What’s New for 2014?

Form IL-1023-C, Composite Income and Replacement Tax Return, and Form IL-1000, Pass-through Entity Payment Income Tax Return, have been eliminated and cannot be used for tax years ending on or after December 31, 2014. The amounts that would have been reported on these forms are to be

- **reported** on your 2014 Form IL-1065 or Form IL-1120-ST, Schedule B, Partners’ or Shareholders’ Identification, and
- **paid** with your return or with Form IL-505-B, Automatic Extension Payment.

In addition, Schedule K-1-P(3), Pass-through Withholding Calculation for Nonresident Members, and Schedule K-1-P(3)-FY, Pass-through Withholding Calculation for Nonresident Members (for Fiscal Filers), have been developed to assist you in calculating the amount of pass-through withholding you are required to report and pay for your nonresident members. You are required to complete and keep a copy of Schedule K-1-P(3) or Schedule K-1-P(3)-FY, as applicable, for each of your nonresident members. See the instructions for Schedule K-1-P(3) and Schedule K-1-P(3)-FY, below, and the Schedule B instructions for more information.

General Information

What is the purpose of Schedule K-1-P, Schedule K-1-P(3), and Schedule K-1-P(3)-FY?

**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.

**Schedule K-1-P(3) and Schedule K-1-P(3)-FY**

The purpose of Schedule K-1-P(3) and Schedule K-1-P(3)-FY is to calculate the required tax you must report and pay on behalf of your nonresident partners or shareholders that receive business or nonbusiness income from your partnership or S corporation.

Your tax year end date will determine whether you must use Schedule K-1-P(3) or Schedule K-1-P(3)-FY to calculate the required tax for all your nonresident members.

- If your tax year ends on December 31, 2014, you must use Schedule K-1-P(3) in order to calculate the required tax for all of your nonresident members. **Do not use Schedule K-1-P(3)-FY.**
- If your tax year ends after December 31, 2014, you must use Schedule K-1-P(3)-FY in order to calculate the required tax for all of your nonresident members. **Do not use Schedule K-1-P(3).**

You are required to report and pay tax on behalf of your members if

- you are an S corporation or partnership with an Illinois filing obligation, and
- you have business or nonbusiness income distributable to Illinois nonresident partners or shareholders who have not provided you with Form IL-1000-E, Certificate of Exemption for Pass-through Withholding Payments.

You must complete a Schedule K-1-P(3) or Schedule K-1-P(3)-FY, as applicable, for each such member. The pass-through withholding payment amount calculated on Schedule K-1-P(3) or Schedule K-1-P(3)-FY will be reported to each applicable member on the Schedule K-1-P you issue to them. Each member’s amounts from each Schedule K-1-P(3) or Schedule K-1-P(3)-FY you complete must also be reported to the Illinois Department of Revenue on your Schedule B.

For Illinois Income Tax purposes, you must complete Schedule K-1-P(3) or Schedule K-1-P(3)-FY to calculate the amount of pass-through withholding payment for each of your applicable members and keep the schedule with your income tax records. **Do not submit Schedule K-1-P(3) or Schedule K-1-P(3)-FY with your income tax return.** You must send us your Schedules K-1-P(3) or Schedules K-1-P(3)-FY if we request them.

Do not attach any Schedule K-1-P that you complete and issue to your partners or shareholders or any Schedule K-1-P(3) or Schedule K-1-P(3)-FY you complete to your Form IL-1065 or Form IL-1120-ST. However, you must

- keep a copy of each Schedule K-1-P and Schedule K-1-P(3)-FY 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 a resident?

A resident is

- an individual who is present in Illinois for other than a temporary or transitory purpose;
- an individual who is absent from Illinois for a temporary or transitory purpose but who is domiciled in Illinois;
- the estate of a decedent who at his or her death was domiciled in Illinois;
- a trust created by a will of a decedent who at his or her death was domiciled in Illinois;
- a trust created by a will of a decedent which is not revocable and which the grantor was domiciled in Illinois at the time the trust became irrevocable. For purposes of this definition, a trust is irrevocable to the extent that the grantor is not treated as the owner of the trust under Internal Revenue Code (IRC) Sections 671 through 678.

