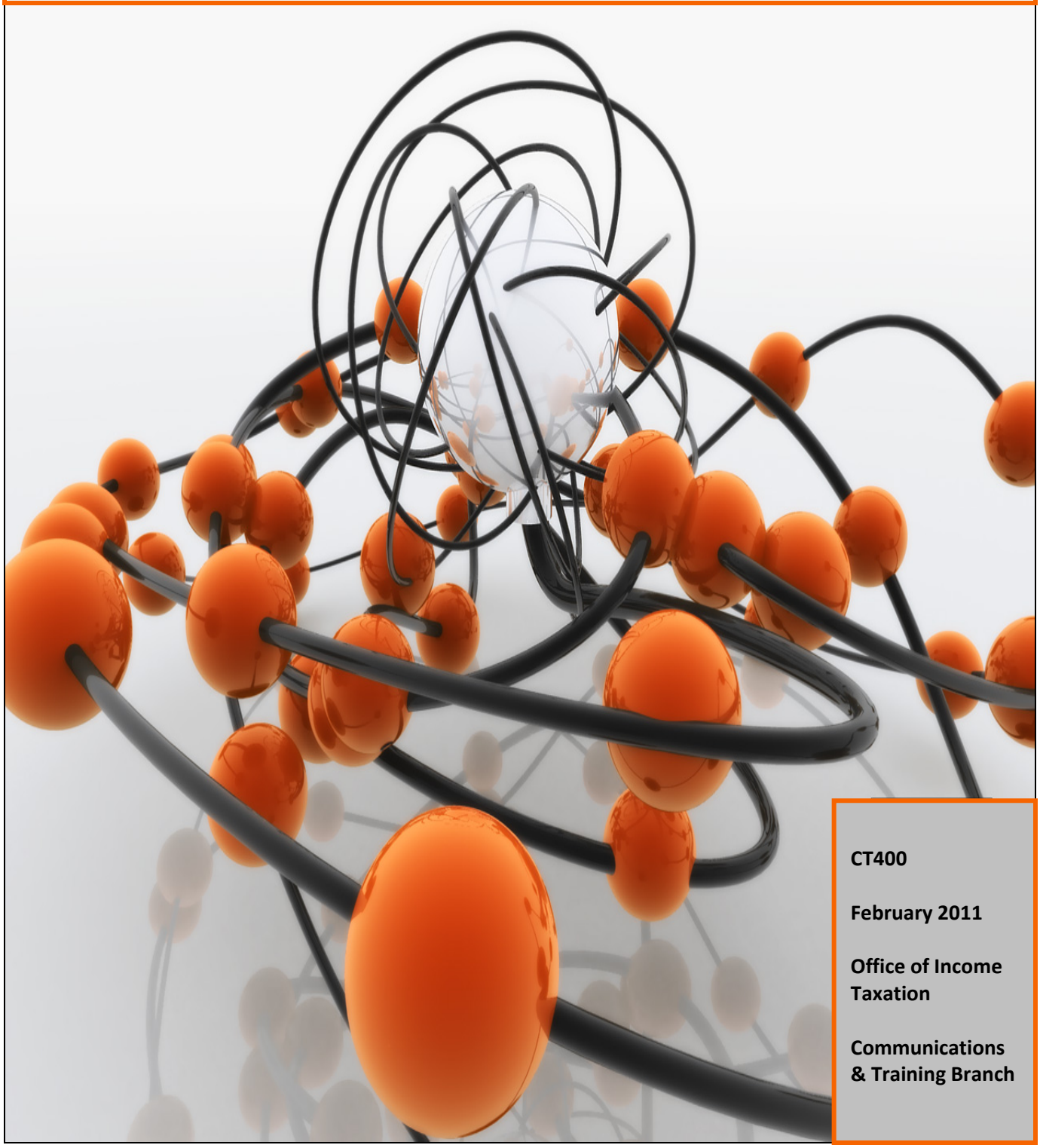
Pass-Through Entities

Overview & Compliance



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CONTENTS:

TAX TREATMENT by TAX YEAR 4

WHAT is a PASS-THROUGH ENTITY? 5

FORMS USED 6

COMPLIANCING PASS-THROUGH ENTITIES 6

COMPLIANCE ISSUE NO. 1: LIMITED LIABILITY ENTITY TAX (LLET) COMPUTATION 7

- NO PAY RETURNS 7
- CALCULATION of RECEIPTS 7
- KENTUCKY SCHEDULE K 8
- SCHEDULE K BREAKDOWN 8
- TREASURY FUNCTION 10
- COST of GOODS SOLD (COGS) 11
- REVIEWING COST of GOODS SOLD 12
- OTHER TAXPAYER EXAMPLES 13
- MULTI-STATE COMPANIES and COGS 17

COMPLIANCE ISSUE NO. 2: INCOME 18

- ORDINARY INCOME 19
- STATE TAX 19
- DEPRECIATION DIFFERENCES 19
- SEPARATELY STATED ITEMS from SCHEDULE K 20
- RENTAL INCOME 20
- PORTFOLIO INCOME 21
- INTEREST INCOME 21
- DIVIDEND INCOME 22
- ROYALTIES 22

CONTENTS:

CAPITAL GAINS and LOSSES 22

SECTION 1231 NET GAIN or LOSS 23

OTHER INCOME 23

CHARITABLE CONTRIBUTIONS 23

IRC SECTION 179 EXPENSE 23

OTHER DEDUCTIONS 24

ADDITIONAL CONCERNS 24

FORM 725 – SINGLE MEMBER LLC COMPLIANCE 24

TAX CREDIT WORKSHEET 25-26

COMPLIANCE ISSUE NO. 3: NONRESIDENT WITHHOLDING 27

FORM 740NP-WH 30

COMPLIANCE PROCEDURES and USING the FORM 30

NONRESIDENT WITHHOLDING COMPLIANCE 31

COMPOSITE RETURNS 32

FILING REQUIREMENTS 32

PASS-THROUGH ENTITY EXAMPLES 35

EXAMPLE 1: PRE-2005 TREATMENT 39

EXAMPLE 2: 2005 TREATMENT 48

EXAMPLE 3: 2006 TREATMENT 59

EXAMPLE 3A: TREATMENT of NOLs 71

EXAMPLE 4: 2007 TREATMENT 76

APPENDIX 90

RELEVANT FORMS 91

KENTUCKY REVISED STATUTES 120

PRE-2005 120

2005 128

2006 142

2007 156

DISCLAIMER

Every effort and care has been taken in the preparation of this manual. However, the possibility of mechanical and/or human error does exist. The information provided is for educational purposes only and nothing herein constitutes the provision of legal advice or services.

In the event that any information in this manual is later determined to be in error, this manual cannot be used by taxpayers in supporting a specific position or issue before the Department of Revenue as it does not have the statutory and regulatory authority.

INTRODUCTION

Partnerships, Limited Liability Companies (LLCs), and S corporations are examples of businesses that are subject to pass-through taxation. In each of these forms of business, income/loss is passed through to the owners, who can also be identified as partners, members or shareholders. These owners then report the income or loss on their own personal income tax returns.

Unlike a C corporation where there may be double taxation, any shareholder receiving dividends is also subject to tax, an LLC or S corporation can pass through profits or losses without paying any additional corporate taxes, since the corporation pays taxes as a separate entity.

Pass-through entities are also known as a *flow-through entity,* because the income *flows through* to investors or owners; that is, the income of the entity is treated as the income of the investors or owners. Flow-through entities are also known as fiscally transparent entities.

TAX TREATMENT by TAX YEAR

The material that follows in this manual focuses primarily on the laws, taxation, and compliance issues of pass-through entities for tax year 2007 and forward.

Because the laws governing pass-through taxation have changed often in recent years the tax treatment of pass-through entities can vary based on the year involved. To illustrate the different tax treatments, examples for pre-2005, 2005, 2006 and 2007 tax years are provided, using a similar fact pattern, beginning on page 34.

Appropriate statutes for each tax year are included for reference in the appendix. The appendix also includes additional forms relevant to pass-through taxation issues.

WHAT is a PASS-THROUGH ENTITY?

A pass-through entity is a legal entity that creates income and passes the income to its partners, members or shareholders to be taxed. The entity may be formed in a number of different ways. Some of the common entities are:

- S Corporations
- Limited liability companies
- Limited partnerships
- General partnerships

Each type of entity conducts business in its own name, but then passes the income through to be taxed at the owner level. Owners can be partners, members or shareholders.

Schedule K-1 is the method used to pass the income through for many taxpayers. With the Schedule K-1 each partner, member or shareholder will receive their distributive share of income. The recipient of the Schedule K-1 will then report this pass-through income on their personal or business income tax return.

In the case of a single member limited liability company (SMLLC) whose owner is an individual, federal Schedules C, E and F may be the source of pass-through income. Since the SMLLC is a disregarded entity for federal tax purposes the income in some occasions becomes blended with personal income and reported on the individual tax return (provided the single member is an individual.)

A disregarded entity can also be wholly owned by another entity. In this situation the entity owning the disregarded entity would include the wholly owned entity's receipts and expenses in their return, resulting in treatment of the wholly owned entity like a division instead of a separate company.

FORMS USED

A corporation that has made the small business election will file federal Form 1120-S and Kentucky Form 720-S.

A limited liability company, a limited partnership, a limited liability partnership, as well as some other legal limited liability entities that have elected to file as a partnership at the federal level will file federal Form 1065 and Kentucky Form 765.

A general partnership, whose liability is not limited to the entity, but allows the liability to flow to each partner, will file a federal Form 1065 and a Kentucky Form 765-GP.

A single member LLC whose owner is an individual will file a federal Form 1040 with Schedule C, E or F and Kentucky Form 725, as well as the Kentucky Form 740 or 740-NP.

Small Business Election defined:

Corporations that meet IRS requirements can elect to be treated as an S Corporation for tax purposes. This is known as a small business election. S Corporations pass corporate income, losses, deductions and credit through to their shareholders. Shareholders of S corporations report the flow-through of income and losses on their personal tax returns and are assessed tax at their individual income tax rates.

COMPLIANCING PASS-THROUGH ENTITIES

Although there are many issues with compliancing returns, there are three major compliance areas to address:

- Limited Liability Entity Tax (LLET)
- Income
- Nonresident Withholding

The following is a discussion of these three compliance areas. Included are examples, specific problem areas, and issues to consider when reviewing pass-through returns.

COMPLIANCE ISSUE NO. 1: LIMITED LIABILITY ENTITY TAX (LLET) COMPUTATION

LLET computation is a tax based on gross receipts or gross profits with a minimum of $175 due. After calculating the tax on the gross receipts and on the gross profits, the lesser tax calculation becomes the tax liability. If either tax calculation results in a tax liability of less than $175 then the minimum of $175 is the amount due.

NO PAY RETURNS

Some taxpayers will calculate an LLET liability, but for various reasons fail to pay. These no-pay returns are then reviewed and billed. The tax assessed is based on the calculation of gross receipts and gross profits or the minimum amount of $175.

CALCULATION of RECEIPTS

If an entity has a Schedule A - Apportionment and Allocation, then the numerator of the sales factor is the total Kentucky receipts. Verify that all receipts are included by comparing the denominator of the sales factor with the receipts recorded on the return.

The receipts of a pass-through entity are found throughout the income reported on the return. The best way to avoid overlooking any receipts is to use the Schedule K as a guide to determine the correct receipt total.

Sales Factor defined:

Business income is apportioned to Kentucky based on a formula that includes three factors. Those three factors are property, payroll and sales. For additional information on what income is included to determine the sales factor, see **103 KAR 16:270**.

KENTUCKY SCHEDULE K

Kentucky Schedule K is a part of Kentucky Forms 720S Kentucky S Corporation and LLET Return, 765 Kentucky Partnership and LLET Return, and 765-GP Kentucky General Partnership Return. The Kentucky Schedule K begins with Kentucky ordinary income. This income consists of federal ordinary income adjusted for federal/Kentucky differences.

Receipts will be found on the federal Form 1120-S or 1065, page one, line one. As you look at the income section of the federal form you will notice other items of income. Ordinary income (loss) from other partnerships, estates, and trust is one item found on Form 1065. If the taxpayer has recorded information on this line then a Schedule LLET-C is required to be included in the Kentucky return. The information summarized on the LLET-C schedule comes from lines 43-50 of the Schedule K-1s the taxpayer received that report the pass-through income. The receipts can be taken from the Schedule LLET-C for each pass-through entity listed.

Other items of income shown on page one of Form 1065 and/or Form 1120-S include income such as net farm profit from federal Schedule F Profit or Loss from Farming , Net gain (loss) from federal Form 4797, Sales of Business Property (short term gain or loss) and other income. Each line entry should be supported by a schedule, form or statement attached to the return. Examine the attachment(s) and determine the receipts associated with the reported income.

See a sample of the Schedule F and 4797 Forms on pages 111-114 of the Appendix

SCHEDULE K BREAKDOWN

Rental income is listed on line two of the Schedule K form. The receipts for this type of income come from federal Form 8825. There may be two versions of this form - one for the federal return and one for the Kentucky return. The Kentucky form should have “Kentucky” at the top of the form and may contain federal/Kentucky differences on a line per line basis. The receipts, however, will be the same for federal and Kentucky purposes.

Other rental income is on the next line down. The receipts (gross income) are recorded on line (a) and the expenses are recorded on line (b). Line (a) will be used in the receipts calculations. Compare this amount with the federal Schedule K to ensure the correct amount of receipts are being reported on the Kentucky Schedule K.

TIP: Remember to verify the receipts from **all** sources to determine if the correct amount is reported for Kentucky receipts. A common mistake made when reviewing income from multiple sources reported on the return is to only verify the Kentucky receipts.

Portfolio income is next on the Kentucky Schedule K. Portfolio income includes:

- Interest income
- Dividends
- Royalty income
- Gain or loss on capital investments
- Other portfolio income

Interest, dividend, and royalty receipts come directly from the Schedule K.

Other portfolio income would require a review of the schedule that is attached to verify amounts reported. Schedule D (Form 1065) should be reviewed for the receipts attributed to short and long-term capital gains. Although the net gain/loss may be different because of federal and state differences that could affect the basis of asset(s), the receipts would be the same.

NOTE: In some instances, there may be both a federal Schedule D (Form 1065) and a Kentucky version of Schedule D (Form 1065). This is due to differences in Kentucky and federal law because Kentucky is still under the IRC code as of 12/31/2006 and our depreciation and Section 179 deductions are per the IRC code of 12/31/2001.

TREASURY FUNCTION

Some taxpayers will argue that there is a treasury function for their assets and that only the gains should be counted as receipts.

KRS 141.121, effective for tax years beginning January 1, 2008, states:

"If a corporation holds liquid assets in connection with one (1) or more treasury functions of the corporation and the liquid assets produce business income when sold, exchanged, or otherwise disposed of, the overall net gain from those transactions for each treasury function for the tax period shall be included in the sales factor. For purposes of this subsection:

(a) Each treasury function shall be considered separately; and

(b) A corporation principally engaged in the trade or business of purchasing and selling instruments or other items included in the definition of liquid assets is not performing a treasury function with respect to that income produced."

Savings accounts, money market fund shares, bonds, mutual funds, and the cash value of a life insurance policy can all be liquid assets performing a treasury function.

KRS 141.121 defines *Treasury function* as follows:

Treasury function- the pooling and management of liquid assets for the purpose of satisfying the cash flow needs of the trade or business and includes the following situations:

1. Providing liquidity for a corporation's business cycle; and
2. Providing a reserve for business contingencies or business acquisitions.

If a treasury function exists, the short-term gain may be used, but this does not happen often.

Next is **Section 1231** on the Schedule K form, net gain (loss). The receipts attributable to this figure are found on federal Form 4797, Part 1 in the long-term gains and loss section. (short-term gains are recorded on page one of the federal return.)

The ***Other Income*** schedule should be reviewed for the receipts associated with the reported amount found on the other income line of the Schedule K.

If it is clear that all of the receipts were included correctly in the denominator of the sales factor then it is appropriate to use Kentucky receipts as the numerator on the LLET schedule. If there is no Schedule A apportionment factor, then the calculated receipts should be used on the LLET schedule.

The Schedule LLET–C helps calculate the limited liability entity's Kentucky gross receipts and Kentucky gross profits for those companies that receive pass-through income from other entities.

Gross profits include the receipts minus the cost of goods sold. There is potential for substantial errors in computing the cost of goods sold.

COST of GOODS SOLD (COGS)

Cost of goods sold is the direct cost associated with acquiring materials and labor to produce a good. Costs associated with selling, storing or tracking the good are not included with COGS as well as any day to day administrative costs.

COGS reported on the return has a major impact on determining the taxpayer's final LLET liability. This is because the tax liability is the lesser of the gross receipts tax calculations and the gross profit tax calculations. COGS is one of the most important aspects of the LLET to review.

KRS 141.0401 states the following:

(1)(d) "Cost of goods sold" means:
1. Amounts that are:

a. Allowable as cost of goods sold pursuant to the Internal Revenue Code and any guidelines issued by the Internal Revenue Service relating to cost of goods sold, unless modified by this paragraph; and

b. Incurred in acquiring or producing the tangible product generating the Kentucky gross receipts.

2. For manufacturing, producing, reselling, retailing, or wholesaling activities, cost of goods sold shall only include costs directly incurred in acquiring or producing the tangible product. In determining cost of goods sold:

a. Labor costs shall be limited to direct labor costs as defined in paragraph (f) of this subsection;

b. Bulk delivery costs as defined in paragraph (g) of this subsection may be included; and

c. Costs allowable under Section 263A of the Internal Revenue Code may be included only to the extent the costs are incurred in acquiring or producing the tangible product generating the Kentucky gross receipts. Notwithstanding the foregoing, indirect labor costs allowable under Section 263A shall not be included;

3. For any activity other than manufacturing, producing, reselling, retailing, or wholesaling, no costs shall be included in cost of goods sold. As used in this paragraph, "guidelines issued by the Internal Revenue Service" includes regulations, private letter rulings, or any other guidance issued by the Internal Revenue Service that may be relied upon by taxpayers under reliance standards established by the Internal Revenue Service;

REVIEWING COST of GOODS SOLD

The first step in verifying cost of goods sold is to be aware of the type of filer or taxpayer you are reviewing. This will help determine what items should be included in the cost of goods sold reported on the return. For example, with a construction company almost all of their expenses are considered in cost of goods sold except clerical expenses. This is not to say

that you should overlook the details to see what is being claimed. On occasion sales cost and administrative costs may be included in the cost of goods sold.

OTHER TAXPAYER EXAMPLES

For taxpayers who are manufacturers, it is common to have depreciation costs and overhead costs. These costs are included because they are part of the manufacturing cost. If you have a factory and 90 percent of it is dedicated to the manufacturing of Widgets and 10 percent is allocated to administrative cost, then 90 percent of the buildings depreciation may be used in the cost of goods sold. This would also apply to other expenses such as utilities.

If you are reviewing the return of a car dealership, the cost of goods sold per vehicle will usually be confined to the cost of the vehicle being sold plus the share of freight-in. When a vehicle is received from the factory and the dealership makes alterations, these alteration costs may be included in the cost of goods sold as well. However, be aware that many taxpayers will try to include unallowable costs such as the showroom costs, sales personnel salary/benefits and administrative costs in order to increase their cost of goods sold thereby reducing their gross profit.

If a service type industry claims a cost of goods sold, you will more than likely have an adjustment to their gross profits. Service industries normally are not selling tangible property and therefore no cost will meet the definition of cost of goods sold. As referenced in **KRS 141.0401(1)(d)(3),** which states that if you are not a manufacturer, producer, reseller, retailer, or wholesaler, then you will not have any cost of goods sold.

As with many laws, there can be an exception. An exception to this rule could be a barber shop or salon that also sells hair care products or cosmetics. Service industries that maintain an inventory for sale can have a cost of goods sold.

Costs that are not allowable in computing cost of goods sold are sometimes hidden or included in the *other cost* line on the federal Schedule A. The other costs should be itemized on a supporting statement attached to the

return. If this statement has not been included, it should be obtained from the taxpayer in order to verify amounts claimed.

EXAMPLE: A taxpayer sells Widgets. He has receipts of $36,800,000.00 and has claimed a cost of goods sold of $36,799,884 of which $33,799,844 is other cost. After the adjustment, the taxpayer has $18,748,402 of which $15,478,402 is other cost. This will result in gross receipts of $36,800,000.00 and gross profits of $18,321,598. This translates to a gross receipts tax liability of $34,960.00 and a gross profits tax liability of $137,411.99. Taking the lesser of the two liabilities the LLET becomes $34,960 as opposed to the $175 had the COGS not been reviewed and adjusted.

You will notice in the *other cost* breakdown on the following page that this taxpayer included sales & use tax, property tax, personal property, contributions, uncollectible accounts and several other expenses that are not part of the cost of goods sold. Many times the taxpayer will confuse cost associated with the cost **to sell the item** (goods) and the cost **of the item (goods) being sold.**

Cost of Goods Sold Example

Line 5: Other Costs

Other Employee Related Expenses	701,385
Scrap Cost	471
Packing and Shipping Materials	664,824
Electric Power Expense	1,624,704
Other Utilities	315,030
Rent Expense	3,894,948
Equipment Leases	978,754
Supplies Expense	2,423,589
Molds, Tools, and Dies	242,303
Temporary Labor (Company supervised)	1,458,460
Contract Services	1,432,798
Repair and Maintenance Materials	305,865
Repair and Maintenance Services	1,457,214
Depreciation	3,282,296
Obsolescence	106,847
Amortization - Goodwill	3,494,777
Amortization - Other than Goodwill	550,801
Advertising Expense	2,957
Uncollectible Accounts	21,248
Travel Expense	1,244,542
External Computer Services	295,463
External Telecommunications Expense	793,392
Outside Legal and Accounting Fees	78,021
Contributions	<1,750>
Insurance Expense	218,573
Product Warranty Expense	42,742
Intra-Location Distributions	<155,982>
Restructuring/Shutdowns/Valuations	1,897,009
Inbound Freight	2,135
GIS Charges	1,611,516
Memberships and Dues	38,534
Automobile Lease Expense	74,806
Postage, Freight, and Express Mail	456,964
Office Furnishing Expense	55,591
Corporate Legal Expense	74,851
Financial Shared Services Expenses	1,070,833
Low Value Purchases	645,795
Pittsburgh Administrative Charges	203,388
Other Operating and Admin. Expenses	1,439,671
Franchise Tax	48,458
Personal Property	425,371
Real Property Tax	165,413
Sales/Use Tax Expenses	76,303
Other State/Local Taxes not Based on Income	38,974
TOTAL	33,799,884

Additionally many taxpayers will overstate the cost of goods sold in order to reduce the gross profit tax calculation and therefore lower their LLET liability.

