



Instructions for Schedule K-1 (Form 1041) for a Beneficiary Filing Form 1040

Note. The fiduciary's instructions for completing Schedule K-1 are in the Instructions for Form 1041.

Section references are to the Internal Revenue Code unless otherwise noted.

Future Developments

For the latest information about developments related to Schedule K-1 (Form 1041) and its instructions, such as legislation enacted after they were published, go to www.irs.gov/form1041.

Reminders

Beneficiary's identification number.

For your protection, Schedule K-1 may show only the last four digits of your identifying number (social security number (SSN), etc.). However, the estate or trust has reported your complete identifying number to the IRS.

Net investment income tax. This tax applies to certain investment income of individuals, estates, and trusts. Use Form 8960, Net Investment Income Tax—Individuals, Estates, and Trusts, and its instructions to figure your net investment income tax.

Backup withholding. If Schedule K-1 shows backup withholding in box 13, code B, attach a copy to your return.

General Instructions

Purpose of Form

Use Schedule K-1 to report a beneficiary's share of the estate's or trust's income, credits, deductions, etc. on your Form 1040, U.S. Individual Income Tax Return. Keep it for your records. Don't file it with your tax return, unless backup withholding was reported in box 13, code B.

Inconsistent Treatment of Items

Generally, you must report items shown on your Schedule K-1 (including attached schedules) the same way that the estate or trust treated the items on its return.

If the treatment of an item on your original or amended return is inconsistent with the estate's or trust's treatment (or if the estate or trust was required to but hasn't filed a return), you must file Form 8082, Notice of Inconsistent Treatment or Administrative Adjustment Request

(AAR), with your original or amended return to identify and explain any inconsistency (or to note that an estate or trust return hasn't been filed).

If you are required to file Form 8082 but fail to do so, you may be subject to the accuracy-related penalty. This penalty is in addition to any tax that results from making your amount or treatment of the item consistent with that shown on the estate's or trust's return. Any deficiency that results from making the amounts consistent may be assessed immediately.

Errors

If you believe the fiduciary has made an error on your Schedule K-1, notify the fiduciary and ask for an amended or a corrected Schedule K-1. Don't change any items on your copy. Be sure that the fiduciary sends a copy of the amended Schedule K-1 to the IRS. If you are unable to reach an agreement with the fiduciary regarding the inconsistency, you must file Form 8082.

Beneficiaries of Generation-Skipping Trusts

If you received Form 706-GS(D-1), Notification of Distribution From a Generation-Skipping Trust, and paid a generation-skipping transfer (GST) tax on Form 706-GS(D), Generation-Skipping Transfer Tax Return for Distributions, you can deduct the GST tax paid on income distributions on Schedule A (Form 1040), line 8. To figure the deduction, see the Instructions for Form 706-GS(D).

Specific Instructions

Part I—Information About the Estate or Trust

Item E

If the Item E box is checked, this is the final year of the estate or trust.

Note. If the "Final K-1" box at the top of Schedule K-1 is checked, this is the final return for the beneficiary.

Part III—Beneficiary's Share of Current Year Income, Deductions, Credits, and Other Items

The amounts shown in boxes 1 through 14 reflect your share of income, loss, deductions, credits, etc., from an estate or trust. For Form 1040 filers, page 2 of Schedule K-1 provides summarized reporting information. The summarized reporting information reflects references to forms in use for calendar year 2016.

Note. If you are not an individual, report the amounts in each box as instructed on your tax return.

Codes. In box 9 and boxes 11 through 14, the fiduciary will identify each item by entering a code in the column to the left of the dollar amount entry space. These codes are identified on page 2 of Schedule K-1.

Attached statements. The fiduciary will enter an asterisk (*) after the code, if any, in the column to the left of the dollar amount entry space for each item for which it has attached a statement providing additional information. For those informational items that cannot be reported as a single dollar amount, the estate or trust will enter an asterisk in the left column and write "STMT" in the dollar amount entry space to indicate the information is provided on an attached statement.

Box 1—Interest

This box reports the beneficiary's share of the taxable interest income. This amount is reported on line 8a of Form 1040 and Schedule B, Part I, line 1, if applicable.

Box 2a—Ordinary Dividends

This box reports the beneficiary's share of ordinary dividends. This amount is reported on line 9a of Form 1040 and Schedule B, Part II, line 5, if applicable.

Box 2b—Qualified Dividends

This box reports the beneficiary's share of qualified dividends. This amount is reported on line 9b of Form 1040.

Boxes 3 and 4a—Net Short-Term and Net Long-Term Capital Gain

Net short-term capital gains are reported on line 5 of Schedule D (Form 1040) and net long-term capital gains are reported on line 12 of Schedule D (Form 1040).

