TAXABLE YEAR

1996

Beneficiary's Share of Income, Deductions, Credits, etc.

CALIFORNIA SCHEDULE

K-1 (541)

For calendar year 1996 or fiscal year beginning ________, 1996, and ending ________, 19 ________.

Complete a separate Schedule K-1 (541) for each beneficiary.

Name of estate or trust:

Beneficiary's social security number, California corporation number or FEIN	Estate's or trust's federal employer identification number (FEIN)
Beneficiary's name, address and ZIP code	Fiduciary's name, address and ZIP code

Caution: Refer to the instructions for Schedule K-1 (541) before entering information from this schedule on your return.

(a) Allocable share item	**(b)** Amount from federal Schedule K-1 (1041)	**(c)** Adjustments	**(d)** Total amounts using California law (Combine column (b) and column (c))	**(e)** California source amounts and credits
1 Interest				
2 Dividends				
3 Net capital gain or (loss)				
4 Business income and other non-passive income before directly allocable deductions (itemize):				
a Depreciation				
b Depletion				
c Amortization				
5 Rental, rental real estate and other passive income (itemize):				
a Depreciation				
b Depletion				
c Amortization				
6 Income for alternative minimum tax purposes				
7 Income for regular tax purposes. Add line 1 through line 5				
8 Adjustment for alternative minimum tax purposes. Subtract line 7 from line 6				
9 Tax preference items:				
a Accelerated depreciation				
b Depletion				
c Amortization				
d Exclusion items				
10 Distributions in the final year of estate or trust:				
a Excess deductions on termination. Attach computation				
b Capital loss carryover				
c ________				
11 Other (itemize):				
a Trust payments of estimated tax paid by the trust credited to you				
b Tax-exempt interest				
c Taxes paid to other states. Attach Schedule S, Other State Tax Credit				
d Other credits				
e ________				

1996 Instructions for Schedule K-1 (541)

Beneficiary's Share of Income, Deductions, Credits, etc.

A Purpose

File Schedule K-1 (541) with Form 541, California Fiduciary Income Tax Return, to report the beneficiary's income from the estate or trust. California law generally follows federal law.

B Who Must File

The fiduciary (or one of the joint fiduciaries) must file Schedule K-1 (541). A copy of each beneficiary's Schedule K-1 (541) must be attached to Form 541 filed with the Franchise Tax Board (FTB) and must give each beneficiary a copy of his or her respective Schedule K-1 (541). One copy of each Schedule K-1 (541) must be retained for the fiduciary's records.

As a payer of income, the estate or trust is required under R&TC Section 18624 (former Section 18934) to request and provide a proper identifying number for each recipient of income. Enter this number on all Schedules K-1 (541) when the estate or trust files its return. Individuals and business recipients are responsible for giving the estate or trust their social security number, California corporation number, Secretary of State file number or federal employer identification number (FEIN) upon request. The estate or trust may use federal Form W-9, Request for Taxpayer Identification Number and Certification, to request the beneficiary's identifying number.

C Penalty

Under R&TC Section 19183 (former Section 18681.1(c)), the estate or trust is charged a $50 penalty for each failure to provide a required taxpayer identification number, unless reasonable cause is established for not providing it. If reasonable cause exists, please explain in a signed affidavit and attach it to Form 541.

D Substitute Forms

If the estate or trust does not use an official FTB Schedule K-1 (541) or a software program with an FTB approved Schedule K-1 (541), it must get approval from the FTB to use a substitute Schedule K-1 (541). The estate's or trust's substitute schedule must include the Beneficiary's Instructions for Schedule K-1 (541) or other prepared specific instructions. Get FTB Pub. 1098, Guidelines for the Development and Use of Substitute, Scannable and Reproduced Tax Forms, for more information. See the back cover of your tax booklet for information on ordering forms and publications.

E Taxable Year

Beneficiary's taxable year. The beneficiary's income from the estate or trust must be included in the beneficiary's return for the taxable year during which the taxable year of the estate or trust ends.

Prior Year. Do not include the beneficiary's income amounts that were deducted on Form 541 for an earlier year and that were credited or required to be distributed in that earlier year.

F Beneficiary's Income

If no special computations are required, use the following instructions to compute the beneficiary's income from the estate or trust.

