

# SCHEDULE K-1VT Instructions

## Shareholder, Partner, or Member Information

### General Information

**Please print in BLUE or BLACK ink only.**

Schedule K-1VT reports the income sourced to Vermont earned by a business entity that is passed through to the owners. In general, pass-through entities, including S-Corporations, Partnerships, and some Limited Liability Companies, should include a Schedule K-1VT for each Shareholder, Partner, or Member (S/P/M) with their Form BI-471, Vermont Business Income Tax Return. There are exceptions for composite returns, described below.

Every business must provide each S/P/M with a copy of their Schedule K-1VT on or before the due date of Form BI-471.

Businesses that file Form BI-476, Business Income Tax Return (For Residents Only), instead of Form BI-471 should **not** include Schedule(s) K-1VT with the return. They may prepare the schedule(s) and provide them to the owner(s) if desired.

For detailed information on filing requirements and definitions of income and residency, refer to the following resources, available on the Department's website:

- 32 V.S.A., § 5811, § 5823, § 5861, § 5912, § 5914, § 5920
- Technical Bulletin TB-06, Estimated Payments by Corporations, Partnerships and Limited Liability Companies on Behalf of Shareholder

### **Complete a Separate Schedule K-1VT for each S/P/M**

**COMPOSITE RETURNS:** If the business has elected or is required to file a composite return to report and pay tax for its S/P/Ms who are Vermont nonresidents, consolidate their information onto a single Schedule K-1VT. The "recipient" information (name, FEIN, etc.) should be that of the reporting business entity. The percent ownership and other numerical fields should be the sum of the figures for all owners included in the composite filing. Mark the "Composite" checkbox "Yes."

**Exception:** If the entity is distributing any income to owners (individuals or entities) that are treating the income as exempt from tax, attach Schedules K-1VT for those owners to Form BI-471.

The entity may, at its discretion, complete a Schedule K-1VT for each separate owner that is included in the composite filing. An example of where this might be helpful would be if one or more owner in the composite filing has a Vermont income tax filing requirement due to other Vermont activity. Schedule K-1VT would demonstrate the income distributed, which would be deducted from the owner's income tax return in order to avoid double-taxation. These Schedules K-1VT **should not be attached** to Form BI-471 filed with the Department.

Line 11 would be -0-. Estimated payments would not pass through to owners, but would be applied as a credit against tax at the entity level.

**NOTE:** If an entity files a composite return, all Vermont nonresidents must be included in the composite filing. "Partial composite" returns will not be accepted.

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## Above the Header Information – REQUIRED ENTRIES

Enter the Business Name and FEIN of the business filing the return.

Enter the end date of the fiscal year of the business filing the return.

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## Header Information – REQUIRED ENTRIES

All information in the Header Section is required. Failure to correctly complete this information will result in processing delays and/or late filing penalties for your return.

Name, Address, ID Number (FEIN or Social Security Number, as appropriate)

If the S/P/M is an entity other than an individual, enter the Entity Name of the S/P/M, and its FEIN. If the S/P/M is an individual, enter the Individual Last Name, First Name, Middle Initial, and Social Security Number. See also “Notes for disregarded entities and trusts” below, if applicable.

Enter the complete address of the S/P/M.

Enter the Foreign Country for the S/P/M if other than the United States.

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## Recipient S/P/M Type:

- I - Individual** (including Trusts that report directly on an individual income tax return, as opposed to filing a fiduciary return)
  - C - C-Corporation, Nonprofits with Unrelated Business Taxable Income filing federal Form 990-T**
  - S - S-Corporation**
  - L - Limited Liability Company** (not a disregarded entity)
  - P - Partnership**
  - T - Trust** (filing a fiduciary return)
  - X - Exempt Organization** - If the S/P/M is an exempt entity, not subject to income taxation (such as an ESOP or nonprofit to which this income is **not** characterized as unrelated business income - i.e., is not taxable). Provide a statement of the name(s) and FEIN(s), and description of why or authority by which it is exempt from income taxation.
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## Residency Status

Check the appropriate box to indicate the residency status of the S/P/M. Review 32 V.S.A. § 5811 if necessary.

