

## Instructions

**Who Must File.** This worksheet must be filed by an Electing Small Business Trust (ESBT) which receives income from an S corporation doing business in Nebraska and which is taxed under Internal Revenue Code (IRC) §1361c.

**When and Where to File.** This worksheet must be completed and attached to the Nebraska Fiduciary Income Tax Return, Form 1040N.

**Specific Instructions.** Under IRC § 1361(c), an ESBT receiving income from an S corporation is required to calculate its tax liability as a separate trust. Nebraska also requires an ESBT to calculate its Nebraska tax on the S corporation's income as a separate trust. All amounts entered on this Worksheet must be related to the amounts received from the S corporation and used to calculate the separate federal tax. If the separate federal tax was based on distributions received from more than one S corporation, this worksheet should include the aggregate amounts received.

**Reminder:** ESBT's receiving income or losses from S corporations doing business in more than one state must adjust their federal taxable income as indicated in the instructions for line 4 and line 5 of this worksheet.

**Line 1.** Enter the ESBT's share of the total federal income received from the S corporation.

**Line 2.** Enter the ESBT's federal taxable income. This amount should be included in the supplemental information of the ESBT's federal income return.

**Line 3.** Enter the amount of interest and dividend income from U.S. government obligations exempt from state taxation. *Fiduciary Income Tax Regulation, 29.209, Taxation of Resident and Nonresident Estates and Trusts, Item C-13.* Interest and dividend income which can be included on line 3. Interest income from repurchase agreements involving U.S. government obligations is not deductible as U.S. government income.

Gains or losses from the sale or other disposition of federal securities are taxable for state income tax purposes and should not be included on line 3.

**Line 4.** Enter the total adjustments increasing federal taxable income. This income includes, but is not limited to:

- Non-Nebraska state or local obligations exempt from federal taxation;
- Any loss from an S corporation or LLC which was not from Nebraska sources, and
- Federal net operating or capital losses deducted in computing federal taxable income.

**Line 5.** The net income received from an S corporation that is not related to Nebraska sources is deducted from federal taxable income. For information on other deductions, see Nebraska Fiduciary Income Tax Regulation 29-014, Taxation of Resident and Nonresident Estates and Trusts.

**Line 6.** A resident ESBT will compute and report its tax liability on lines 7 and 8 of the Worksheet and enter the total on line 9 of the Worksheet. This total will also be carried to line 9 of Form 1040N, where it will be added to any tax computed on the Form 1040N Minimum or Other Tax Worksheet.

A nonresident ESBT will not use lines 7, 8, and 9 of the Worksheet. A nonresident ESBT must complete lines 10 through 18 of the Worksheet to determine its Nebraska tax liability.

**Line 8.** Use the Nebraska Minimum or Other Tax Worksheet to calculate the amount to enter on line 8. The worksheet may be found in the instructions for line 9 of the Form 1040N.

**Line 10.** Use the Nebraska Minimum or Other Tax Worksheet to calculate the amount to enter on line 10. The worksheet may be found in the instructions for line 9 of the Form 1040N.

**Line 14.** Enter the entire net income or loss distributed from the S corporation to the ESBT.

If the S corporation has business activity in more than one state, only a portion of the income is included on line 14. The portion included will be based on the S corporation's Nebraska apportionment factor.

**Line 15.** Enter the taxable amount of Nebraska capital and ordinary gain and loss distributed from the S corporation.

**Line 16.** The adjustments must relate to Nebraska income amounts reported on lines 14 and 15. Include a schedule specifically identifying the adjustments claimed.

**Line 18.** The ratio used in the division calculation of this line must be computed to five decimal places and rounded to four. This total calculated on this line will also be carried to line 9 of Form 1040N, where it will be added to any tax computed on the Form 1040N Minimum or Other Tax Worksheet.