



# Schedule SK-1 Shareholders Instructions

## General Instructions

Schedule SK-1 is designed to allow the S corporation to report each shareholder's distributive share of S corporation income separately. Use the information provided on Schedule SK-1 to complete your appropriate Massachusetts tax return (Form 1, 1-NR/PY or 2). For more detailed instructions on Schedule SK-1, see the Schedule S instructions.

## Specific Instructions

**Line 3: Total of lines 1 and 2** — The amount in line 3 includes both your distributive share of the S corporation's Mass. ordinary income or (loss) and your guaranteed payments (deductible and capitalized). Certain adjustments have already been made to take account of your separately stated deductions, and differences in Massachusetts and federal tax treatment of S corporation income, deductions and credits.

The correct Mass. amount of the shareholder's share of ordinary income or (loss) and guaranteed payments may differ from the comparable U.S. total reported on your Form 1 or 1-NR/PY, Schedule E, Part II, line 1; Form 2, line 17; or Form 3F. Each shareholder should make adjustments in Form 1 or 1-NR/PY, Schedule E, Part II, line 2 and line 4, if applicable; Form 2, line 17; or Form 3F, to reflect the correct Mass. amount. Attach a statement with your Mass. tax return and explain.

You should receive from the S corporation the amount of your share of the costs of renovating a qualifying abandoned building. Use this amount to complete Form 1 or 1-NR/PY, Schedule E, Part II, line 4; Form 2; or Form 3F.

Each shareholder should receive from the S corporation the amounts of the shareholder's share of any 5.85% interest from Mass. banks and other interest and dividends included in line 3. Each shareholder should use these amounts in completing Form 1 or 1-NR/PY, Schedule E, Part II, lines 6 and 7; Form 2; or Form 3F.

**Line 4: Credits** — The amount in line 4 includes each resident shareholder's share of any taxes paid to other jurisdictions and otherwise allowable as a credit to the individual. This credit is available only to resident shareholders and may be taken on Form 1, Schedule Z, Form 1-NR/PY, Schedule Z or where applicable, on Form 2.

Also enter in this line the shareholder's share of any credit due for expenses incurred by the S corporation for covering or removing lead paint on residential premises in Massachusetts. The S corporation must provide each shareholder with a completed copy of a "Letter of Compliance" or a "Letter of Interim Control" issued by a licensed inspector. Each shareholder should include their share of the credit in Form 1, Schedule Z; Form 1-NR/PY, Schedule Z; Form 2; or Form 3F.

This line is also used to report the shareholder's share of any 5% Economic Opportunity Area Credit for qualifying property in a Certified Project. The amount should then be used by each shareholder to complete Schedule EOA.

This line is also used to report the shareholder's share of any Full Employment Credit. The amount should then be used by each shareholder to complete Schedule FEC.

**Line 5: Net Rental Income or (Loss) from Real Estate** — The amount in line 5 is your share of the S corporation's net rental income or (loss) from real estate activities.

The correct Mass. amount of the shareholder's share of net rental income or (loss) from real estate activities may differ from the comparable U.S. total reported on the shareholder's Form 1 or 1-NR/PY, Schedule E, Part II, line 1; Form 2, Schedule E, line 1, or Form 3F. Each shareholder should make adjustments in Form 1 or 1-NR/PY, Schedule E, Part II, line 2; Form 2, Schedule E, line 2; or Form 3F.

**Line 6: Net Income or (Loss) from Other Rental Activities** — The amount in line 6 is your share of the S corporation's net rental income or (loss) from other activities.

The correct Mass. amount of the shareholder's share of net rental income or (loss) from other activities may differ from the comparable U.S. total reported on the shareholder's Form 1 or 1-NR/PY, Schedule E, Part II, line 1; Form 2, line 17; or Form 3F. Each shareholder should make adjustments in Form 1 or 1-NR/PY, Schedule E, Part II, line 2; Form 2, line 17; or Form 3F, to reflect the correct Mass. amount.

**Line 7: 5.85% Interest from Mass. Banks** — The amount in line 7 is your share of the S corporation's 5.85% interest from Mass. banks. Each share-

holder should include the line 7 total in Form 1, line 5; Form 1-NR/PY, line 7; Form 2, line 16; or Form 3F.

Each nonresident shareholder whose income is apportioned should also receive from the S corporation the amount of the shareholder's pre-apportionment share of 5.85% interest from Mass. banks. See Form 355S-A/355S-B instructions for more details.

