**SCHEDULE RPC**
41A720RPC (6-13)
Commonwealth of Kentucky
DEPARTMENT OF REVENUE

Taxable Year Ending
___ ___ / ___ ___
Mo. Yr.

# RELATED PARTY COSTS DISCLOSURE STATEMENT

➤ See instructions.

➤ Attach to Form 720, 720S, 765 or 765-GP.

KRS 141.205 and 103 KAR 16:230

| Name of Entity | Federal Identification Number | Kentucky Corporation/LLET Account Number (if applicable) |
|---|---|---|
| | _ _ _ _ _ _ _ _ _ | _ _ _ _ _ _ |

Schedule RPC, Related Party Costs Disclosure Statement, shall be completed by an entity that paid, accrued or incurred intangible expenses, intangible interest expense or management fees to a related member.

To be entitled to an exception from the add back of expenses and a corresponding deduction from net income, the taxpayer must complete and attach this schedule to the applicable Kentucky tax return (Form 720, 720S, 765 or 765-GP).

**Failure to complete Schedule RPC and attach all supporting documentation will result in disallowance of the exception(s).**

## PART I – REQUIRED ADD BACK

All intangible expenses, intangible interest expenses and management fees that are paid, accrued or incurred to a related member must be added back to income unless one or more of the statutory exceptions are met.

### Section A — Intangible Expenses

| | | | | |
|---|---|---|---|---|
| 1. | **Total intangible expenses paid to a related member:** Do not include any interest expense or costs related to intangible interest expense | 1 | | 00 |

### Section B — Intangible Interest Expenses

| | | | | |
|---|---|---|---|---|
| 1. | **Total intangible interest expenses paid to a related member** | 1 | | 00 |

### Section C — Management Fees

| | | | | |
|---|---|---|---|---|
| 1. | **Total management fees paid to a related member** | 1 | | 00 |

### Section D — Total Required Add Back

| | | | | |
|---|---|---|---|---|
| 1. | Add Section A, line 1, Section B, line 1 and Section C, line 1. Enter here | 1 | | 00 |

## PART II – EXCEPTIONS TO ADD BACK

### Section A — Exceptions to Expenses

| | | | | |
|---|---|---|---|---|
| 1. | Enter amount from Part III, Section A, line 6 | 1 | | 00 |
| 2. | Enter amount from Part III, Section B, line 5 | 2 | | 00 |
| 3. | Enter amount from Part III, Section C, line 5 | 3 | | 00 |
| 4. | Enter amount from Part III, Section D, line 1 | 4 | | 00 |
| 5. | Enter amount from Part III, Section E, line 1 | 5 | | 00 |
| 6. | Enter amount from Part III, Section F, line 1 | 6 | | 00 |
| 7. | Total Exceptions: Add lines 1 through 6 and enter here | 7 | | 00 |

### Section B — Total Related Party Cost Add Back After Exceptions

| | | | | |
|---|---|---|---|---|
| 1. | Total: Part I, Section D, line 1 less Part II, Section A, line 7. Enter here and on Form 720, Part III, line 6; or Form 720S, 765 or 765-GP, Part I, line 4 | 1 | | 00 |

## PART III – DETAIL OF EXCEPTIONS TO ADD BACK

**Section A — Exception for intangible expenses, intangible interest expenses and management fees paid to related members that are included in the same consolidated Kentucky corporation income tax return for this taxable year.**

| | Name of Related Member | Federal Identification Number | Kentucky Corp./LLET Account Number | Amount Deducted | |
|---|---|---|---|---|---|
| 1. | | | | | 00 |
| 2. | | | | | 00 |
| 3. | | | | | 00 |
| 4. | | | | | 00 |
| 5. | | | | | 00 |
| 6. | **Total of lines 1 through 5. Enter here and on PART II, Section A, line 1** | | | | 00 |