If there is an attachment to this Schedule K-1 reporting a disposition of a passive activity, see the Instructions for Form 8582, Passive Activity Loss Limitations, for information on the treatment of a disposition of an interest in a passive activity.

Boxes 4b and 4c—28% Rate Gain and Unrecaptured Section 1250 Gain

A 28% rate gain is reported on line 4 of the 28% Rate Gain Worksheet—Line 18 in the Schedule D (Form 1040) instructions.

An unrecaptured section 1250 gain is reported on line 11 of the Unrecaptured Section 1250 Gain Worksheet—Line 19 in the Schedule D (Form 1040) instructions.

Box 5—Other Portfolio and Nonbusiness Income

The amount reported in this box is your distributive share of royalties, annuities, and other income that isn't subject to the passive activity rules. It also includes income in respect of a decedent (IRD), which isn't included in boxes 1, 2a, 3, 4a, 6, 7, or 8.

Boxes 6 through 8—Ordinary Business Income, Net Rental Real Estate Income, and Other Rental Income

The fiduciary will provide you with a separate schedule showing your distributive share of income from each trade or business, net rental real estate, or other rental activity.

Any losses reported in boxes 6 through 8 may be subject to the passive loss limitations of section 469, which generally limits deducting passive losses only from passive activity income. The rules for applying these limitations to beneficiaries haven't yet been issued. For more details, see Pub. 925, Passive Activity and At-Risk Rules.

Box 9—Directly Apportioned Deductions

The fiduciary must attach a statement showing depreciation, depletion, and amortization directly apportioned to you, if any, for each activity reported in boxes 5 through 8.

Box 10—Estate Tax Deduction (Including Certain Generation-Skipping Transfer Taxes)

If an estate or trust distributes income in respect of a decedent (IRD) to a beneficiary, the beneficiary is entitled to deduct the portion of the estate tax imposed on the decedent's estate which is attributable to the IRD distributed to the beneficiary. You may claim this amount on line 28 of Schedule A (Form 1040) as a miscellaneous itemized deduction *not* subject to the 2% floor. For an example on how this amount was computed, see Regulations section 1.691(c)-2 and Pub. 559, Survivors, Executors, and Administrators.

Box 11, Code A—Excess Deductions on Termination

If this is the final return of the estate or trust, and there are excess deductions on termination, you may deduct the beneficiary's share of the excess deductions on line 23 of Schedule A (Form 1040) as a miscellaneous itemized deduction subject to the 2% floor.

Excess deductions on termination occur only during the last tax year of the trust or decedent's estate when the total deductions (excluding the charitable deduction and exemption) are greater than the gross income during that tax year. Only the beneficiary of an estate or trust that succeeds to its property is allowed to deduct that entity's excess deductions on termination. A beneficiary who doesn't have enough income in that year to absorb the entire deduction can't carry the balance over to any succeeding year.

Box 11, Codes B and C—Unused Capital Loss Carryover

Upon termination of the trust or decedent's estate, the beneficiary succeeding to the property is allowed to deduct any unused capital loss carryover under section 1212.

A short-term capital loss carryover, reported as code B, is reported on Schedule D (Form 1040), line 5.

A long-term capital loss carryover, reported as code C, is reported, as appropriate, on Schedule D (Form 1040),

line 12; line 5 of the 28% Rate Gain Worksheet for Schedule D, line 18; and line 16 of the Unrecaptured Section 1250 Gain Worksheet for Schedule D, line 19.

Box 11, Codes D and E—NOL Carryover

Upon termination of a trust or decedent's estate, a beneficiary succeeding to its property is allowed to deduct any unused net operating loss (NOL) if the carryover would be allowable to the trust or estate in a later tax year but for the termination. The deduction for regular tax purposes, reported as code D, is reported on Form 1040, line 21.

A deduction for an Alternative Tax NOL (ATNOL) carryover for Alternative Minimum Tax (AMT) purposes, reported as code E, is reported on Form 6251, line 11.

Box 12—Alternative Minimum Tax Items

The information reported in box 12, codes A through I is used to prepare your Form 6251. Code A, Adjustment for minimum tax purposes, is the total amount reported on Form 6251, line 15. Codes B through F represent the portion, if any, of the amount included in code A.

Codes B through F. If you have an amount in box 12 with code B, C, D, E, or F, see the instructions for lines 37, 38, and 39 of Form 6251.

Codes G through I. Include the amount with any of these codes on the applicable line of Form 6251.

Code J. Exclusion items. If you pay alternative minimum tax in 2016, the amount in box 12, code J will help you figure any minimum tax credit for 2017. See the 2017 Form 8801, Credit for Prior Year Minimum Tax—Individuals, Estates, and Trusts, for more information.

Box 13—Credits and Credit Recapture

Codes A through Q list all the credits that may be allocated to you as a beneficiary.

