitary business with this partnership, report this corporate partner's share of all items of nonbusiness income in the same manner as you would for any other partner.

#### Column B - Nonresident member's share —

**Lines 10, 11, and 18** - If this partner or shareholder is a partnership, a corporation, or an S corporation, with an Illinois address, write its share of nonbusiness income as reported on your Schedule NB, Column B. Otherwise, write "0."

**Lines 12 through 17, and 19** - Write this partner's or shareholder's share of nonbusiness income allocable to Illinois as reported on your Schedule NB, Column B. 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

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

#### Column A - Member's share —

**Lines 20 through 31** - Write this partner's or shareholder's share of business income identified on these lines. Refer to the information on this partner's or shareholder's federal Schedule K-1 and the amounts written on the lines in Step 3, Column A.

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

**Unitary instructions:** If this partner is a corporate partner engaged in a unitary business with this partnership, report only this corporate partner's share of the items of business income and expense derived by the partnership from other partnerships or trusts.

#### Column B - Nonresident member's share —

**Lines 20 through 31** - Write this partner's or shareholder's share of business income apportioned to Illinois by multiplying the amount in Column A by the factor on Step 1, Line 4. Write the result in Column B. Identify any amount reported on Line 31 and, if needed, attach a breakdown of that amount.

### 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 this partner is a corporate partner engaged in a unitary business with this partnership, report the corporate partner's share of nonbusiness additions and subtractions of the partnership and of all additions and subtractions passed through to the partnership from other partnerships or trusts. Business additions and subtractions directly incurred by the partnership should be included in the business income reported in the attached schedule described in the "Unitary instructions" in Step 1.

**Line 32** - Write this partner's or shareholder's share of the federally tax-exempt interest income reported on your Form IL-1065 or Form IL-1120-ST, Part I, Line 2a.

**Line 33** - Write this partner's or shareholder's share of Illinois replacement tax deducted in arriving at unmodified base income and reported on your Form IL-1065, or Form IL-1120-ST, Part I, Line 2b.

**Line 34** - Identify and write this partner's or shareholder's share of each of the "other additions" reported on your Form IL-1065, Part I, Line 2d, or Form IL-1120-ST, Part I, Line 2c.

**Line 35a** - Write this 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 or Form IL-1120-ST, Part I, Line 5a.

**Line 35b** - Write this partner's or shareholder's share of the interest from U.S. government obligations that is included as nonbusiness income on your Schedule NB.

**Line 36** - Write this partner's or shareholder's share of subtractions you claimed on your Form IL-1065, Part I, Line 5e, or Form IL-1120-ST, Part I, Lines 5b through 5d, and are shown on your Schedule 1299-A, Tax Subtractions and Credits, Section I, as

- enterprise zone or foreign trade zone/sub-zone dividends;
- enterprise zone contributions; or
- enterprise zone or high impact business interest.

**Line 37** - Write this partner's or shareholder's share of expenses for federally tax-exempt investments to the extent that the deduction of these items was disallowed under the Internal Revenue Code, Section 171, 265 or 291. This amount is reported on your Form IL-1065, Part I, Line 5f, or Form IL-1120-ST, Part I, Line 5e.

**Line 38 - Other subtractions** - Lines 38a through 38e are the "other subtractions" reported on your Form IL-1065, Part I, Line 5g, or Form IL-1120-ST, Part I, Line 5f, that are allowed to flow through to your partners or shareholders.

**Line 38a** - Write this partner's or shareholder's distributive share of any refund of Illinois replacement tax from a prior year, to the extent the refund was included in federal ordinary income.

**Line 38b** - Write this partner's or shareholder's distributive share of subtractions from any other income included in total income that is exempt from taxation by Illinois, by reason of its statutes or Constitution, or the Constitution, treaties, or statutes of the United States. To the extent this amount includes interest on federal obligations, it is net of any bond premium amortization deducted federally.