An extension of the previous example follows to illustrate the impact of an overstated cost of good sold on tax liability. Notice the difference in the amount of tax liability when comparing the return as filed with the return after auditing and verification.

Impact of Cost of Goods Sold on Tax Liability		
	Return as Filed	Return after Auditing and Verification
Gross Receipts	$36,800,000.00	$36,800,000.00
Beginning Inventory	$12,000,000.00	$12,000,000.00
Purchases/Cost of Labor	$10,000,000.00	$10,000,000.00
Other Costs	$33,799,884.00	$15,478,402.00
Ending Inventory	$19,000,000.00	$19,000,000.00
Cost of Goods Sold	$36,799,884.00	$18,478,402.00
Gross Profits	$156.00	$18,321,598.00
LLET Gross Receipts	$36,800,000.00	$36,800,000.00
	x 0.00095	**x** 0.00095
	$34,960.00	$34,960.00
LLET Gross Profits	$156.00	$18,321,598.00
	x 0.00750	**x** 0.00750
	$1.17	$137,411.99
LESSER of LLET GP or GR	$1.17	$34,960.00
Minimum	$175.00	$175.00
Tax Liability	**$175.00**	**$34,960.00**
	Result: Minimum LLET Due	Result: Actual LLET Tax Due

MULTI-STATE COMPANIES and COGS

When a company is multi-state, a quick check can be made to determine if further investigation of the return is required. Verify the Kentucky cost of goods sold by multiplying the federal cost of goods sold by the sales factor in its single weighted form. The amount calculated should be fairly close to the Kentucky cost of goods sold reported on the return. If the amount you verified and the amount that is reported are substantially different, then further investigation is required.

When the receipts and gross profits have been verified then it must be determined if the company qualifies for the small business relief. One area that adds confusion about what entity is liable for the payment of the LLET is the *combined group*.

KRS 141.0401(1)(c) defines a *combined group*:

Combined group- all members of an affiliated group as defined in **KRS 141.200(9)(b)** and all limited liability pass-through entities that would be included in an affiliated group if organized as a corporation;

The combined group calculation is only to see if any of the entities involved qualifies for the small business relief. After it is determined if the entities qualify, then each entity will file an appropriate LLET return and pay the LLET liability either as a combined group or separate entity.

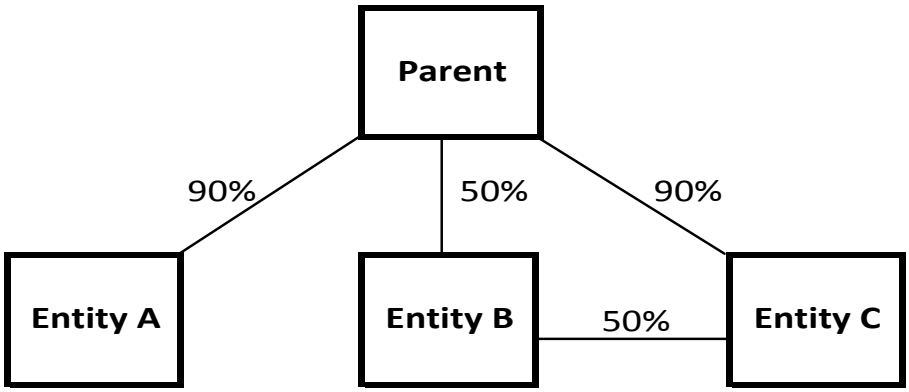
EXAMPLE: Parent Company P owns three LLCs, A, B, and C. P owns 90 percent of A, 50 percent of B, 90 percent of C, and C owns 50 percent of B. In this scenario we would have to add all the receipts and the cost of goods sold together to determine if the group is eligible for the small business relief.

None of the entities would be eligible for the small business relief if their combined receipts and combined gross profits are $6,000,000 or over. All of the entities would have to calculate their LLET by using the full percentage.

If either the gross receipts or gross profits for the group fall between $3,000,000 and $6,000,000, then each of the entities would use the formulas from Schedule LLET to calculate their LLET due.

If either the gross receipts or gross profits are $3,000,000 or below then the minimum tax of $175 would be due for each entity.

NOTE: The Parent company would have to use a Schedule LLET-C to calculate its LLET and then claim the credit from the other companies.



All entities would be included because entity B is owned indirectly by the parent by 95 percent.

50 + (.90 x 50)
50 + (45) = 95

COMPLIANCE ISSUE NO. 2: INCOME

The next area of compliance is the income that is generated at the entity level and then passed to its partners, members or shareholders. A common error occurs when the taxpayer allocates the income to each state rather than apportioning the income. The only way to determine if a taxpayer is allocating income is to compare all aspects of the federal return with the Kentucky return. This is done in the same way for calculating the proper

amount of receipts. This can be accomplished through a step-by-step comparison of the federal return with the Kentucky return.

ORDINARY INCOME

Start with page one of the federal return to determine ordinary income. Take the ordinary income and compare it with the amount recorded on the front page of the Kentucky return. The federal state differences are then reported on the front page of the Kentucky return. Two of the most common differences are the state tax add-back and depreciation differences.

STATE TAX

The state tax add-back adjustment is not as common after tax year 2007 due to the changes in Kentucky law. In 2006, the entity was responsible for paying the income tax and therefore likely to have deducted state tax paid as an expense on their federal return. If so, the add-back of state income taxes paid must be made. **KRS 141.010(11)(a)** does not allow the state tax deduction.

Always check to see if the entity actually took the deduction on the federal return. If there was no deduction on the federal return then there is no add-back. Some taxpayers will include the state taxes in other deductions, so you will need to look at what comprises other deductions. This adjustment will become prevalent as other states adopt the entity level tax for pass-through entities.

DEPRECIATION DIFFERENCES

If the taxpayer has a difference in depreciation, they are required to have a converted Kentucky Form 4562 included with their tax return. To convert the federal Form 4562 to a Kentucky form, enter *Kentucky* at the top center of the form above Depreciation and Amortization. Compute Kentucky depreciation and Section 179 deduction in accordance with the IRC in effect on December 31, 2001. Disregard the line instructions for federal purposes

regarding the special depreciation allowance and the additional Section 179 deduction.

The Section 179 limits must also be changed. For Kentucky purposes, the maximum Section 179 deduction amount on line one is $25,000.00 and the threshold cost of Section 179 property on line three is $200,000.00. If the taxpayer is claiming a difference in depreciation and does not have both the federal Form 4562 and a converted Kentucky Form 4562 attached, then we must ask for the missing form.

NOTE: If the federal Form 4562 is not required to be filed you may ask for a depreciation schedule to verify the federal depreciation amount. Always check any schedule that comes attached for an explanation of any other adjustments.

Section 179 defined:

The Section 179 deduction allows a taxpayer to elect to deduct the cost, within limitations, of certain types of property on their return as an expense (rather than requiring the property to be capitalized and depreciated) in the first year of purchase. For Kentucky, when qualifying assets are purchased, the taxpayer may claim up to $25,000.00 as a Section 179 deduction. This deduction may be limited if the total amount of qualifying assets are more than $200,000.00.

SEPARATELY STATED ITEMS from SCHEDULE K

Next verify that the amounts reported on the federal Schedule K are reported on the Kentucky Schedule K. These differences should be for statutory differences and not allocation differences.

RENTAL INCOME

Rental income from real properties will be detailed on the federal Schedule 8825. If there is a difference in the federal and Kentucky amounts there will be two Schedule 8825 forms - one for Kentucky purposes and one for federal purposes. The common differences will be in the state tax based on

income and the depreciation calculations. Each should be investigated by reviewing Form 4562 and any attached schedules for state tax claimed.

PORTFOLIO INCOME

One of the most problematic areas of pass-through entity compliance is the reporting of portfolio income. This is because many companies will not report the portfolio income if they are a multi-state company and are domiciled in another state. Often, companies maintain that portfolio income is allocated to the state of domicile.

KRS 141.206(6)(a)(2) states:

(6) In determining the tax under this chapter, a nonresident individual, estate, or trust that is a partner, member, or shareholder in a pass-through entity required to file a return under subsection (2) of this section shall take into account:

(a) 1. If the pass-through entity is doing business only in this state, the partner's, member's, or shareholder's total distributive share of the pass-through entity's items of income, loss, and deduction; or

2. If the pass-through entity is doing business both within and without this state, the partner's, member's, or shareholder's distributive share of the pass-through entity's items of income, loss, and deduction multiplied by the apportionment fraction of the pass-through entity as prescribed in subsection (9) of this section;

Therefore, portfolio income must be reported and apportioned because it is part of the business income the entity is producing for its partners, members or shareholders.

INTEREST INCOME

Some differences that arise when comparing the federal and Kentucky Schedule Ks portfolio income may be in interest reported. Tax exempt interest can be different for the federal return and the Kentucky return.

Interest from U.S. obligations is taxable for federal purposes, but is deductable for state purposes. Interest income from municipals and state obligations is excluded at the federal level (see IRS Publicaton 550). However, for Kentucky tax purposes, this type of interest from sister states and political subdivision is not excludable and should be included on the Kentucky return. Therefore, we must add it back to the federal income amount we brought over to start the income calculation per **KRS 141.010(10)(c)**.

DIVIDEND INCOME

Dividends are taxable to the recipient of the Schedule K-1. This is different than the treatment of dividends received by direct ownership of a C corporation. The dividend income that is passed to a corporation on a Schedule K-1 is considered business income (not investment income) and would not be subject to the exclusion provided by **KRS 141.010(12)(b)**.

ROYALTIES

Royalty income reported should be the same for both federal and Kentucky. If there is any difference then further investigation should be performed. Remember that even if the royalty income is attributable to activity in another state, we still apportion the income. This is justified because the entity is operating in Kentucky; the Kentucky operation is contributing to the overall business health. All activities of the entity should be attributed to all participants (states) and the apportionment of income allocates the income according to each state's participation in providing the climate necessary for that business to prosper.

CAPITAL GAINS and LOSSES

Review the Schedule D (Form 1065) of the entity for net short-term and long-term gains. There should not be any differences between federal and Kentucky amounts.

SECTION 1231 NET GAIN or LOSS

Addressed next are the gains (losses) from the sale of business assets or a Section 1231 gain or loss. Variation in gains and losses occur because there may be a different basis. Also the asset may have a different basis because of any Section 179 deduction and various methods of depreciation being used for federal purposes and Kentucky purposes.

As with depreciation claimed, there should be a federal Form 4797, Sales of Business Property and a converted Kentucky Form 4797 included with the tax return if this income is claimed.

Convert federal Form 4797 forms by entering *Kentucky* at the top center of the form and compute the Kentucky gain or (loss) from the sale of business property using Kentucky basis.

OTHER INCOME

Other income is reviewed by examining the schedules the taxpayer sends in as an explanation of the deduction. If a schedule is not attached then it is proper to request the schedule.

CHARITABLE CONTRIBUTIONS

Charitable contributions are considered a business expense. If the contribution is passed to a corporation, the 10 percent limit still applies to pass-through contributions. The amount of allowable charitable contributions may be different for federal and Kentucky purposes because the possible difference in taxable income will determine the amount of the 10 percent limit.

IRC SECTION 179 EXPENSE

The deduction for Section 179 expense will most likely be different because of the limits as discussed before that applies for federal and Kentucky purposes.

NOTE: Additionally, allowable deductions related to portfolio income may be different for federal and Kentucky purposes due to statutory differences, such as treatment of interest income.

OTHER DEDUCTIONS

Other deductions, like other income must be reviewed by examining the schedule(s) attached to the return.

ADDITIONAL CONCERNS

Two areas of concern other than portfolio income are pass-through dividend income and guaranteed payments. Both of these items are considered business income and should not be excluded on Schedule K-1s and are subject to nonresident withholding.

Dividend income, as discussed before, is business income when passed from a pass-through entity. It does not meet the definition of the dividend that is excluded by **KRS 141.010(12)(b)**. The statute only excludes dividend income received from the investment in a corporation.

Guaranteed payments are distributions that are **guaranteed to be distributed** no matter how the entity has performed. Therefore, it is a distribution that should be taxed at the recipient level.

FORM 725 – SINGLE MEMBER LLC COMPLIANCE

This form is for an LLC that is owned by an individual. Individuals include estates and trusts. The information comes directly from federal Schedule C, E or F instead of a Schedule K-1. The income section on Form 725 is completed and used in calculating the LLET credit.

KRS 141.0401(3)(b) provides that the credit allowed members, shareholders or partners of a limited liability pass-through entity shall be the members', shareholders' or partners' proportionate share of the tax calculated under **KRS 141.0401(2)** for the current year after subtraction of any credits identified in **KRS 141.0205**, as determined after the amount of tax paid has been reduced by the minimum tax of $175.

The credit allowed to members, shareholders or partners of a limited liability pass-through entity shall be applied to income tax assessed on income from the limited liability pass-through entity. **Any remaining credit from the limited liability pass-through entity shall be disallowed.**

TAX CREDIT WORKSHEET

To determine the proper amount of credit allowed on the individual return, the taxpayer must complete the Kentucky Limited Liability Entity Tax Credit Worksheet. The tax worksheet follows on the next page.

Kentucky Limited Liability Entity Tax Credit Worksheet

Complete a separate worksheet for each LLE. Retain for your records.

Name _____

Address _____

FEIN _____

Percentage of Ownership: _____ %

1. Enter Kentucky Taxable income from Form 740, Line 11: _____

2. Enter LLE income **as shown on Kentucky Schedule K-1 or Form 725:** _____

3. Subtract Line 2 from Line 1 and enter total here: _____

4. Enter Kentucky tax on income amount on Line 1: _____

5. Enter Kentucky tax on income amount on Line 3: _____

6. Subtract Line 5 from Line 4. If Line 5 is larger than Line 4, enter zero. This is your tax savings if income is ignored: _____

7. Enter nonrefundable limited liability entity tax credit **(from Kentucky Schedule K-1 or Form 725):** _____

8. Enter the lesser of Line 6 or Line 7. This is your credit. Enter here and on Form 740, Section A, Line 1: _____

COMPLIANCE ISSUE NO. 3: NONRESIDENT WITHHOLDING

A withholding requirement was instituted in order to address the issue of non-resident individuals and foreign corporations receiving income from pass-through entities doing business in Kentucky and not filing a return to report this income to Kentucky. Another reason was to eliminate the need for many nonresident (Form 740-NP) paper returns. By requiring pass-through entities to withhold on nonresident individuals and foreign companies and remit tax to the state of Kentucky, the filing requirements are met for nonresident individuals or foreign corporations doing business in Kentucky **only** as a partner, member or shareholder in a pass-through entity.

Taxpayers were either not aware that pass-through income was taxable, or assumed that their amount of tax would be so small that states would not use their limited resources to compliance nonresidents and foreign corporations for filing and tax requirements.

NOTE: Kentucky residents and corporations that have a Kentucky nexus of their own are required to file Kentucky returns and compliance efforts are in place to ensure those taxpayers include pass-through income on their returns.

KRS 141.206 is the statutory authority concerning the following:

- Filing of returns by pass-through entities
- Withholding requirements on owners of pass-through entities
- Apportionment issues for pass-through entities
- Composite returns

KRS 141.206(4)(b)(1) states specifically:

"Every pass-through entity required to file a return under subsection (2) of this section, except publicly traded partnerships as defined in **KRS 141.0401(6)(r)**, shall withhold Kentucky income tax on the distributive share, whether distributed or undistributed, of each nonresident individual partner, member or shareholder, or each corporate partner or member that is doing business in Kentucky only

through its ownership interest in a pass-through entity. Withholding shall be at the maximum rate provided in **KRS 141.020** or **141.040**."

The following entities are subject to withholding on distributive share income:

- Nonresident Individuals
- Trusts
- Estates
- C corporations (foreign) – whose only connection to Kentucky is via an ownership interest in a pass-through entity doing business in Kentucky.
- Grants
- Private Foundations
- Grantor Trusts, Revocable Trusts, Irrevocable Trusts

Of these entities, if any are exempt from taxation such as a nonprofit company that qualifies for Section 501(c) exemption, they would also be exempt for Kentucky purposes from withholding on their distributive share income.

501(c) Organization defined:

A 501(c) organization is a tax-exempt, nonprofit corporation or association. They are referred to as "501(c)" because the laws that apply to these organizations are found in Section 501(c) of the United States Internal Revenue Code.

In addition, **KRS 141.0401** exempts the following entities from having to pay the LLET:

(a) Financial institutions, as defined in **KRS 136.500**, except banker's banks organized under **KRS 287.135** or **286.3-135**;
(b) Savings and loan associations organized under the laws of this state and under the laws of the United States and making loans to members only;
(c) Banks for cooperatives;
(d) Production credit associations;
(e) Insurance companies, including farmers' or other mutual hail, cyclone, windstorm, or fire insurance companies, insurers, and reciprocal underwriters;
(f) Corporations or other entities exempt under Section 501 of the Internal Revenue Code;

(g) Religious, educational, charitable, or like corporations not organized or conducted for pecuniary profit;
(h) Corporations whose only owned or leased property located in this state is located at the premises of a printer with which it has contracted for printing, provided that:

1. The property consists of the final printed product, or copy from which the printed product is produced; and
2. The corporation has no individuals receiving compensation in this state as provided in **KRS 141.120(8)(b);**

(i) Public service corporations subject to tax under **KRS 136.120**;
(j) Open-end registered investment companies organized under the laws of this state and registered under the Investment Company Act of 1940;
(k) Any property or facility which has been certified as a fluidized bed energy production facility as defined in **KRS 211.390**;
(l) An alcohol production facility as defined in **KRS 247.910**;
(m) Real estate investment trusts as defined in Section 856 of the Internal Revenue Code;
(n) Regulated investment companies as defined in Section 851 of the Internal Revenue Code;
(o) Real estate mortgage investment conduits as defined in Section 860D of the Internal Revenue Code;
(p) Personal service corporations as defined in Section 269A(b)(1) of the Internal Revenue Code;
(q) Cooperatives described in Sections 521 and 1381 of the Internal Revenue Code, including farmers' agricultural and other cooperatives organized or recognized under KRS Chapter 272, advertising cooperatives, purchasing cooperatives, homeowners associations including those described in Section 528 of the Internal Revenue Code, political organizations as defined in Section 527 of the Internal Revenue Code, and rural electric and rural telephone cooperatives; or
(r) Publicly traded partnerships as defined by Section 7704(b) of the Internal Revenue Code that are treated as partnerships for federal tax purposes under Section 7704(c) of the Internal Revenue Code, or their publicly traded partnership affiliates. "Publicly traded partnership affiliates" shall include any limited liability company or limited partnership for which at least eighty percent (80%) of the limited liability company member interests or limited partner interests are owned directly or indirectly by the publicly traded partnership.

FORM 740NP-WH

Form 740NP-WH is used to remit withholding tax with the accompanying Form(s) PTE-WH. Only nonresident individuals and foreign corporations, whose only connection with Kentucky is through pass-through income, would be included in the withholding. Other pass-through entities are not included in withholding as there is no income tax liability to withhold. Pass-through entities that receive pass-through income will incorporate that income with their own income calculations and pass the income on to its owners. If the money stops there, the entity must withhold.

NOTE: When an entity passes income to a partner, member or shareholder who does not pass the income any further, the last pass-through entity must withhold.

All distributive income and credits are to be used when calculating the withholding amount. Many taxpayers will include only ordinary or rental income. A review is necessary to make sure that all income and allowable deductions are included. Schedule A (Form 1040/740NP) deductions are not allowed because the individual may or may not be able to use these deductions if they were to file. The individual still has the option to file and claim these deductions, if they so choose.

A portion of the LLET credit which would be allocated to the nonresident partners based on their distributive share percentages has been allowed for withholding only because this credit is part of the LLET pass-through items. Again, the taxpayer has the option to file individually and claim any credits to which they would be entitled.

COMPLIANCE PROCEDURES and USING the FORM

Review the PTE-WH form(s) by making sure the cumulative total matches the amounts stated on the 740NP-WH form. Form 740NP-WH acts as the summary sheet for the PTE-WH forms.

PTE-WH form copies are sent to each member as well as a copy sent to the Department of Revenue. Sometimes the taxpayer will send in all four copies of

the PTE-WH form, including the copy that should have been sent to the taxpayer and kept for their records.

Review the Schedule K-1 information and the withholding amounts. Once again we look at the K-1 information and compare it with what is reported on the return. Only include the K-1 information from nonresident individuals and foreign corporations, whose only connection with Kentucky is through pass-through income. Make sure all items of income are included in the withholding calculations and allow the Section 179 depreciation deduction as calculated for Kentucky.