Generally, you must file the source credit form along with Form 3800, General Business Credit, to claim the general business credits listed on Schedule K-1 (Form 1041), codes C through Q. However, if your only source for the credits listed on Form 3800, Part III is from pass-through entities, you may not be required to complete the source credit form. Instead, you may be able to report the credit directly on Form 3800. See below for the instructions for specific credits.

Code A. Credit for estimated taxes.

The beneficiary treats this amount as a payment of estimated tax. To figure any underpayment and penalty on Form 2210, Underpayment of Estimated Tax by Individuals, Estates, and Trusts, treat the amount entered in box 13, code A, as an estimated tax payment made on January 17, 2017.

Note. Form 1041-T, Allocation of Estimated Tax Payments to Beneficiaries, must be timely filed by the fiduciary for the beneficiary to get the credit for an estimated tax payment.

Code B. Credit for backup withholding.

Include this amount on line 64 of your Form 1040 and attach a copy of Schedule K-1 (Form 1041) to your return.

Code C. Low-income housing credit.

The fiduciary will provide you with a statement showing the amount to report on lines 4 and 11 of Form 8586. If your only source for the credit is a pass-through entity, such as an estate or trust, you can report the amounts from lines 4 and 11 of Form 8586 directly on Form 3800, Part III, lines 1d and 4d, respectively.

Code D. Rehabilitation credit and energy credit.

The fiduciary must give you a statement that shows the information you will need and where to enter it on Form 3468, Investment Credit, so that you can figure the amount of any rehabilitation credit and energy credit that you may claim.

Code E. Other qualifying investment credit.

This code is used to report the qualified investment for figuring the qualifying advanced coal project credit, the qualifying gasification project credit,

and the qualifying advanced energy project credit. The fiduciary must provide you with a statement that shows the information you will need and where to report it on Form 3468 so that you can figure the amount of the previously listed credits that you may claim.

Code H. Biofuel producer credit. See the Instructions for Form 6478 for more information. If your only source for the credit is a pass-through entity, such as an estate or trust, you can report the amount on Form 3800, Part III, line 4c.

Code J. Renewable electricity, refined coal, and Indian coal production credit.

The fiduciary must provide you with a statement showing the amount of credit to report on Form 8835, line 19 (including the allocation of the credit for production during the 4-year period beginning on the date the facility was placed in service and for production after that period). If your only source for the credit is a pass-through entity you can report the amount from line 19 directly on Form 3800, Part III, lines 1f and 4e, as applicable. Otherwise, complete Form 8835 as directed.

Code O. Biodiesel and renewable diesel fuels credit.

If this credit includes the small agri-biodiesel producer credit, the fiduciary will provide additional information on an attached statement. If no statement is attached, report this amount on line 9 of Form 8864. If a statement is attached, see the Instructions for Form 8864, line 11.

Code R. Recapture of credits. If you are required to recapture any credits, the fiduciary will provide a statement with the information you need to figure your credit recapture.

Box 14—Other Information**Code C. Qualified production activities income.**

If any of the income is oil-related qualified production activities income, the fiduciary must give you a statement that shows the amount. Enter the oil-related amount on Form 8903, Domestic Production Activities Deduction, line 7, col. (a). Enter the amount from all activities on Form 8903, line 7, col. (b).

Code F. Gross farming and fishing income.

The amount of farming and fishing income is included in box 6. This income is separately stated to help determine if you are subject to a penalty for underpayment of estimated tax. Report the amount of gross farming and fishing income on Schedule E (Form 1040), Supplemental Income and Loss, line 42.

Code H. Net investment income tax.

This amount is the beneficiary's adjustment for section 1411 net investment income or deductions. Enter this amount on Line 7 of Form 8960, as applicable. See the Instructions for Form 8960.

Code I. Other information. If this code is used, the fiduciary will provide you with any additional information you may need to file your return that isn't shown elsewhere on this Schedule K-1.

If you receive a statement regarding the splitting of foreign tax credits from the income to which it relates, section 909 may prevent you from deducting the foreign tax credit until the related foreign income is taken into account. See Form 1116, Foreign Tax Credit, and Pub. 514, Foreign Tax Credit for Individuals, for more information.