California reporting requirements are the same as federal for:

- Income;
- Character of income;
- Allocation of deductions;
- Allocation of credits; and
- Gifts and bequests.

In Schedule K-1 (541), column (b), enter the amounts from federal Schedule K-1 (1041). In column (c), enter the difference between the California and federal totals. In column (d), enter the California total amount, which is the result of combining column (b) and column (c). In column (e), enter the California source amount. Prepare and give a Schedule K-1 (541) to each beneficiary of the estate or trust.

Income of nonresidents from bank accounts, stocks, bonds, notes and other intangible personal property is not income from sources in California unless (1) the property has acquired a business situs in California or (2) orders with brokers have been placed so regularly as to constitute ''doing business'' (R&TC Section 17952). Only include in column (e) income from intangible property that is income from sources within California. Attach a separate schedule to each beneficiary's Schedule K-1 (541) showing intangible income (i.e., interest, dividends, capital gains from the sale of stocks, bonds, etc.) whose source is dependent upon the residence or commercial domicile of the beneficiary.

G Passive Activities

The limitations on passive activity losses and credits under Internal Revenue Code (IRC) Section 469 apply to estates and trusts. Estates and trusts that distribute income to beneficiaries are allowed to allocate depreciation, depletion and amortization deductions to beneficiaries. These deductions are called ''directly allocable deductions.''

If items of income (loss), deduction or credit from more than one activity are reported on Schedule K-1 (541), the fiduciary must attach a statement to Schedule K-1 (541) for each passive activity.

H Nonresident Beneficiaries

It is necessary to compute the beneficiaries' share of income and deductions, disregarding the nonresident status of any particular beneficiary. If the beneficiary of an estate or trust is a resident of California on the last day of the estate's or trust's taxable year, the beneficiary's share of income or losses of the estate or trust for that taxable year is attributable to California. Nonresident beneficiaries are taxed only on income that is derived from sources within California. Where an estate or trust derives income from both within and outside California, it is necessary for the fiduciary to determine what portion of the beneficiary's share of income of the estate or trust is from within and outside California. The amounts derived from or attributable to income from sources within California are to be properly allocated and reported on the Schedule K-1 (541). The fiduciary must clearly show how the allocation was made. Enter the beneficiary's share of income and deductions from sources within California on Schedule K-1 (541).

Payments to nonresidents of income having a business or taxable situs in California are subject to withholding of taxes. For more information, get the instructions for Form 592, Form 592-A and Form 592-B.

See Title 18, Cal Code Reg. Sections 17951-1(c), 17951-2 and 17953 regarding taxability of distributions to nonresident beneficiaries.

See instructions regarding withholding at source on page 4 of this booklet if California source income is being distributed to a nonresident beneficiary.

Specific Line Instructions

Please round cents to the nearest whole dollar.

Line 1 and Line 2
See the federal instructions for Schedule K-1 (1041).

Line 3 – Enter the combined amount from federal Schedule K-1 (1041), line 3a and line 3b, less amounts allocable to IRC Section 1231 property.

Note: Gains or losses from the complete or partial disposition of a rental, rental real estate or trade or business activity that is a passive activity must be shown as an attachment to Schedule K-1 (541).

Line 4 – Enter the beneficiary's share of annuities, royalties or any other income that is **NOT** subject to any passive activity loss limitation rules at the beneficiary's level. Enter the beneficiary's share of these deductions attributable to each activity reported on line 4 and line 5.

Line 6 – Enter the beneficiary's share of distributable net alternative minimum taxable income from Schedule P (541), Alternative Minimum Tax and Credit Limitations – Fiduciaries.

Line 9a through Line 9d
Enter the amounts from Schedule P (541). Get the federal instructions for Schedule K-1 (1041) for more information.

Line 10a through Line 10c
If this is the final return, enter on line 10 the beneficiary's share of any:

- Excess deductions on termination;
- Capital loss carryover; or
- Unused net operating loss carryover if this is the last year eligible.

Line 11a through Line 11e
Enter the beneficiary's share of each item for which there is no designated line on Schedule K-1 (541). Attach a separate sheet for each item reported on line 11 showing the computation. Items that must be reported on this line include the allocable share, if any, of items listed on line 11a through line 11d.