Review the return on Fastrieve for nonpayments. Verify payments for both the withholding and composite returns via Mixers, which is accessed through the KREW Web site *www.krew.ky.gov.*

Boxes are provided on the form to mark if an estimated tax payment is being made or an extension is being filed. If no payment is required with the extension, a copy of the extension for the entity's income return will be accepted.

NOTE: A copy of the federal extension for the pass-through entity also extends the Form 740NP-WH.

The only allowable credit at this time on the Form 740NP-WH is the LLET credit.

Use the highest marginal rate for individual or corporation income tax. The 2010 tax year rate is six percent (6%).

NONRESIDENT WITHHOLDING COMPLIANCE

Nonresident withholding returns will be subject to the same compliance initiatives as other returns with one additional issue, beginning in tax year 2012. House Bill 2 has directed that nonresident withholding shall be subject to the individual and corporate estimated tax payment provisions. This will take effect for tax years beginning after December 31, 2011.

COMPOSITE RETURNS

Beginning in the year 2009, Form 740NP-WH has a dual purpose. It may be used as either the withholding document for the distributive share income of non-resident individuals and corporations or as the composite return for those non-resident individuals who qualify and choose to be included in a composite return.

KRS 141.206 (13)(a) states:

"A pass-through entity may file a composite income tax return on behalf of electing nonresident individual partners, members, or shareholders, reporting and paying income tax at the highest marginal rate provided in this chapter on the partners', members', or shareholders' pro rata or distributive share of income of the pass-through entity from doing business in, or deriving income from sources within, this state. The partners', members', or shareholders' pro rata or distributive share of income shall include all items of income or deduction used to compute adjusted gross income on the Kentucky return that is passed through to the partner, member, or shareholder by the pass-through entity, including but not limited to interest, dividend, capital gains and losses, guaranteed payments, and rents."

In reality, a composite return would only be available to those who are exempt from withholding and then choose to be included in a composite return. In essence the composite return is the same as the withholding return. The difference arises if the taxpayer chooses a composite return, estimated payments may be required and only nonresident individuals are allowed to be included in the return. The return is processed the same way whether it is a withholding form or a composite form.

FILING REQUIREMENTS

The decision to allow composite and nonresident tax returns to be filed using the same form is an effort to show that only withholding is required. This process is more comprehensive and also allows a credit for LLET. The composite return is not allowed any credits as it is to be calculated on the AGI per **KRS 141.206(13).**

There is very little difference in the filing requirements for composite and nonresident withholding returns. In both cases, the following applies:

- The taxpayer's only source of Kentucky income must be from pass-through entities
- The taxpayer must calculate tax on distributive share income using the highest marginal rate provided by **KRS 141.020**
- The taxpayer has two filing options:
    - The return filed by the entity meets Kentucky's requirement, so an individual return is not required, or
    - The individual may file a 740-NP return and claim amounts paid on their behalf allowing them to take advantage of itemized deductions and Kentucky's tiered tax rates

Because a corporation doing business in Kentucky only through its ownership in a pass-through entity has Nexus, the **corporate** partner, member or shareholder must still file a Kentucky Form 720. This would allow the corporation to be exempt from withholding for each year except for its initial year of Kentucky operations.

CONCLUSION

Pass-through entity compliance is difficult due to the lack of understanding in this tax area. Many taxpayers and practitioners will interpret items of the law to their advantage. When we compliance the area of pass-through entities we give guidance on the law and a better understanding of the requirements for which the entity is responsible.

All income and deduction information is available for the corporate and individual returns. Depending on the circumstances, each item may be treated differently or may be subject to limits and rules that may or may not make them an intricate part of the partners', members' or shareholders' own tax situation for the current year.

PASS-THROUGH ENTITY EXAMPLES

- Tax Treatment by Year
- EXAMPLE 1: PRE-2005 TREATMENT (2004 year shown)
- EXAMPLE 2: 2005 TREATMENT
- EXAMPLE 3: 2006 TREATMENT
    - EXAMPLE 3A: TREATMENT of NOLs
- EXAMPLE 4: 2007 TREATMENT

TAX TREATMENT by YEAR

Tax treatment of income for a pass-through entity is dependent upon the laws in effect for the year involved. Because different tax years are subject to statutory differences, the reporting and taxation of pass-through income can be quite different.

To illustrate these differences, examples for pre-2005, 2005, 2006, 2007 and forward are provided using the same basic fact pattern. Below is a brief summary of tax treatment and statutory differences of each year.

PRE-2005 TAX TREATMENT of PASS-THROUGH ENTITIES

For tax years **prior** to January 2005, **KRS 141.206** imposed the tax on the partners, members or shareholders on pass-through income they received. All compliance efforts involved income generated by pass-through entities at the partner, member or shareholder level.

Beginning in 2003, Kentucky Administrative Regulation **103 KAR 18:070** directed that tax was to be withheld from nonresident individual partners, members or shareholders who had no other connection with Kentucky other than ownership in a pass-through entity.

2005 TAX TREATMENT of PASS-THROUGH ENTITIES

Tax laws changed for tax years beginning on or after January 1, 2005. **KRS 141.040** imposed tax on the income of the entity, whether distributed or undistributed.

HB 272 was enacted, expanding the corporate income tax to apply to pass-through entities with limited liability protection. These pass-through entities were treated as corporations subject to the filing requirements as per **KRS 141.040 (1).**

The Alternative Minimum Calculation (AMC) was also introduced. The AMC calculation was included on the appropriate corporation forms. This calculation is an alternative method of calculating tax based on the gross receipts or the gross profits of the company. When compared against each other the **lesser** of the two tax calculations (AMC calculation) was then compared to the income tax

calculated on taxable income. The **greater** of the AMC or income tax calculation became the tax due unless this amount was less than $175. In that case, the minimum $175 became the tax liability due.

To eliminate double taxation on the same income, individual partners, members or shareholders were allowed a nonrefundable credit on the partners, members, or shareholders proportionate share of the tax due from the corporation as determined by **KRS 141.420** before any credits and after the minimum $175 due was paid.

Additionally, a refundable credit is available when the corporation's income exceeds $216,600. The refundable credit accounts for the difference in tax created when applying the top corporation income tax rate of seven percent and the top individual income tax rate of six percent to the same income.

The refundable credit is available only for taxable years beginning after December 31, 2004 and before January 1, 2007. Both the nonrefundable and refundable credit are claimed on the individual income tax return.

2006 TAX TREATMENT of PASS-THROUGH ENTITIES

Tax treatment of pass-through entities for the 2006 tax year was similar to the 2005 tax year with one exception.

HB 1 of the 2006 Special Session was enacted, amending **KRS 141.040**, giving tax relief to small businesses through a change to the AMC tax calculation. To calculate the AMC tax a separate Schedule AMC was created.

For tax years beginning on or after January 1, 2006, those pass-through entities that had $3,000,000 or less in gross receipts or gross profits from all sources qualified for complete relief, other than the minimum of $175 due. Entities that had $3,000,000 to $6,000,000 in gross receipts or gross profits from all sources qualified for some relief and those that had $6,000,000 or more continued to calculate the AMC tax the same as in 2005.

2007 TAX TREATMENT of PASS-THROUGH ENTITIES

In 2007 the tax treatment of pass-through entities changed again as a result of legislation introduced in 2006. Effective January 1, 2007, the Limited Liability Entity Tax (LLET) replaced the AMC tax.

KRS 141.0401 is the statutory authority for the imposition of the LLET. Schedule LLET was created to compute the tax. The entity is responsible for the limited liability entity tax (LLET). Pass-through entities are subject to the filing and withholding requirements of **KRS 141.206**.

Income and any available nonrefundable credit are passed through to each partner, member or shareholder. Withholding is required for each nonresident individual partner, member, or shareholder and corporate partner or member that is doing business in Kentucky only through its ownership interest in a pass-through entity.

Individual members are subject to Kentucky income tax as per the provisions of **KRS 141.020**.

EXAMPLE 1: PRE-2005 TREATMENT (2004 year shown)

FACTS:
- S & B Limited Partnership is made up of two partners.
- The partnership has 100% **Kentucky** property and payroll.
- One partner is IMA Corporation located in Ohio (97.4359%).
- One partner is WV Bill, an individual residing in West Virginia (2.5641%).
- Income:
  - Gross receipts $5,000,000
  - Cost of goods sold $1,000,000
  - Other income $500,000
- Deductions:
  - Salaries & wages $1,000,000
  - Guaranteed payments $50,000
  - Repairs & maintenance $950,000
  - Taxes & licenses $400,000
  - Federal depreciation $100,000
  - Kentucky Depreciation $150,000
- Partner's Distributive Share Income Items:
  - Ordinary business income $2,000,000
  - Guaranteed payments $50,000
  - Dividends $100,000
  - Section 1231 gain/loss <$2,500,000>
- Partner's Distributive Share Deduction Items:
  - Contributions $1,000

KEY POINTS:
- The individual nonresident partner is not required to file with Kentucky if the distributive share income is the only Kentucky income.
- The individual nonresident partner may opt to file a Kentucky nonresident return to take advantage of graduated tax rates or claim deductions in order to receive a refund.
- The pass-through entity is required to withhold on nonresident individual.
- Loss is passed through to the individual.
- Dividends are taxed at the corporate partner level.
- Separately stated items are reported on the partner's returns.

FORMS:
- 1065 US Return of Partnership Income
- 765 Kentucky Partnership Income Return
- Kentucky Schedule K-1 Partner's Share of Income, Credits, Deductions, etc.
  - One for each partner

Form **1065**
Department of the Treasury
Internal Revenue Service

U.S. Return of Partnership Income

For calendar year 2004, or tax year beginning ....., 2004, and ending ....., 20.... .
▶ See separate instructions.

OMB No. 1545-0099
2004

A Principal business activity	Use the IRS label. Otherwise, print or type. Name of partnership: **S & B Limited Partnership**	D Employer identification number
B Principal product or service	Number, street, and room or suite no. If a P.O. box, see page 14 of the instructions.	E Date business started
C Business code number	City or town, state, and ZIP code: **Frankfort, Kentucky 40601**	F Total assets (see page 14 of the instructions) $

G Check applicable boxes: (1) ☐ Initial return (2) ☐ Final return (3) ☐ Name change (4) ☐ Address change (5) ☐ Amended return
H Check accounting method: (1) ☑ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶
I Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year ▶ 2

Caution: *Include **only** trade or business income and expenses on lines 1a through 22 below. See the instructions for more information.*

Income	1a Gross receipts or sales	1a	5,000,000	00			
	b Less returns and allowances	1b			1c	5,000,000	00
	2 Cost of goods sold (Schedule A, line 8)				2	1,000,000	00
	3 Gross profit. Subtract line 2 from line 1c				3	4,000,000	00
	4 Ordinary income (loss) from other partnerships, estates, and trusts *(attach schedule)*				4		
	5 Net farm profit (loss) *(attach Schedule F (Form 1040))*				5		
	6 Net gain (loss) from Form 4797, Part II, line 17				6		
	7 Other income (loss) *(attach statement)*				7	500,000	00
	8 **Total income (loss).** Combine lines 3 through 7				8	4,500,000	00
Deductions (see page 16 of the instructions for limitations)	9 Salaries and wages (other than to partners) (less employment credits)				9	1,000,000	00
	10 Guaranteed payments to partners				10	50,000	00
	11 Repairs and maintenance				11	950,000	00
	12 Bad debts				12		
	13 Rent				13		
	14 Taxes and licenses				14	400,000	00
	15 Interest				15		
	16a Depreciation *(if required, attach Form 4562)*	16a	100,000	00			
	b Less depreciation reported on Schedule A and elsewhere on return	16b			16c	100,000	00
	17 Depletion **(Do not deduct oil and gas depletion.)**				17		
	18 Retirement plans, etc.				18		
	19 Employee benefit programs				19		
	20 Other deductions *(attach statement)*				20		
	21 **Total deductions.** Add the amounts shown in the far right column for lines 9 through 20				21	2,500,000	00
	22 **Ordinary business income (loss).** Subtract line 21 from line 8				22	2,000,000	00

Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than general partner or limited liability company member) is based on all information of which preparer has any knowledge.

▶ Signature of general partner or limited liability company member manager ▶ Date

May the IRS discuss this return with the preparer shown below (see instructions)? ☐ Yes ☐ No

Paid Preparer's Use Only

Preparer's signature	Date	Check if self-employed ▶ ☐	Preparer's SSN or PTIN
Firm's name (or yours if self-employed), address, and ZIP code ▶		EIN ▶	
		Phone no. ( )	

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11390Z Form **1065** (2004)

Schedule A Cost of Goods Sold (see page 19 of the instructions)

1	Inventory at beginning of year	1	3,000,000 00
2	Purchases less cost of items withdrawn for personal use	2	500,000 00
3	Cost of labor	3	
4	Additional section 263A costs *(attach statement)*	4	
5	Other costs *(attach statement)*	5	
6	**Total.** Add lines 1 through 5	6	3,500,000 00
7	Inventory at end of year	7	2,500,000 00
8	**Cost of goods sold.** Subtract line 7 from line 6. Enter here and on page 1, line 2	8	1,000,000 00

9a Check all methods used for valuing closing inventory:
- (i) ☐ Cost as described in Regulations section 1.471-3
- (ii) ☐ Lower of cost or market as described in Regulations section 1.471-4
- (iii) ☐ Other (specify method used and attach explanation) ▶

b Check this box if there was a writedown of "subnormal" goods as described in Regulations section 1.471-2(c) ▶ ☐

c Check this box if the LIFO inventory method was adopted this tax year for any goods *(if checked, attach Form 970)* ▶ ☐

d Do the rules of section 263A (for property produced or acquired for resale) apply to the partnership? ☐ Yes ☐ No

e Was there any change in determining quantities, cost, or valuations between opening and closing inventory? ☐ Yes ☐ No
If "Yes," attach explanation.

Schedule B Other Information

		Yes	No
1	What type of entity is filing this return? Check the applicable box: a ☐ Domestic general partnership b ☐ Domestic limited partnership c ☐ Domestic limited liability company d ☐ Domestic limited liability partnership e ☐ Foreign partnership f ☐ Other ▶		
2	Are any partners in this partnership also partnerships?		
3	During the partnership's tax year, did the partnership own any interest in another partnership or in any foreign entity that was disregarded as an entity separate from its owner under Regulations sections 301.7701-2 and 301.7701-3? If yes, see instructions for required attachment		
4	Did the partnership file Form 8893, Election of Partnership Level Tax Treatment, or an election statement under section 6231(a)(1)(B)(ii) for partnership-level tax treatment, that is in effect for this tax year? See Form 8893 for more details		
5	Does this partnership meet all three of the following requirements? a The partnership's total receipts for the tax year were less than $250,000; b The partnership's total assets at the end of the tax year were less than $600,000; and c Schedules K-1 are filed with the return and furnished to the partners on or before the due date (including extensions) for the partnership return. If "Yes," the partnership is not required to complete Schedules L, M-1, and M-2; Item F on page 1 of Form 1065; or Item N on Schedule K-1.		
6	Does this partnership have any foreign partners? If "Yes," the partnership may have to file Forms 8804, 8805 and 8813. See page 20 of the instructions		
7	Is this partnership a publicly traded partnership as defined in section 469(k)(2)?		
8	Has this partnership filed, or is it required to file, Form 8264, Application for Registration of a Tax Shelter?		
9	At any time during calendar year 2004, did the partnership have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? See page 20 of the instructions for exceptions and filing requirements for Form TD F 90-22.1. If "Yes," enter the name of the foreign country. ▶		
10	During the tax year, did the partnership receive a distribution from, or was it the grantor of, or transferor to, a foreign trust? If "Yes," the partnership may have to file Form 3520. See page 21 of the instructions		
11	Was there a distribution of property or a transfer (e.g., by sale or death) of a partnership interest during the tax year? If "Yes," you may elect to adjust the basis of the partnership's assets under section 754 by attaching the statement described under *Elections Made By the Partnership* on page 9 of the instructions		
12	Enter the number of Forms 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships, attached to this return ▶		

Designation of Tax Matters Partner (see page 21 of the instructions)

Enter below the general partner designated as the tax matters partner (TMP) for the tax year of this return:

Name of designated TMP ▶ Identifying number of TMP ▶

Address of designated TMP ▶

Schedule K	Partners' Distributive Share Items		Total amount	
Income (Loss)	1 Ordinary business income (loss) (page 1, line 22)	1	2,000,000	00
	2 Net rental real estate income (loss) *(attach Form 8825)*	2		
	3a Other gross rental income (loss) — 3a			
	b Expenses from other rental activities *(attach statement)* — 3b			
	c Other net rental income (loss). Subtract line 3b from line 3a	3c		
	4 Guaranteed payments	4	50,000	00
	5 Interest income	5		
	6 Dividends: a Ordinary dividends	6a	100,000	00
	b Qualified dividends — 6b			
	7 Royalties	7		
	8 Net short-term capital gain (loss) *(attach Schedule D (Form 1065))*	8		
	9a Net long-term capital gain (loss) *(attach Schedule D (Form 1065))*	9a		
	b Collectibles (28%) gain (loss) — 9b			
	c Unrecaptured section 1250 gain *(attach statement)* — 9c			
	10 Net section 1231 gain (loss) *(attach Form 4797)*	10	<2,500,000	00>
	11 Other income (loss) *(attach statement)*	11		
Deductions	12 Section 179 deduction *(attach Form 4562)*	12		
	13a Contributions	13a	1,000	00
	b Deductions related to portfolio income *(attach statement)*	13b		
	c Investment interest expense	13c		
	d Section 59(e)(2) expenditures: (1) Type ▶ (2) Amount ▶	13d(2)		
	e Other deductions *(attach statement)*	13e		
Self-Employment	14a Net earnings (loss) from self-employment	14a		
	b Gross farming or fishing income	14b		
	c Gross nonfarm income	14c		
Credits & Credit Recapture	15a Low-income housing credit (section 42(j)(5))	15a		
	b Low-income housing credit (other)	15b		
	c Qualified rehabilitation expenditures (rental real estate) *(attach Form 3468)*	15c		
	d Other rental real estate credits	15d		
	e Other rental credits	15e		
	f Other credits and credit recapture *(attach statement)*	15f		
Foreign Transactions	16a Name of country or U.S. possession ▶			
	b Gross income from all sources	16b		
	c Gross income sourced at partner level	16c		
	Foreign gross income sourced at partnership level			
	d Passive ▶ e Listed categories *(attach statement)* ▶ f General limitation ▶	16f		
	Deductions allocated and apportioned at partner level			
	g Interest expense ▶ h Other ▶	16h		
	Deductions allocated and apportioned at partnership level to foreign source income			
	i Passive ▶ j Listed categories *(attach statement)* ▶ k General limitation ▶	16k		
	l Foreign taxes: (1) Paid ▶ (2) Accrued ▶	16l(2)		
	m Reduction in taxes available for credit *(attach statement)*	16m		
Alternative Minimum Tax (AMT) Items	17a Post-1986 depreciation adjustment	17a		
	b Adjusted gain or loss	17b		
	c Depletion (other than oil and gas)	17c		
	d Oil, gas, and geothermal properties—gross income	17d		
	e Oil, gas, and geothermal properties—deductions	17e		
	f Other AMT items *(attach statement)*	17f		
Other Information	18a Tax-exempt interest income	18a		
	b Other tax-exempt income	18b		
	c Nondeductible expenses	18c		
	19a Distributions of cash and marketable securities	19a		
	b Distributions of other property	19b		
	20a Investment income	20a		
	b Investment expenses	20b		
	c Other items and amounts *(attach statement)*			

Analysis of Net Income (Loss)

1	Net income (loss). Combine Schedule K, lines 1 through 11. From the result, subtract the sum of Schedule K, lines 12 through 13e, 16l(1), and 16l(2)	1	

2 Analysis by partner type:	(i) Corporate	(ii) Individual (active)	(iii) Individual (passive)	(iv) Partnership	(v) Exempt organization	(vi) Nominee/Other
a General partners						
b Limited partners						

Note: Schedules L, M-1, and M-2 are not required if Question 5 of Schedule B is answered "Yes."

Schedule L Balance Sheets per Books

Assets	Beginning of tax year (a)	Beginning of tax year (b)	End of tax year (c)	End of tax year (d)
1 Cash				
2a Trade notes and accounts receivable				
b Less allowance for bad debts				
3 Inventories				
4 U.S. government obligations				
5 Tax-exempt securities				
6 Other current assets *(attach statement)*				
7 Mortgage and real estate loans				
8 Other investments *(attach statement)*		4,300,000.00		1,000,000.00
9a Buildings and other depreciable assets				
b Less accumulated depreciation				
10a Depletable assets				
b Less accumulated depletion				
11 Land (net of any amortization)				
12a Intangible assets (amortizable only)				
b Less accumulated amortization				
13 Other assets *(attach statement)*				
14 Total assets				
Liabilities and Capital				
15 Accounts payable				
16 Mortgages, notes, bonds payable in less than 1 year				
17 Other current liabilities *(attach statement)*				
18 All nonrecourse loans				
19 Mortgages, notes, bonds payable in 1 year or more				
20 Other liabilities *(attach statement)*				
21 Partners' capital accounts				
22 Total liabilities and capital				

Schedule M-1 Reconciliation of Income (Loss) per Books With Income (Loss) per Return

1 Net income (loss) per books		6 Income recorded on books this year not included on Schedule K, lines 1 through 11 (itemize): a Tax-exempt interest $	
2 Income included on Schedule K, lines 1, 2, 3c, 5, 6a, 7, 8, 9a, 10, and 11, not recorded on books this year (itemize):			
3 Guaranteed payments (other than health insurance)		7 Deductions included on Schedule K, lines 1 through 13e, 16l(1), and 16l(2), not charged against book income this year (itemize): a Depreciation $	
4 Expenses recorded on books this year not included on Schedule K, lines 1 through 13e, 16l(1), and 16l(2) (itemize): a Depreciation $			
b Travel and entertainment $		8 Add lines 6 and 7	
5 Add lines 1 through 4		9 Income (loss) (Analysis of Net Income (Loss), line 1). Subtract line 8 from line 5	

Schedule M-2 Analysis of Partners' Capital Accounts

1 Balance at beginning of year		6 Distributions: a Cash	
2 Capital contributed: a Cash		b Property	
b Property		7 Other decreases (itemize):	
3 Net income (loss) per books			
4 Other increases (itemize):		8 Add lines 6 and 7	
5 Add lines 1 through 4		9 Balance at end of year. Subtract line 8 from line 5	

Form 765

42A765

Department of Revenue

KENTUCKY PARTNERSHIP INCOME RETURN

➤ **Attach a complete copy of the federal return.**

2004

A. Date business commenced or qualified	For calendar year 2004 or fiscal year beginning _____ , 2004, and ending _____ , 2005.	
B. Number of partners (attach K-1s)	Name S & B Limited Partnership	E. Federal Employer Identification Number
C. NAICS business code number	Number and street or P.O. box	F. Kentucky Withholding Account Number
D. Partnership telephone number	City, town or post office / County / State / ZIP code	G. Sales and Use Tax Permit Number

H. Check applicable boxes: ☐ Initial return ☐ Final return ☐ Amended return

I. Check type of entity: ☐ General partnership ☑ Limited partnership ☐ Limited liability company ☐ Limited liability partnership

J. Are disregarded entities included in this return? ☐ Yes ☐ No
If yes, attach a schedule listing name and federal identification number of the disregarded entity.