What is a nonresident?

A nonresident is a person who is not a resident, as previously defined. Corporations, S corporations, partnerships, and exempt organizations are considered nonresidents for purposes of Schedule K-1-P, Schedule K-1-P(3), and Schedule K-1-P(3)-FY.

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 the partnership
or S corporation completing Schedule K-1-P 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 allocable to 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 partners owning substantially all of a partnership are engaged in a
unitary business with that partnership, the partners and the partnership
must be included on a Schedule UB, Combined Apportionment for
Unitary Business Group. Substantial ownership is defined as owning
more than 90 percent of all the interest in the partnership. Otherwise,
if a partner is engaged in a unitary business with this partnership, the
partner must determine the amount 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 Illinois
Income Tax Regulations, 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 Illinois Income Tax
Act (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.

K-1-P 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 - Enter the name of your partnership or S corporation as shown
on your Form IL-1065 or Form IL-1120-ST.
Line 3 - Enter your federal employer identification number (FEIN). If you
are a foreign entity and do not have a FEIN, leave Line 3 blank. If you
leave this line blank, you may be contacted for further information.
Line 4 - Enter the apportionment factor from Step 6, Line 42, of your
Form IL-1065 or Form IL-1120-ST. If you were not required to complete
Step 6, enter "1" on this line.
Note - If you are an investment partnership, enter “investment
partnership” on Line 4.

Unitary instructions (Form IL-1065 filers only): If the partner
to whom you are sending this Schedule K-1-P is engaged in a unitary
business with your partnership, enter “see attached schedule of
factors” on Line 4. Attach a schedule showing the 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 your partnership from another
unitary partnership. The schedule must direct the 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 - Enter the name of the partner or shareholder to whom you will
issue the Schedule K-1-P.
Line 6 - Enter the mailing address of the partner or shareholder.
Line 7 - Enter the Social Security number or FEIN of the partner or shareholder here and in the space provided at the top of Page 2.

Line 8 - Enter 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 IRC 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 9a - 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.

If this partner or shareholder is

- an exempt organization and is taxed as a corporation, check the corporation box on this Schedule K-1-P.
- an exempt organization and is taxed as a trust, check the trust box on this Schedule K-1-P.
- a grantor trust or other disregarded entity, check the box on this Schedule K-1-P that corresponds to the tax type of the grantor or owner.

Line 9b - Do not check the grantor trust or disregarded entity checkbox, or enter a name or identification number on this line. These are available for your partner or shareholder to complete, as applicable.

Steps 3 through 6 —

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). Send this pro forma Schedule K-1-P along with the Schedule K-1-P you issue to your partners or shareholders.

Column A — Member’s share — If the 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 — Illinois share — You must determine how much of each item in Column A is allocable or apportionable to Illinois and enter that amount in Column B for each partner or shareholder. Nonresidents are taxed only on the Illinois share of each item, and residents need to know the Illinois share of each item to compute the credit they are allowed for taxes paid to other states.

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 or loss

Column A - Member’s share

Lines 10 through 19 - Enter the 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 Step 3, Line 13, of your Form IL-1065 or Form IL-1120-ST 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 Form 1065, Schedule K-1, for each partner to use as a guide for completing Step 3.

Enter “0” on Lines 10 through 19 if you made the election on your Form IL-1065 or Form 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 or loss.

Unitary instructions (Form IL-1065 filers only): If the partner to whom you are sending this Schedule K-1-P is engaged in a unitary business with your partnership, report the partner’s share of all items of nonbusiness income in the same manner as you would for any other partner.