Line 11b – Enter tax-exempt interest received by the estate or trust (including exempt-interest dividends received as a shareholder in a mutual fund or other regulated investment company).

Line 11c – Enter taxes paid to other states reported on Schedule S, Other State Tax Credit.

Note: Attach a copy of the return filed with the other state, evidence of payment and a copy of Schedule S to support the amount of tax paid.

Line 11d – Enter on an attached schedule each beneficiary's allocable share of any credit or credit information that is related to a trade or business activity.

Line 11e – Enter any other item that is not included above such as:

- Gross farming and fishing income;
- Investment income (IRC Section 163(d)); or
- Unused net operating loss carryover available for future years. Get form FTB 3805V, Net Operating Loss (NOL) Computation and NOL and Disaster Loss Limitations — Individuals, Estates and Trusts, to figure the NOL carryover.

The estate or trust may need to report supplemental information that is not specifically requested on the Schedule K-1 (541) separately to each beneficiary.

Beneficiaries may need to obtain the amount of their proportionate interest of aggregate gross receipts, less returns and allowances, from the estate or trust to determine if they are a qualified taxpayer who can exclude certain items from alternative minimum taxable income. The estate or trust can provide the beneficiary's proportionate interest of aggregate gross receipts on Schedule K-1 (541), line 11e, column (d) and column (e). Proportionate interest includes an interest in a pass-through entity. See R&TC Section 17062 for more information.

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

General Instructions

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 identifying number, as well as the estate's or trust's name, address and identifying number, should be entered on the Schedule K-1 (541). Please 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), provides your federal Schedule K-1 (1041) amounts; column (c) provides your adjustment amounts to be entered on Schedule CA (540), California Adjustments – Residents, or Schedule CA (540NR), California Adjustments – Nonresidents or Part-Year Residents; column (d) provides your total amounts using California law by combining column (b) and column (c); and column (e) provides your California source income and loss amounts.

Generally, the amount of loss and deduction you may claim 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 federal instructions for Schedule K-1 (1041) for these items.

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 are usually not taxable to the beneficiary (i.e., distributions of corpus or tax exempt income). Resident beneficiaries are taxed on income distributed or distributable from all sources. Nonresident beneficiaries are taxed only on income distributed or distributable from sources derived within California (R&TC Section 17953).

Beneficiaries that are California residents should include in their gross income the amounts in column (d) on their Form 540, California Resident Income Tax Return, since the beneficiary is taxed on income from all sources. Beneficiaries that are nonresidents should include amounts in column (d) and column (e) on their Form 540NR, California Nonresident or Part-Year Resident Income Tax Return, to arrive at California source income. For purposes of this section, the nonresident beneficiary is deemed the owner of intangible personal property from which the income of the estate or trust is derived, and so such income is taxed at the beneficiary's domicile.

Note: The estate or trust will attach a schedule of intangible income (i.e., 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 your state of residence or commercial domicile.

Specific Line Instructions

Enter the difference between federal and California amounts on Schedule CA (540 or 540NR). Also, if you are a nonresident, enter California source amounts in the Schedule K-1 (541) on your Schedule CA (540NR), column (e).

Line 3 through Line 10
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. Nonresident or part-year resident beneficiaries must complete another form FTB 3801 to report the amounts shown in column (e), California source amounts. 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 Schedule CA (540NR) only if there is a federal/California difference.

If there is no California form or schedule to compute your passive activity loss adjustment amount on (i.e., rental loss from passive activities), you may figure the adjustment amount on the California Adjustment Worksheet in the instructions for form FTB 3801. Enter the total of your adjustments from line 1e of this worksheet from all passive activities on Schedule CA (540 or 540NR), line 17, column B or line 17, column C, whichever is appropriate.

Line 1 – Interest
Report on Schedule CA (540 or 540NR), line 8, column B or line 8, column C, whichever is appropriate, any amount shown on line 1, column (c).

Line 2 – Dividends
Report on Schedule CA (540 or 540NR), line 9, column B or line 9, column C, whichever is appropriate, any amount shown on line 2, column (c).

Line 3 – Net capital gain or (loss)
Report on Schedule D (540), California Capital Gain or Loss Adjustment, any amount shown on line 3, column (d). Nonresident or part-year resident beneficiaries must complete another Schedule D (540) to report any amount shown on line 3, column (e).