K. ☐ Qualified investment partnership (Check box only if you are a general partnership or a limited partnership that has been formed as a qualified investment partnership.)

1. Federal ordinary income (loss) (Form 1065, line 22)	1	2,000,000	00
2. Federal depreciation from Form 4562	2	100,000	00
3. Other (attach schedule) (see instructions)	3		
4. **Total** (add lines 1, 2 and 3)	4	2,100,000	00
SUBTRACTIONS:			
5. Federal work opportunity credit	5		
6. Kentucky depreciation from revised Form 4562	6	150,000	00
7. Other (attach schedule) (see instructions)	7		
8. **Total** (add lines 5, 6 and 7)	8	150,000	00
9. **Ordinary income (loss)** (line 4 less line 8)	9	1,950,000	00

I declare under the penalties of perjury that this return (including any accompanying schedules and statements) has been examined by me and, to the best of my knowledge and belief, is a true, correct and complete return.

Signature of partner or member | Identification number of partner or member | Date

Typed or printed name of preparer other than taxpayer | Identification number of preparer | Date

Mail to Kentucky Department of Revenue, Frankfort, Kentucky 40620.

Schedule K—PARTNERS' SHARES OF INCOME, CREDIT, DEDUCTIONS, ETC.

SECTION I
Income or (Loss)

(a) Distributive Share Items		(b) Total Amount
1. Ordinary income or (loss) from trade or business activities (page 1, line 9)	1	1,950,000 00
2. Net income or (loss) from rental real estate activities (from attached federal schedule)	2	
3. a Gross income from other rental activities	3a	
b Minus expenses (attach schedule)	3b	
c Net income or (loss) from other rental activities	3c	
4. Portfolio income or (loss):		
a Interest income	4a	
b Dividend income	4b	100,000 00
c Royalty income	4c	
d Net short-term capital gain or (loss) (from attached federal schedule)	4d	
e Net long-term capital gain or (loss) (from attached federal schedule)	4e	
f Other portfolio income or (loss) (attach schedule)	4f	
5. Guaranteed payments to partners	5	50,000 00
6. Net gain or (loss) under IRC Section 1231 (other than due to casualty or theft) (attach federal Form 4797)	6	<2,500,000 00>
7. Other income or (loss) (attach schedule)	7	

Deductions

8. Charitable contributions (attach list) and housing for homeless deduction (attach Schedule HH)	8	1000 00
9. IRC Section 179 expense deduction (attach federal Form 4562 and Kentucky revised Form 4562)	9	
10. Deductions related to portfolio income (do not include investment interest expense)	10	
11. Other deductions (attach schedule)	11	

Investment Interest

12. a Interest expense on investment debts	12a	
b (1) Investment income included on lines 4a, 4b, 4c and 4f above	12b(1)	
(2) Investment expenses included on line 10 above	12b(2)	

Credits

13. Kentucky Unemployment Tax Credit (attach Schedule UTC)	13	
14. Recycling and Composting Equipment Tax Credit (attach *approved* Schedule RC)	14	
15. Other (see instructions) ➤	15	

Other

16. a Total expenditures to which IRC Section 59(e)(2) election may apply	16a	
b Type of expenditures	16b	
17. Other items and amounts not reported above (attach schedule)	17	

SECTION II—Computation of Nonresident Partner's Taxable Percentage

1. Partnership's Kentucky property and payroll	1	
2. Partnership's total property and payroll	2	
If line 1 is equal to line 2, enter 100 percent on Schedule K-1 (Form 765), Item D(2). Do not complete lines 3, 4 or 5. If line 2 is greater than line 1, complete lines 3, 4 and 5.		
3. Partnership's Kentucky gross receipts	3	
4. Partnership's total gross receipts	4	
5. Nonresident partner's taxable percentage (line 3 divided by line 4). Enter the percentage on Schedule K-1 (Form 765), Item D(2)	5	%

SECTION III—Computation of Amount Withheld on Individual Nonresident Partners

1. Individual nonresident partners' net distributive share of taxable income	1	
2. Individual nonresident partners' net distributive share withheld	2	

KENTUCKY SCHEDULE K-1

FORM 765

Commonwealth of Kentucky
DEPARTMENT OF REVENUE

PARTNER'S SHARE OF INCOME, CREDITS, DEDUCTIONS, ETC.

For calendar year 2004 or fiscal year

beginning _____ 2004, and ending _____, 2005.

2004

Partner's identifying number ➤

Partnership's FEIN ➤

Partner's name, address and ZIP code

IMA Corporation

Troy, Ohio 45373

Partnership's name, address and ZIP code

A This partner is a ☐ general partner ☐ limited partner
☐ limited liability company member.

B Partner's share of liabilities:
Nonrecourse ..... $
Qualified nonrecourse financing ..... $
Other ..... $

C What type of entity is this partner? ➤

D Partner's taxable percentage of partnership's distributive share items below (see instructions)
(1) Resident partner 100%
(2) Nonresident partner (file Form 740-NP to report this income) ..... ➤ 100%

E Enter partner's percentage of:

	(i) Before change or termination	(ii) End of year
Profit sharing	97.4359%	%
Loss sharing	%	%
Ownership of capital	%	%

☐ Final K-1
☐ Amended K-1

	(a) Distributive Share Items		(b) Amount
Income or (Loss)	1. Ordinary income or (loss) from trade or business activities	1	1,900,000
	2. Net income or (loss) from rental real estate activities	2	
	3. Net income or (loss) from other rental activities	3	
	4. Portfolio income or (loss):		
	a Interest	4a	
	b Dividends	4b	97,436
	c Royalties	4c	
	d Net short-term capital gain or (loss)	4d	
	e Net long-term capital gain or (loss)	4e	
	f Other portfolio income or (loss) (attach schedule)	4f	
	5. Guaranteed payments to partners	5	
	6. Net gain or (loss) under IRC Section 1231 (other than due to casualty or theft)	6	<2,435,898>
	7. Other income or (loss) (attach schedule)	7	
Deductions	8. Charitable contributions (attach schedule) and housing for homeless deduction (attach Schedule HH)	8	974
	9. IRC Section 179 expense deduction (attach federal Form 4562 and Kentucky revised Form 4562)	9	
	10. Deductions related to portfolio income (attach schedule)	10	
	11. Other deductions (attach schedule)	11	
Investment Interest	12. a Interest expense on investment debts	12a	
	b (1) Investment income included in lines 4a, 4b, 4c and 4f above	12b(1)	
	(2) Investment expenses included in line 10 above	12b(2)	
Credits	13. Kentucky Unemployment Tax Credit	13	
	14. Recycling and Composting Equipment Tax Credit (attach Schedule RC (K-1))	14	
	15. Other ➤	15	
Other	16. a Total expenditures to which IRC Section 59(e)(2) election may apply	16a	
	b Type of expenditures	16b	
	17. Other items and amounts not reported above (attach schedule)	17	
Resident Adjustment	18. Combination of Kentucky Schedule K-1, lines 1 through 6, 9 and portions of 7 and 11. Add income amounts and subtract (loss) and deduction amounts (see instructions)	18	
	19. Combination of federal Schedule K-1, lines 1 through 10, 12 and portions of 11 and 13. Add income amounts and subtract (loss) and deduction amounts (see instructions)	19	
	20. Enter the difference of lines 18 and 19 here and on Form 740, Schedule M, line 3, if difference is positive, or line 14, if difference is negative	20	

KENTUCKY SCHEDULE K-1

FORM 765

Commonwealth of Kentucky
DEPARTMENT OF REVENUE

PARTNER'S SHARE OF INCOME, CREDITS, DEDUCTIONS, ETC.

For calendar year 2004 or fiscal year

beginning _____ 2004, and ending _____ , 2005.

2004

Partner's identifying number ➤

Partnership's FEIN ➤

Partner's name, address and ZIP code

WV Bill

Nitro, W. Va. 25143

Partnership's name, address and ZIP code

A This partner is a ☐ general partner ☐ limited partner
☐ limited liability company member.

B Partner's share of liabilities:
Nonrecourse ..... $
Qualified nonrecourse financing ..... $
Other ..... $

C What type of entity is this partner? ➤

D Partner's taxable percentage of partnership's distributive share items below (see instructions)
(1) Resident partner 100%
(2) Nonresident partner (file Form 740-NP to report this income) ..... ➤ 100 %

E Enter partner's percentage of:

	(i) Before change or termination	(ii) End of year
Profit sharing	2.5641 %	%
Loss sharing	%	%
Ownership of capital	%	%

☐ Final K-1
☐ Amended K-1

	(a) Distributive Share Items		(b) Amount
Income or (Loss)	1. Ordinary income or (loss) from trade or business activities	1	50,000
	2. Net income or (loss) from rental real estate activities	2	
	3. Net income or (loss) from other rental activities	3	
	4. Portfolio income or (loss):		
	a Interest	4a	
	b Dividends	4b	2564
	c Royalties	4c	
	d Net short-term capital gain or (loss)	4d	
	e Net long-term capital gain or (loss)	4e	
	f Other portfolio income or (loss) (attach schedule)	4f	
	5. Guaranteed payments to partners	5	50,000
	6. Net gain or (loss) under IRC Section 1231 (other than due to casualty or theft)	6	<64,102>
	7. Other income or (loss) (attach schedule)	7	
Deductions	8. Charitable contributions (attach schedule) and housing for homeless deduction (attach Schedule HH)	8	26
	9. IRC Section 179 expense deduction (attach federal Form 4562 and Kentucky revised Form 4562)	9	
	10. Deductions related to portfolio income (attach schedule)	10	
	11. Other deductions (attach schedule)	11	
Investment Interest	12. a Interest expense on investment debts	12a	
	b (1) Investment income included in lines 4a, 4b, 4c and 4f above	12b(1)	
	(2) Investment expenses included in line 10 above	12b(2)	
Credits	13. Kentucky Unemployment Tax Credit	13	
	14. Recycling and Composting Equipment Tax Credit (attach Schedule RC (K-1))	14	
	15. Other ➤	15	
Other	16. a Total expenditures to which IRC Section 59(e)(2) election may apply	16a	
	b Type of expenditures _____	16b	
	17. Other items and amounts not reported above (attach schedule)	17	
Resident Adjustment	18. Combination of Kentucky Schedule K-1, lines 1 through 6, 9 and portions of 7 and 11. Add income amounts and subtract (loss) and deduction amounts (see instructions)	18	
	19. Combination of federal Schedule K-1, lines 1 through 10, 12 and portions of 11 and 13. Add income amounts and subtract (loss) and deduction amounts (see instructions)	19	
	20. Enter the difference of lines 18 and 19 here and on Form 740, Schedule M, line 3, if difference is positive, or line 14, if difference is negative	20	

EXAMPLE 2: 2005 TREATMENT

FACTS:
- S & B Limited Partnership is made up of two partners.
- The partnership has **no** sales, property or payroll outside of Kentucky.
- One partner is IMA Corporation located in Ohio (97.5%).
- One partner is WV Bill, an individual residing in West Virginia (2.5%).
- Income:
  - Gross receipts $5,000,000
  - Cost of goods sold $1,000,000
  - Other income $500,000
- Deductions:
  - Salaries & wages $1,000,000
  - Guaranteed payments $50,000
  - Repairs & maintenance $950,000
  - Taxes & licenses $400,000
  - Federal depreciation $100,000
  - Kentucky depreciation $150,000
- Partner's Distributive Share Income Items:
  - Ordinary business income $2,000,000
  - Guaranteed payments $50,000
  - Dividends $100,000
- Partner's Distributive Share Deduction Items:
  - Contributions $1,000
- Balance Sheet:
  - Beginning Balance $1,000,000
  - Ending Balance $1,000,000
- Deductions - Nontaxable income $17,500

KEY POINTS:
- The income passes through to partners.
- The pass-through entity is responsible for tax liability.
- AMC is calculated on the forms.
- The corporate partner is not required to file:
  - If pass-through income is only Kentucky Income
- The corporate partner is required to file:
  - Dividend income
  - Guaranteed payments
- Losses are:
  - Retained by pass-through entity (i.e. corporate partner)
  - Distributed to individuals.
- The individual records income/loss on the return.
- The individual receives credit.
  - Nonrefundable or possibly refundable

FORMS:
- 1065 US Return of Partnership Income
- 765 Kentucky Partnership Income Return
- Kentucky Schedule K-1 Partner's Share of Income, Credits, Deductions, etc.
  - One for each partner

Form **1065**
Department of the Treasury
Internal Revenue Service

U.S. Return of Partnership Income

For calendar year 2005, or tax year beginning _____, 2005, ending _____, 20____.
▶ See separate instructions.

OMB No. 1545-0099

2005

A Principal business activity	Use the IRS label. Otherwise, print or type.	Name of partnership **S & B Limited Partnership**	D Employer identification number
B Principal product or service		Number, street, and room or suite no. If a P.O. box, see the instructions.	E Date business started
C Business code number		City or town, state, and ZIP code **Frankfort, Kentucky 40601**	F Total assets (see the instructions) $

G Check applicable boxes: (1) ☐ Initial return (2) ☐ Final return (3) ☐ Name change (4) ☐ Address change (5) ☐ Amended return

H Check accounting method: (1) ☑ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶

I Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year ▶

Caution. *Include **only** trade or business income and expenses on lines 1a through 22 below. See the instructions for more information.*

Income	1a Gross receipts or sales	1a	5,000,000	00			
	b Less returns and allowances	1b			1c	5,000,000	00
	2 Cost of goods sold (Schedule A, line 8)				2	1,000,000	00
	3 Gross profit. Subtract line 2 from line 1c				3	4,000,000	00
	4 Ordinary income (loss) from other partnerships, estates, and trusts *(attach statement)*				4		
	5 Net farm profit (loss) *(attach Schedule F (Form 1040))*				5		
	6 Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)				6		
	7 Other income (loss) *(attach statement)*				7	500,000	00
	8 **Total income (loss).** Combine lines 3 through 7				8	4,500,000	00
Deductions (see the instructions for limitations)	9 Salaries and wages (other than to partners) (less employment credits)				9	1,000,000	00
	10 Guaranteed payments to partners				10	50,000	00
	11 Repairs and maintenance				11	950,000	00
	12 Bad debts				12		
	13 Rent				13		
	14 Taxes and licenses				14	400,000	00
	15 Interest				15		
	16a Depreciation *(if required, attach Form 4562)*	16a	100,000	00			
	b Less depreciation reported on Schedule A and elsewhere on return	16b			16c	100,000	00
	17 Depletion **(Do not deduct oil and gas depletion.)**				17		
	18 Retirement plans, etc.				18		
	19 Employee benefit programs				19		
	20 Other deductions *(attach statement)*				20		
	21 **Total deductions.** Add the amounts shown in the far right column for lines 9 through 20				21	2,500,000	00
	22 **Ordinary business income (loss).** Subtract line 21 from line 8				22	2,000,000	00

Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than general partner or limited liability company member) is based on all information of which preparer has any knowledge.

May the IRS discuss this return with the preparer shown below (see instructions)? ☐ Yes ☐ No

▶ Signature of general partner or limited liability company member manager ▶ Date

Paid Preparer's Use Only

Preparer's signature	Date	Check if self-employed ▶ ☐	Preparer's SSN or PTIN
Firm's name (or yours if self-employed), address, and ZIP code ▶		EIN ▶	
		Phone no. ( )	

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions.

Cat. No. 11390Z Form **1065** (2005)

Schedule A Cost of Goods Sold (see the instructions)

1	Inventory at beginning of year	1	2,500,000	00
2	Purchases less cost of items withdrawn for personal use	2	1,000,000	00
3	Cost of labor	3		
4	Additional section 263A costs *(attach statement)*	4		
5	Other costs *(attach statement)*	5		
6	**Total.** Add lines 1 through 5	6	3,500,000	00
7	Inventory at end of year	7	2,500,000	00
8	**Cost of goods sold.** Subtract line 7 from line 6. Enter here and on page 1, line 2	8	1,000,000	00

9a Check all methods used for valuing closing inventory:
- (i) ☐ Cost as described in Regulations section 1.471-3
- (ii) ☐ Lower of cost or market as described in Regulations section 1.471-4
- (iii) ☐ Other (specify method used and attach explanation) ▶

b Check this box if there was a writedown of "subnormal" goods as described in Regulations section 1.471-2(c) ▶ ☐

c Check this box if the LIFO inventory method was adopted this tax year for any goods *(if checked, attach Form 970)* ▶ ☐

d Do the rules of section 263A (for property produced or acquired for resale) apply to the partnership? ☐ Yes ☐ No

e Was there any change in determining quantities, cost, or valuations between opening and closing inventory? ☐ Yes ☐ No
If "Yes," attach explanation.

Schedule B Other Information

		Yes	No
1	What type of entity is filing this return? Check the applicable box: a ☐ Domestic general partnership b ☐ Domestic limited partnership c ☐ Domestic limited liability company d ☐ Domestic limited liability partnership e ☐ Foreign partnership f ☐ Other ▶		
2	Are any partners in this partnership also partnerships?		
3	During the partnership's tax year, did the partnership own any interest in another partnership or in any foreign entity that was disregarded as an entity separate from its owner under Regulations sections 301.7701-2 and 301.7701-3? If yes, see instructions for required attachment		
4	Did the partnership file Form 8893, Election of Partnership Level Tax Treatment, or an election statement under section 6231(a)(1)(B)(ii) for partnership-level tax treatment, that is in effect for this tax year? See Form 8893 for more details		
5	Does this partnership meet all three of the following requirements? a The partnership's total receipts for the tax year were less than $250,000; b The partnership's total assets at the end of the tax year were less than $600,000; and c Schedules K-1 are filed with the return and furnished to the partners on or before the due date (including extensions) for the partnership return. If "Yes," the partnership is not required to complete Schedules L, M-1, and M-2; Item F on page 1 of Form 1065; or Item N on Schedule K-1.		
6	Does this partnership have any foreign partners? If "Yes," the partnership may have to file Forms 8804, 8805 and 8813. See the instructions		
7	Is this partnership a publicly traded partnership as defined in section 469(k)(2)?		
8	Has this partnership filed, or is it required to file, a return under section 6111 to provide information on any reportable transaction?		
9	At any time during calendar year 2005, did the partnership have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? See the instructions for exceptions and filing requirements for Form TD F 90-22.1. If "Yes," enter the name of the foreign country. ▶		
10	During the tax year, did the partnership receive a distribution from, or was it the grantor of, or transferor to, a foreign trust? If "Yes," the partnership may have to file Form 3520. See the instructions		
11	Was there a distribution of property or a transfer (for example, by sale or death) of a partnership interest during the tax year? If "Yes," you may elect to adjust the basis of the partnership's assets under section 754 by attaching the statement described under *Elections Made By the Partnership* in the instructions		
12	Enter the number of Forms 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships, attached to this return ▶		

Designation of Tax Matters Partner (see the instructions)

Enter below the general partner designated as the tax matters partner (TMP) for the tax year of this return:

Name of designated TMP ▶ Identifying number of TMP ▶

Address of designated TMP ▶

Schedule K Partners' Distributive Share Items

				Total amount	
Income (Loss)	1 Ordinary business income (loss) (page 1, line 22)		1	2,000,000	00
	2 Net rental real estate income (loss) *(attach Form 8825)*		2		
	3a Other gross rental income (loss)	3a			
	b Expenses from other rental activities *(attach statement)*	3b			
	c Other net rental income (loss). Subtract line 3b from line 3a		3c		
	4 Guaranteed payments		4	50,000	00
	5 Interest income		5		
	6 Dividends: a Ordinary dividends		6a	100,000	00
	b Qualified dividends	6b			
	7 Royalties		7		
	8 Net short-term capital gain (loss) *(attach Schedule D (Form 1065))*		8		
	9a Net long-term capital gain (loss) *(attach Schedule D (Form 1065))*		9a		
	b Collectibles (28%) gain (loss)	9b			
	c Unrecaptured section 1250 gain *(attach statement)*	9c			
	10 Net section 1231 gain (loss) *(attach Form 4797)*		10		
	11 Other income (loss) *(see instructions)* Type ▶		11		
Deductions	12 Section 179 deduction *(attach Form 4562)*		12		
	13a Contributions		13a	1,000	00
	b Investment interest expense		13b		
	c Section 59(e)(2) expenditures: (1) Type ▶ (2) Amount ▶		13c(2)		
	d Other deductions *(see instructions)* Type ▶		13d		
Self-Employment	14a Net earnings (loss) from self-employment		14a		
	b Gross farming or fishing income		14b		
	c Gross nonfarm income		14c		
Credits & Credit Recapture	15a Low-income housing credit (section 42(j)(5))		15a		
	b Low-income housing credit (other)		15b		
	c Qualified rehabilitation expenditures (rental real estate) *(attach Form 3468)*		15c		
	d Other rental real estate credits *(see instructions)* Type ▶		15d		
	e Other rental credits *(see instructions)* Type ▶		15e		
	f Other credits and credit recapture *(see instructions)* Type ▶		15f		
Foreign Transactions	16a Name of country or U.S. possession ▶				
	b Gross income from all sources		16b		
	c Gross income sourced at partner level		16c		
	Foreign gross income sourced at partnership level				
	d Passive ▶ e Listed categories *(attach statement)* ▶ f General limitation ▶		16f		
	Deductions allocated and apportioned at partner level				
	g Interest expense ▶ h Other ▶		16h		
	Deductions allocated and apportioned at partnership level to foreign source income				
	i Passive ▶ j Listed categories *(attach statement)* ▶ k General limitation ▶		16k		
	l Total foreign taxes (check one): ▶ Paid ☐ Accrued ☐		16l		
	m Reduction in taxes available for credit *(attach statement)*		16m		
	n Other foreign tax information *(attach statement)*				
Alternative Minimum Tax (AMT) Items	17a Post-1986 depreciation adjustment		17a		
	b Adjusted gain or loss		17b		
	c Depletion (other than oil and gas)		17c		
	d Oil, gas, and geothermal properties—gross income		17d		
	e Oil, gas, and geothermal properties—deductions		17e		
	f Other AMT items *(attach statement)*		17f		
Other Information	18a Tax-exempt interest income		18a		
	b Other tax-exempt income		18b		
	c Nondeductible expenses		18c		
	19a Distributions of cash and marketable securities		19a		
	b Distributions of other property		19b		
	20a Investment income		20a		
	b Investment expenses		20b		
	c Other items and amounts *(attach statement)*				

Analysis of Net Income (Loss)

1	Net income (loss). Combine Schedule K, lines 1 through 11. From the result, subtract the sum of Schedule K, lines 12 through 13d, and 16l	1

2 Analysis by partner type:	(i) Corporate	(ii) Individual (active)	(iii) Individual (passive)	(iv) Partnership	(v) Exempt organization	(vi) Nominee/Other
a General partners						
b Limited partners						

Note: Schedules L, M-1, and M-2 are not required if Question 5 of Schedule B is answered "Yes."