**Section B — Exception for intangible expenses and intangible interest expenses paid to related members who are subject to tax in another state.**

| | | |
|---|---|---|
| A. | Was any intangible expense or intangible interest expense paid, accrued or incurred to a recipient where the expense or payment was subject to, in the related member's state of commercial domicile, a net income tax, or a franchise tax measured by, in whole or in part, net income? | ☐ Yes ☐ No |
| B. | Is the recipient engaged in substantial business activities separate and apart from the acquisition, use, licensing, management, ownership, sale, exchange, or any other disposition of intangible property, or in the financing of related members, as evidenced by the maintenance of permanent office space and full-time employees dedicated to the maintenance and protection of intangible property? | ☐ Yes ☐ No |
| C. | Is the transaction giving rise to the intangible expenses or intangible interest expense between the taxpayer and the recipient made at a commercially reasonable rate and at terms comparable to an arm's length transaction? | ☐ Yes ☐ No |

If the answers to Questions A, B and C above are all "Yes," attach a copy of the pertinent parts of the contract or other documentation that support this exception, and complete the following schedule. **Failure to provide the requested information will result in a denial of the exception.** If any of the answers are "No," the taxpayer does not qualify for this exception.

| | Name of Related Member | Federal Identification Number | State of Commercial Domicile | Name of Tax | Amount Deducted | |
|---|---|---|---|---|---|---|
| 1. | | | | | | 00 |
| 2. | | | | | | 00 |
| 3. | | | | | | 00 |
| 4. | | | | | | 00 |
| 5. | **Total of lines 1 through 4. Enter here and on PART II, Section A, line 2** | | | | | 00 |

**Section C — Exception for intangible expenses and intangible interest expenses paid to related members located in a country or countries with which the United States has a comprehensive income tax treaty(ies).**

| | | |
|---|---|---|
| A. | Was any intangible expense or intangible interest expense paid, accrued or incurred to a related member in a foreign nation which has in force a comprehensive income tax treaty with the United States? | ☐ Yes ☐ No |
| B. | Is the recipient engaged in substantial business activities separate and apart from the acquisition, use, licensing, management, ownership, sale, exchange, or any other disposition of intangible property, or in the financing of related members, as evidenced by the maintenance of permanent office space and full-time employees dedicated to the maintenance and protection of intangible property? | ☐ Yes ☐ No |
| C. | Is the transaction giving rise to the intangible expenses or intangible interest expense between the taxpayer and the recipient made at a commercially reasonable rate and at terms comparable to an arm's length transaction? | ☐ Yes ☐ No |

If the answer to Questions A, B and C above are all "Yes," attach a copy of the pertinent parts of the contract or other documentation that support this exception and complete the following schedule. **Failure to provide the requested information will result in a denial of the exception.** If any of the answers are "No," the taxpayer does not qualify for this exception.

| | Name of Related Member | Name of Foreign Nation | Description of Treaty | Amount Deducted | |
|---|---|---|---|---|---|
| 1. | | | | | 00 |
| 2. | | | | | 00 |
| 3. | | | | | 00 |
| 4. | | | | | 00 |
| 5. | **Total of lines 1 through 4. Enter here and on PART II, Section A, line 3** | | | | 00 |

**Section D — Exception for intangible expenses and intangible interest expenses where the recipient regularly engages in transactions with one (1) or more unrelated parties on terms identical to that of the subject transaction.**

| | | |
|---|---|---|
| A. | Has the recipient regularly engaged in transactions with one (1) or more unrelated parties on terms identical to that of the subject transaction (giving rise to the intangible expense or intangible interest expense)? | ☐ Yes ☐ No |

If the answer to Question A is "Yes," attach copies of the agreements between the taxpayer and the recipient and the recipient and the unrelated party, and complete line 1 below. **Failure to attach the agreements will result in a denial of the exception.** If the answer is "No," the taxpayer does not qualify for this exception.

| | | | |
|---|---|---|---|
| 1. | **Exception amount. Enter here and on PART II, Section A, line 4** | | 00 |

