

# Owner's Instructions for Montana Schedule K-1 (Forms CLT-4S and PR-1)

## General Instructions

The Montana Schedule K-1 is required to be provided to all owners. The federal Schedule K-1 cannot serve as a substitute for the Montana Schedule K-1. Montana Schedule K-1 shows information about an owner's share of income, gains, losses, deductions, credits and other items from a pass-through entity.

**Partnership or corporation partner/shareholder.** If you are a corporation, partnership, or a limited liability company treated like a corporation or partnership, the Montana Schedule K-1 shows your share of Montana source income and Montana statutory adjustments from the entity that may affect the preparation of your Montana tax return.

**Resident individual, estate, or trust partner/shareholder.** If you are a Montana resident individual, estate, or trust, your entire share of the entity's income, gains, losses, and deductions that is includable in your federal taxable income is Montana source income. The Montana Schedule K-1 shows your share of Montana source income and Montana statutory adjustments from the entity that may affect the preparation of your Montana tax return.

**Nonresident or part-year resident individual, estate, or trust partner/shareholder.** If you are a nonresident or part-year resident individual, estate, or trust, the amount of your share of the entity's income, gains, losses, and deductions that are apportioned and allocated to Montana based on the entity's activity in Montana is used to determine your Montana tax liability. Your share of Montana source income and Montana statutory adjustments are reported to you on the Montana Schedule K-1. You will need your Montana Schedule K-1 to determine your tax liability on your Montana tax return unless you are a nonresident who elected to participate in a composite return.

**Composite return election.** If you are a nonresident individual, estate or trust, a foreign C corporation, or a pass-through entity who elected to participate in a composite return filed on your behalf by the entity, you are not required to file a Montana tax return. If this applies to you, you received the Montana Schedule K-1 to show your share of tax items the entity reported and the composite tax paid on your behalf.

**Amended Schedule K-1 (Forms CLT-4S and PR-1).** If you received an amended Montana Schedule K-1 from the entity, you may need to file an amended Montana tax return to report the changes in income, gains, losses and deductions.

## Montana Schedule K-1, Parts 3-6

### ► Part 3 – Montana Adjustments

#### A-B. Montana Additions and Deductions

To compute Montana income taxable to pass-through entity owners, certain items have to be added to income or deducted from income. The amounts listed are your share of Montana additions and deductions. If you are an individual, estate or trust these amounts are reported as adjustments to federal adjusted gross income to determine Montana adjusted gross income as reported on your Montana income tax return.

### ► Part 4 – Distributive Share of Montana Source Income (Loss)

Your share of the entity's Montana source income, gains, losses and other additions and deductions to federal taxable income are shown.

**4. Guaranteed payments.** The guaranteed payments remain with the partner receiving the payments as reflected on the federal Schedule K-1.

The portion of the guaranteed payments that represent Montana source income are reported on this line.

### ► Part 5 – Supplemental Information

Supplemental information which could result in adjustments to the Montana tax return is listed.

**1. Montana composite income tax paid on behalf of partner/shareholder.** If applicable, the amount shown on this line is the amount of Montana composite income tax paid on your behalf by the entity. If you made this election, you are not required to file your own Montana tax return. This is for your information only.

**2. Montana income tax withheld on behalf of partner/shareholder.** The entity was required to withhold Montana income tax for those nonresident owners who did not file a consent agreement (Form PT-AGR) or statement (Form PT-STM) and did not elect to participate in a composite return.

**3. Montana mineral royalty tax withheld.** If mineral rights are held by a partnership or S corporation in which you have an ownership interest, the royalty payments made to the owners may be subject to withholding if certain thresholds are met. If the partnership or S corporation attributed the withheld mineral royalty tax to you, the amount attributed is listed. This withholding should not be confused with the amounts deducted from royalty payments for production taxes.

**4. Separately stated allocable nonbusiness items.** All amounts that are allocable to Montana from nonbusiness activities are reported on this line.

**5. Other information.** Supplemental information that could result in adjustments to your Montana tax return are listed on this line. If all of the supplemental information could not be listed on this line, the entity should provide you with a statement showing the additional information. Additional information may include items that you can use to calculate a tax credit. An example of an item that can be used to calculate a tax credit is a contribution that qualifies for a qualified endowment credit. If a portion of the contribution is distributed to you, the amount will be reported on this line.

### ► Part 6 – Montana Tax Credits and Recapture (If Applicable)

Any credit claimed by a partnership or S corporation has to be attributable to its owners generally using the same proportion that is used to report your share of that entity's income or loss for Montana income tax purposes. The tax credits cannot be taken as a credit against composite tax. The form includes the most common tax credits along with space to provide information about any other tax credit or recapture amount.

**1-1a. Insure Montana small business health insurance credit.** If the entity received a tax credit for the Insure Montana small business health insurance program, the amount entered on line 1a is the portion of the premiums paid for these policies which was reported on Montana Schedule K-1 in Part 3 as an other addition to income on line 3.

**2. Contractor's gross receipts tax credit.** If the entity received a tax credit for contractor's gross receipts, the CGR Account ID will be entered into the space provided and the amount entered on line 2 is your portion of the credit. If credit amounts from multiple CGR accounts are passing through to you, a schedule included with your K-1 will identify how much credit passes through to you from each CGR account.

**4. Other credit/recapture information.** Some tax credits have provisions requiring a recapture of the tax benefit you received in an earlier tax year (if you do not meet certain requirements in subsequent tax years).