Schedule L Balance Sheets per Books

Assets	Beginning of tax year (a)	Beginning of tax year (b)	End of tax year (c)	End of tax year (d)
1 Cash				
2a Trade notes and accounts receivable				
b Less allowance for bad debts				
3 Inventories				
4 U.S. government obligations				
5 Tax-exempt securities				
6 Other current assets *(attach statement)*				
7 Mortgage and real estate loans				
8 Other investments *(attach statement)*		1,000,000		1,000,000
9a Buildings and other depreciable assets				
b Less accumulated depreciation				
10a Depletable assets				
b Less accumulated depletion				
11 Land (net of any amortization)				
12a Intangible assets (amortizable only)				
b Less accumulated amortization				
13 Other assets *(attach statement)*				
14 Total assets				
Liabilities and Capital				
15 Accounts payable				
16 Mortgages, notes, bonds payable in less than 1 year				
17 Other current liabilities *(attach statement)*				
18 All nonrecourse loans				
19 Mortgages, notes, bonds payable in 1 year or more				
20 Other liabilities *(attach statement)*				
21 Partners' capital accounts				
22 Total liabilities and capital				

Schedule M-1 Reconciliation of Income (Loss) per Books With Income (Loss) per Return

1	Net income (loss) per books	6	Income recorded on books this year not included on Schedule K, lines 1 through 11 (itemize): a Tax-exempt interest $
2	Income included on Schedule K, lines 1, 2, 3c, 5, 6a, 7, 8, 9a, 10, and 11, not recorded on books this year (itemize):	7	Deductions included on Schedule K, lines 1 through 13d, and 16l, not charged against book income this year (itemize): a Depreciation $
3	Guaranteed payments (other than health insurance)	8	Add lines 6 and 7
4	Expenses recorded on books this year not included on Schedule K, lines 1 through 13d, and 16l (itemize): a Depreciation $ b Travel and entertainment $	9	Income (loss) (Analysis of Net Income (Loss), line 1). Subtract line 8 from line 5
5	Add lines 1 through 4		

Schedule M-2 Analysis of Partners' Capital Accounts

1	Balance at beginning of year	6	Distributions: a Cash b Property
2	Capital contributed: a Cash b Property	7	Other decreases (itemize):
3	Net income (loss) per books	8	Add lines 6 and 7
4	Other increases (itemize):	9	Balance at end of year. Subtract line 8 from line 5
5	Add lines 1 through 4		

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Kentucky UNBRIDLED SPIRIT

KENTUCKY PARTNERSHIP INCOME TAX RETURN

(LLC, LLP and LP TAXED AS A CORPORATION)

➤ *See separate instructions.*

2005

Taxable Year Ending __ __ / __ __ (Mo. Yr.)

Department of Revenue

Taxable period beginning _____, 2005, and ending _____, 200__.

A Number of Partners (Attach K-1s) ➤ 2

B Federal Identification Number __ __ – __ __ __ __ __ __ __

C Kentucky Corporation Account Number __ __ __ __ __ __

Name of Partnership *(Place preaddressed label here; otherwise print or type.)*: S & B Limited Partnership

Number and Street:

City: Frankfort | State: KY | ZIP Code: 40601 | Telephone Number:

State and Date of Organization:

Principal Business Activity in KY:

NAICS Code Number (Relating to Kentucky Activity) (See www.census.gov):

D Type of Return
☐ Separate Return
☐ Nexus Consolidation

E *Check if applicable:* ☐ LLC ☑ LP ☐ LLP ☐ Initial return ☐ Final return *(attach explanation)*
☐ Amended return ☐ Short-period return *(attach explanation)* ☐ Change of name ☐ Change of address

PART I—TAXABLE INCOME COMPUTATION

1. Kentucky ordinary income (loss) (from Schedule K, Section I, line 1)	2,000,000	00
2. Net income (loss) from rental real estate activities		
3. Net income (loss) from other rental activities		
4. Interest income		
5. Royalty income		
6. Net short-term capital gain		
7. Net long-term capital gain		
8. Other portfolio income (loss)		
9. Section 1231 net gain (loss) (other than due to casualty or theft)		
10. Other income (loss)		
11. Total additions (add lines 1 through 10)		
12. Other income (loss) (KRS 141.010(12)):		
(a) Related party expenses (KRS 141.205)		
(b) Deductions attributable to nontaxable income	17,500	00
(c) Add net distributable loss from corporations		
(d) Subtract net distributable income from corporations		
(e) Other		
13. **Total income after adjustments** (add lines 11 and 12)		
14. Charitable contributions (see instructions)	1,000	00
15. Section 179 expense deduction (Kentucky Form 4562)		
16. Deductions related to portfolio income (loss)		
17. Other deductions		
18. Section 59(e)(2) expenses		
19. Total deductions (add lines 14 through 18)		
20. Oil and gas depletion		
21. Other adjustments (KRS 141.010(13))		
22. Total deductions (add lines 19 through 21)		
23. **Net income (loss)** (line 13 less line 22)	2,016,500	00
24. Current net operating loss adjustment		
25. Income (loss) after NOL limitation (add lines 23 and 24)		
26. **Taxable net income (loss)** (amount from line 25 or Schedule A)	2,016,500	00

PART II—ALTERNATIVE MINIMUM (AMC)

Gross Receipts		
1. Kentucky gross receipts (less Kentucky returns and allowances)	5,500,000	00
2. Tax (line 1 multiplied by .00095)	5225	00
Gross Profits		
3. Kentucky gross receipts	5,500,000	00
(a) Less Kentucky returns and allowances		
(b) Less Kentucky cost of goods sold	1,000,000	00
4. Gross profit (subtract lines 3(a) and 3(b) from line 3)	4,500,000	00
5. Tax (line 4 multiplied by .0075)	33,750	00

PART III—TAX COMPARISON

1. Regular income tax (see instructions)	138,655	00
2. Alternative minimum (AMC) (lesser of Part II, line 2 or line 5)	5225	00

PART IV—TAX COMPUTATION

1. **Tax liability** (Part III, greater of line 1, line 2 or $175 minimum)	138,655	00
ADDITIONS		
2. Recycling/composting equipment tax credit recapture		
3. Total (add lines 1 and 2)		
SUBTRACTIONS		
4. Total nonrefundable credits from page 2, Part V		
5. **Net tax liability** (greater of line 3 less line 4 or $175)		
6. Estimated tax payments		
7. Extension tax payment	100,000	00
8. Prior year's tax credit		
9. **Tax due**	38,655	00
10. **Tax overpayment**		
11. Credited to 2006		
12. **Amount to be refunded**		

Make check(s) payable to **Kentucky State Treasurer** and mail return with payment to **Kentucky Department of Revenue, Frankfort, Kentucky 40620.**

TAX PAYMENT SUMMARY (Round to Nearest Dollar)

☑ Income ☐ AMC Gross Receipts ☐ AMC Gross Profits ☐ Minimum $175

Tax $38,655 Interest _____

Penalty _____ **TOTAL** (Including Penalty and Interest) $ 38,655

☐ *No packet required for 2006.* ➤ **Attach a complete copy of the federal return.**

PART V—SCHEDULE OF TAX CREDITS

1. Economic development tax credits	1		
2. Historic preservation restoration tax credit	2		
3. Unemployment tax credit	3		
4. Recycling/composting equipment tax credit	4		
5. Coal conversion tax credit	5		
6. Enterprise zone tax credit	6		
7. Kentucky investment fund tax credit	7		
8. Coal incentive tax credit	8		
9. Qualified research facility tax credit	9		
10. GED incentive tax credit	10		
11. Voluntary environmental remediation tax credit (Brownfields)	11		
12. Biodiesel tax credit	12		
13. Total credits (enter on page 1, Part IV, line 4)	13		

PART VI—CORPORATION INCOME TAX CREDIT

1. Tax due (page 1, Part IV, line 1)	1	138,655	00
2. Minimum tax	2	175	00
3. Corporation income tax (non-individual partners)	3	135,018	00
4. Corporation income tax credit (individual partners)	4	3,462	00
5. Nonrefundable Kentucky corporation income tax credit (KRS 141.420(3))	5	2,962	00
6. Refundable Kentucky corporation income tax credit (KRS 141.420(3)(c))	6	500	00

PART VI—CORPORATION INCOME TAX CREDIT

Line 1—Enter the amount from Part IV, Line 1.

Line 2—Enter minimum tax of $175.

Line 3—Enter non-individual partners' distributive share of the corporation income tax. Line 1 less Line 2 multiplied by the total of the non-individual shareholders' percentages.

Line 4—Line 1 less Lines 2 and 3 (individual partners' corporation income tax credit to be distributed). The credit determined under KRS 141.420(3)(b)shall be the members', shareholders', or partners' proportionate share of the tax due from the corporation as defined in KRS 141.040, before the application of any credits identified in subsection (4) of KRS 141.0205 and reduced by the required minimum imposed by subsection (6) of KRS 141.040. **KRS 141.420(3)**

Lines 5 and 6—If taxable net income (Part I, Line 26) is greater than $216,600, multiply the excess by 1 percent and by the total individual partners' ownership percentage and enter this amount on Line 6.

Determine the individual partners' proportionate share of the tax credit (page 2, Part VI, Line 4) less the amount entered on Line 6, and enter on Line 5.

SCHEDULE Q—KENTUCKY PARTNERSHIP QUESTIONNAIRE

IMPORTANT: Questions 4—13 must be completed by all partnerships. If this is the partnerships's initial return or if the partnership did not file a return under the same name and same federal I.D. number for the preceding year, questions 1, 2 and 3 must be answered. **Failure to do so may result in a request for a delinquent return.**

1. Indicate whether: (a) ☐ new business; (b) ☐ successor to previously existing business which was organized as: (1) ☐ corporation; (2) ☐ partnership; (3) ☐ sole proprietorship; or (4) ☐ other _____

   If successor to previously existing business, give name, address and federal I.D. number of the previous business organization.

2. List the following ***Kentucky*** account numbers. Enter N/A for any number not applicable.
   Employer Withholding _____
   Sales and Use Tax Permit _____
   Consumer Use Tax _____
   Unemployment Insurance _____
   Coal Severance and/or Processing Tax _____
3. If a foreign partnership, enter the date qualified to do business in Kentucky. __ __ / __ __ / __ __

4. The partnerships's books are in care of: (name and address)

5. Is the partnership a partner in a general partnership doing business in Kentucky? ☐ Yes ☐ No
   If yes, list name, federal I.D. and Kentucky account number of the general partnership(s). _____

   Was the partnership doing business in Kentucky, other than the interest held in a general partnership doing business in Kentucky? ☐ Yes ☐ No

6. Is the net distributive income (loss) received from a partnership subject to the tax imposed by KRS 141.040 included in this return? ☐ Yes ☐ No. If yes, list name, federal I.D. and Kentucky account number of the partnership.

7. Are related party costs made to related members as defined in KRS 141.205(1)(l) included in this return? ☐ Yes ☐ No. If yes, list name, federal I.D. and/or Kentucky corporation account number of the individual or entity. _____

8. Did the partnership at any time during the taxable year own 80 percent or more of the voting power of all classes of ownership interest in an entity, other than a general partnership, which is not included in this return because it did not do business in Kentucky? ☐ Yes ☐ No. If yes, list name and federal I.D. number of all such entities. _____

9. Did any corporation, individual, partnership, trust or association at any time during the taxable year own 80 percent of the voting power of all classes of ownership interest of the partnership? ☐ Yes ☐ No. If yes, list name and federal I.D. number of all such entities.

10. Was this return prepared on: (a) ☐ cash basis, (b) ☐ accrual basis, (c) ☐ other _____
11. Is the partnership a public service corporation subject to taxation under KRS 136.120? ☐ Yes ☐ No
12. Did the partnership file a Kentucky tangible personal property tax return for January 1, 2006? ☐ Yes ☐ No
13. Is the partnership currently under audit by the Internal Revenue Service? ☐ Yes ☐ No. If yes, enter years under audit _____

    If the Internal Revenue Service has made final and unappealable adjustments to the partnership's taxable income which have not been reported to this department, check here ☐ and file Form 765, Amended Kentucky Partnership Income Tax Return, for each year adjusted and attach a copy of the final determination.

I, the undersigned, declare under the penalties of perjury, that I have examined these returns, including all accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct and complete.

✍ _____

Signature of partner or member | Identification number of partner or member | Date

Typed or printed name of preparer other than taxpayer | Identification number of preparer | Date

May the Department of Revenue discuss this return with the preparer?
☐ Yes ☐ No

SCHEDULE OI—ORDINARY INCOME (LOSS) COMPUTATION

1. Federal ordinary income (loss) (see instructions)	1	2,000,000	00
ADDITIONS			
2. State taxes	2		
3. Federal depreciation (do not include Section 179 expense deduction)	3	100,000	00
4. Other (attach schedule)	4		
5. Total (add lines 1 through 4)	5		
SUBTRACTIONS			
6. Federal work opportunity credit	6		
7. Kentucky depreciation (do not include Section 179 expense deduction)	7	100,000	00
8. Other (attach schedule)	8		
9. **Kentucky ordinary income (loss)** (line 5 less lines 6 through 8)	9	2,000,000	00

SCHEDULE K—PARTNERS' SHARES OF INCOME, CREDITS, DEDUCTIONS, ETC. (See Specific Instructions for Each Line Item)

SECTION I	(a) Distributive Share Items		(b) Total Amount	
Income (Loss) and Deductions				
1. Kentucky ordinary income (loss) from trade or business activities (Schedule OI, line 9)		1	2,000,000	00
2. Net income (loss) from rental real estate activities (attach federal Form 8825)		2		
3. (a) Gross income from other rental activities	3(a)			
(b) Less expenses from other rental activities (attach schedule)	(b)			
(c) Net income (loss) from other rental activities (line 3a less line 3b)		(c)		
4. Portfolio income (loss):				
(a) Interest income		4(a)		
(b) Dividend income		(b)	100,000	00
(c) Royalty income		(c)		
(d) Net short-term capital gain (loss) (attach federal Schedule D and Kentucky Schedule D if applicable)		(d)		
(e) Net long-term capital gain (loss) (attach federal Schedule D and Kentucky Schedule D if applicable)		(e)		
(f) Other portfolio income (loss) (attach schedule)		(f)		
5. Guaranteed payments to partners		5	50,000	00
6. Section 1231 net gain (loss) (other than due to casualty or theft) (attach federal and Kentucky Forms 4797)		6		
7. Other income (loss) (attach schedule)		7		
8. Charitable contributions (attach schedule) and housing for homeless deduction (attach Schedule HH)		8	1,000	00
9. IRC Section 179 expense deduction (attach Federal Form 4562 and Kentucky Revised Form 4562)		9		
10. Deductions related to portfolio income (loss) (attach schedule)		10		
11. Other deductions (attach schedule)		11		
Investment Interest				
12. (a) Interest expense on investment debts		12(a)		
(b) (1) Investment income included on lines 4(a), 4(b), 4(c) and 4(f) above		(b)(1)		
(2) Investment expenses included on line 10 above		(2)		
Other Items				
13. (a) Type of Section 59(e)(2) expenditures ➤		13(a)		
(b) Amount of Section 59(e)(2) expenditures		(b)		
14. Tax-exempt interest income		14		
15. Other tax-exempt income		15		
16. Nondeductible expenses		16		
17. Total property distributions (including cash)		17		
18. Other items and amounts required to be reported separately to partners (attach schedule)		18		

SECTION II—Kentucky Distributable Corporation Income and Tax Credits

1. Taxable net income (loss) taxed under KRS 141.040 (page 1, Part I, line 26)	1		
2. Individual partners' share of net distributable income (loss) taxed under KRS 141.040	2		
3. Nonrefundable Kentucky corporation income tax credit (KRS 141.420(3)) (page 2, Part VI, line 5)	3		
4. Refundable Kentucky corporation income tax credit (KRS 141.420(3)(c)) (page 2, Part VI, line 6)	4		

KENTUCKY SCHEDULE K-1
FORM 765
Commonwealth of Kentucky
DEPARTMENT OF REVENUE

PARTNER'S SHARE OF INCOME, CREDITS, DEDUCTIONS, ETC.

For calendar year 2005 or fiscal year
beginning _____ 2005, and ending _____, 2006.

2005

Partner's identifying number ➤

Partner's name, address and ZIP code
WV Bill

Partnership's FEIN ➤

Partnership's name, address and ZIP code

A This partner is a ☐ general partner ☐ limited partner
☐ limited liability company member.

B Partner's share of liabilities:
Nonrecourse ..... $ _____
Qualified nonrecourse financing ..... $ _____
Other ..... $ _____

C What type of entity is this partner? ..... ➤ Individual

E Enter partner's percentage of:

	(i) Before change or termination	(ii) End of year
Profit sharing	2.5 %	2.5 %
Loss sharing	%	%
Ownership of capital	%	%

D Partner's taxable percentage of partnership's distributive share items below (see instructions)
(1) Resident partner 100%
(2) Nonresident partner (see Schedule A, Section I, line 12) ..... ➤ 100%

☐ Final K-1
☐ Amended K-1

	(a) Distributive Share Items		(b) Amount
Income (Loss)	1. Ordinary income (loss) from trade or business activities	1	50,000
	2. Net income (loss) from rental real estate activities	2	
	3. Net income (loss) from other rental activities	3	
	4. Portfolio income (loss):		
	(a) Interest	4(a)	
	(b) Dividends	(b)	2,500
	(c) Royalties	(c)	
	(d) Net short-term capital gain (loss)	(d)	
	(e) Net long-term capital gain (loss)	(e)	
	(f) Other portfolio income (loss) (attach schedule)	(f)	
	5. Guaranteed payments to partners	5	50,000
	6. Net gain (loss) under Section 1231 (other than due to casualty or theft)	6	
	7. Other income (loss) (attach schedule)	7	
Deductions	8. Charitable contributions (attach schedule) and housing for homeless deduction (attach Schedule HH)	8	25
	9. IRC Section 179 expense deduction (attach Federal Form 4562 and Kentucky Revised Form 4562)	9	
	10. Deductions related to portfolio income (loss) (attach schedule)	10	
	11. Other deductions (attach schedule)	11	
Investment Interest	12. (a) Interest expense on investment debts	12(a)	
	(b) (1) Investment income included on lines 4(a), 4(b), 4(c) and 4(f) above	(b)(1)	
	(2) Investment expenses included on line 10 above	(2)	
Other Items	13. (a) Type of Section 59(e)(2) expenditures ➤ _____	13(a)	
	(b) Amount of Section 59(e)(2) expenditures	(b)	
	14. Tax-exempt interest income	14	
	15. Other tax-exempt income	15	
	16. Nondeductible expenses	16	
	17. Property distributions (including cash)	17	
	18. Supplemental information required to be reported to each partner (attach schedules)	18	
Credits	19. Individual partners' net distributable share of taxable income taxed under KRS 141.040	19	49,975
	20. Nonrefundable Kentucky corporation income tax credit (KRS 141.420(3))	20	2,962
	21. Refundable Kentucky corporation income tax credit (KRS 141.420(3)(c))	21	500
Resident Shareholder Adjustment	22. Combination of Kentucky Schedule K-1, lines 1 through 6, 9 and portions of lines 7 and 11. Add income amounts and subtract (loss) and deduction amounts (see instructions)	22	
	23. Combination of federal Schedule K-1, lines 1 through 10, 12 and portions of lines 11 and 13. Add income amounts and subtract (loss) and deduction amounts (see instructions)	23	
	24. Enter difference of lines 22 and 23 here and on appropriate line on Schedule M (see instructions)	24	

KENTUCKY SCHEDULE K-1
FORM 765
Commonwealth of Kentucky
DEPARTMENT OF REVENUE

PARTNER'S SHARE OF INCOME, CREDITS, DEDUCTIONS, ETC.

