



**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 any Schedule K-1-P that you complete and issue to your partners or shareholders to your Form IL-1065 or Form IL-1120-ST.** However, you must

- keep a copy of each Schedule K-1-P available for inspection by our authorized agents and employees, and
- attach any Schedule K-1-P issued to you by another partnership or S corporation, as described in Schedule K-1-P(2), Partner's and Shareholder's 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, Step 6 of Form IL-1065 or Form IL-1120-ST should be completed. See the specific instructions for these forms.
- from trusts, estates, and other partnerships or S corporations, the business income paid to this partnership or S corporation may be allocable to Illinois. See the Schedule K-1-T, Beneficiaries Share of Income and Deductions, furnished by the fiduciary or Schedule K-1-P furnished by the other partnership or S corporation to determine what income is allocable to Illinois.

**What is nonbusiness income?**

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

**When is nonbusiness income allocable to Illinois?**

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

For a nonresident partner or shareholder, items of income and deduction that constitute nonbusiness income received through 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 state of residence or 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), 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 yourself as a partnership or an S corporation.

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

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

**Line 4** - Write the apportionment factor from your Form IL-1065, Step 6, Line 43, or your Form IL-1120-ST, Step 6, Line 43. If you were not required to complete Step 6, write "1" on this line.

**Note** → If you are an investment partnership, write "investment partnership" on Line 4.

**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 the partner or shareholder to whom you will issue the Schedule K-1-P.

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

**Line 7** - Write the Social Security number or FEIN of the 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 (IRC) 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 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. Line 19 should include any items of nonbusiness income or deduction (e.g., IRC Section 179) which are included in the computation of unmodified base income on your Form IL-1065 or Form IL-1120-ST, Step 3, Line 13 and are not included in Schedule K-1-P, Lines 10 through 18.

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

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

**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., IRC Section 179) which are included in the computation of unmodified base income on your Form IL-1065 or Form IL-1120-ST, Step 3, Line 13, and are not included in Lines 20 through 30.

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

## 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.

**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 you derived from nonunitary partnerships, trusts or estates.

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

**Column A - Member's share** — For each line in Step 5, Column A, multiply the amounts you reported on your Illinois return by the percentage shown on Step 2, Line 8.

**Unitary instructions:** If 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, Line 15.

**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, Line 16.

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

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

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

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

**Line 38a** - 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, Line 24, or Form IL-1120-ST, Line 23.

**Line 38b** - 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, Line 24, or Form IL-1120-ST, Line 23.

**Line 39** - Write this partner's or shareholder's share of expenses to the extent that the deduction of these items was disallowed under the IRC Sections 171, 265, 280C, or 291. This amount is reported on your Form IL-1065, Line 28, or Form IL-1120-ST, Line 25.

**Line 40** - Write this partner's or shareholder's distributive share of Enterprise Zone and River Edge Redevelopment Zone Dividend subtraction, from Form IL-1065, Line 28, or Form IL-1120-ST, Line 26. Schedule K-1-P(1) (R-12/09)

**Line 41** - Write this partner's or shareholder's distributive share of High Impact Business within a Foreign Trade Zone (or sub-zone) Dividend subtraction, from Form IL-1065, Line 30, or Form IL-1120-ST, Line 28.

**Line 42** - Write this shareholder's distributive share of the Contribution subtraction, from Form IL-1120-ST, Line 30.

**Line 43** - Write this shareholder's distributive share of the Interest Subtraction - Enterprise Zones and River Edge Redevelopment Zones, from Form IL-1120-ST, Line 27.

**Line 44** - Write this shareholder's distributive share of the Interest Subtraction - High Impact Business within a Foreign Trade Zone (or sub-zone), from Form IL-1120-ST, Line 29.

**Line 45** - Write this partner's or shareholder's share of any Illinois Special Depreciation subtraction allowed for property placed in service after September 11, 2001 from Form IL-1065 or IL-1120-ST, Line 31.