**Section E — Exception for management fees that are made at arm's length.**

| | | |
|---|---|---|
| A. | Is the transaction giving rise to the management fee expense between the taxpayer and the recipient made at a commercially reasonable rate and at terms comparable to an arm's length transaction? | ☐ Yes ☐ No |

If the answer to Question A is "Yes," attach a copy of the pertinent parts of the contract or other documentation that support this exception, and complete line 1 below. **Failure to provide the requested information will result in a denial of this exception.** If the answer is "No," the taxpayer does not qualify for this exception.

| | | | |
|---|---|---|---|
| 1. | **Exception amount. Enter here and on PART II, Section A, line 5** | | 00 |

| Section F — Exception for intangible expenses, intangible interest expenses and management fees where the taxpayer and department have agreed in writing to the application or use of an alternative method of apportionment under KRS 141.120(9). | | |
|---|---|---|
| A. | Is there a written agreement between the taxpayer and the Department which provides for use of an alternative method of apportionment under KRS 141.120(9)? | ☐ Yes ☐ No |
| If the answer to Question A is "Yes," attach a copy of the written agreement and complete line 1 below. **Failure to attach the written agreement will result in a denial of the exception.** If the answer is "No," the taxpayer is not eligible for this exception. | | |
| 1. | **Exception amount. Enter here and on PART II, Section A, line 6** | 00 |

## INSTRUCTIONS FOR RELATED PARTY COSTS

KRS 141.205(1)(l) states that "**related party costs**" means intangible expense, intangible interest expense, management fees and any costs or expenses associated with other related party transactions.

KRS 141.205(1)(h) states that "**recipient**" means a related member or foreign corporation to whom the item of income that corresponds to the intangible interest expense, the intangible expense, or the management fees, is paid.

KRS 141.205(1)(b) states that "**intangible expenses**" includes the following only to the extent that the amounts are allowed as deductions or costs in determining taxable net income before the application of any net operating loss deduction provided under Chapter 1 of the Internal Revenue Code: (i) Expenses, losses, and costs for, related to, or in connection directly or indirectly with the direct or indirect acquisition, use, maintenance, management, ownership, sale, exchange, or any other disposition of intangible property; (ii) Losses, related to, or incurred in connection directly or indirectly with, factoring transactions or discounting transactions; (iii) Royalty, patent, technical, and copyright fees; (iv) Licensing fees; and (v) Other similar expenses and costs.

KRS 141.205(1)(c) states that "**intangible interest expense**" means only those amounts which are directly or indirectly allowed as deduction under Section 163 of the Internal Revenue Code for purposes of determining taxable income under that code, to the extent that the amounts are directly or indirectly for, related to, or connected to the direct or indirect acquisition, use, maintenance, management, ownership, sale, exchange, or any other disposition of intangible property.

KRS 141.205(1)(d) states that "**management fees**" includes but is not limited to expenses and costs paid for services pertaining to accounts receivable and payable, employee benefit plans, insurance, legal, payroll, data processing, purchasing, tax, financial and securities, accounting, reporting and compliance or similar services, only to the extent that the amounts are allowed as a deduction or cost in determining taxable net income before the application of net operating loss deduction for the taxable year provided under Chapter 1 of the Internal Revenue Code.

### PART I—REQUIRED ADD BACK

**Section A—Intangible Expenses**

**Line 1**—Enter the total of all intangible expenses paid to a related member. Do not include any interest expense or costs related to intangible interest expense.