Column B - Illinois share

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

Lines 10, 11, and 18 - If the partner or shareholder uses an Illinois address, enter its share of nonbusiness income from Column A. Otherwise, enter “0.”

Lines 12 through 17, and 19 - Enter the 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 or loss

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 - Enter the partner’s or shareholder’s share of business income identified on these lines. See the information on the partner’s or shareholder’s federal Schedule K-1 and the amounts entered 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 Step 3, Line 13, of your Form IL-1065 or Form IL-1120-ST, and are not included in Lines 20 through 30.

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

Column B - Illinois share

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

Lines 20 through 31 - Enter the partner’s or shareholder’s share of business income apportioned to Illinois. If the business income is from your partnership or S corporation, multiply the amount in Column A by the apportionment 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. Enter the total in Column B. Identify any amount reported on Line 31 and, if needed, attach a breakdown of that amount.

Unitary instructions: If you are included in a Schedule UB, include the combined amount of each item of business income reported in Step 2, Column E of the Schedule UB, multiplied by the apportionment factor in Step 1, Line 4 of this Schedule K-1-P. If you are a partnership and the partner to whom you are sending this Schedule K-1-P is engaged in a unitary business with you, and you are not included in the Schedule UB with this partner, 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 the partner is engaged in a unitary business with your 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.

<table>
<thead>
<tr>
<th>Line</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>32</td>
<td>Enter the partner’s or shareholder’s share of the federally tax-exempt interest income reported on Line 15 of your Form IL-1065 or Form IL-1120-ST.</td>
</tr>
<tr>
<td>33</td>
<td>Enter the partner’s or shareholder’s share of Illinois replacement tax and surcharge deducted in arriving at unmodified base income and reported on Line 16 of your Form IL-1065 or Form IL-1120-ST.</td>
</tr>
<tr>
<td>34</td>
<td>Enter the partner’s or shareholder’s share of Illinois Depreciation that must be added to the unmodified base income, as reported on Line 17 of your Form IL-1065 or Form IL-1120-ST.</td>
</tr>
<tr>
<td>35</td>
<td>Enter the partner’s or shareholder’s share of Related-Party Expenses that must be added to the unmodified base income, as reported on Line 18 of Form IL-1065 or Form IL-1120-ST.</td>
</tr>
<tr>
<td>36</td>
<td>Enter the 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 Line 19 of your Form IL-1065 or Form IL-1120-ST.</td>
</tr>
<tr>
<td>37</td>
<td>Enter the 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.</td>
</tr>
<tr>
<td>38a</td>
<td>Enter the 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.</td>
</tr>
<tr>
<td>38b</td>
<td>Enter the 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.</td>
</tr>
<tr>
<td>39</td>
<td>Enter the partner’s or shareholder’s distributive share of River Edge Redevelopment Zone Dividend subtraction from your Form IL-1065, Line 28, or Form IL-1120-ST, Line 25.</td>
</tr>
<tr>
<td>40</td>
<td>Enter the partner’s or shareholder’s distributive share of High Impact Business within a Foreign Trade Zone (or sub-zone) Dividend subtraction from your Form IL-1065, Line 29, or Form IL-1120-ST, Line 27.</td>
</tr>
<tr>
<td>41</td>
<td>Enter the shareholder’s distributive share of the Contribution subtraction from your Form IL-1120-ST, Line 29.</td>
</tr>
<tr>
<td>42</td>
<td>Enter the shareholder’s distributive share of the Interest Subtraction - River Edge Redevelopment Zone from your Form IL-1120-ST, Line 26.</td>
</tr>
<tr>
<td>43</td>
<td>Enter the shareholder’s distributive share of the Interest Subtraction - High Impact Business within a Foreign Trade Zone (or sub-zone) from your Form IL-1120-ST, Line 28.</td>
</tr>
<tr>
<td>44</td>
<td>Enter the partner’s or shareholder’s share of any Illinois Special Depreciation subtraction allowed for property placed in service after September 11, 2001, from Line 30 of your Form IL-1065 or Form IL-1120-ST.</td>
</tr>
<tr>
<td>45</td>
<td>Enter the partner’s or shareholder’s share of any Related-Party Expenses subtraction allowed from Line 31 of your Form IL-1065 or Form IL-1120-ST.</td>
</tr>
<tr>
<td>46</td>
<td>Enter the partner’s or shareholder’s distributive share of subtractions from any partnership, S corporation, trust, or estate from which you received income from Line 32 of your Form IL-1065 or Form IL-1120-ST. Do not include any August 1, 1969, appreciation amounts included in the share.</td>
</tr>
<tr>
<td>47</td>
<td>Enter the partner’s or shareholder’s share of each of the “other subtractions” figured on Illinois Schedule M and reported on Line 33 of your Form IL-1065 or Form IL-1120-ST. Do not include any August 1, 1969, appreciation amounts included in the share.</td>
</tr>
</tbody>
</table>