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## Line-By-Line Instructions

**Line 1** Enter the S/P/M’s percentage of ownership, calculated to six places right of the decimal point. The sum of this field across all Schedules K-1VT must add up to exactly 100.000000%.

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**Lines 2-3** **Percentage of Entity’s income or loss to this recipient** Enter the percentage of the entity’s Vermont sourced income distributed or allocable to this S/P/M, written as a percent, and calculated to six places to the right of the decimal point. (For example, exactly 5% would be written as 5.000000%.) Note that this is a percentage of income or loss, not percentage of ownership. “Various” is not a valid entry.

- The sum of this field across all attached Schedules K-1VT must add up to exactly 100.000000%.

- The sum of this field across all Schedules K-1VT marked as “nonresident” (as opposed to “Vermont Resident”) must add up to the amount reported on Schedule BI-472, Non-Composite Schedule, Line 3 or Schedule BI-473, Composite Schedule, Line 4 (whichever is attached).
- Otherwise, processing will be delayed.

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**Line 4** Mark “Yes” if this is a disregarded entity. A disregarded entity is a business that:

- Has a single owner.
- Is not organized as a corporation.
- Has not elected to be taxed as a separate entity for federal tax purposes.
- The most common example of a disregarded entity is a single member LLC, that is included with the filing of its individual, business, or corporate owner.

The income from the disregarded entity is reported on the owner’s return. If an entity is disregarded as a separate entity for federal income tax purposes, it is also disregarded as a separate entity for Vermont tax purposes.

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**Line 5** Mark “Yes” if this entity is a unit of a Series LLC.

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**Line 6** Did the entity issuing this Schedule K-1VT pay tax on this income as part of a composite return?

For any S/P/M that is a resident of Vermont, mark “No.”

If the business has not elected and is not required to file composite, mark “No” on all Schedules K-1VT.

For composite entities, the Department requires a single Schedule K-1VT that aggregates the information of all S/P/Ms included in the composite filing. However, some businesses and preparers choose to create a separate Schedule K-1VT to distribute to each S/P/M. For either the individual or aggregate composite Schedule K-1VT:

- Mark “Yes” if this S/P/M is a Vermont nonresident, and is included in the company’s composite return, whether the composite return is elected by the taxpayer or mandated by the state (due to having more than 50 Vermont nonresident S/P/Ms).
- If the S/P/M is included in the composite return, Schedule K-1VT, Line 11, will be -0-, and the S/P/M will not receive any of the estimated payments credited at the entity level. Those payments will be applied to composite tax, and any overpayment would be available to the entity for refund or as a credit forward to the next tax year.
- If the S/P/M is included in the composite return, and has no other activity, income, or loss in Vermont, they are relieved of their requirement to file their own Vermont income tax return.
- **Instructions for Schedule K-1VT recipients:** If you received a Schedule K-1VT and this box was marked “Yes,” Line 11 should equal -0-, and you should not include this income on your own Vermont income tax return. Additionally, you are not able to claim any nonresident withholding paid by the entity that issued you this Schedule K-1VT.

**NOTE:** “Partial composite” returns are not allowed. Any company electing or mandated to file a composite return must include all Vermont nonresidents. There is no opt-out on an individual

basis. Additionally, the Department has the power within its discretion to not permit a composite election. Examples may include a composite election where a unitary business is at issue.

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**Line 7**     **Vermont Business Income** - Enter this recipient S/P/M's share of apportionable Vermont Business Income. The sum of this line across all attached Schedules K-1VT must add up to the amount reported on Schedule BI-477, Line 21. This amount includes the recalculation for Vermont's disallowance of bonus depreciation and add-back of certain state and local taxes.

Note for tiered pass-throughs with multiple unitary businesses: The sum of this line across all attached Schedules K-1VT must add up to amount reported on Schedule BI-477, Line 21 plus that value as reported on all attached worksheets for other unitary businesses (see instructions for Schedule BI-477, Part V).

