



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. This must be done by the due date, including any extended due date, of your Form IL-1065, or Form IL-1120-ST.

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 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, Part III of Form IL-1065, Form IL-1120, 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 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 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 partner or shareholder, items of income and deduction that constitute nonbusiness income received through you 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 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 commercial domicile of the partner or shareholder.
- **Income from trust, 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.

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

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 Illinois Administrative 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 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 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), Partner's and Shareholder's Instructions, to allow the partner to make its own determination.

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 5c, of your Form IL-1065 or Form IL-1120-ST. If you were not required to complete Part III, write "1" on this line.

Note If you are an investment partnership, write "investment partnership."

Unitary instructions: If this partner is engaged in a unitary business with this partnership, write "see attached schedule of factors" on Line 4. Attach a schedule showing this 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 this partnership from another unitary partnership. The schedule must direct this 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.

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

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 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 reported on the equivalent lines of your federal Schedule K-1, multiplied by the percentage shown on Step 2, Line 8. Line 19 should include any items of nonbusiness income or deduction (e.g., Internal Revenue Code, Section 179) which are included in the computation of unmodified base income on Part I, Line 1, of your Form IL-1065 or Form IL-1120-ST, and are not included in Schedule K-1-P, Lines 10 through 18.

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

Unitary instructions: If this partner is engaged in a unitary business with this partnership, report this 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 —

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

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 from Column A. 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. See 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. Line 31 should include any items of business income or deduction (e.g., Internal Revenue Code, Section 179) which are included in the computation of unmodified base income on Part I, Line 1, 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 proforma federal 1065, Schedule K-1, for each partner to use as a guide for completing Step 4.

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

Column B - Nonresident member's share —

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

Lines 20 through 31 - Write this partner's or shareholder's share of business income apportioned to Illinois. If the business income is from this partnership or S corporation, multiply the amount in Column A by the 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. Write the total 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 engaged in a unitary business with this partnership, report the partner's share of nonbusiness additions and subtractions of the partnership and of all additions and subtractions passed through to the partnership from nonunitary partnerships, trusts or estates. 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 Form IL-1065 or Form IL-1120-ST, Part I, Line 5a.

Line 36 - Schedule 1299-A subtractions - Lines 36a through 36e are subtractions from Schedule 1299-A that are allowed to flow through to your partners or shareholders. These amounts are reported on your Form IL-1065, Part I, Line 5e, or Form IL-1120-ST, Part I, Line 5b.

Line 36a - Write this partner's or shareholder's distributive share of Enterprise Zone Dividend Subtraction, from Step 1 of your Schedule 1299-A, Tax Subtractions and Credits.

Line 36b - Write this partner's or shareholder's distributive share of High Impact Business within a Foreign Trade Zone (or sub-zone) Dividend Subtraction, from Step 1 of your Schedule 1299-A, Tax Subtractions and Credits.

Line 36c - Write this partner's or shareholder's distributive share of Contribution Subtraction, from Step 1 of your Schedule 1299-A, Tax Subtractions and Credits. Only Form IL-1120-ST filers are allowed this subtraction.

Line 36d - Write this shareholder's distributive share of Interest Subtraction - Enterprise Zones, from Step 1 of your Schedule 1299-A, Tax Subtractions and Credits. Only Form IL-1120-ST financial organization filers are allowed this subtraction.

Line 36e - Write this shareholder's distributive share of Interest Subtraction - High Impact Business within a Foreign Trade Zone (or sub-zone), from Step 1 of your Schedule 1299-A, Tax Subtractions and Credits. Only Form IL-1120-ST financial organization filers are allowed this subtraction.

Line 37 - Write this partner's or shareholder's share of expenses to the

extent that the deduction of these items was disallowed under the Internal Revenue Code, Section 171, 265, 280C, or 291. This amount is reported on your Form IL-1065, Part I, Line 5f, or Form IL-1120-ST, Part I, Line 5d.

Note Lines 38a through 38f are the "other subtractions" reported on your Form IL-1065, Part I, Line 5g, or Form IL-1120-ST, Part I, Line 5e, 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. See Illinois Publication 101, Income Exempt from Tax.

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 "depreciation subtraction" allowed for property placed in service after September 11, 2001. See Form IL-4562, Special Depreciation.

Line 38f - Write this partner's or shareholder's share of any subtraction that is not included on any of the lines above. Do not include any August 1, 1969, appreciation amounts included in the share.

Column B - Nonresident member's share —

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

Lines 32 through 34 - Write this partner's or shareholder's share of additions apportioned to Illinois. If the amount is from this partnership or S corporation, 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 partnership, S corporation, trust or estate, see the Schedule K-1-P or Schedule K-1-T from that entity. Write the total in Column B.

Special Note If you reported recaptured business expenses on Line 34, 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.

Note Do not include any amount in Column B of Lines 35a through 36b, 38a or 38b, unless the item was included in Column B in Step 3 or 4.

Lines 35a and 36a through 38f - Write this partner's or shareholder's share of subtractions apportioned to Illinois. If the amount is from this partnership or S corporation, 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 partnership, S corporation, trust or estate, see the Schedule K-1-P or Schedule K-1-T from that entity. Write the total in Column B.

Line 35b - If this partner or shareholder 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 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 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.

Column B - Nonresident member's share —

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

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 your 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. 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.

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 the appropriate line (Lines 43a through 43h) to pass any of these deductions through to your partners or shareholders. For each line used in Step 7, multiply the amount reported on your Illinois Form IL-477 or Schedule 1299-A by the percentage shown on Step 2, Line 8.

Line 43a - Effective for tax years beginning on or after January 1, 2004, write this partner's or shareholder's share of the Film Production Services Tax Credit shown on your Schedule 1299-A, Step 3, Line 22c.

Line 43b - Effective for tax years beginning on or after January 1, 2004 and ending on or before June 30, 2004, write this partner's or shareholder's share of the Transportation Employee Tax Credit shown on your Schedule 1299-A, Step 3, Line 47.

Line 43c - Write this partner's or shareholder's share of the Enterprise Zone Investment Credit shown on your Schedule 1299-A, Step 3, Line 25.

Line 43d - Write this partner's or shareholder's share of the Tax Credit for Affordable Housing Donations shown on your Schedule 1299-A, Step 3, Line 31.

Line 43e - Write this partner's or shareholder's share of the Economic Development for a Growing Economy (EDGE) Tax Credit shown on your Schedule 1299-A, Step 3, Line 28.

Line 43f - Write this partner's or shareholder's share of the Environmental Remediation Tax Credit carryforward shown on your Schedule 1299-A, Step 3, Line 35.

Line 43g - Effective for tax years ending on or after January 1, 2004, write this partner's or shareholder's share of the Research and Development Tax Credit shown on your Schedule 1299-A, Step 3, Line 44.

Line 43h - Effective for tax years ending on or after December 31, 2000, 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. Write this partner's or shareholder's share of the replacement tax investment credits shown on your Form IL-477, Step 1, Line 5. For more information, see Form IL-477.

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, Step 4, Line 18, 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, Step 4, Line 18, Column C.

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