**Column B - Illinois share**

- **For all line items** - If you are an investment partnership, leave Column B blank.
- **Lines 32 through 37** - Enter the partner’s or shareholder’s share of additions apportioned to Illinois. If the amount is business income from your partnership or S corporation, multiply the amount of business income in Column A by the apportionment 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. Enter the total in Column B.
- **Lines 38a and 39 through 47** - Enter the partner’s or shareholder’s share of subtractions apportioned to Illinois. If the amount is business income from your partnership or S corporation, multiply the amount of business income in Column A by the apportionment 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. Enter the total in Column B.
- **Lines 48 through 51** - For each line in Step 6, Column A, multiply the amounts you reported through to their shareholders. Subtract the amount of business income in Column A by the fraction on Line f of the Schedule NB, Apportionment Factor Worksheet, and include the resulting amount in Column B.

**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 48 through 51.

**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 partner’s or shareholder’s share percentage shown on Step 2, Line 8.

- **Line 48** - Enter the 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 49** - Enter the 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 50** - Enter the 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.
those partners or shareholders.

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

Lines 48 through 51 - Enter the 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, include the August 1, 1969, amount from Column A in Column B, only if the gain from the disposition of the property was included in Column B.

If these appreciation amounts result from gain on the disposition of your business property, apportion them to Illinois by multiplying the amount on Lines 48 through 51, Column A, by the apportionment factor on Step 1, Line 4. If you received amounts from any other partnership, 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, recapture, pass-through withholding payments, and federal income subject to surcharge

Line 52 - Illinois credits - The following credits are reported on your Illinois Schedule 1299-A or Form IL-477. You must complete the appropriate line (Lines 52a through 52p) to pass any of these credits through to your partners or shareholders. For each line used (Lines 52a through 52p) in Step 7, multiply the amount reported on your Illinois Schedule 1299-A or Form IL-477 by the partner's or shareholder's share percentage shown on Step 2, Line 8. Use the line reference chart to complete Lines 52a through 52p.

Note — 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.

Line 53 - 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 53a, 53b, and 53c. You must send a copy of Schedule K-1-P (that will show an amount only on Lines 53a, 53b, and 53c) and Schedule 4255, Recapture of Investment Tax Credits, to this former owner.

If the 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 53a, 53b, and 53c 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.

On Line Enter this partner's or shareholder's share of shown on your Line from your Schedule 4255, shown on your Schedule 1299-A, Line

<table>
<thead>
<tr>
<th>Line</th>
<th>Enter this partner's or shareholder's share of the</th>
<th>shown on your Schedule 4255,</th>
</tr>
</thead>
<tbody>
<tr>
<td>53a</td>
<td>Enterprise Zone/River Edge Redevelopment Zone Investment Credit recapture</td>
<td>Step 4, Column A, Line 17</td>
</tr>
<tr>
<td>53b</td>
<td>Replacement Tax Investment Credit recapture</td>
<td>Step 4, Column C, Line 17</td>
</tr>
<tr>
<td>53c</td>
<td>Angel Investment Credit recapture</td>
<td>Step 5, Line 21</td>
</tr>
</tbody>
</table>