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**Line 8**     **Capital Gains allocated to Vermont** - Enter this recipient S/P/M's share of Capital Gains and other nonapportionable income derived from the ownership of property sourced to Vermont. The sum of this line across all attached Schedules K-1VT must add up to the sum of the amounts reported on Schedule BI-477, Lines 1B through 9B, the Vermont column. This amount includes the recalculation for Vermont's disallowance of bonus depreciation and add-back of certain state and local taxes.

Note for tiered pass-throughs with multiple unitary businesses: The sum of this line across all attached Schedules K-1VT must add up to the sum of the amounts reported on Schedule BI-477, Lines 1B through 9B plus those values as reported on all attached worksheets for other unitary businesses (see instructions for Schedule BI-477, Part V).

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**Line 9**     **Other income allocated to Vermont** - Enter this recipient S/P/M's share of other income allocated to Vermont. The sum of this line across all attached Schedules K-1VT must add up to the sum of the amounts reported on Schedule BI-477, Lines 10B through 11B, the Vermont column.

Note for tiered pass-throughs with multiple unitary businesses: The sum of this line across all attached Schedules K-1VT must add up to the sum of the amounts reported on Schedule BI-477, Lines 10B through 11B plus those values as reported on all attached worksheets for other unitary businesses (see instructions for Schedule BI-477, Part V).

The sum of the amounts on Lines 7, 8, and 9 across all attached Schedules K-1VT should equal the amount on Schedule BI-477, Line 31, Vermont Income unless an adjustment was made on Schedule BI-477, Line 23.

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**Line 10**     **Amount of total Vermont income *NOT* characterized as Unrelated Business Income (UBI) for federal purposes (tax-exempt entities only)** - If recipient is a nonprofit, exempt entity, or federal Form 990 series filer, enter the amount of income that is *not* characterized as unrelated business income for federal income tax purposes. That is, enter the amount of income that is exempt from taxation under the Internal Revenue Code and Vermont law.

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**Line 11**     **Total annual nonresident estimated payments allocated to this shareholder** - If this recipient S/P/M is a Vermont resident, enter -0-. **DO NOT INCLUDE THE MINIMUM ENTITY TAX OF \$250 IN THE ENTRIES MADE ON THIS LINE.** If the minimum entity tax is due for your business, and you file Schedules K-1VT with that amount included as a payment of non-resident withholding available to claim by the S/P/M, the business will be billed for the excess payments claimed on this line regardless of how Form BI-471 is prepared.

If this recipient S/P/M is a nonresident, enter the portion of the amounts from Form BI-471, Lines 7, 8, 11, and 12 to be distributed to this S/P/M's income tax account. (If the S/P/M is included in the composite return, no estimated payments will be allocated to them.)

**NOTE:** For non-composite entities, the sum of all Schedules K-1VT, Lines 11 and 12, must equal or be greater than the amount on Form BI-471, Line 2a. Any excess payments distributed to the S/P/M's on Lines 11 and 12 must be accounted for on Form BI-471, Line 2b.

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**Line 12** **Total annual real estate withholding payments allocated to this shareholder** - If this recipient S/P/M is a Vermont resident, enter -0-.

Enter the amount of any real estate withholding payments allocated to this S/P/M. Real estate withholding would have been paid by the buyer of Vermont real estate this business sold in this fiscal year, and reported on Form RW-171, Schedule A, or may have been distributed to this entity from such a seller of which this entity is an owner, via a Schedule K-1VT.

**NOTE:** The sum of all Schedules K-1VT, Line 12, must equal the sum of Form BI-471, Lines 9 and 10. Real estate withholding must be distributed to S/P/Ms and may not be refunded to the entity, unless a composite return is filed. For non-composite entities, the sum of all Schedules K-1VT, Lines 11 and 12, must equal or be greater than the amount on Form BI-471, Line 2a. Any excess payments distributed to the S/P/M's on Lines 11 and 12 must be accounted for on Form BI-471, Line 2b.

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**Line 13** **Share of total federal bonus depreciation difference** - Enter this recipient S/P/M's share of total bonus depreciation adjustment. The sum of this line across all attached Schedules K-1VT must add up to the sum of the amount reported on Schedule BI-477, Line 8B added to the product of Schedule BI-477, Lines 17 and 20.