For calendar year 2005 or fiscal year
beginning _____ 2005, and ending _____, 2006.

2005

Partner's identifying number ➤

Partnership's FEIN ➤

Partner's name, address and ZIP code
IMA Corporation
Troy, Ohio 45373

Partnership's name, address and ZIP code

A This partner is a [✓] general partner [ ] limited partner
[ ] limited liability company member.

B Partner's share of liabilities:
Nonrecourse ..... $
Qualified nonrecourse financing ..... $
Other ..... $

C What type of entity is this partner? ..... ➤ Corporation

E Enter partner's percentage of:

	(i) Before change or termination	(ii) End of year
Profit sharing	97.5 %	97.5 %
Loss sharing	%	%
Ownership of capital	%	%

D Partner's taxable percentage of partnership's distributive share items below (see instructions)
(1) Resident partner 100%
(2) Nonresident partner (see Schedule A, Section I, line 12) ..... ➤ 100%

[ ] Final K-1
[ ] Amended K-1

	(a) Distributive Share Items		(b) Amount
Income (Loss)	1. Ordinary income (loss) from trade or business activities	1	1,950,000
	2. Net income (loss) from rental real estate activities	2	
	3. Net income (loss) from other rental activities	3	
	4. Portfolio income (loss):		
	(a) Interest	4(a)	
	(b) Dividends	(b)	97,500
	(c) Royalties	(c)	
	(d) Net short-term capital gain (loss)	(d)	
	(e) Net long-term capital gain (loss)	(e)	
	(f) Other portfolio income (loss) (attach schedule)	(f)	
	5. Guaranteed payments to partners	5	
	6. Net gain (loss) under Section 1231 (other than due to casualty or theft)	6	
	7. Other income (loss) (attach schedule)	7	
Deductions	8. Charitable contributions (attach schedule) and housing for homeless deduction (attach Schedule HH)	8	975
	9. IRC Section 179 expense deduction (attach Federal Form 4562 and Kentucky Revised Form 4562)	9	
	10. Deductions related to portfolio income (loss) (attach schedule)	10	
	11. Other deductions (attach schedule)	11	
Investment Interest	12. (a) Interest expense on investment debts	12(a)	
	(b) (1) Investment income included on lines 4(a), 4(b), 4(c) and 4(f) above	(b)(1)	
	(2) Investment expenses included on line 10 above	(2)	
Other Items	13. (a) Type of Section 59(e)(2) expenditures ➤	13(a)	
	(b) Amount of Section 59(e)(2) expenditures	(b)	
	14. Tax-exempt interest income	14	
	15. Other tax-exempt income	15	
	16. Nondeductible expenses	16	
	17. Property distributions (including cash)	17	
	18. Supplemental information required to be reported to each partner (attach schedules)	18	
Credits	19. Individual partners' net distributable share of taxable income taxed under KRS 141.040	19	
	20. Nonrefundable Kentucky corporation income tax credit (KRS 141.420(3))	20	
	21. Refundable Kentucky corporation income tax credit (KRS 141.420(3)(c))	21	
Resident Shareholder Adjustment	22. Combination of Kentucky Schedule K-1, lines 1 through 6, 9 and portions of lines 7 and 11. Add income amounts and subtract (loss) and deduction amounts (see instructions)	22	
	23. Combination of federal Schedule K-1, lines 1 through 10, 12 and portions of lines 11 and 13. Add income amounts and subtract (loss) and deduction amounts (see instructions)	23	
	24. Enter difference of lines 22 and 23 here and on appropriate line on Schedule M (see instructions)	24	

EXAMPLE 3: 2006 TREATMENT

FACTS:
- S & B Limited Partnership is made up of two partners.
- The partnership has 100% **Kentucky** property and payroll.
- One partner is IMA Corporation located in Ohio (97.5%).
- One partner is WV Bill, an individual residing in West Virginia (2.5%).
- Income:
  - Gross receipts $5,000,000
  - Cost of goods sold $1,000,000
  - Other income - federal $500,000
  - Other income - Kentucky $17,500
- Deductions:
  - Salaries & wages $1,000,000
  - Guaranteed payments $50,000
  - Repairs & maintenance $950,000
  - Taxes & licenses $400,000
  - Federal depreciation $100,000
  - Kentucky depreciation $100,000
- Partner's Distributive Share Income Items:
  - Ordinary business income $2,000,000
  - Guaranteed payments $50,000
  - Dividends $100,000
  - Section 1231 gain/loss <$2,500,000>
- Partner's Distributive Share Deduction Items:
  - Contributions $1,000
- Balance Sheet:
  - Beginning Balance $1,000,000
  - Ending Balance $1,000,000
- Deductions - nontaxable income $17,500

KEY POINTS:
- Similar to the 2005 rules.
- AMC Schedule is used.
- Small business relief
- Net operating loss deduction (NOLD)
  - Treatment of carryforwards

FORMS:
- 1065 US Return of Partnership Income
- 765 Kentucky Partnership Income Return
- Schedule AMC
- Kentucky Schedule K-1 Partner's Share of Income, Credits, Deductions, etc.
  - One for each partner

Form **1065**
Department of the Treasury
Internal Revenue Service

U.S. Return of Partnership Income

For calendar year 2006, or tax year beginning ....., 2006, ending ....., 20.....
▶ See separate instructions.

OMB No. 1545-0099
2006

A Principal business activity	Use the IRS label. Otherwise, print or type. Name of partnership: S & B Limited Partnership	D Employer identification number
B Principal product or service	Number, street, and room or suite no. If a P.O. box, see the instructions.	E Date business started
C Business code number	City or town, state, and ZIP code: Frankfort, Kentucky 40601	F Total assets (see the instructions) $

G Check applicable boxes: (1) ☐ Initial return (2) ☐ Final return (3) ☐ Name change (4) ☐ Address change (5) ☐ Amended return
H Check accounting method: (1) ☑ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶
I Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year ▶
J Check if Schedule M-3 required (attach Schedule M-3) ☐

Caution. *Include **only** trade or business income and expenses on lines 1a through 22 below. See the instructions for more information.*

Income	1a Gross receipts or sales	1a	5,000,000	00			
	b Less returns and allowances	1b			1c	5,000,000	00
	2 Cost of goods sold (Schedule A, line 8)				2	1,000,000	00
	3 Gross profit. Subtract line 2 from line 1c				3	4,000,000	00
	4 Ordinary income (loss) from other partnerships, estates, and trusts *(attach statement)*				4		
	5 Net farm profit (loss) *(attach Schedule F (Form 1040))*				5		
	6 Net gain (loss) from Form 4797, Part II, line 17 (attach Form 4797)				6		
	7 Other income (loss) *(attach statement)*				7	500,000	00
	8 **Total income (loss).** Combine lines 3 through 7				8	4,500,000	00
Deductions (see the instructions for limitations)	9 Salaries and wages (other than to partners) (less employment credits)				9	1,000,000	00
	10 Guaranteed payments to partners				10	50,000	00
	11 Repairs and maintenance				11	950,000	00
	12 Bad debts				12		
	13 Rent				13		
	14 Taxes and licenses				14	400,000	00
	15 Interest				15		
	16a Depreciation *(if required, attach Form 4562)*	16a	100,000	00			
	b Less depreciation reported on Schedule A and elsewhere on return	16b			16c	100,000	00
	17 Depletion **(Do not deduct oil and gas depletion.)**				17		
	18 Retirement plans, etc.				18		
	19 Employee benefit programs				19		
	20 Other deductions *(attach statement)*				20		
	21 **Total deductions.** Add the amounts shown in the far right column for lines 9 through 20				21	2,500,000	00
	22 **Ordinary business income (loss).** Subtract line 21 from line 8				22	2,000,000	00
	23 Credit for federal telephone excise tax paid (attach Form 8913)				23		

Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than general partner or limited liability company member manager) is based on all information of which preparer has any knowledge.

▶ Signature of general partner or limited liability company member manager ▶ Date

May the IRS discuss this return with the preparer shown below (see instructions)? ☐ Yes ☐ No

Paid Preparer's Use Only

Preparer's signature	Date	Check if self-employed ▶ ☐	Preparer's SSN or PTIN
Firm's name (or yours if self-employed), address, and ZIP code ▶		EIN ▶	
		Phone no. ( )	

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11390Z Form **1065** (2006)

Schedule A Cost of Goods Sold (see the instructions)

1	Inventory at beginning of year	1	2,500,000	00
2	Purchases less cost of items withdrawn for personal use	2	1,000,000	00
3	Cost of labor	3		
4	Additional section 263A costs *(attach statement)*	4		
5	Other costs *(attach statement)*	5		
6	**Total.** Add lines 1 through 5	6	3,500,000	00
7	Inventory at end of year	7	2,500,000	00
8	**Cost of goods sold.** Subtract line 7 from line 6. Enter here and on page 1, line 2	8	1,000,000	00

9a Check all methods used for valuing closing inventory:
- (i) ☐ Cost as described in Regulations section 1.471-3
- (ii) ☐ Lower of cost or market as described in Regulations section 1.471-4
- (iii) ☐ Other (specify method used and attach explanation) ▶

b Check this box if there was a writedown of "subnormal" goods as described in Regulations section 1.471-2(c) ▶ ☐

c Check this box if the LIFO inventory method was adopted this tax year for any goods *(if checked, attach Form 970)* ▶ ☐

d Do the rules of section 263A (for property produced or acquired for resale) apply to the partnership? ☐ Yes ☐ No

e Was there any change in determining quantities, cost, or valuations between opening and closing inventory? ☐ Yes ☐ No
If "Yes," attach explanation.

Schedule B Other Information

		Yes	No
1	What type of entity is filing this return? Check the applicable box: a ☐ Domestic general partnership b ☐ Domestic limited partnership c ☐ Domestic limited liability company d ☐ Domestic limited liability partnership e ☐ Foreign partnership f ☐ Other ▶		
2	Are any partners in this partnership also partnerships?		
3	During the partnership's tax year, did the partnership own any interest in another partnership or in any foreign entity that was disregarded as an entity separate from its owner under Regulations sections 301.7701-2 and 301.7701-3? If yes, see instructions for required attachment		
4	Did the partnership file Form 8893, Election of Partnership Level Tax Treatment, or an election statement under section 6231(a)(1)(B)(ii) for partnership-level tax treatment, that is in effect for this tax year? See Form 8893 for more details		
5	Does this partnership meet all three of the following requirements? a The partnership's total receipts for the tax year were less than $250,000; b The partnership's total assets at the end of the tax year were less than $600,000; and c Schedules K-1 are filed with the return and furnished to the partners on or before the due date (including extensions) for the partnership return. If "Yes," the partnership is not required to complete Schedules L, M-1, and M-2; Item F on page 1 of Form 1065; or Item N on Schedule K-1.		
6	Does this partnership have any foreign partners? If "Yes," the partnership may have to file Forms 8804, 8805 and 8813. See the instructions		
7	Is this partnership a publicly traded partnership as defined in section 469(k)(2)?		
8	Has this partnership filed, or is it required to file, a return under section 6111 to provide information on any reportable transaction?		
9	At any time during calendar year 2006, did the partnership have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? See the instructions for exceptions and filing requirements for Form TD F 90-22.1. If "Yes," enter the name of the foreign country. ▶		
10	During the tax year, did the partnership receive a distribution from, or was it the grantor of, or transferor to, a foreign trust? If "Yes," the partnership may have to file Form 3520. See the instructions		
11	Was there a distribution of property or a transfer (for example, by sale or death) of a partnership interest during the tax year? If "Yes," you may elect to adjust the basis of the partnership's assets under section 754 by attaching the statement described under *Elections Made By the Partnership* in the instructions		
12	Enter the number of Forms 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships, attached to this return ▶		

Designation of Tax Matters Partner (see the instructions)

Enter below the general partner designated as the tax matters partner (TMP) for the tax year of this return:

Name of designated TMP ▶ Identifying number of TMP ▶

Address of designated TMP ▶

Schedule K Partners' Distributive Share Items

				Total amount	
Income (Loss)	1	Ordinary business income (loss) (page 1, line 22)	1	2,000,000	00
	2	Net rental real estate income (loss) *(attach Form 8825)*	2		
	3a	Other gross rental income (loss) — 3a			
	b	Expenses from other rental activities *(attach statement)* — 3b			
	c	Other net rental income (loss). Subtract line 3b from line 3a	3c		
	4	Guaranteed payments	4	50,000	00
	5	Interest income	5		
	6	Dividends: a Ordinary dividends	6a	100,000	00
		b Qualified dividends — 6b			
	7	Royalties	7		
	8	Net short-term capital gain (loss) *(attach Schedule D (Form 1065))*	8		
	9a	Net long-term capital gain (loss) *(attach Schedule D (Form 1065))*	9a		
	b	Collectibles (28%) gain (loss) — 9b			
	c	Unrecaptured section 1250 gain *(attach statement)* — 9c			
	10	Net section 1231 gain (loss) *(attach Form 4797)*	10		
	11	Other income (loss) *(see instructions)* Type ▶	11		
Deductions	12	Section 179 deduction *(attach Form 4562)*	12		
	13a	Contributions	13a	1,000	00
	b	Investment interest expense	13b		
	c	Section 59(e)(2) expenditures: (1) Type ▶ (2) Amount ▶	13c(2)		
	d	Other deductions *(see instructions)* Type ▶	13d		
Self-Employment	14a	Net earnings (loss) from self-employment	14a		
	b	Gross farming or fishing income	14b		
	c	Gross nonfarm income	14c		
Credits	15a	Low-income housing credit (section 42(j)(5))	15a		
	b	Low-income housing credit (other)	15b		
	c	Qualified rehabilitation expenditures (rental real estate) *(attach Form 3468)*	15c		
	d	Other rental real estate credits *(see instructions)* Type ▶	15d		
	e	Other rental credits *(see instructions)* Type ▶	15e		
	f	Other credits *(see instructions)* Type ▶	15f		
Foreign Transactions	16a	Name of country or U.S. possession ▶			
	b	Gross income from all sources	16b		
	c	Gross income sourced at partner level	16c		
		Foreign gross income sourced at partnership level			
	d	Passive ▶ e Listed categories *(attach statement)* ▶ f General limitation ▶	16f		
		Deductions allocated and apportioned at partner level			
	g	Interest expense ▶ h Other ▶	16h		
		Deductions allocated and apportioned at partnership level to foreign source income			
	i	Passive ▶ j Listed categories *(attach statement)* ▶ k General limitation ▶	16k		
	l	Total foreign taxes (check one): ▶ Paid ☐ Accrued ☐	16l		
	m	Reduction in taxes available for credit *(attach statement)*	16m		
	n	Other foreign tax information *(attach statement)*			
Alternative Minimum Tax (AMT) Items	17a	Post-1986 depreciation adjustment	17a		
	b	Adjusted gain or loss	17b		
	c	Depletion (other than oil and gas)	17c		
	d	Oil, gas, and geothermal properties—gross income	17d		
	e	Oil, gas, and geothermal properties—deductions	17e		
	f	Other AMT items *(attach statement)*	17f		
Other Information	18a	Tax-exempt interest income	18a		
	b	Other tax-exempt income	18b		
	c	Nondeductible expenses	18c		
	19a	Distributions of cash and marketable securities	19a		
	b	Distributions of other property	19b		
	20a	Investment income	20a		
	b	Investment expenses	20b		
	c	Other items and amounts *(attach statement)*			

Analysis of Net Income (Loss)

1	Net income (loss). Combine Schedule K, lines 1 through 11. From the result, subtract the sum of Schedule K, lines 12 through 13d, and 16l	1

2 Analysis by partner type:	(i) Corporate	(ii) Individual (active)	(iii) Individual (passive)	(iv) Partnership	(v) Exempt organization	(vi) Nominee/Other
a General partners						
b Limited partners						

Schedule L Balance Sheets per Books

Assets	Beginning of tax year (a)	Beginning of tax year (b)	End of tax year (c)	End of tax year (d)
1 Cash				
2a Trade notes and accounts receivable				
b Less allowance for bad debts				
3 Inventories				
4 U.S. government obligations				
5 Tax-exempt securities				
6 Other current assets *(attach statement)*				
7 Mortgage and real estate loans				
8 Other investments *(attach statement)*		1,000,000		1,000,000
9a Buildings and other depreciable assets				
b Less accumulated depreciation				
10a Depletable assets				
b Less accumulated depletion				
11 Land (net of any amortization)				
12a Intangible assets (amortizable only)				
b Less accumulated amortization				
13 Other assets *(attach statement)*				
14 Total assets				
Liabilities and Capital				
15 Accounts payable				
16 Mortgages, notes, bonds payable in less than 1 year				
17 Other current liabilities *(attach statement)*				
18 All nonrecourse loans				
19 Mortgages, notes, bonds payable in 1 year or more				
20 Other liabilities *(attach statement)*				
21 Partners' capital accounts				
22 Total liabilities and capital				

Schedule M-1 Reconciliation of Income (Loss) per Books With Income (Loss) per Return

Note. Schedule M-3 may be required instead of Schedule M-1 (see instructions).

1	Net income (loss) per books	6	Income recorded on books this year not included on Schedule K, lines 1 through 11 (itemize):
2	Income included on Schedule K, lines 1, 2, 3c, 5, 6a, 7, 8, 9a, 10, and 11, not recorded on books this year (itemize):	a	Tax-exempt interest $
3	Guaranteed payments (other than health insurance)	7	Deductions included on Schedule K, lines 1 through 13d, and 16l, not charged against book income this year (itemize):
4	Expenses recorded on books this year not included on Schedule K, lines 1 through 13d, and 16l (itemize):	a	Depreciation $
a	Depreciation $	8	Add lines 6 and 7
b	Travel and entertainment $	9	Income (loss) (Analysis of Net Income (Loss), line 1). Subtract line 8 from line 5
5	Add lines 1 through 4		

Schedule M-2 Analysis of Partners' Capital Accounts

1	Balance at beginning of year	6	Distributions: a Cash
2	Capital contributed: a Cash		b Property
	b Property	7	Other decreases (itemize):
3	Net income (loss) per books		
4	Other increases (itemize):	8	Add lines 6 and 7
5	Add lines 1 through 4	9	Balance at end of year. Subtract line 8 from line 5

765 Kentucky
41A765
Department of Revenue

C Kentucky Corporation Account Number

2006

➤ ***See separate instructions.***

Taxable period beginning _____, 2006, and ending _____, 200___.

KENTUCKY PARTNERSHIP INCOME TAX RETURN
(LLC, LLP and LP TAXED AS A CORPORATION)

A Number of Partners (Attach K-1s) ➤ 2

B Federal Identification Number ___ ___ – ___ ___ ___ ___ ___ ___ ___

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

Name of Partnership *(Place preaddressed label here; otherwise print or type.)*: S & B Limited Partnership

State and Date of Organization

Principal Business Activity in KY

Number and Street

NAICS Code Number (Relating to Kentucky Activity) (See www.census.gov)

City: Frankfort | State: Ky | ZIP Code: 40601 | Telephone Number

D Type of Return
☐ Separate Return
☐ Nexus Consolidation

E *Check if applicable:* ☐ LLC ☑ LP ☐ LLP ☐ Initial return ☐ Final return *(attach explanation)*
☐ Amended return ☐ Short-period return *(attach explanation)* ☐ Change of name ☐ Change of address
☐ No packet required for 2007

PART I—TAXABLE INCOME COMPUTATION

1. Kentucky ordinary income (loss) (from Schedule K, Section I, line 1)	2,000,000	00
2. Net income (loss) from rental real estate activities		
3. Net income (loss) from other rental activities		
4. Interest income		
5. Royalty income		
6. Net capital gain (from Schedule K, Section I)		
7. Other portfolio income (loss)		
8. Section 1231 net gain (loss) (other than due to casualty or theft)		
9. Other income (loss)		
10. Total additions (add lines 1 through 9)		
11. **Total from Line 11—Worksheet on page 2** (other income (loss) (KRS 141.010(12))	17,500	00
12. **Total income after adjustments** (add lines 10 and 11)	2,017,500	00
13. Charitable contributions (see instructions)	1,000	00
14. Section 179 expense deduction (Kentucky Form 4562)		
15. Deductions related to portfolio income (loss)		
16. Other deductions		
17. Section 59(e)(2) expenses		
18. Total deductions (add lines 13 through 17)		
19. Oil and gas depletion		
20. Other adjustments (KRS 141.010(13))		
21. Total deductions (add lines 18 through 20)		
22. **Net income (loss)** (line 12 less line 21)		
23. Current net operating loss adjustment		
24. Income (loss) after NOL limitation (add lines 22 and 23)		
25. **Net income (loss)** (amount from line 24 or Schedule A)	2,016,500	00
26. Net operating loss deduction (NOLD)		
27. **Net income (loss)** (after NOLD) (line 25 less line 26)		
28. Kentucky domestic production activities deduction (KDPAD)		
29. **Taxable net income (loss)** (line 27 less line 28)	2,016,500	00

PART II—TAX COMPARISON

1. Regular income tax (see instructions)	138,655	00
2. Schedule AMC, Section D, line 1	4,750	00

PART III—TAX COMPUTATION

1. **Tax liability** (Part II, greater of line 1, line 2 or $175 minimum)	138,655	00
ADDITIONS		
2. Recycling/composting equipment tax credit recapture		
3. Total (add lines 1 and 2)		
SUBTRACTIONS		
4. Total tax credits (Schedule TCS)		
5. **Net tax liability** (greater of line 3 less line 4 or $175)		
6. Estimated tax payments	130,000	00
☐ Check if Form 2220-K attached		
7. Extension tax payment		
8. Prior year's tax credit		
9. **Tax due**	8,655	00
10. **Tax overpayment**		
11. Credited to 2007		
12. **Amount to be refunded**		

➤ **Federal Form 1065, pages 1, 2, 3 and 4, and any supporting schedules must be attached.**

Make check(s) payable to: Kentucky State Treasurer

Mail return with payment to: Kentucky Department of Revenue, Frankfort, Kentucky 40620

TAX PAYMENT SUMMARY (Round to Nearest Dollar)

☑ Income ☐ AMC Gross Receipts ☐ AMC Gross Profits ☐ Minimum $175

Tax $8,655.00 Interest _____

Penalty _____ **TOTAL** (Including Penalty and Interest) $8,655.00

PART IV—CORPORATION INCOME TAX CREDIT FOR PARTNERS/MEMBERS

1. Tax due (page 1, Part III, line 1)	1	138,655	00
2. Minimum tax	2	175	00
3. Corporation income tax (nonindividual partners)	3	135,018	00
4. Corporation income tax credit (individual partners)	4	3,462	00
5. Nonrefundable Kentucky corporation income tax credit (KRS 141.420(3))	5	2,962	00
6. Refundable Kentucky corporation income tax credit (KRS 141.420(3)(c))	6	500	00

Line 11—Worksheet: Other Income (Loss) (KRS 141.010(12))

KRS 141.010(12) adjustments which were not made in the Ordinary Income (Loss) Computation or Schedule K, Section I, Lines 1 through 11 and 13(b).