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

Line 4 – Business income and other non-passive income before directly allocable deductions
Use line 4, column (d) or column (e), to report your share of business income and other non-passive income before directly allocable deductions that is NOT subject to any passive activity loss limitation rules at the beneficiary level.

Amounts on this line are other items of income, gain or (loss) not included on line 1 through line 3. The estate or trust should give you a description of the amount of your share for each of these items.

Line 5 – Rental, rental real estate and other passive income
Use line 5 to report your share of rental, rental real estate and other passive income that is subject to any passive activity loss limitation rules at the beneficiary's level.

Report loss items that are passive activity amounts to you on form FTB 3801.

Report income or gain items that are passive activity amounts to you as instructed below. If, in addition to this passive activity income or gain, you have passive activity losses from any other source, also report the passive activity income or gain on form FTB 3801.

Line 5 items may include:

- Gains from disposition of farm recapture property (get Schedule D-1, Sales of Business Property) and other items to which IRC Section 1252 applies;
- Recoveries of bad debts, prior taxes and delinquency amounts (IRC Section 111). Report the amount from line 5, column (c), on Schedule CA (540 or 540NR), line 17, column B or line 17, column C, whichever is appropriate;
- Gains and losses from wagers (IRC Section 165(d));
- Specially allocated ordinary gain or (loss). Report this amount on Schedule D-1, line 10; and
- Net gain or (loss) from involuntary conversions due to casualty or theft. The estate or trust will give you a schedule that shows the California amounts to be entered on federal Form 4684, Casualties and Thefts, Section B, Part II, line 34, column (b)(i), column (b)(ii) and column (c).

See the federal ''Specific Instructions'' for Schedule K-1 (1041) to determine the proper allocation of income or loss.

Ordinary income or (loss) from trade or business activities. The amounts reported on line 5, column (d) or column (e), are your share of the ordinary income or (loss) from the trade or business activities of the estate or trust. Generally, where you report this amount on Form 540 or Form 540NR depends on whether or not the amount is from an activity that is a passive activity to you.

If, in addition to this passive activity income, you have a passive activity loss from this estate or trust or from any other source, also report the income on form FTB 3801.

If a loss is reported on line 5, column (d) or column (e), report the loss on the applicable line of form FTB 3801 to determine how much of the loss is allowable.

Income or (loss) from rental real estate activities. Generally, any income or (loss) reported in column (d) or column (e) is a passive activity amount. There is an exception, however, for losses from a qualified low-income housing project. The loss limitations of IRC Section 469 do not apply to qualified investors in qualified low-income housing projects. The estate or trust will attach a schedule to identify such amounts, if applicable. You must report the California adjustment amount from column (c) and California source amounts from column (e) on Schedule CA (540 or 540NR).

Use the following instructions to determine where to enter a line 5 amount.

If you have a loss in column (d) or column (e) (other than a qualified low-income housing project loss), enter the loss on the applicable line of form FTB 3801 to determine how much of the loss is allowable. Your share of the loss may be eligible for the special $25,000 allowance for rental real estate losses. Get the instructions for form FTB 3801 for more information.

Note: If you are a qualified investor reporting a qualified low-income housing project loss, report the California adjustment amount from column (c) and California source amounts from column (e) on Schedule CA (540 or 540NR). If you have income in column (d) or column (e), enter the California adjustment amount from column (c) and California source amounts from column (e) on Schedule CA (540 or 540NR). If, in addition to this passive activity income, you have a passive activity loss from this estate or trust or from any other source, also report the column (d) or column (e) income on form FTB 3801.

Income or (loss) from other rental activities. The amount in column (d) or column (e) is a passive activity amount for all beneficiaries.

If the estate or trust has a residual interest in a real estate mortgage investment conduit (REMIC), it will report on the statement your share of REMIC taxable income (net loss). Report the adjustment amount from column (c) and California source amounts from column (e) on Schedule CA (540 or 540NR). The statement will also report your share of ''excess inclusion'' and your share of IRC Section 212 expenses.

If you itemize your deductions on federal Schedule A (1040), you may deduct these IRC Section 212 expenses as a miscellaneous deduction subject to the 2% adjusted gross income limit.