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

Line 54 - If this member is a nonresident and has not submitted a Form IL-1000-E to you, complete Schedule K-1-P(3) or Schedule K-1-P(3)-FY, as applicable, for this member before completing this line. After you have completed Schedule K-1-P(3) or Schedule K-1-P(3)-FY for this member, enter on Line 54 the partner's or shareholder's share of pass-through withholding payments from Schedule K-1-P(3) or Schedule K-1-P(3)-FY, Step 3, Line 19. You must also report specific amounts from Schedule K-1-P(3) or Schedule K-1-P(3)-FY on Schedule B of your Form IL-1065 or IL-1120-ST. See the instructions for Schedule K-1-P(3) and Schedule K-1-P(3)-FY, below, and the Schedule B instructions for more information.

Line 55 - For taxpayers with tax years ending on or after January 1, 2014. Enter the partner's or shareholder's share of any federal income attributable to transactions subject to the surcharge. Attach a breakdown of any items reported on this line.

Definitions related to the Compassionate Use of Medical Cannabis Pilot Program Act Surcharge —

Organization registrant means a corporation, partnership, trust, limited liability company (LLC), or other organization, that holds either a medical cannabis cultivation center registration issued by the Illinois Department of Agriculture or a medical cannabis dispensary registration issued by the Illinois Department of Financial and Professional Regulation.

Transactions subject to the surcharge means sales and exchanges of:

- capital assets;
- depreciable business property;
- real property used in the trade or business; and
- Section 197 intangibles

of an organization registrant.

What is the surcharge?

For each taxable year beginning or ending during the Compassionate Use of Medical Cannabis Pilot Program, a surcharge is imposed on all taxpayers on income arising from the transactions subject to the surcharge of an organization registrant under the Compassionate Use of Medical Cannabis Pilot Program Act.

The amount of the surcharge is equal to the amount of federal income tax liability for the taxable year attributable to the transactions subject to the surcharge.
To whom does the surcharge apply?
The surcharge is imposed on any taxpayer who incurs a federal income tax liability on the income realized on a “transaction subject to the surcharge”, including individuals and other taxpayers who are not themselves the “organization registrant” that engaged in the transaction.

A partnership will not incur a surcharge because it has no federal income tax obligation. An S corporation would incur a surcharge on a transaction subject to built-in gains tax. Partners and shareholders who incur a federal income tax liability on income from a transaction subject to surcharge passed through to them by a partnership or S corporation will incur a surcharge.

**Note** Although a unitary business group filing combined Illinois returns is treated as a single taxpayer and its members are jointly and severally liable for any surcharge imposed on the group, the group itself is not an organization registrant and transactions of any member that is not itself an organization registrant are not subject to the surcharge.

What do I report to my partners or shareholders?
Enter this partner’s or shareholder’s share of any federal income attributable to transactions subject to the surcharge on Line 55. In order to enable your partner or shareholder to correctly figure the surcharge, attach a report itemizing any amount reported on Line 55 and provide it to your partner or shareholder along with this schedule.

**Note** Report federal income attributable to transactions subject to the surcharge on Line 55. Do not report your federal income tax liability for the taxable year attributable to the transactions subject to the surcharge on this line.

For more information, see Illinois Income Tax Regulations, Section 100.2060.

**K-1-P(3) and K-1-P(3)-FY Step-by-Step Instructions**

**Read this information first:**

See “What is the purpose of Schedule K-1-P, Schedule K-1-P(3), and Schedule K-1-P(3)-FY?” for help determining if you should use Schedule K-1-P(3) or Schedule K-1-P(3)-FY.