Description		Amount	
(a) Enter related party and intangible expenses prohibited by KRS 141.205	(a)		
(b) Enter expenses related to nontaxable income	(b)	17,500	00
(c) Add net distributive loss received from the corporation subject to tax under KRS 140.040	(c)		
(d) Subtract net distributive income received from the corporation subject to tax under KRS 140.040	(d)		
(e) Enter any other adjustments provided by KRS 141.010(12)	(e)		
Total KRS 141.010(12) adjustments (add lines (a) through (e)). Enter here and on page 1, line 11		17,500	00

SCHEDULE Q—
KENTUCKY PARTNERSHIP QUESTIONNAIRE

IMPORTANT: Questions 4—14 must be completed by all partnerships. If this is the partnerships's initial return or if the partnership did not file a return under the same name and same federal I.D. number for the preceding year, questions 1, 2 and 3 must be answered. **Failure to do so may result in a request for a delinquent return.**

1. Indicate whether: (a) ☐ new business; (b) ☐ successor to previously existing business which was organized as: (1) ☐ corporation; (2) ☐ partnership; (3) ☐ sole proprietorship; or (4) ☐ other _____

   If successor to previously existing business, give name, address and federal I.D. number of the previous business organization. _____

2. List the following ***Kentucky*** account numbers. Enter N/A for any number not applicable.
   Employer Withholding _____
   Sales and Use Tax Permit _____
   Consumer Use Tax _____
   Unemployment Insurance _____
   Coal Severance and/or Processing Tax _____
3. If a foreign partnership, enter the date qualified to do business in Kentucky. ___ ___ / ___ ___ / ___ ___
4. The partnerships's books are in care of: (name and address) _____
5. Are disregarded entities included in this return? ☐ Yes ☐ No. If yes, list name, address and federal I.D. number of the entity. _____
6. For the taxable period being reported, was the partnership a partner in a general partnership doing business in Kentucky? ☐ Yes ☐ No. If yes, list name and federal I.D. number of the general partnership(s). _____

   For the taxable period being reported, was the partnership doing business in Kentucky, other than the interest held in a general partnership doing business in Kentucky? ☐ Yes ☐ No
7. Is the net distributive income (loss) received from a partnership subject to the tax imposed by KRS 141.040 included in this return? ☐ Yes ☐ No. If yes, list name, federal I.D. and Kentucky account number of the partnership. _____
8. Are related party costs made to related members as defined in KRS 141.205(1)(l) included in this return? ☐ Yes ☐ No. If yes, list name, federal I.D. and/or Kentucky corporation account number of the individual or entity. _____
9. Did the partnership at any time during the taxable year own 80 percent or more of the voting power of all classes of ownership interest in an entity, other than a general partnership, which is not included in this return because it did not do business in Kentucky? ☐ Yes ☐ No. If yes, list name and federal I.D. number of all such entities. _____
10. Did any corporation, individual, partnership, trust or association at any time during the taxable year own 80 percent of the voting power of all classes of ownership interest of the partnership? ☐ Yes ☐ No. If yes, list name and federal I.D. number of all such entities. _____
11. Was this return prepared on: (a) ☐ cash basis, (b) ☐ accrual basis, (c) ☐ other _____
12. Is the partnership a public service corporation subject to taxation under KRS 136.120? ☐ Yes ☐ No
13. Did the partnership file a Kentucky tangible personal property tax return for January 1, 2007? ☐ Yes ☐ No
14. Is the partnership currently under audit by the Internal Revenue Service? ☐ Yes ☐ No. If yes, enter years under audit _____

    If the Internal Revenue Service has made final and unappealable adjustments to the partnership's taxable income which have not been reported to this department, check here ☐ and file Form 765, Amended Kentucky Partnership Income Tax Return, for each year adjusted and attach a copy of the final determination.

I, the undersigned, declare under the penalties of perjury, that I have examined these returns, including all accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct and complete.

✍ _____

Signature of partner or member | Identification number of partner or member | Date

_____

Typed or printed name of preparer other than taxpayer | Identification number of preparer | Date

May the Department of Revenue discuss this return with the preparer?
☐ Yes ☐ No

SCHEDULE OI—ORDINARY INCOME (LOSS) COMPUTATION

1. Federal ordinary income (loss) (see instructions)	1	2,000,000	00
ADDITIONS			
2. State taxes	2		
3. Federal depreciation (do not include Section 179 expense deduction)	3	100,000	00
4. Other (attach schedule)	4		
5. Total (add lines 1 through 4)	5		
SUBTRACTIONS			
6. Federal work opportunity credit	6		
7. Kentucky depreciation (do not include Section 179 expense deduction)	7	100,000	00
8. Other (attach schedule)	8		
9. **Kentucky ordinary income (loss)** (line 5 less lines 6 through 8)	9	2,000,000	00

SCHEDULE K—PARTNERS' SHARES OF INCOME, CREDITS, DEDUCTIONS, ETC. (See Specific Instructions for Each Line Item)

SECTION I	(a) Distributive Share Items	(b) Total Amount	
Income (Loss) and Deductions			
1. Kentucky ordinary income (loss) from trade or business activities (Schedule OI, line 9)	1	2,000,000	00
2. Net income (loss) from rental real estate activities (attach federal Form 8825)	2		
3. (a) Gross income from other rental activities	3(a)		
(b) Less expenses from other rental activities (attach schedule)	(b)		
(c) Net income (loss) from other rental activities (line 3a less line 3b)	(c)		
4. Portfolio income (loss):			
(a) Interest income	4(a)		
(b) Dividend income	(b)	100,000	00
(c) Royalty income	(c)		
(d) Net short-term capital gain (loss) (attach federal Schedule D and Kentucky Schedule D if applicable)	(d)		
(e) Net long-term capital gain (loss) (attach federal Schedule D and Kentucky Schedule D if applicable)	(e)		
(f) Other portfolio income (loss) (attach schedule)	(f)		
5. Guaranteed payments to partners	5	50,000	00
6. Section 1231 net gain (loss) (other than due to casualty or theft) (attach federal and Kentucky Forms 4797)	6		
7. Other income (loss) (attach schedule)	7		
8. Charitable contributions (attach schedule) and housing for homeless deduction (attach Schedule HH)	8	1,000	00
9. IRC Section 179 expense deduction (attach Federal Form 4562 and Kentucky Revised Form 4562)	9		
10. Deductions related to portfolio income (loss) (attach schedule)	10		
11. Other deductions (attach schedule)	11		
Investment Interest			
12. (a) Interest expense on investment debts	12(a)		
(b) (1) Investment income included on lines 4(a), 4(b), 4(c) and 4(f) above	(b)(1)		
(2) Investment expenses included on line 10 above	(2)		
Other Items			
13. (a) Type of Section 59(e)(2) expenditures ➤	13(a)		
(b) Amount of Section 59(e)(2) expenditures	(b)		
14. Tax-exempt interest income	14		
15. Other tax-exempt income	15		
16. Nondeductible expenses	16		
17. Total property distributions (including cash)	17		
18. Other items and amounts required to be reported separately to partners (attach schedule)	18		

SECTION II—Kentucky Distributable Corporation Income and Tax Credits

1. Taxable net income (loss) taxed under KRS 141.040 (page 1, Part I, line 29)	1	2,016,500	00
2. Individual partners' share of net distributable income (loss) taxed under KRS 141.040	2	49,975	00
3. Nonrefundable Kentucky corporation income tax credit (KRS 141.420(3)) (page 2, Part IV, line 5)	3	2,962	00
4. Refundable Kentucky corporation income tax credit (KRS 141.420(3)(c)) (page 2, Part IV, line 6)	4	500	00

SCHEDULE AMC

41A720AMC (10-06)

Commonwealth of Kentucky
DEPARTMENT OF REVENUE

Taxable Year Ending

__ __ / __ __
Mo. Yr.

ALTERNATIVE MINIMUM CALCULATION

KRS 141.040(11) and (12)

Regulation 103 KAR 16:220

➤ *See instructions on reverse.*

➤ **Attach to Form 720, Form 720S, Form 725 or Form 765.**

Name of Corporation	Kentucky Corporation Account Number
S&B Limited Partnership	

Section A—Computation of Gross Receipts and Gross Profits

		Column A Kentucky	Column B Total
1. Gross receipts	1	5,500,000	5,500,000
2. Returns and allowances	2		
3. Gross receipts after returns and allowances (line 1 minus line 2)	3	5,500,000	5,500,000
4. Cost of goods sold	4	1,000,000	1,000,000
5. Gross profits (line 3 minus line 4)	5	4,500,000	4,500,000

Section B—Computation of Gross Receipts AMC

1. If gross receipts from all sources (Column B, line 3) are $3,000,000 or less, **STOP** and enter -0- on Section D, line 1, and on Part II, line 2, of applicable form (Form 720, Form 720S, Form 725 or Form 765)	1		
2. If gross receipts from all sources (Column B, line 3) are greater than $3,000,000 but less than $6,000,000, enter the following: (Column A, line 3 x 0.00095) – [$2,850 x ($6,000,000 – Column A, line 3) / $3,000,000] but in no case shall the result be less than zero	2		
3. If gross receipts from all sources (Column B, line 3) are $6,000,000 or greater, enter the following: Column A, line 3 x 0.00095	3		
4. Enter the amount from line 2 or line 3	4	4750	

Section C—Computation of Gross Profits AMC

1. If gross profits from all sources (Column B, line 5) are $3,000,000 or less, **STOP** and enter -0- on Section D, line 1, and on Part II, line 2, of applicable form (Form 720, Form 720S, Form 725 or Form 765)	1		
2. If gross profits from all sources (Column B, line 5) are greater than $3,000,000 but less than $6,000,000, enter the following: (Column A, line 5 x 0.0075) – [$22,500 x ($6,000,000 – Column A, line 5) / $3,000,000] but in no case shall the result be less than zero	2		
3. If gross profits from all sources (Column B, line 5) are $6,000,000 or greater, enter the following: Column A, line 5 x 0.0075	3		
4. Enter the amount from line 2 or line 3	4	22,500	

Section D—Computation of AMC

1. Enter the lesser of Section B, line 4 or Section C, line 4 on this line and on Part II, line 2 of the applicable form (Form 720, Form 720S, Form 725 or Form 765)	1	4,750	

(FORM 765)
KENTUCKY SCHEDULE K-1
41A765(K-1)
Department of Revenue

2006

For calendar year 2006 or fiscal year beginning _____, 2006, and ending _____, 200__.

PARTNER'S SHARE OF INCOME, CREDITS, DEDUCTIONS, ETC.

Partner's identifying number ➤	Partnership's FEIN ➤	Kentucky corporation account number ➤

Partner's name, address and ZIP code
WV Bill
Nitro, W.Va. 25143

Partnership's name, address and ZIP code

A This partner is a ☐ general partner ☐ limited partner
☐ limited liability company member.

B Partner's share of liabilities:
Nonrecourse ..... $
Qualified nonrecourse financing ..... $
Other ..... $

C What type of entity is this partner? ..... ➤

E Enter partner's percentage of:

	(i) Before change or termination	(ii) End of year
Profit sharing	%	2.5 %
Loss sharing	%	%
Ownership of capital	%	%

D Partner's taxable percentage of partnership's distributive share items below (see instructions)
(1) Resident partner 100%
(2) Nonresident partner (see Schedule A, Section I, line 12) ..... ➤ 100%

☐ Final K-1
☐ Amended K-1

	(a) Distributive Share Items		(b) Amount
Income (Loss)	1. Ordinary income (loss) from trade or business activities	1	50,000
	2. Net income (loss) from rental real estate activities	2	
	3. Net income (loss) from other rental activities	3	
	4. Portfolio income (loss):		
	(a) Interest	4(a)	
	(b) Dividends	(b)	2,500
	(c) Royalties	(c)	
	(d) Net short-term capital gain (loss)	(d)	
	(e) Net long-term capital gain (loss)	(e)	
	(f) Other portfolio income (loss) (attach schedule)	(f)	
	5. Guaranteed payments to partners	5	50,000
	6. Net gain (loss) under Section 1231 (other than due to casualty or theft)	6	
	7. Other income (loss) (attach schedule)	7	
Deductions	8. Charitable contributions (attach schedule) and housing for homeless deduction (attach Schedule HH)	8	25
	9. IRC Section 179 expense deduction (attach Federal Form 4562 and Kentucky Revised Form 4562)	9	
	10. Deductions related to portfolio income (loss) (attach schedule)	10	
	11. Other deductions (attach schedule)	11	
Investment Interest	12. (a) Interest expense on investment debts	12(a)	
	(b) (1) Investment income included on lines 4(a), 4(b), 4(c) and 4(f) above	(b)(1)	
	(2) Investment expenses included on line 10 above	(2)	
Other Items	13. (a) Type of Section 59(e)(2) expenditures ➤	13(a)	
	(b) Amount of Section 59(e)(2) expenditures	(b)	
	14. Tax-exempt interest income	14	
	15. Other tax-exempt income	15	
	16. Nondeductible expenses	16	
	17. Property distributions (including cash)	17	
	18. Supplemental information required to be reported to each partner (attach schedules)	18	
Credits	19. Individual partners' net distributable share of taxable income taxed under KRS 141.040	19	49,975
	20. Nonrefundable Kentucky corporation income tax credit (KRS 141.420(3))	20	2962
	21. Refundable Kentucky corporation income tax credit (KRS 141.420(3)(c))	21	500
Resident Partner Adjustment	22. Combination of Kentucky Schedule K-1, lines 1 through 6, 9 and portions of lines 7 and 11. Add income amounts and subtract (loss) and deduction amounts (see instructions)	22	
	23. Combination of federal Schedule K-1, lines 1 through 10, 12 and portions of lines 11 and 13. Add income amounts and subtract (loss) and deduction amounts (see instructions)	23	
	24. Enter difference of lines 22 and 23 here and on appropriate line on Schedule M (see instructions)	24	

(FORM 765)
KENTUCKY SCHEDULE K-1
41A765(K-1)
Department of Revenue

2006

For calendar year 2006 or fiscal year beginning _____, 2006, and ending _____, 200__.

PARTNER'S SHARE OF INCOME, CREDITS, DEDUCTIONS, ETC.

Partner's identifying number ➤	Partnership's FEIN ➤	Kentucky corporation account number ➤

Partner's name, address and ZIP code
IMA Corporation
Troy, Ohio 45373

Partnership's name, address and ZIP code

A This partner is a ☐ general partner ☐ limited partner
☐ limited liability company member.

B Partner's share of liabilities:
Nonrecourse ..... $
Qualified nonrecourse financing ..... $
Other ..... $

C What type of entity is this partner? ..... ➤

D Partner's taxable percentage of partnership's distributive share items below (see instructions)
(1) Resident partner 100%
(2) Nonresident partner (see Schedule A, Section I, line 12) ..... ➤ 100%

E Enter partner's percentage of:

	(i) Before change or termination	(ii) End of year
Profit sharing	%	97.5 %
Loss sharing	%	%
Ownership of capital	%	%

☐ Final K-1
☐ Amended K-1

	(a) Distributive Share Items		(b) Amount
Income (Loss)	1. Ordinary income (loss) from trade or business activities	1	1,950,000
	2. Net income (loss) from rental real estate activities	2	
	3. Net income (loss) from other rental activities	3	
	4. Portfolio income (loss):		
	(a) Interest	4(a)	
	(b) Dividends	(b)	97,500
	(c) Royalties	(c)	
	(d) Net short-term capital gain (loss)	(d)	
	(e) Net long-term capital gain (loss)	(e)	
	(f) Other portfolio income (loss) (attach schedule)	(f)	
	5. Guaranteed payments to partners	5	
	6. Net gain (loss) under Section 1231 (other than due to casualty or theft)	6	
	7. Other income (loss) (attach schedule)	7	
Deductions	8. Charitable contributions (attach schedule) and housing for homeless deduction (attach Schedule HH)	8	975
	9. IRC Section 179 expense deduction (attach Federal Form 4562 and Kentucky Revised Form 4562)	9	
	10. Deductions related to portfolio income (loss) (attach schedule)	10	
	11. Other deductions (attach schedule)	11	
Investment Interest	12. (a) Interest expense on investment debts	12(a)	
	(b) (1) Investment income included on lines 4(a), 4(b), 4(c) and 4(f) above	(b)(1)	
	(2) Investment expenses included on line 10 above	(2)	
Other Items	13. (a) Type of Section 59(e)(2) expenditures ➤	13(a)	
	(b) Amount of Section 59(e)(2) expenditures	(b)	
	14. Tax-exempt interest income	14	
	15. Other tax-exempt income	15	
	16. Nondeductible expenses	16	
	17. Property distributions (including cash)	17	
	18. Supplemental information required to be reported to each partner (attach schedules)	18	
Credits	19. Individual partners' net distributable share of taxable income taxed under KRS 141.040	19	
	20. Nonrefundable Kentucky corporation income tax credit (KRS 141.420(3))	20	
	21. Refundable Kentucky corporation income tax credit (KRS 141.420(3)(c))	21	
Resident Partner Adjustment	22. Combination of Kentucky Schedule K-1, lines 1 through 6, 9 and portions of lines 7 and 11. Add income amounts and subtract (loss) and deduction amounts (see instructions)	22	
	23. Combination of federal Schedule K-1, lines 1 through 10, 12 and portions of lines 11 and 13. Add income amounts and subtract (loss) and deduction amounts (see instructions)	23	
	24. Enter difference of lines 22 and 23 here and on appropriate line on Schedule M (see instructions)	24	

EXAMPLE 3A: TREATMENT of NOLs

2005 Change in Facts to Illustrate NOL Treatment

Assume the 2005 year has a $200,000 Kentucky loss. It is important to note that for the 2005 tax year that there is no carry forward of an NOL from the **prior** year. This applies even if the entity reported a loss for the 2004 tax year, because the loss will flow to the partner, member or shareholder to be used on their return. It is also important to note that only the portion of the loss that is reported to the non-individual owner is the amount that would be carried forward. For tax years 2005 and 2006 the loss does not pass to non-individual partners as the income or loss is backed out of the tax calculations on the non-individual partners' returns. Therefore it is available to carry forward to the **next** year.

2006 Change in Facts to Illustrate NOL Treatment

Assume the 2006 year has $250,000 Kentucky net income. When the net income is reduced by the KNOLD then the resulting **income tax** is less than the AMC. Because the taxpayer will compute tax using the AMC we need to calculate a **"Taxable Net Income Equivalent (TNIE)."**

This amount will be used to determine the amount of KNOLD that it would take to lower the income tax liability from the amount due on income tax before the KNOLD to the amount of income tax due under the AMC.

For this example the AMC is **$4,750.** To calculate the TNIE, start with the amount of AMC tax due. Then impute the amount of income it would take to produce that liability if it were calculated as income tax.

- First, separate the AMC liability by corporate tax brackets and compute tax
  - First **$50,000** multiplied by .04 (tax rate) = $2,000
  - Second **$50,000** multiplied by .05 (tax rate) = $2,500

    Subtotal: **$4,500**

- Since the AMC tax totals $4750, **$250** remains to calculate tax to determine the TNIE.

- Because the next bracket (>$100,000) is taxed at 7%, divide $250 by 7% = **$3571**

- Thus, the TNIE equals **$103, 571 ($50,000 + $50,000 + $3,571)**
- After determining the **TNIE** ($103,571.00), **<u>subtract</u>** it from the net income:
    - $250,000 – $103,571 = **$146,429**

The result is the amount of Kentucky Net Operating Loss Deduction (KNOLD) actually used.

Because the net income is $250,000, we must use the $146,429 KNOLD to lower the income to $103,571, the amount on which tax was actually paid.

Since the amount of KNOLD used is $146,429, that amount must be reported on **Part II, Line 4** of the NOL schedule to determine the remaining amount available to carry forward.