Line 26—Tax on Income Other Than Long-Term Capital Gain

Enter the applicable amounts as follows:

Throwback year(s)	Amount from line
1969	Schedule D, line 20
1970	Schedule D, line 19
1971	Schedule D, line 50
1972–1975	Schedule D, line 48
1976–1978	Schedule D, line 27

Line 27—Trust's Share of Net Short-Term Gain

If there is a loss on any of the following lines, enter zero on line 27 for the applicable throwback year. Otherwise, enter the applicable amounts as follows:

Throwback year(s)	Amount from line
1969–1970	Schedule D, line 10, column 2
1971–1978	Schedule D, line 14, column 2

Line 28—Trust's Share of Taxable Income Less Section 1202 Deduction

Enter the applicable amounts as follows:

Throwback year(s)	Amount from line
1969	Schedule D, line 19
1970	Schedule D, line 18
1971	Schedule D, line 38
1972–1975	Schedule D, line 39
1976–1978	Schedule D, line 21

Part IV—Allocation to Beneficiary

Complete Part IV for each beneficiary. If the accumulation distribution is allocated to more than one beneficiary, attach an additional copy of Schedule J with Part IV completed for each additional beneficiary. Give each beneficiary a copy of his or her respective Part IV information. If more than 5 throwback years are involved, use another Schedule J, completing Parts II and III for each additional throwback year.

If the beneficiary is a nonresident alien individual or a foreign corporation, see section 667(e) about retaining the character of the amounts distributed to determine the amount of the U.S. withholding tax.

The beneficiary uses Form 4970 to figure the tax on the distribution. The

beneficiary also uses Form 4970 for the section 667(b)(6) tax adjustment if an accumulation distribution is subject to estate or generation-skipping transfer tax. This is because the trustee can't be the estate or generation-skipping transfer tax return filer.

Schedule K-1 (Form 1041)—Beneficiary's Share of Income, Deductions, Credits, etc.

General Instructions

Use Schedule K-1 (Form 1041) to report the beneficiary's share of income, deductions, and credits from a trust or a decedent's estate.



Grantor type trusts don't use Schedule K-1 (Form 1041) to report the income, deductions, or credits of the grantor (or other person treated as owner). See Grantor Type Trusts, earlier.

Who Must File

The fiduciary (or one of the joint fiduciaries) must file Schedule K-1. A copy of each beneficiary's Schedule K-1 is attached to the Form 1041 filed with the IRS, and each beneficiary is given a copy of his or her respective Schedule K-1. One copy of each Schedule K-1 must be retained for the fiduciary's records.

Beneficiary's Identifying Number

As a payer of income, you are required to request and provide a proper identifying number for each recipient of income. Enter the beneficiary's number on the respective Schedule K-1 when you file Form 1041. Individuals and business recipients are responsible for giving you their TINs upon request. You may use Form W-9 to request the beneficiary's identifying number.

Penalty. You may be charged a \$50 penalty for each failure to provide a required TIN, unless reasonable cause is established for not providing it. Explain any reasonable cause in a signed affidavit and attach it to this return.

Truncating recipient's identification number on beneficiary's statement.

The estate or trust can truncate a beneficiary's identifying number on the Schedule K-1 the estate or trust sends to the beneficiary. Truncation isn't allowed on the Schedule K-1 the estate or trust files with the IRS. Also, the

estate or trust can't truncate its own identification number on any form.

To truncate, where allowed, replace the first five digits of the nine-digit number with asterisks (*) or Xs (for example, a SSN xxx-xx-xxxx would appear as ***-**-xxxx or XXX-XX-xxxx). For more information, see Regulations section 301.6109-4.

Substitute Forms

You don't need IRS approval to use a substitute Schedule K-1 if it is an exact copy of the IRS schedule. The boxes must use the same numbers and titles and must be in the same order and format as on the comparable IRS Schedule K-1. The substitute schedule must include the OMB number and the 6-digit form ID code in the upper right-hand corner of the schedule.

You must provide each beneficiary with the Instructions for Beneficiary Filing Form 1040 or other prepared specific instructions for each item reported on the beneficiary's Schedule K-1.

Inclusion of Amounts in Beneficiaries' Income

Simple trust. The beneficiary of a simple trust must include in his or her gross income the amount of the income required to be distributed currently, whether or not distributed, or if the income required to be distributed currently to all beneficiaries exceeds the DNI, his or her proportionate share of the DNI. The determination of whether trust income is required to be distributed currently depends on the terms of the trust instrument and applicable local law. See Regulations section 1.652(c)-4 for a comprehensive example.

Estates and complex trusts. The beneficiary of a decedent's estate or complex trust must include in his or her gross income the sum of:

1. The amount of the income required to be distributed currently, or if the income required to be distributed currently to all beneficiaries exceeds the DNI (figured without taking into account the charitable deduction), his or her proportionate share of the DNI (as so figured), and

2. All other amounts properly paid, credited, or required to be distributed, or if the sum of the income required to be distributed currently and other amounts properly paid, credited, or required to be distributed to all beneficiaries exceeds

the DNI, his or her proportionate share of the excess of DNI over the income required to be distributed currently.

See Regulations section 1.662(c)-4 for a comprehensive example.

