

2023 Beneficiary's Instructions for Schedule K-1 (541)

References in these instructions are to the Internal Revenue Code (IRC) as of **January 1, 2015**, and to the California Revenue and Taxation Code (R&TC).

General Information

In general, for taxable years beginning on or after January 1, 2015, California law conforms to the Internal Revenue Code (IRC) as of January 1, 2015. However, there are continuing differences between California and federal law. When California conforms to federal tax law changes, we do not always adopt all of the changes made at the federal level. For more information, go to ftb.ca.gov and search for **conformity**. Additional information can be found in FTB Pub. 1001, Supplemental Guidelines to California Adjustments, the instructions for California Schedule CA (540), California Adjustments – Residents, or Schedule CA (540NR), California Adjustments – Nonresidents or Part-Year Residents, and the Business Entity tax booklets.

The instructions provided with California tax forms are a summary of California tax law and are only intended to aid taxpayers in preparing their state income tax returns. We include information that is most useful to the greatest number of taxpayers in the limited space available. It is not possible to include all requirements of the California Revenue and Taxation Code (R&TC) in the instructions. Taxpayers should not consider the instructions as authoritative law.

Special Reporting for R&TC Section 41 –

Beginning in taxable year 2020, partners, members, shareholders, or beneficiaries of pass-through entities conducting a commercial cannabis activity licensed under the California Medicinal and Adult-Use Cannabis Regulation and Safety Act (MAUCRSA) should file form FTB 4197, Information on Tax Expenditure Items. The Franchise Tax Board (FTB) uses information from form FTB 4197 for reports required by the California Legislature. If the estate or trust conducted a commercial cannabis activity licensed under the California MAUCRSA, or received flow-through income from another pass-through entity in that business, the estate or trust will report your share of total deductions and credits related to the cannabis income on a separate schedule attached to Schedule K-1 (541), Beneficiary's Share of Income, Deductions, Credits, etc. Use the information from this schedule to complete form FTB 4197. Get form FTB 4197 for more information.

Purpose

The estate or trust uses Schedule K-1 (541) to report your share of the estate's or trust's income, deductions, credits, etc. Your name, address, and tax identification number, as well as the estate's or trust's name, address, and tax identification number, should be entered on the Schedule K-1 (541). Keep Schedule K-1 (541) for your records. **Do not** file it with your tax return. The estate or trust has filed a copy with the FTB.

You are subject to tax on your share of the estate's or trust's income, and you must include your share on your individual tax return.

Schedule K-1 (541), column (b) shows amounts from your federal Schedule K-1 (Form 1041), Beneficiary's Share of Income, Deductions, Credits, etc. Column (c) shows the difference between federal and California amounts. Column (d) shows your total amounts using California law by combining column (b) and column (c). Column (e) shows your income and loss from California sources.

Generally, the amount of loss and deduction you may claim on your tax return is limited to your share of the estate or trust and the amount for which you are considered at-risk. If you have losses, deductions, or credits from a passive activity, you must also apply the passive activity rules. It is the beneficiary's responsibility to consider and apply any applicable limitations.

California law is generally the same as federal law with regard to income, the character of income, allocation of deductions, gifts, and bequests, and past years. Follow the instructions for federal Schedule K-1 (Form 1041) for these items.

Generally, you must report items shown on your Schedule K-1 (541) (and any attached schedules) the same way that the estate or trust treated the items on its tax return. If the treatment on your original or amended tax return is inconsistent with the estate's or trust's treatment, or if the estate or trust was required to but has not filed a tax return, you must attach a statement identifying the inconsistency. Beneficiaries may be liable for negligence penalties and penalties relating to mathematical errors if they cannot demonstrate that their treatment is consistent with the estate or trust.

Beneficiaries of estates and trusts include in their gross income their distributive share of the fiduciary's income distribution deduction for the taxable year. Amounts that are distributed by an estate or trust and that are not deductible in computing the entity's taxable income (i.e., distributions of corpus or tax-exempt income) usually are not taxable to the beneficiary.

Resident beneficiaries are taxed on income distributed or distributable from all sources. Nonresident beneficiaries are taxed only on income distributed or distributable that is derived from sources within California (R&TC Section 17953).

For purposes of this section, the nonresident beneficiary is deemed the owner of any intangible personal property from which the income of the estate or trust is derived. Therefore, such income is taxed at the beneficiary's domicile.

The estate or trust will attach a schedule of intangible income, such as income from stocks, bonds, bank accounts, and notes, whose source is dependent upon the residence or commercial domicile of the taxpayer. The income on this schedule is not income from California sources for nonresidents but is income sourced at the beneficiary's state of residence or commercial domicile.

Specific Line Instructions

If you are a nonresident beneficiary, the California source amounts in column (e) will help you identify the California source adjusted gross income that must be reported on your Schedule CA (540NR), column E.