**Line 38c** - Write this partner's or shareholder's distributive share of subtractions from any partnership, S corporation, trust, or estate from which you received income. Do not include any August 1, 1969, appreciation amounts included in the share.

**Line 38d** - Write this partner's or shareholder's share of the amount equal to the deduction used to compute the federal tax credit for restoration of amounts held

under claim of right under the Internal Revenue Code, Section 1341.

**Line 38e** - Write this partner's or shareholder's share of any income included in total income that is exempt from taxation by Illinois statutes other than the Illinois Income Tax Act. Refer to Illinois Publication 101, Income Exempt from Tax.

### Column B - Nonresident member's share —

**Lines 32 through 34** - Write this partner's or shareholder's share of additions apportioned to Illinois by multiplying 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 non-business income allocable to Illinois?" in the General Information for the rules governing the allocation of nonbusiness income. Write the result in Column B.

**Note:** The amounts reported on Lines 35a through 38e, Column B, must have been included in Steps 3 and 4, Column B.

**Lines 35a and 36 through 38e** - Write this partner's or shareholder's share of subtractions apportioned to Illinois by multiplying the amount of business income in Column A by the factor on Step 1, Line 4. Write the result in Column B.

**Line 35b** - If this partner or shareholder is a partnership, a corporation, or an S corporation with an Illinois address, write this partner's or shareholder's share of nonbusiness income allocable to Illinois as reported on your Schedule NB. Otherwise, write "0."

### 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. Refer to 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 39 through 42.

**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 percentage shown on Step 2, Line 8.

**Line 39** - Write this 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 40** - Write this 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 41** - Write this 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 42** - Write this 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.

**Unitary instructions:** If this partner is a corporate partner engaged in a unitary business with this partnership, do not complete Step 6.

### Column B - Nonresident member's share —

**Lines 39 through 42** - Write this 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 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 39 through 42, Column A, by the factor on Step 1, Line 4.

### Step 7: Figure your partner's or shareholder's share of your Illinois credits and recapture

**Line 43 - Illinois credits** - The following credits are reported on your Illinois Form IL-477 or Schedule 1299-A. You must complete Lines 43a through 43e to pass these deductions through to your partners or shareholders. For each line in Step 7, multiply the amounts reported on your Illinois Form IL-477 or Schedule 1299-A by the percentage shown on Step 2, Line 8.

**Line 43a - Partnerships only** - If you are a partnership electing to pass your replacement tax investment credits through to your partners, write this partner's share of the credit shown on your Form IL-477, Part I, Line 9.

**Line 43b** - Write this partner's or shareholder's share of the Enterprise Zone Investment Credit shown on your Schedule 1299-A, Section II, Part I, Line 9.

**Line 43c** - Write this partner's or shareholder's share of the Training Expense Credit shown on your Schedule 1299-A, Section II, Part II, Line 12.

**Line 43d** - Write this partner's or shareholder's share of the Environmental Remediation Credit shown on your Schedule 1299-A, Section II, Part III, Line 16.

**Note:** If you report an amount on Line 43d, you must also report the addback on Line 43e.

**Line 43e** - Write this partner's or shareholder's share of the addback of eligible remediation costs that you deducted from your federal taxable income for this year, or any other year, and for which you are claiming an Environmental Remediation Tax Credit on your Schedule 1299-A.

**Line 44 - Recapture** - 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 44a and 44b. You must send a copy of Schedule K-1-P (that will show an amount only on Lines 44a and 44b) and Schedule 4255, Recapture of Investment Tax Credit, to this former owner.

If this 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 44a and 44b, 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.

**Line 44a** - Write this partner's or shareholder's share of the Enterprise Zone Investment Credit recapture shown on your Illinois Schedule 4255, Part IV, Line 12, Column A.

**Line 44b** - Write this partner's or shareholder's share of the Replacement Tax Investment Credit recapture shown on your Illinois Schedule 4255, Part IV, Line 12, Column C.

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