For complex trusts that have more than one beneficiary, and if different beneficiaries have substantially separate and independent shares, their shares are treated as separate trusts for the sole purpose of determining the amount of DNI allocable to the respective beneficiaries. A similar rule applies to treat substantially separate and independent shares of different beneficiaries of an estate as separate estates. For examples of the application of the separate share rule, see the regulations under section 663(c).

Gifts and bequests. Don't include in the beneficiary's income any gifts or bequests of a specific sum of money or of specific property under the terms of the governing instrument that are paid or credited in three installments or less.

Amounts that can be paid or credited only from income of the estate or trust don't qualify as a gift or bequest of a specific sum of money.

Past years. Don't include in the beneficiary's income any amounts deducted on Form 1041 for an earlier year that were credited or required to be distributed in that earlier year.

Character of income. The beneficiary's income is considered to have the same proportion of each class of items entering into the computation of DNI that the total of each class has to the DNI (for example, half dividends and half interest if the income of the estate or trust is half dividends and half interest).

Allocation of deductions.

Generally, items of deduction that enter into the computation of DNI are allocated among the items of income to the extent such allocation isn't inconsistent with the rules set out in section 469 and its regulations, relating to passive activity loss limitations, in the following order.

First, all deductions directly attributable to a specific class of income are deducted from that income. For example, rental expenses, to the extent allowable, are deducted from rental income.

Second, deductions that aren't directly attributable to a specific class of income generally may be allocated to any class of income, as long as a reasonable portion is allocated to any

tax-exempt income. Deductions considered not directly attributable to a specific class of income under this rule include fiduciary fees, safe deposit box rental charges, and state income and personal property taxes. The charitable deduction, however, must be ratably apportioned among each class of income included in DNI.

Finally, any excess deductions that are directly attributable to a class of income may be allocated to another class of income. However, in no case can excess deductions from a passive activity be allocated to income from a nonpassive activity, or to portfolio income earned by the estate or trust. Excess deductions attributable to tax-exempt income can't offset any other class of income.

In no case can deductions be allocated to an item of income that isn't included in the computation of DNI, or attributable to corpus.

You can't show any negative amounts for any class of income shown in boxes 1 through 8 of Schedule K-1. However, for the final year of the estate or trust, certain deductions or losses can be passed through to the beneficiary(ies). See the instructions for box 11 for more information on these deductions and losses. Also, the beneficiary's share of depreciation and depletion is apportioned separately. These deductions may be allocated to the beneficiary(ies) in amounts greater than his or her income. See *Depreciation, Depletion, and Amortization*, earlier, and Rev. Rul. 74-530, 1974-2 C.B. 188.

Beneficiary's Tax Year

The beneficiary's income from the estate or trust must be included in the beneficiary's tax year during which the tax year of the estate or trust ends. See Pub. 559 for more information, including the effect of the death of a beneficiary during the tax year of the estate or trust.

General Reporting Information

If the return is for a fiscal year or a short tax year, fill in the tax year space at the top of each Schedule K-1. On each Schedule K-1, enter the information about the estate or trust and the beneficiary in Parts I and II (items A through H). In Part III, enter the beneficiary's share of each item of income, deduction, credit, and any other information the beneficiary needs to file his or her income tax return.

Codes. In box 9 and boxes 11 through 14, identify each item by entering a

code in the column to the left of the entry space for the dollar amount. These codes are identified in these instructions and on the back of the Schedule K-1.

Attached statements. Enter an asterisk (*) after the code, if any, in the column to the left of the dollar amount entry space for each item for which you have attached a statement providing additional information. For those informational items that can't be reported as a single dollar amount, enter the code and asterisk in the left-hand column and enter "STMT" in the entry space to the right to indicate that the information is provided on an attached statement. More than one attached statement can be placed on the same sheet of paper and should be identified in alphanumeric order by box number followed by the letter code (if any). For example: "Box 9, Code A—Depreciation" (followed by the information the beneficiary needs).

Too few entry spaces on Schedule K-1? If the estate or trust has more coded items than the number of spaces in box 9 or boxes 11 through 14, don't enter a code or dollar amount in the last entry space of the box. In the last entry space, enter an asterisk in the left column and enter "STMT" in the entry space to the right. Report the additional items on an attached statement and provide the box number, code, description, and dollar amount or information for each additional item. For example: "Box 13, Code H—Biofuel Producer Credit, \$500.00."

Specific Instructions

Part I. Information About the Estate or Trust

On each Schedule K-1, enter the name, address, and identifying number of the estate or trust. Also, enter the name and address of the fiduciary.

Item D

If the fiduciary of a trust or decedent's estate filed Form 1041-T, you must check this box and enter the date it was filed.

Item E

If this is the final year of the estate or trust, you must check this box.

Note. If this is the final K-1 for the beneficiary, check the "Final K-1" box at the top of Schedule K-1.

Part II. Information About the Beneficiary

Complete a Schedule K-1 for each beneficiary. On each Schedule K-1, enter the beneficiary's name, address, and identifying number.