Part-year residents may be required to calculate their IRC Section 652 or 662 income in a manner that produces a different result than the amounts shown in column (e) of this form. For more information, get FTB Pub. 1100, Taxation of Nonresidents and Individuals Who Change Residency.

Line 3 through Line 12

You must report the amounts in column (c), adjustments, that are from **nonpassive** activities on the appropriate California form or schedule as explained in these instructions.

Report the amounts in column (d), total amounts using California law, that are from **passive** activities on the appropriate California form or schedule. Get form FTB 3801, Passive Activity Loss Limitations, to transfer those amounts and to figure the amount of your passive activity loss limitation. Carry the passive activity amounts to the California form or schedule to figure your California adjustment amount. Enter this adjustment amount on the corresponding line on Schedule CA (540 or 540NR) only if there is a federal/California difference.

If there is no California form or schedule on which to compute your passive activity loss adjustment amount (i.e., rental loss from passive activities), you may figure the adjustment amount on the California Adjustment Worksheets in the instructions for form FTB 3801. Enter the total of your adjustments from these worksheets from all passive activities on Schedule CA (540), Part I, Section B, line 5, or Schedule CA (540NR), Part II, Section B, line 5, column B or column C, whichever is appropriate.

Line 1 – Interest

If you have an amount on Schedule K-1 (541), line 1, column (c), report this amount on Schedule CA (540), Part I, Section A, line 2 or Schedule CA (540NR), Part II, Section A, line 2, column B or column C, whichever is applicable.

Line 2 – Dividends

If you have an amount on Schedule K-1 (541), line 2, column (c), report this amount on Schedule CA (540), Part I, Section A, line 3, or Schedule CA (540NR), Part II, Section A, line 3, column B or column C, whichever is applicable.

Line 3 – Net capital gain or (loss)

If you have an amount on Schedule K-1 (541), line 3, column (d), report this amount on Schedule D (540 or 540NR), California Capital Gain or Loss Adjustment, line 2, column (d) or column (e), whichever is applicable.

If there is an attachment to Schedule K-1 (541) that reports the disposition of a passive activity, get form FTB 3801 for more information.

Line 5 – Other portfolio and nonbusiness income

If you have an amount on Schedule K-1 (541), line 5, column (c), report this amount on Schedule CA (540), Part I, Section B, line 5, or Schedule CA (540NR), Part II, Section B, line 5, column B or column C, whichever is applicable.

Line 6 through Line 8 – Ordinary business, net rental real estate, and other rental income

Read the instructions below before including any amounts shown on Schedule K-1 (541), line 6, on Schedule CA (540), Part I, Section B, line 5, or Schedule CA (540NR), Part II, Section B, line 5.

Passive activities: The deductions on line 6 may be subject to the passive loss limitation rules. In general, losses from passive activities are allowed only to the extent of income from passive activities.

If your passive activity deductions exceed your passive activity income, or you have passive activity losses from any other source, you must use form FTB 3801 to figure your losses allowed from all passive activities.

Line 9a through Line 9c – Depreciation, depletion, and amortization

Any directly apportionable deduction, such as depreciation, is treated by the beneficiary as having been incurred in the same activity as incurred by the estate or trust. The estate or trust should provide you with a schedule showing your share of directly apportionable deductions derived from each activity reported on line 5 through line 8.

Line 11b – Capital loss carryover

If you have an amount on Schedule K-1 (541), line 11b, column (c) report the amount on Schedule D (540 or 540NR), line 6.

Line 11c and Line 11d – Net operating loss (NOL) carryover

Upon termination of a trust or decedent's estate, a beneficiary succeeding to its property is allowed to deduct any unused NOL (and any alternative minimum tax (AMT) NOL) carryover for regular and AMT purposes if the carryover would be allowable to the estate or trust in a later tax year but for the termination.

For taxable years beginning on or after January 1, 2002, the NOL carryover computation for the California taxable income of a nonresident or part-year resident is no longer limited by the amount of net operating loss from all sources.

For more information, get form FTB 3805V, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations Individuals, Estates, and Trusts.

Line 12a – Adjustment for alternative minimum tax purposes

If you have an amount on Schedule K-1 (541), line 12, column (d), report this amount on Schedule P (540), Alternative Minimum Tax and Credit Limitations Residents, or Schedule P (540NR), Alternative Minimum Tax and Credit Limitations Nonresidents or Part-Year Residents, Part I, line 12, whichever is applicable. For more information, get form FTB 3805V.

Line 12b through Line 12d

• **Schedule P (540) filers:** Include any column (d) amount on Schedule P (540), Part I, line 13, as applicable.