Note for tiered pass-throughs with multiple unitary businesses: The sum of this line across all attached Schedules K-1VT must add up to the sum of the amount reported on Schedule BI-477, Line 8B added to the product of Schedule BI-477, Lines 17 and 20 plus those values as reported on all attached worksheets for other unitary businesses (see instructions for Schedule BI-477, Part V).

Bonus depreciation taken in the current year is not allowed for Vermont purposes and results in an increase in Vermont income. Report on Schedule IN-112, Vermont Tax Adjustments and Credits, Line 4. Bonus depreciation taken in a prior year results in a decrease in the current year Vermont income. If the decrease from past bonus depreciation exceeds the current year disallowance, report the negative value on Line 7 and report the decrease in income on Schedule IN-112, Line 8.

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**Line 14** Estates, trusts, and corporations are required to perform an add-back of certain state and local income and franchise taxes (SALT), including pass through entity taxes, deducted. The sum of this line across all attached Schedules K-1VT will add up to the portion of Schedule BI-477, Line 9 representing the SALT add-back plus the product of the portion of Schedule BI-477, Line 18 representing the SALT add-back multiplied by Line 20.

Note for tiered pass-throughs with multiple unitary businesses: The sum of this line across all attached Schedules K-1VT will only reconcile with Schedule BI-477 when these values reported on all attached worksheets for other unitary businesses are included in the calculation.

The portion of Lines 13 and 14 attributable to nonapportionable income and apportionable income should be used when calculating the taxpayer's values reported on Lines 9B and 10B of Vermont Schedule IN-113, respectively. The items of income reported on Schedule IN-113 must represent a value before the recalculation for exclusion of bonus depreciation and SALT add-back are made.

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**Lines 15 - 17** Vt. Reg. 15862(d)-4 requires that C corporation owners of pass-through entities include a pro rata share of such entity's income and sales, payroll, and property in their return. For fiscal years beginning on or after January 1, 2023, C-Corporations use a single sales factor to compute their apportionment factor. However, they will still have an obligation to report their payroll and property factor, even if these figures are not used in the final calculation of tax due. As a result, pass-through entities must report all three factors distributed to its corporate owners (or owners required to file a corporate return, such as non-profits who must report Vermont-sourced Unrelated Business taxable Income).

To compute Lines 15 through 17, use Schedule BA-402 as a worksheet to generate the entity's total sales, payroll, and property. (Apply the apportionment regulations as written under 32 V.S.A. § 5822 and Vt. Reg. 1.5833 when computing figures for this worksheet.) Then, after the total figures have been worked out, apply each owners' income percentage to each category of factors to generate the entries for Lines 15, 16, and 17, which will be included in certain owners' income tax returns.

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### Notes for disregarded entities and trusts

If the S/P/M is a disregarded entity that does not file a Vermont income tax return, provide information for the owner of that entity who will file a return. Include a statement that explains the chain of ownership and identifies the disregarded entity. Providing Schedules K-1VT for entities that do not file Vermont income tax returns will delay allocation of estimated payments.

*Examples:*

- A) The recipient is a single-member LLC owned by an individual that reports all activity on federal Form 1040, U.S. Individual Income Tax Return, Schedule C, Profit or Loss from Business (Sole Proprietorship). Provide the name and SSN of the individual filing Schedule C and indicate "I" in the recipient type box.
- B) The recipient is a single-member LLC owned by a C-Corporation. Provide the corporation's name and FEIN and indicate "C" in the recipient type box.
- C) The recipient is a trust that reports all activity directly on the recipient's individual income tax return. Provide the name and SSN of the individual on whose return the trust is reported and indicate "I" in the recipient type box.
- D) The recipient is a trust that files a fiduciary return with Vermont. Provide the entity name and the FEIN of the trust. Indicate "T" in the recipient type box.
- E) The recipient is a corporation that does not file a standalone corporate income tax return but is included in a combined report for a unitary group. Provide the name and FEIN of the Principal Vermont Corporation. Include a statement identifying the corporation that is the direct owner.

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**For assistance, call (802) 828-5723.**