Item H

Check the foreign beneficiary box if the beneficiary is a nonresident alien individual, a foreign corporation, or a foreign estate or trust. Otherwise, check the domestic beneficiary box.

Part III. Beneficiary's Share of Current Year Income, Deductions, Credits, and Other Items

Box 1—Interest

Enter the beneficiary's share of the taxable interest income minus allocable deductions.

Box 2a—Total Ordinary Dividends

Enter the beneficiary's share of ordinary dividends minus allocable deductions.

Box 2b—Total Qualified Dividends

Enter the beneficiary's share of qualified dividends minus allocable deductions.

Box 3—Net Short-Term Capital Gain

Enter the beneficiary's share of the net short-term capital gain from Schedule D (Form 1041), line 17, column (1), minus allocable deductions. Don't enter a loss in box 3. If, for the final year of the estate or trust, there is a capital loss carryover, enter in box 11, code B, the beneficiary's share of short-term capital loss carryover. However, if the beneficiary is a corporation, enter in box 11, code B, the beneficiary's share of all short- and long-term capital loss carryovers as a single item. See section 642(h) and related regulations for more information.

Boxes 4a through 4c—Net Long-Term Capital Gain

Enter the beneficiary's share of the net long-term capital gain from Schedule D (Form 1041), lines 18a through 18c, column (1), minus allocable deductions.

Don't enter a loss in boxes 4a through 4c. If, for the final year of the estate or trust, there is a capital loss carryover, enter in box 11, code C, the beneficiary's share of the long-term

capital loss carryover. (If the beneficiary is a corporation, see the instructions for box 3.) See section 642(h) and related regulations for more information.

Gains or losses from the complete or partial disposition of a rental, rental real estate, or trade or business activity that is a passive activity must be shown on an attachment to Schedule K-1.


Box 5—Other Portfolio and Nonbusiness Income

Enter the beneficiary's share of annuities, royalties, or any other income, minus allocable deductions (other than directly apportionable deductions), that isn't subject to any passive activity loss limitation rules at the beneficiary level. Use boxes 6 through 8 to report income items subject to the passive activity rules at the beneficiary's level.

Boxes 6 through 8—Ordinary Business Income, Rental Real Estate, and Other Rental Income

Enter the beneficiary's share of trade or business, rental real estate, and other rental income, minus allocable deductions (other than directly apportionable deductions). To assist the beneficiary in figuring any applicable passive activity loss limitations, also attach a separate schedule showing the beneficiary's share of income derived from each trade or business, rental real estate, and other rental activity.

Box 9—Directly Apportioned Deductions

 *The limitations on passive activity losses and credits under section 469 apply to estates and trusts. Estates and trusts that distribute income to beneficiaries are allowed to apportion depreciation, depletion, and amortization deductions to the beneficiaries. These deductions are referred to as "directly apportionable deductions."*

Rules for treating a beneficiary's income and directly apportionable deductions from an estate or trust and other rules for applying the passive loss and credit limitations to beneficiaries of estates and trusts haven't yet been issued. Any directly apportionable deduction, such as depreciation, is treated by the beneficiary as having been incurred in the same activity as incurred by the estate or trust. However, the character of such deduction may be determined

as if the beneficiary incurred the deduction directly.

To assist the beneficiary in figuring any applicable passive activity loss limitations, also attach a separate schedule showing the beneficiary's share of directly apportionable deductions derived from each trade or business, rental real estate, and other rental activity.

Enter the beneficiary's share of directly apportioned deductions using codes A through C.

Depreciation (code A). Enter the beneficiary's share of the depreciation deductions directly apportioned to each activity reported in boxes 5 through 8. See the instructions under *Deductions*, earlier, for a discussion of how the depreciation deduction is apportioned between the beneficiaries and the estate or trust. Report any AMT adjustment or tax preference item attributable to depreciation separately in box 12, using code G.

Note. An estate or trust can't make an election under section 179 to expense certain depreciable business assets.

Depletion (code B). Enter the beneficiary's share of the depletion deduction under section 611 directly apportioned to each activity reported in boxes 5 through 8. See *Depreciation, Depletion, and Amortization*, earlier, for a discussion of how the depletion deduction is apportioned between the beneficiaries and the estate or trust. Report any tax preference item attributable to depletion separately in box 12, using code H.

Amortization (code C). Itemize the beneficiary's share of the amortization deductions directly apportioned to each activity reported in boxes 5 through 8. Apportion the amortization deductions between the estate or trust and the beneficiaries in the same way that the depreciation and depletion deductions are divided. Report any AMT adjustment attributable to amortization separately in box 12, using code I.

