

Schedule 2K-1. Beneficiary's Massachusetts Information

Purpose

Use Schedule 2K-1, *Beneficiary's Massachusetts Information*, to report a beneficiary's share of income, deductions, and credits from a decedent's estate or trust. Grantor-type trusts do not use Schedule 2K-1 to report the income, deductions or credits of the grantor or other person treated as the owner. Form 2G, *Grantor's/Owner's Share of a Grantor-Type Trust*, is used for that purpose.

Who Must File

Trustees or other fiduciaries must enclose a copy of Schedule 2K-1 for each beneficiary with the estate's or trust's Form 2, *Fiduciary Income Tax Return*, filed with the Commonwealth. Each beneficiary must also be given a copy of his respective Schedule 2K-1 along with instructions on how to report the items on the Schedule 2K-1 on his personal income tax return. One copy of each Schedule 2K-1 must be retained for the trustee's or fiduciary's records.

What's New

The Massachusetts Legislature recently enacted Chapter 163 of the Acts of 2005 which incorporated into Massachusetts personal income tax law the Internal Revenue Code ("Code") as amended and in effect on January 1, 2005. Massachusetts previously tied to the Code as amended and in effect on January 1, 1998. As a result of the update, Massachusetts will now adopt many of the federal tax law changes that have been enacted by Congress in the past seven years. For example, all amounts which are allowed to be excluded from federal gross income under the Code as amended and in effect on January 1, 2005, will be excluded from Massachusetts gross income, unless a specific Massachusetts statutory modification adds the amounts back to Massachusetts gross income. See G.L. c. 62, § 2(a)(1) for a description of these addbacks. For additional information, see TIR 05-16.

As a general rule, Massachusetts will not adopt any federal tax law changes incorporated into the Code after January 1, 2005. However, certain specific provisions of the personal income tax automatically adopt the current Code. These include (1) Roth IRAs, (2) Educational IRAs, (3) the exclusion for gain on the sale of a principal residence, (4) trade or business expenses, (5) travel expenses, (6) meals and entertainment expenses, (7) the maximum deferral amount of government employees' deferred compensation plans, (8) deduction of health insurance costs of self-employed, (9) medical and dental expenses, and (10) annuities. See TIRs 98-8 and 02-11 for further information.

Beneficiary's Tax Year

The beneficiary's income from the estate or trust must be included in the beneficiary's return for the taxable year in which the estate's or trust's taxable year ends. **Please note:** The requirement to file Schedule 2K-1 does not apply to a trustee or other fiduciary of an estate or trust filing on a fiscal year basis with a taxable year that begins prior to January 1, 2005. Such estates and trusts are not affected by the recent change in the way certain estates, trusts, and beneficiaries are taxed, as discussed in the *Major 2005 Tax Change* section of the 2005 Form 2 instructions, as the change in the law is effective for taxable years beginning on or after January 1, 2005.

Nonresident Beneficiaries

If the beneficiary receiving income from an estate or trust is a nonresident of Massachusetts, Massachusetts will only tax the beneficiary on income that is derived from Massachusetts sources. Where an estate or trust derives income from both within and outside Massachusetts, it will be necessary to determine what portion of the beneficiary's share of income is from sources within and outside Massachusetts so as to properly allocate and report the income on Schedule 2K-1.

Massachusetts Source Income

Income derived from or effectively connected with: (1) any trade or business, including any employment carried on by the taxpayer in the Commonwealth, whether or not the nonresident is actively engaged in a trade or business or employment in the Commonwealth in the year in which the income is received; (2) the participation in any lottery or wagering transaction within the Commonwealth; or (3) the ownership of any interest in real or tangible personal property located in the Commonwealth.

Examples of Massachusetts source income include:

- (1) all wages, salaries, tips, bonuses, fees, and other compensation which relate to activities carried on in Massachusetts, regardless of where or when the income is received;
- (2) unemployment compensation related to previous Massachusetts employment;
- (3) profit from a business, trade, profession, partnership, or S corporation conducted in Massachusetts;
- (4) rents and royalties from real and tangible personal property located in Massachusetts or from other business activities in Massachusetts;
- (5) gain from the sale of real or tangible personal property located in Massachusetts;
- (6) interest and dividends, but only if derived from or connected with a Massachusetts business activity or the ownership of Massachusetts real estate or tangible personal property; and
- (7) the definition of Massachusetts source income now includes gain from the sale of a business or an interest in a business, separation, sick or vacation pay, deferred compensation, income from covenants not to compete, and nonqualified pension income that federal law allows states to tax.

Line by Line Instructions

Name of Estate or Trust. Enter the exact legal name of the entity. If an estate or trust, refer to the governing instrument. Other fiduciaries should use the exact legal name as their appointing court ruled.

Estate or Trust Employer Identification Number. Enter the U.S. employer identification number. If you do not have one, U.S. Form SS-4, *Application for Employer Identification Number*, should be used to apply for one. If the number is not available at the time of filing, enter "applied for" and the date you applied in the boxes provided. Do **not** use a decedent's social security number for an estate. A separate Employer Identification Number is required for the estate and for each trust entity.

Name of Beneficiary. As used in this Schedule, "beneficiary" means income beneficiary. A "trust income beneficiary" is a beneficiary who is entitled to receive the income from the trust. If filing for other than a trust, enter the name and address of the person receiving the income.

Legal Domicile of Beneficiary. A legal domicile is a person's permanent home.

Beneficiary's Identification Number. Enter the social security number of the beneficiary.

Name of Fiduciary. Enter the exact legal name and title of the fiduciary. In case of multiple fiduciaries, one name is sufficient.

Mailing Address of Fiduciary. Enter the mailing address of the fiduciary listed on the first line.

In Care of Address. If the mailing address is the address of a legal firm or of a person other than the fiduciary, that person or firm should be listed on the C/O line.

Allocable Share Items, Columns (a), (b),(c), and (d).

In column (a), enter the amounts from your federal 1041, Schedule K-1, allocable to the beneficiary.

In column (b), enter the adjustments resulting from differences between Massachusetts and federal law for each specific line item.

In column (c), combine columns (a) and (b) and enter the result in column (c). The amounts entered in column (c) are used to report the amount entered on Form 2 for each specific line item allocable to the beneficiary.

In column (d), the amounts entered are used to report Massachusetts source income, loss, and credits allocable to the beneficiary.