**Line 46** - Write this partner's or shareholder's share of any Related-Party Expenses subtraction allowed from Form IL-1065 or IL-1120-ST, Line 32.

**Line 47** - Write this partner's or shareholder's distributive share of subtractions from any partnership, S corporation, trust, or estate from which you received income from Form IL-1065 or IL-1120-ST, Line 33. Do not include any August 1, 1969, appreciation amounts included in the share.

**Line 48** - Write this partner's or shareholder's share of each of the "other subtractions" figured on Illinois Schedule M and reported on your Form IL-1065 or Form IL-1120-ST, Line 34.

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 37** - Write this partner's or shareholder's share of additions apportioned to Illinois. If the amount is business income 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 37, multiply those expenses in Column A by the fraction on Line f of the Schedule NB, Apportionment Factor Worksheet, and include the resulting amount in Column B.

**Note** → Do not include any amount in Column B of Lines 38a, 38b, 40, or 41, unless the item was included in Column B in Step 3 or 4. This same rule applies to certain items from Illinois Schedule M (for businesses), including any refund of an overpayment of Illinois replacement tax, and income exempt from taxation by Illinois by reasons of its statutes or Constitution, or the Constitution, treaties, or statutes of the United States.

**Lines 38a and 39 through 48** - Write this partner's or shareholder's share of subtractions apportioned to Illinois. If the amount is business income 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 38b** - 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 49 through 52.

**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 49** - 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 50** - 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 51** - 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 52** - 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 49 through 52** - 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 49 through 52, 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 53 - Illinois credits** - The following credits are reported on your Illinois Form IL-477 or Schedule 1299-A. You must complete the appropriate line (Lines 53a through 53i) to pass any of these credits through to your partners or shareholders. For each line used in Step 7, multiply the amount reported on your Illinois Form IL-477 or Schedule 1299-A by the percentage shown on Step 2, Line 8.

**Line 53a** - Write this partner's or shareholder's share of the Film Production Services Tax Credit shown on your Schedule 1299-A, Line 11c.

**Line 53b** - Write this partner's or shareholder's share of the Enterprise Zone Investment or River Edge Redevelopment Zone Credit shown on your Schedule 1299-A, Line 14.

**Line 53c** - Write this partner's or shareholder's share of the Tax Credit for Affordable Housing Donations shown on your Schedule 1299-A, Line 17.

**Line 53d** - 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, Line 20.

**Line 53e** - Write this partner's or shareholder's share of the Research and Development Tax Credit shown on your Schedule 1299-A, Line 29.

**Line 53f** - Write this partner's or shareholder's share of the Ex-Felons Jobs Credit shown on your Schedule 1299-A, Line 32.

**Line 53g** - Write this partner's or shareholder's share of the Veterans Jobs Credit shown on your Schedule 1299-A, Line 35.

**Line 53h - Effective for tax years ending on or after December 31, 2009**, write this partner's or shareholder's share of the Student-Assistance Contribution Credit shown on your Schedule 1299-A, Line 38

**Line 53i** - 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 54 - 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 54a and 54b. You must send a copy of Schedule K-1-P (that will show an amount only on Lines 54a and 54b) 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 54a and 54b, 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 54a** - Write this partner's or shareholder's share of the Enterprise Zone Investment Credit recapture shown on your Illinois Schedule 4255, Step 4, Line 16, Column A.

**Line 54b** - Write this partner's or shareholder's share of the Replacement Tax Investment Credit recapture shown on your Illinois Schedule 4255, Step 4, Line 16, 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.

**Line 55a and 55b** - Write the amount of pass-through entity payments or composite return payments made on behalf of your nonresident partner or shareholder on the appropriate line.

These amounts should also be reported on Form IL-1000, Pass-through Entity Payment Income Tax Return, or Form IL-1023-C, Composite Income and Replacement Tax Return, and on your Form IL-1065 or IL-1120-ST, Schedule B.