Box 10—Estate Tax Deduction (Including Certain Generation-Skipping Transfer Taxes)

If the distribution deduction consists of any IRD, and the estate or trust was allowed a deduction under section 691(c) for the estate tax paid attributable to such income (see the

line 19 instructions), then the beneficiary is allowed an estate tax deduction in proportion to his or her share of the distribution that consists of such income. For an example of the computation, see Regulations section 1.691(c)-2. Figure the computation on a separate sheet and attach it to the return.

Box 11, Code A—Excess Deductions on Termination

If this is the final return of the estate or trust, and there are excess deductions on termination (see the instructions for line 22), enter the beneficiary's share of the excess deductions in box 11, using code A. Figure the deductions on a separate sheet and attach it to the return.

Excess deductions on termination occur only during the last tax year of the trust or decedent's estate when the total deductions (excluding the charitable deduction and exemption) are greater than the gross income during that tax year.

Generally, a deduction based on an NOL carryover isn't available to a beneficiary as an excess deduction. However, if the last tax year of the estate or trust is also the last year in which an NOL carryover may be taken (see section 172(b)), the NOL carryover is considered an excess deduction on the termination of the estate or trust to the extent it isn't absorbed by the estate or trust during its final tax year. For more information, see Regulations section 1.642(h)-4 for a discussion of the allocation of the carryover among the beneficiaries.

Only the beneficiary of an estate or trust that succeeds to its property is allowed to deduct that entity's excess deductions on termination. A beneficiary who doesn't have enough income in that year to absorb the entire deduction can't carry the balance over to any succeeding year. An individual beneficiary must be able to itemize deductions in order to claim the excess deductions in determining taxable income.

Box 11, Codes B and C—Unused Capital Loss Carryover

Upon termination of the trust or decedent's estate, the beneficiary succeeding to the property is allowed as a deduction any unused capital loss carryover under section 1212. If the

estate or trust incurs capital losses in the final year, use the *Capital Loss Carryover Worksheet* in the Instructions for Schedule D (Form 1041) to figure the amount of capital loss carryover to be allocated to the beneficiary.

Box 11, Codes D and E—NOL Carryover

Upon termination of a trust or decedent's estate, a beneficiary succeeding to its property is allowed to deduct any unused NOL (and any ATNOL) carryover for regular and AMT purposes if the carryover would be allowable to the estate or trust in a later tax year but for the termination. Enter in box 11, using codes D and E, the unused carryover amounts.

Box 12—AMT Items

Adjustment for minimum tax purposes (code A). Enter the beneficiary's share of the adjustment for minimum tax purposes.

To figure the adjustment, subtract the beneficiary's share of the *income distribution deduction* figured on Schedule B, line 15, from the beneficiary's share of the *income distribution deduction on a minimum tax basis* figured on Schedule I (Form 1041), line 44. The difference is the beneficiary's share of the adjustment for minimum tax purposes.

Note. Schedule B, line 15 equals the sum of all Schedules K-1, boxes 1, 2a, 3, 4a, 5, 6, 7, and 8.

AMT adjustment attributable to qualified dividends, net short-term capital gains, or net long-term capital gains (codes B through D). If any part of the amount reported in box 12, code A, is attributable to qualified dividends (code B), net short-term capital gain (code C), or net long-term capital gain (code D), enter that part using the applicable code.

AMT adjustment attributable to unrecaptured section 1250 gain or 28% rate gain (codes E and F). Enter the beneficiary's distributive share of any AMT adjustments to the unrecaptured section 1250 gain (code E) or 28% rate gain (code F), whichever is applicable, in box 12.

Accelerated depreciation, depletion, and amortization (codes G through I). Enter any adjustments or tax preference items attributable to depreciation, depletion, or amortization that were directly apportioned to the

beneficiary. For property placed in service before 1987, report separately the accelerated depreciation of real and leased personal property.

Exclusion items (code J). Enter the beneficiary's share of the adjustment for minimum tax purposes from Schedule K-1, box 12, code A, that is attributable to exclusion items (Schedule I (Form 1041), lines 2 through 6 and 8).

Box 13—Credits and Credit Recapture

Enter each beneficiary's share of the credits and credit recapture using the applicable codes. Listed below are the credits that can be allocated to the beneficiary(ies). Attach a statement if additional information must be provided to the beneficiary as explained below.

- Credit for estimated taxes (code A)—Payment of estimated tax to be credited to the beneficiary (section 643(g)).



See the instructions for line 24b before you make an entry to allocate any estimated tax payments to a beneficiary. If the fiduciary doesn't make a valid election, then the IRS will disallow the estimated tax payment that is reported on Schedule K-1 and claimed on the beneficiary's return.

- Credit for backup withholding (code B).



Income tax withheld on wages can't be distributed to the beneficiary.