Line 5a through line 5c – Tax preference items
Enter your share of these deductions attributable to each activity reported on line 4 and line 5.

Report any tax preference attributable to depreciation, depletion or amortization separately on line 9a through line 9c.

Line 8 – Enter your share of adjustment for alternative minimum tax purposes on Schedule P (540), Alternative Minimum Tax and Credit Limitations – Residents, or Schedule P (540NR), Alternative Minimum Tax and Credit Limitations – Nonresidents and Part-Year Residents.

Line 9a through line 9c
Schedule P (540) filers: Report any column (d) amount on Schedule P (540).

Schedule P (540NR) filers: Report column (d) amounts on Schedule P (540NR), Part I and report column (e) amounts in Part IV.

Line 9d – Exclusion items
Report any column (d) or column (e) amount on line 2 of the 1996 Form 3510, Credit for Prior Year Alternative Minimum Tax — Individuals or Fiduciaries.

Line 10a – Excess deductions on termination
Report any amount in column (c) on Schedule CA (540 or 540NR), line 36 as an addition or subtraction, whichever is appropriate.

Line 10b – Capital loss carryover
Report any capital loss carryovers from the final year of the estate or trust on line 4, column (e), of your Schedule D (Form 540).

Line 11a – Trust payments of estimated tax credited to you
Report on Form 540, line 39, or Form 540NR, line 48, any estimated tax payments paid by the trust on your behalf.

Line 11b – Tax-exempt interest
Report any column (c) amount on Schedule CA (540 or 540NR), line 8, column B or line 8, column C, whichever is appropriate.

Line 11c – Taxes paid to other states
You may claim a credit against your individual tax on your share of the net income tax paid to other states by the estate or trust. Get California Schedule S, Other State Tax Credit.

Line 11d – 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.

Examples of credits that may be reported (depending on the type of activity they relate to) include:

- Enterprise zone hiring and sales or use tax credit — get form FTB 3805Z;
- Orphan drug credit carryover — get form FTB 3540;
- Program area hiring and sales or use tax credit — get form FTB 3805Z;
- Research credit — get form FTB 3523;
- Residential rental and farm sales credit carryover — get form FTB 3540;
- Commercial solar electric system carryover — get form FTB 3540;
- Employer child care program/ contribution credit — get form FTB 3501;
- Los Angeles revitalization zone hiring and sales or use tax credit — get form FTB 3806;
- Enhanced oil recovery credit — get form FTB 3546;
- Donated agricultural products transportation credit — get form FTB 3547; and
- Disabled access credit — get form FTB 3548.

Note: The passive activity limitations of IRC Section 469 may limit the amount of credits you may take. Credits that are related to rental activities of the estate or trust and are passive activity credits to the beneficiary are:

- Low-income housing credit;
- Credits related to rental real estate activities; and
- Credits related to other rental activities.

Credits that may be limited under the passive activity credit rules are:

- Orphan drug credit carryover;
- Research credit; and
- Low-income housing credit.

If you have an amount from any of the three credits listed above, transfer the amount in column (d) or column (e) to the appropriate credit form, following its instructions for determining the passive activity loss limitation.

Line 11e – Other
Report any column (c) amount on Schedule CA (540 or 540NR), line 17, column B or line 17, column C, whichever is appropriate.

Legislation enacted in 1996 allows a qualified taxpayer to exclude income, positive and negative adjustments and preference items attributable to any trade or business from alternative minimum taxable income. A qualified taxpayer is an individual, estate or trust that:

- Is the owner of, or has an ownership interest in a trade or business; and
- Has gross receipts, less returns and allowances, of less than $1,000,000 during the taxable year from all trades or businesses that the taxpayer is an owner or has an ownership interest ("aggregate gross receipts"). In the case of an ownership interest, the taxpayer should include only the proportional share of gross receipts of any trade or business from a partnership, S corporation, regulated investment company (RIC), real estate investment trust (REIT) or real estate mortgage investment conduit (REMIC).

You need to add your share of the gross receipts from this estate or trust to your gross receipts from all other trades or businesses in which you hold an interest to determine if you are a qualified taxpayer. See R&TC Section 17062 for more information.