**Line 8: Interest on U.S. Debt Obligations** — The amount in line 8 is your share of the S corporation's interest on U.S. debt obligations. This income is taxable by the federal government, but is tax-exempt in Mass. Each shareholder should include the line 8 total in Form 1 or 1-NR/PY, Schedule B, line 6; Form 2, Schedule B, line 5; or Form 3F, Schedule B, line 7.

**Line 9: Non-Massachusetts State and Municipal Bond Interest** — The amount in line 9 is your share of the S corporation's non-Mass. state and municipal bond interest. This income is not taxed by the federal government, but is taxable in Massachusetts. Each shareholder should include the line 9 total in Form 1, 1-NR/PY, 2 or 3F, Schedule B, line 3.

**Line 10: Other Interest and Dividend Income** — The amount in line 10 is your share of the S corporation's other interest and dividend income. The correct Mass. amount of the shareholder's share of other interest and dividend income may differ from the comparable U.S. total reported on Form 1, 1-NR/PY, 2, Schedule B, lines 1 and 2; or Form 3F. Each shareholder should make adjustments in Form 1 and 1-NR/PY, Schedule B, line 6; Form 2, Schedule B, line 8; or Form 3F, to reflect the correct Mass. amount.

**Line 11: Royalty Income** — The amount in line 11 is your share of the S corporation's royalty income. The correct Mass. amount of the shareholder's share of royalty income may differ from the comparable U.S. total reported on Form 1 or 1-NR/PY, Schedule E, Part I, line 1a; Form 2, Schedule E, line 1a; or Form 3F. Each shareholder should make adjustments in Form 1, 1-NR/PY or Form 2, Schedule E, line 2; or Form 3F, to reflect the correct Mass. amount.

**Line 12: Other Income** — The amount in line 12 is your share of the S corporation's other income. The correct Mass. amount of the shareholder's share of other income may differ from the comparable U.S. total reported on Form 1, 1-NR/PY, 2 or 3F. Each shareholder should make adjustments on the applicable lines of Form 1, 1-NR/PY, 2 or 3F to reflect the correct Mass. amount. If any income reported to the S corporation from a Real Estate Mortgage Investment Conduit (REMIC), in which the S corporation is a residual interest holder is reported in line 12, then any such adjustment should be made on Form 1 or 1-NR/PY, Schedule E, Part I, line 2 or Form 2, Schedule E, line 2.

**Lines 13, 14, 15 and 16** — The amounts in lines 13, 14, 15 and 16 include your share of the S corporation's short-term capital gains and (losses) and gain and (loss) on the sale, exchange or involuntary conversion of property used in a trade or business and held for one year or less. The correct Mass. amount of these items may differ from the comparable U.S. total. Each shareholder should make adjustments in the applicable lines of Schedule B to reflect the correct Mass. amount.

**Lines 17, 18 and 19: Capital Gain or (Loss)** — The amounts in lines 17, 18 and 19 include your share of the S corporation's long-term capital gain or (loss) and (loss) on the sale, exchange or involuntary conversion of property used in a trade or business and held for more than one year. The correct Mass. amount of each shareholder's share of these items may differ from the comparable U.S. total reported on the shareholder's Form 1, 1-NR/PY, 2 or 3F, Schedule D. Each shareholder should make adjustments in Form 1, or 1-NR/PY, Schedule D, line 8 or Form 2, Schedule D, line 10 or 3F, Schedule D, line 5 to reflect the correct Mass. amount.

**Line 20: Long-Term Gains on Collectibles** — The amount in line 20 is your share of the S corporation's long-term gains on collectibles. The correct Mass. amount of the shareholder's share of long-term gains on collectibles may differ from the comparable U.S. total reported on Form 1, 1-NR/PY, 2 or 3F, Schedule D, line 1. Each shareholder should make adjustments in Form 1 or 1-NR/PY, Schedule D, line 8, or Form 2, Schedule D, line 10 or 3F, Schedule D, line 5. Each shareholder should report the correct amount in Form 1 or 1-NR/PY Schedule D, line 10; Form 2, Schedule D, line 12 or Form 3F, Schedule D, line 7.

**Lines 22 through 26: Shareholder's Basis Information** — The information in lines 22 through 26 may be needed to determine the limitation of your losses, or the gain or (loss) from sale or other disposition of your stock and indebtedness. For further information on Massachusetts rules for determining basis adjustments in S corporation stock, see TIR 88-11.