- **You must** complete Schedule K-1-P(3) or Schedule K-1-P(3)-FY for each of your nonresident partners or shareholders who have not submitted a Form IL-1000E to you.
- **Do not** complete Schedule K-1-P(3) or Schedule K-1-P(3)-FY for any member who is a resident or who has submitted Form IL-1000-E to you.
- **You must** keep Schedule K-1-P(3) or Schedule K-1-P(3)-FY with your income tax records.
- **Do not** send Schedule K-1-P(3) or Schedule K-1-P(3)-FY to your partners or shareholders or submit them to the Illinois Department of Revenue unless we request them.

**Note** See “What is a resident?” and “What is a nonresident?” in the General Information section of these instructions for help determining if your member is a resident or nonresident.

Completion of Schedule K-1-P(3) or Schedule K-1-P(3)-FY for each of your applicable members is required and will aid in the completion of your Form IL-1065 or Form IL-1120-ST, Schedule B.

Complete all lines of Schedule K-1-P except Step 7, Line 54 before completing this schedule.

**Step 1 — Identify your partnership or S corporation**

**Line 1** - Enter the name of your partnership or S corporation as shown on your Form IL-1065 or Form IL-1120-ST.

**Line 2** - Enter your federal employer identification number (FEIN). If you are a foreign entity and do not have a FEIN, leave Line 2 blank. If you leave this line blank and we request that you submit this schedule, you may be contacted for further information.

**Step 2 — Identify your nonresident partner or shareholder**

**Line 3** - Enter the name of the nonresident partner or shareholder for whom you are reporting pass-through withholding payments.

**Line 4** - Enter the Social Security number or FEIN of the nonresident partner or shareholder.

**Line 5** - Check the appropriate box to identify this nonresident partner or shareholder as an individual, a partnership, a corporation, an S corporation, a trust, or an estate.

**Step 3 — Figure your nonresident partner’s or shareholder’s pass-through withholding**

**Line 6 through Line 11** - Follow the instructions on the schedule.

**Line 12** - Follow the instructions on the schedule. Enter this amount here and on your Form IL-1065 or Form IL-1120-ST, Schedule B, Step 2, Column G, on the line which reports this member's amounts.

**Note** Individuals and estates are not subject to replacement tax. If this member is a nonresident individual or estate, enter “0” on Line 13 through Line 15 and continue on Line 16.

**Line 13** - Determine your member’s tax type, multiply the amount on Line 12 by the applicable percentage, and enter the result on this line.

**Line 14** - Enter the total amount of replacement tax investment credit passed through to this member and available for use this year, as shown on their Schedule K-1-P.

**Line 15** - Follow the instructions on the schedule.

**Line 16** - Determine your member’s tax type, multiply the amount on Line 12 by the applicable percentage, and enter the result on this line.

**You must also** add the amount on Line 16 and the amount on Line 13 (if applicable) and enter the result on your Form IL-1065 or Form IL-1120-ST, Schedule B, Step 2, Column H, on the list which reports this member’s amounts.

**Line 17** - Enter the total amount of income tax credits passed through to this member and available for use this year, as shown on their Schedule K-1-P.

**You must also** add the amount on Line 17 and the amount on Line 14 (if applicable) and enter the result on your Form IL-1065 or Form IL-1120-ST, Schedule B, Step 2, Column I, on the line which reports this member’s amounts.

**Line 18** - Follow the instructions on the schedule.
Line 19 - Follow the instructions on the schedule. This is your member's total pass-through withholding payment. Enter the result on this line and on this member's Schedule K-1-P, Step 7, Line 54.

You must also enter the result on your Form IL-1065 or Form IL-1120-ST, Schedule B, Step 2, Column J, on the line which reports this member's amounts.

**Note** Complete a separate K-1-P(3) or Schedule K-1-P(3)-FY for each of your nonresident members who have not submitted a Form IL-1000-E to you. Do not submit Schedule K-1-P(3) or Schedule K-1-P(3)-FY to the Department unless we specifically request them from you.