• **Schedule P (540NR) filers:** Include column (d) amounts on Schedule P (540NR), Part I, line 13, as applicable, and report column (e) amounts in Part II, line 29 (f).

Line 12e – Exclusion items

Include any column (d) or column (e) amount on form FTB 3510, Credit for Prior Year Alternative Minimum Tax — Individuals or Fiduciaries, line 2.

Line 13a – Trust payments of estimated tax credited to you

Include on Form 540, California Resident Income Tax Return, line 72 or Form 540NR, California Nonresident or Part-Year Resident Income Tax Return, line 82, any estimated tax payments paid by the trust on your behalf.

Line 13b – Total withholding

Total withholding is the sum of your distributive share of taxes withheld from payments to the estate or trust by another entity (allocated to all beneficiaries according to their respective estate or trust interests) plus taxes withheld-at-source on you as a domestic or foreign nonresident beneficiary. If there is a withholding credit allocated to you from another entity or taxes were withheld on you by the estate or trust, the estate or trust must provide you with a completed 2023 Form 592-B, Resident and Nonresident Withholding Tax Statement. Attach Form 592-B to the front of your California income tax return to claim the amount withheld. The amount shown on Form 592-B must be claimed on one of the following:

- Form 540, California Resident Income Tax Return, line 73.
- Form 540NR, California Nonresident or Part-Year Resident Income Tax Return, line 83.
- Form 541, California Fiduciary Income Tax Return, line 31.
- Form 109, California Exempt Organization Business Income Tax Return, line 17.
- Form 100, California Corporation Franchise or Income Tax Return, line 33.
- Form 100S, California S Corporation Franchise or Income Tax Return, line 33.

Schedule K-1 (541) is not used to claim the withholding credit. If the estate or trust is not on a calendar year, the amount on line 13b may not match the amount on Form 592-B because of the difference in accounting periods.

Line 13c – Taxes paid to other states

You may claim a credit against your individual income tax on your share of the net income tax paid to other states by the estate or trust. Get Schedule S, Other State Tax Credit.

Line 13d – Other credits

If applicable, the estate or trust will use this line, through an attached statement, to give you the information you need to compute credits related to a trade or business activity.

Credits that may be reported include the following:

- California Competes Tax Credit. Get form FTB 3531.
- California Motion Picture and Television Production. Get form FTB 3541.
- Cannabis Equity Tax Credit – Get form FTB 3821.
- College Access Tax Credit. Get form FTB 3592.
- Disabled Access Credit for Eligible Small Businesses. Get form FTB 3548.

- Donated Agricultural Products Transportation Credit. Get form FTB 3547.
- ~~Enhanced Oil Recovery Credit. Get form FTB 3546.~~
- High-Road Cannabis Tax Credit. Get Form FTB 3820.
- Homeless Hiring Credit. Get form FTB 3831.
- Low-Income Housing Credit. Get form FTB 3521.
- Natural Heritage Preservation Credit. Get form FTB 3503.
- New California Motion Picture and Television Production Credit. Get form FTB 3541.
- New Donated Fresh Fruits or Vegetables Credit. Get form FTB 3814.
- New Employment Credit. Get form FTB 3554.
- Pass-Through Entity Elective Tax Credit. Get form FTB 3804-CR.
- Prison Inmate Labor Credit. Get form FTB 3507.
- Program 3.0 California Motion Picture and Television Credit. Get form FTB 3541.
- Research Credit. Get form FTB 3523.
- Soundstage Filming Credit. Get form FTB 3541.
- State Historic Rehabilitation Credit. Get form FTB 3835.

The passive activity limitations of IRC Section 469 may limit the amount of credits you may claim. Get form FTB 3801-CR, Passive Activity Credit Limitations.

Line 14a – Tax-exempt interest

Include any column (c) amount on Schedule CA (540), Part I, Section A, line 2, or Schedule CA (540NR), Part II, Section A, line 2, column B or column C, whichever is appropriate.

Line 14d – Other information

Report any column (c) amount on Schedule CA (540), Part I, Section B, line 5, or Schedule CA (540NR), Part II, Section B, line 5, column B or column C, whichever is appropriate.

If the estate or trust is claiming tax benefits from a former Enterprise Zone (EZ), Local Agency Military Base Recovery Area (LAMBRA), Manufacturing Enhancement Area (MEA), or Targeted Tax Area (TTA), it will give the beneficiaries their distributive share of the business income, and business capital gains and losses included in business income, apportioned to the EZ, LAMBRA, MEA, or TTA on this line. Get form FTB 3805Z, Enterprise Zone Deduction and Credit Summary; form FTB 3807, Local Agency Military Base Recovery Area Deduction and Credit Summary; form FTB 3808, Manufacturing Enhancement Area Credit Summary; or form FTB 3809, Targeted Tax Area Deduction and Credit Summary to claim any applicable credit.

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