- The low-income housing credit (code C). Attach a statement that shows the beneficiary's share of the amount, if any, entered on line 6 of Form 8586, Low-Income Housing Credit, with instructions to report that amount on Form 8586, line 4 or Form 3800, Part III, line 1d, if the beneficiary's only source for the credit is a pass-through entity. Also, show the beneficiary's share of the amount, if any, entered on line 13 of Form 8586 with instructions to report that amount on Form 8586, line 11 or Form 3800, Part III, line 4d, if the beneficiary's only source for the credit is a pass-through entity.
- Rehabilitation credit and energy credit (code D). Attach a statement that shows the beneficiary's apportioned share of basis, expenditures, and other information that is necessary for the beneficiary to complete Form 3468, Investment Credit, for the rehabilitation

credit and the energy credit. See the Instructions for Form 3468 for more information.

- Other qualifying investment credit (code E). Attach a statement that shows the beneficiary's apportioned share of qualified investment and other information that is necessary for the beneficiary to complete Form 3468 for the qualifying advanced coal project credit, qualifying gasification project credit, and qualifying advanced energy project credit. See the Instructions for Form 3468 for more information.
- Work opportunity credit (code F).
- Credit for small employer health insurance premiums (code G).
- Biofuel producer credit (code H).
- Credit for increasing research activities (code I).
- Renewable electricity, refined coal, and Indian coal production credit (code J). Attach a statement that shows separately the amount of the credit the beneficiary must report on line 19 of Form 8835, including the allocation of the Part II credit for production during the 4-year period beginning on the date the facility was placed in service and for production after that period.
- Empowerment zone employment credit (code K).
- Indian employment credit (code L).
- Orphan drug credit (code M).
- Credit for employer provided child care and facilities (code N).
- Biodiesel and renewable diesel fuels credit (code O). If the credit includes the small agri-biodiesel credit, attach a statement that shows the beneficiary's share of the small agri-biodiesel credit, the number of gallons claimed for the small agri-biodiesel credit, and the estate's or trust's productive capacity for agri-biodiesel.
- Credit to holders of tax credit bonds (code P)
- Credit for employer differential wage payments (code Q).

- Recapture of credits (code R). On an attached statement to Schedule K-1, provide any information the beneficiary will need to report recapture of credits.

Box 14—Other Information

Enter the dollar amounts and applicable codes for the items listed under Other Information.

Foreign taxes (code B). Enter the beneficiary's allocable share of taxes paid or accrued to a foreign country. Attach a statement reporting the beneficiary's share of foreign tax (paid or accrued) and income by category including interest, dividends, rents and royalties, and other income. See Form 1116 and Pub. 514 for more information.

Domestic production activities information. The estate or trust allocates QPAI (whether positive or negative) and Form W-2 wages based on the relative proportion of the estate's or trust's DNI that is distributed or required to be distributed to the beneficiary. If the estate or trust has no DNI for the tax year, QPAI and Form W-2 wages are allocated entirely to the estate or trust.

Qualified production activities income (code C). Enter the beneficiary's share, if any, of the estate's or trust's QPAI from all activities. The QPAI will be less than zero if the cost of goods sold and deductions allocated and apportioned to domestic production gross receipts (DPGR) is more than the estate's or trust's DPGR. If any of the QPAI is oil-related QPAI, attach a statement that shows the amount of oil-related QPAI. See Form 8903, Domestic Production Activities Deduction, and its instructions for more details.

Form W-2 wages (code D). Use code D to report the beneficiary's share,

if any, of Form W-2 wages. don't enter more than 9% of the beneficiary's share, if any, of the estate's or trust's QPAI. See Form 8903 and its instructions for more details.

Foreign trading gross receipts (code G). Enter the beneficiary's share, if any, of foreign trading gross receipts. See Form 8873, Extraterritorial Income Exclusion, for more information.

Net investment income tax (code H). Use code H to identify the amount of the beneficiary's adjustment for section 1411 net investment income or deductions. See the Instructions for Form 8960. An attachment may be provided with the K-1 informing the beneficiary of the detailed items to be reported on Form 1040. See *Net Investment Income Tax*, earlier, for more information on these amounts.

Other information (code I). List on a separate sheet the tax information the beneficiary will need to complete his or her return that isn't entered elsewhere on Schedule K-1.

For example, if the estate or trust participates in a transaction that must be disclosed on Form 8886 (see earlier), both the estate or trust and its beneficiaries may be required to file Form 8886. The estate or trust must determine if any of its beneficiaries are required to disclose the transaction and provide those beneficiaries with information they will need to file Form 8886. This determination is based on the category(ies) under which a transaction qualified for disclosure. See the Instructions for Form 8886 for details.

In addition, if the beneficiary is a "covered person" in connection with a foreign tax credit splitter arrangement under section 909, attach a statement that identifies the arrangement including the foreign taxes paid or accrued.