**Section B—Intangible Interest Expenses**

**Line 1**—Enter the total of all intangible interest expenses paid to a related member.

**Section C—Management Fees**

**Line 1**—Enter the total of all management fees paid to a related member.

**Section D—Total Required Add Back**

**Line 1**—Enter the total of Section A, Line 1, Section B, Line 1 and Section C, Line 1.

### PART II—EXCEPTIONS TO ADD BACK

**Section A—Exceptions to Expenses**

**Line 1**—Enter the amount from Part III, Section A, Line 6.

**Line 2**—Enter the amount from Part III, Section B, Line 5.

**Line 3**—Enter the amount from Part III, Section C, Line 5.

**Line 4**—Enter the amount from Part III, Section D, Line 1.

**Line 5**—Enter the amount from Part III, Section E, Line 1.

**Line 6**—Enter the amount from Part III, Section F, Line 1.

**Line 7**—Enter the total of Lines 1 through 6.

**Section B—Total Related Party Cost Add Back After Exceptions**

**Line 1**—Enter the amount from Part I, Section D, Line 1 less the amount on Part II, Section A, Line 7. Also, enter the amount on Form 720, Part III, Line 6; Form 720S, Part I, Line 4; Form 765, Part I, Line 4; or Form 765-GP, Page 1, Line 4.

## PART III—DETAIL OF EXCEPTIONS TO ADD BACK

**Section A—Exception for intangible expenses, intangible interest expenses and management fees paid to related members that are included in the same consolidated Kentucky corporation income tax return for this taxable year.**

**Lines 1 to 5**—For each related member include the name, Federal Identification Number, Kentucky Corporation/LLET Account Number and the amount deducted by the taxpayer. If there are more than five related members, attach a statement with the information for each member and enter the total on Line 1.

**Line 6**—Enter the total of Lines 1 through 5. Also enter the total on Part II, Section A, Line 1.

**Section B—Exception for intangible expenses and intangible interest expenses paid to related members who are subject to tax in another state.**

**Questions A to C**—Answer the questions A through C. If the answers are all Yes, attach a copy of the pertinent parts of the contract or other documentation that support this exception, and complete Lines 1 through 5.

**Lines 1 to 4**—For each related member include the name, Federal Identification Number, state of commercial domicile, name of tax and the amount deducted by the taxpayer. If there are more than four related members, attach a statement with the information for each member and enter the total on Line 1.

**Line 5**—Enter the total of Lines 1 through 4. Also enter the total on Part II, Section A, Line 2.

**Section C—Exception for intangible expenses and intangible interest expenses paid to related members located in a country or countries with which the United States has a comprehensive income tax treaty(ies).**

**Questions A to C**—Answer the questions A through C. If the answers are all Yes, attach a copy of the pertinent parts of the contract or other documentation that support this exception, and complete Lines 1 through 5.

**Lines 1 to 4**—For each related member include the name, name of foreign nation, description of treaty and the amount deducted by the taxpayer. If there are more than four related members, attach a statement with the information for each member and enter the total on Line 1.

**Line 5**—Enter the total of Lines 1 through 4. Also enter the total on Part II, Section A, Line 3.

**Section D—Exception for intangible expenses and intangible interest expenses where the recipient regularly engages in transactions with one (1) or more unrelated parties on terms identical to that of the subject transaction.**

**Question A**—Answer question A. If the answer is Yes, attach copies of the agreements between the taxpayer and the recipient and the recipient and the unrelated party, and complete Line 1.

**Line 1**—Enter the total amount deducted by the taxpayer for intangible expenses and intangible interest expenses paid to related parties that are based on terms identical to that of unrelated parties. Also enter the total on Part II, Section A, Line 4.

**Section E—Exception for management fees that are made at arm's length.**

**Question A**—Answer question A. If the answer is Yes, attach a copy of the pertinent parts of the contract or other documentation that support this exception, and complete Line 1.

**Line 1**—Enter the total amount deducted by the taxpayer for management fees paid to related parties that were made at terms comparable to an arm's length transaction. Also enter the total on Part II, Section A, Line 5.

**Section F—Exception for intangible expenses, intangible interest expenses and management fees where the taxpayer and department have agreed in writing to the application or use of an alternative method of apportionment under KRS 141.120(9).**

**Question A**—Answer question A. If the answer is Yes, attach a copy of the written agreement between the taxpayer and the department, and complete Line 1.

**Line 1**—Enter the total amount deducted by the taxpayer for intangible expenses, intangible interest expenses and management fees where the taxpayer and department have agreed in writing to the application or use of an alternative method of apportionment under KRS 141.120(9). Also enter the total on Part II, Section A, Line 6.