NOTE: Because of the law change that allows the income/loss and deductions to pass to each partner for tax years **beginning on or after Jan, 1 2007,** the remaining NOL carryforward created by the "deemed corporation" will not be available for use unless the entity makes an election to be taxed as a corporation.

765 Kentucky
41A765
Department of Revenue

C Kentucky Corporation Account Number

2006

➤ ***See separate instructions.***

Taxable period beginning _____, 2006, and ending _____, 200__.

KENTUCKY PARTNERSHIP INCOME TAX RETURN
(LLC, LLP and LP TAXED AS A CORPORATION)

A Number of Partners (Attach K-1s) ➤ _____

B Federal Identification Number __ __ – __ __ __ __ __ __ __

Taxable Year Ending __ __ / __ __ (Mo. Yr.)

Name of Partnership *(Place preaddressed label here; otherwise print or type.)*: S & B Limited Partnership

Number and Street:

City: Frankfort | State: KY | ZIP Code: 40601 | Telephone Number:

State and Date of Organization:

Principal Business Activity in KY:

NAICS Code Number (Relating to Kentucky Activity) (See www.census.gov):

D Type of Return
- ☐ Separate Return
- ☐ Nexus Consolidation

E *Check if applicable:* ☐ LLC ☑ LP ☐ LLP ☐ Initial return ☐ Final return *(attach explanation)*
☐ Amended return ☐ Short-period return *(attach explanation)* ☐ Change of name ☐ Change of address
☐ No packet required for 2007

PART I—TAXABLE INCOME COMPUTATION

1. Kentucky ordinary income (loss) (from Schedule K, Section I, line 1)		
2. Net income (loss) from rental real estate activities		
3. Net income (loss) from other rental activities		
4. Interest income		
5. Royalty income		
6. Net capital gain (from Schedule K, Section I)		
7. Other portfolio income (loss)		
8. Section 1231 net gain (loss) (other than due to casualty or theft)		
9. Other income (loss)		
10. Total additions (add lines 1 through 9)		
11. **Total from Line 11—Worksheet on page 2** (other income (loss) (KRS 141.010(12))		
12. **Total income after adjustments** (add lines 10 and 11)		
13. Charitable contributions (see instructions)		
14. Section 179 expense deduction (Kentucky Form 4562)		
15. Deductions related to portfolio income (loss)		
16. Other deductions		
17. Section 59(e)(2) expenses		
18. Total deductions (add lines 13 through 17)		
19. Oil and gas depletion		
20. Other adjustments (KRS 141.010(13))		
21. Total deductions (add lines 18 through 20)		
22. **Net income (loss)** (line 12 less line 21)		
23. Current net operating loss adjustment		
24. Income (loss) after NOL limitation (add lines 22 and 23)		
25. **Net income (loss)** (amount from line 24 or Schedule A)	250,000	—
26. Net operating loss deduction (NOLD)	195,000	
27. **Net income (loss)** (after NOLD) (line 25 less line 26)	55,000	
28. Kentucky domestic production activities deduction (KDPAD)		
29. **Taxable net income (loss)** (line 27 less line 28)	55,000	

PART II—TAX COMPARISON

1. Regular income tax (see instructions)	2,250	
2. Schedule AMC, Section D, line 1	4,750	

PART III—TAX COMPUTATION

1. **Tax liability** (Part II, greater of line 1, line 2 or $175 minimum)	4,750	
ADDITIONS		
2. Recycling/composting equipment tax credit recapture		
3. Total (add lines 1 and 2)		
SUBTRACTIONS		
4. Total tax credits (Schedule TCS)		
5. **Net tax liability** (greater of line 3 less line 4 or $175)		
6. Estimated tax payments		
☐ Check if Form 2220-K attached		
7. Extension tax payment		
8. Prior year's tax credit		
9. **Tax due**		
10. **Tax overpayment**		
11. Credited to 2007		
12. **Amount to be refunded**		

➤ **Federal Form 1065, pages 1, 2, 3 and 4, and any supporting schedules must be attached.**

Make check(s) payable to: **Kentucky State Treasurer**

Mail return with payment to: **Kentucky Department of Revenue, Frankfort, Kentucky 40620**

TAX PAYMENT SUMMARY (Round to Nearest Dollar)

☐ Income ☐ AMC Gross Receipts ☐ AMC Gross Profits ☐ Minimum $175

Tax _____ Interest _____

Penalty _____ **TOTAL** (Including Penalty and Interest) _____

SCHEDULE NOL

Form 725 or 765

41A725NOL (10-05)
Department of Revenue

NET OPERATING LOSS SCHEDULE

Pass-Through Entities

Taxable Year Ending
12 / 05
Mo. Yr.

PART I—MANDATORY NEXUS CONSOLIDATION

Section A—Current Net Operating Loss Adjustment

Name	Kentucky Corporation Account Number	Includible Corporations A: Kentucky Net Income	Includible Corporations B: Kentucky Net Losses **(Enter as Positive Amount)**
1. Common Parent			
2. **Includible Corporations**			
3. Totals (add Columns A and B)			
4. Limitation (line 3, Column A, multiplied by 50%)			
5. If line 3, Column B, is greater than line 4, enter the difference here; on Section B, line 1; and as a positive amount on Form 725, Part I, line 11; or Form 765, Part I, line 24. If line 3, Column B, is less than line 4, enter -0- on Section B, line 1, and on Form 725, Part I, line 11; or Form 765, Part I, line 24			

Section B—NOL Carryforward

1. Current year disallowed carryforward from Part I, Section A, line 5	
2. If no entry on line 3, Column A, enter amount from line 3, Column B	
3. Enter the amount from line 1 or line 2	
4. Less Kentucky net loss distributed to individuals	
5. Total NOL carryforward (line 3 less line 4)	

PART II—SINGLE ENTITY FILERS

Section A—Kentucky NOL Carryforward

1. Carryforward from prior year(s)	
2. Net operating loss (current year) from Form 725, Part I, line 13; or Form 765 Part I, line 26	200,000
3. Total of lines 1 and 2	200,000
4. Less Kentucky net loss distributed to individuals	5,000
5. Total Kentucky NOL carryforward (line 3 less line 4)	195,000

SCHEDULE NOL

Form 720S, 725 or 765

41A725NOL (10-06)

Commonwealth of Kentucky
DEPARTMENT OF REVENUE

Taxable Year Ending
12/06
Mo. Yr.

☐ **If irrevocable election is made to carry NOL carryforward as an apportioned NOL, check here.**

NET OPERATING LOSS SCHEDULE

KRS 141.011, KRS 141.200(11); Regulation 103 KAR 16:250

Name of Corporation	Kentucky Corporation Account Number

PART I—MANDATORY NEXUS CONSOLIDATION

Section A—Current Net Operating Loss Adjustment

Name	Kentucky Corporation Account Number	Includible Corporations A: Kentucky Net Income	B: Kentucky Net Losses (Enter as a Positive)	C: Total Losses (Enter as a Positive)
1. Common Parent				
2. **Subsidiaries**				
3. Totals (add Columns A and B) ... 3				
4. Limitation–Income (line 3, Column A multiplied by 50%) . 4				
5. Prior year NOL carryforward ... 5				
6. Total (add line 5, Column C and line 3, Column B) ... 6				
7. Disallowed loss. If Line 3, Column B is greater than Line 4, Column A, enter the difference here and on applicable form (see instructions) ... 7				
8. Additional NOLD. Enter as a negative amount on applicable form (see instructions) ... 8				
9. If tax is based on AMC, (see instructions) ... 9				
10. Limitation–AMC (see instructions) ... 10				

Section B—NOL Carryforward

1. Current year disallowed loss (see instructions) ...	1	
2. If the amount on Column A, line 3 is zero, then enter the amount from Column B, line 3 ...	2	
3. Enter the amount from line 1 or line 2 ...	3	
4. Enter the amount of line 3 multiplied by the total of the individual shareholders', partners' or members' proportionate share of the loss ...	4	
5. Prior year(s) NOL carryforward(s) from Part I, Section A, line 5 ...	5	
6. Prior year(s) NOL carryforward used this year (see instructions) ...	6	
7. Enter the total NOL carryforward to 2007 (lines 3 and 5, less lines 4 and 6) ...	7	

PART II—SINGLE ENTITY FILERS

Section A—Kentucky NOL Carryforward

1. Enter carryforward from prior year(s) ...	1	195,000
2. Enter the current year net operating loss, if any, from Form 765, Part I, Line 25, as a positive number ...	2	-0-
3. Enter the amount of line 2 multiplied by the total of the individual partners' proportionate share of the net operating loss ...	3	-0-
4. Enter the following: (1) if the regular income tax is greater than the AMC tax, enter NOLD from Form 765, Part I, Line 26; or (2) if the AMC tax is greater than the regular income tax (see instructions) ...	4	146,429
5. Enter the total NOL carryforward to 2007 (lines 1 and 2, less lines 3 and 4) ...	5	48,571

EXAMPLE 4: 2007 TREATMENT

FACTS:
- S & B Limited Partnership is made up of two partners.
- The partnership has 100% **Kentucky** property and payroll.
- One partner is IMA Corporation located in Ohio (97.5%).
- One partner is WV Bill, an individual residing in West Virginia (2.5%).
- Income:
  - Gross receipts $5,000,000
  - Cost of goods sold $1,000,000
  - Dividends $100,000
  - Other income $500,000
- Deductions:
  - Salaries & wages $1,000,000
  - Guaranteed payments $50,000
  - Repairs & maintenance $950,000
  - Taxes & licenses $400,000
  - Federal depreciation $100,000
  - Kentucky depreciation $100,000
- Partner's Distributive Share Income Items:
  - Ordinary business income $2,000,000
  - Guaranteed payments $50,000
- Partner's Distributive Share Deduction Items:
  - Contributions $1,000

KEY POINTS:
- AMC repealed
- LLET enacted
- Nonrefundable credit only
- Withholding required
  - Nonresident individual, and
  - Foreign corporations whose only connection to Kentucky is the investment in a partnership doing business in Kentucky.
- Corporate partner's apportionment factor includes:
  - PTE sales, property, & payroll

FORMS:
- 1065 US Return of Partnership Income
- 765 Kentucky Partnership Income Return
- Schedule LLET and LLET-C for corporate partner
- Kentucky Schedule K-1 Partner's Share of Income, Credits, Deductions, etc.
  - One for each partner
- Schedule A-C (used by corporate partner)

Form **1065**
Department of the Treasury
Internal Revenue Service

U.S. Return of Partnership Income

For calendar year 2007, or tax year beginning ....., 2007, ending ....., 20.....
▶ See separate instructions.

OMB No. 1545-0099

2007

A Principal business activity	Use the IRS label. Otherwise, print or type.	Name of partnership: S & B Limited Partnership	D Employer identification number
B Principal product or service		Number, street, and room or suite no. If a P.O. box, see the instructions.	E Date business started
C Business code number		City or town, state, and ZIP code: Frankfort, Kentucky 40601	F Total assets (see the instructions) $

G Check applicable boxes: (1) ☐ Initial return (2) ☐ Final return (3) ☐ Name change (4) ☐ Address change (5) ☐ Amended return

H Check accounting method: (1) ☑ Cash (2) ☐ Accrual (3) ☐ Other (specify) ▶

I Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year ▶

J Check if Schedule M-3 attached ☐

Caution. *Include **only** trade or business income and expenses on lines 1a through 22 below. See the instructions for more information.*

Income	1a Gross receipts or sales	1a	5,000,000	00			
	b Less returns and allowances	1b			1c	5,000,000	00
	2 Cost of goods sold (Schedule A, line 8)				2	1,000,000	00
	3 Gross profit. Subtract line 2 from line 1c				3	4,000,000	00
	4 Ordinary income (loss) from other partnerships, estates, and trusts *(attach statement)*				4		
	5 Net farm profit (loss) *(attach Schedule F (Form 1040))*				5		
	6 Net gain (loss) from Form 4797, Part II, line 17 *(attach Form 4797)*				6		
	7 Other income (loss) *(attach statement)*				7	500,000	00
	8 **Total income (loss).** Combine lines 3 through 7				8	4,500,000	00
Deductions (see the instructions for limitations)	9 Salaries and wages (other than to partners) (less employment credits)				9	1,000,000	00
	10 Guaranteed payments to partners				10	50,000	00
	11 Repairs and maintenance				11	950,000	00
	12 Bad debts				12		
	13 Rent				13		
	14 Taxes and licenses				14	400,000	00
	15 Interest				15		
	16a Depreciation *(if required, attach Form 4562)*	16a	100,000	00			
	b Less depreciation reported on Schedule A and elsewhere on return	16b			16c	100,000	00
	17 Depletion **(Do not deduct oil and gas depletion.)**				17		
	18 Retirement plans, etc.				18		
	19 Employee benefit programs				19		
	20 Other deductions *(attach statement)*				20		
	21 **Total deductions.** Add the amounts shown in the far right column for lines 9 through 20				21	2,500,000	00
	22 **Ordinary business income (loss).** Subtract line 21 from line 8				22	2,000,000	00

Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than general partner or limited liability company member manager) is based on all information of which preparer has any knowledge.

▶ Signature of general partner or limited liability company member manager ▶ Date

May the IRS discuss this return with the preparer shown below (see instructions)? ☐ Yes ☐ No

Paid Preparer's Use Only

Preparer's signature	Date	Check if self-employed ▶ ☐	Preparer's SSN or PTIN
Firm's name (or yours if self-employed), address, and ZIP code ▶		EIN ▶	
		Phone no. ( )	

For Privacy Act and Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11390Z Form **1065** (2007)

Schedule A Cost of Goods Sold (see the instructions)

1	Inventory at beginning of year	1	2,500,000 00
2	Purchases less cost of items withdrawn for personal use	2	1,000,000 00
3	Cost of labor	3	
4	Additional section 263A costs *(attach statement)*	4	
5	Other costs *(attach statement)*	5	
6	**Total.** Add lines 1 through 5	6	3,500,000 00
7	Inventory at end of year	7	2,500,000 00
8	**Cost of goods sold.** Subtract line 7 from line 6. Enter here and on page 1, line 2	8	1,000,000 00

9a Check all methods used for valuing closing inventory:

(i) ☐ Cost as described in Regulations section 1.471-3

(ii) ☐ Lower of cost or market as described in Regulations section 1.471-4

(iii) ☐ Other (specify method used and attach explanation) ▶

b Check this box if there was a writedown of "subnormal" goods as described in Regulations section 1.471-2(c) ▶ ☐

c Check this box if the LIFO inventory method was adopted this tax year for any goods *(if checked, attach Form 970)* ▶ ☐

d Do the rules of section 263A (for property produced or acquired for resale) apply to the partnership? ☐ Yes ☐ No

e Was there any change in determining quantities, cost, or valuations between opening and closing inventory? ☐ Yes ☐ No
If "Yes," attach explanation.

Schedule B Other Information

		Yes	No
1	What type of entity is filing this return? Check the applicable box: **a** ☐ Domestic general partnership **b** ☐ Domestic limited partnership **c** ☐ Domestic limited liability company **d** ☐ Domestic limited liability partnership **e** ☐ Foreign partnership **f** ☐ Other ▶		
2	Are any partners in this partnership also partnerships?		
3	During the partnership's tax year, did the partnership own any interest in another partnership or in any foreign entity that was disregarded as an entity separate from its owner under Regulations section 301.7701-2 and 301.7701-3? If "Yes," see instructions for required attachment		
4	Did the partnership file Form 8893, Election of Partnership Level Tax Treatment, or an election statement under section 6231(a)(1)(B)(ii) for partnership-level tax treatment, that is in effect for this tax year? See Form 8893 for more details		
5	Does this partnership meet all three of the following requirements? **a** The partnership's total receipts for the tax year were less than $250,000; **b** The partnership's total assets at the end of the tax year were less than $600,000; and **c** Schedules K-1 are filed with the return and furnished to the partners on or before the due date (including extensions) for the partnership return If "Yes," the partnership is not required to complete Schedules L, M-1, and M-2; Item F on page 1 of Form 1065; or Item L on Schedule K-1.		
6	Does this partnership have any foreign partners? If "Yes," the partnership may have to file Forms 8804, 8805 and 8813. See the instructions		
7	Is this partnership a publicly traded partnership as defined in section 469(k)(2)?		
8	Has this partnership filed, or is it required to file, a return under section 6111 to provide information on any reportable transaction?		
9	At any time during calendar year 2007, did the partnership have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? See the instructions for exceptions and filing requirements for Form TD F 90-22.1. If "Yes," enter the name of the foreign country. ▶		
10	During the tax year, did the partnership receive a distribution from, or was it the grantor of, or transferor to, a foreign trust? If "Yes," the partnership may have to file Form 3520. See the instructions		
11	Was there a distribution of property or a transfer (for example, by sale or death) of a partnership interest during the tax year? If "Yes," you may elect to adjust the basis of the partnership's assets under section 754 by attaching the statement described under *Elections Made By the Partnership* in the instructions		
12	Enter the number of Forms 8865, Return of U.S. Persons With Respect to Certain Foreign Partnerships, attached to this return ▶		

Designation of Tax Matters Partner (see the instructions)
Enter below the general partner designated as the tax matters partner (TMP) for the tax year of this return:

Name of designated TMP ▶ Identifying number of TMP ▶

Address of designated TMP ▶

Schedule K	Partners' Distributive Share Items			Total amount	
Income (Loss)	1 Ordinary business income (loss) (page 1, line 22)		1	2,000,000	00
	2 Net rental real estate income (loss) *(attach Form 8825)*		2		
	3a Other gross rental income (loss)	3a			
	b Expenses from other rental activities *(attach statement)*	3b			
	c Other net rental income (loss). Subtract line 3b from line 3a		3c		
	4 Guaranteed payments		4	50,000	00
	5 Interest income		5		
	6 Dividends: a Ordinary dividends		6a	100,000	00
	b Qualified dividends	6b			
	7 Royalties		7		
	8 Net short-term capital gain (loss) *(attach Schedule D (Form 1065))*		8		
	9a Net long-term capital gain (loss) *(attach Schedule D (Form 1065))*		9a		
	b Collectibles (28%) gain (loss)	9b			
	c Unrecaptured section 1250 gain *(attach statement)*	9c			
	10 Net section 1231 gain (loss) *(attach Form 4797)*		10		
	11 Other income (loss) *(see instructions)* Type ▶		11		
Deductions	12 Section 179 deduction *(attach Form 4562)*		12		
	13a Contributions		13a	1,000	00
	b Investment interest expense		13b		
	c Section 59(e)(2) expenditures: (1) Type ▶ (2) Amount ▶		13c(2)		
	d Other deductions *(see instructions)* Type ▶		13d		
Self-Employment	14a Net earnings (loss) from self-employment		14a		
	b Gross farming or fishing income		14b		
	c Gross nonfarm income		14c		
Credits	15a Low-income housing credit (section 42(j)(5))		15a		
	b Low-income housing credit (other)		15b		
	c Qualified rehabilitation expenditures (rental real estate) *(attach Form 3468)*		15c		
	d Other rental real estate credits *(see instructions)* Type ▶		15d		
	e Other rental credits *(see instructions)* Type ▶		15e		
	f Other credits *(see instructions)* Type ▶		15f		
Foreign Transactions	16a Name of country or U.S. possession ▶				
	b Gross income from all sources		16b		
	c Gross income sourced at partner level		16c		
	Foreign gross income sourced at partnership level				
	d Passive category ▶ e General category ▶ f Other ▶		16f		
	Deductions allocated and apportioned at partner level				
	g Interest expense ▶ h Other ▶		16h		
	Deductions allocated and apportioned at partnership level to foreign source income				
	i Passive category ▶ j General category ▶ k Other ▶		16k		
	l Total foreign taxes (check one): ▶ Paid ☐ Accrued ☐		16l		
	m Reduction in taxes available for credit *(attach statement)*		16m		
	n Other foreign tax information *(attach statement)*				
Alternative Minimum Tax (AMT) Items	17a Post-1986 depreciation adjustment		17a		
	b Adjusted gain or loss		17b		
	c Depletion (other than oil and gas)		17c		
	d Oil, gas, and geothermal properties—gross income		17d		
	e Oil, gas, and geothermal properties—deductions		17e		
	f Other AMT items *(attach statement)*		17f		
Other Information	18a Tax-exempt interest income		18a		
	b Other tax-exempt income		18b		
	c Nondeductible expenses		18c		
	19a Distributions of cash and marketable securities		19a		
	b Distributions of other property		19b		
	20a Investment income		20a		
	b Investment expenses		20b		
	c Other items and amounts *(attach statement)*				

Analysis of Net Income (Loss)

1	Net income (loss). Combine Schedule K, lines 1 through 11. From the result, subtract the sum of Schedule K, lines 12 through 13d, and 16l	1

2 Analysis by partner type:	(i) Corporate	(ii) Individual (active)	(iii) Individual (passive)	(iv) Partnership	(v) Exempt organization	(vi) Nominee/Other
a General partners						
b Limited partners						

Schedule L Balance Sheets per Books

Assets	Beginning of tax year (a)	Beginning of tax year (b)	End of tax year (c)	End of tax year (d)
1 Cash				
2a Trade notes and accounts receivable				
b Less allowance for bad debts				
3 Inventories				
4 U.S. government obligations				
5 Tax-exempt securities				
6 Other current assets *(attach statement)*				
7 Mortgage and real estate loans				
8 Other investments *(attach statement)*		1,000,000		1,000,000
9a Buildings and other depreciable assets				
b Less accumulated depreciation				
10a Depletable assets				
b Less accumulated depletion				
11 Land (net of any amortization)				
12a Intangible assets (amortizable only)				
b Less accumulated amortization				
13 Other assets *(attach statement)*				
14 Total assets				
Liabilities and Capital				
15 Accounts payable				
16 Mortgages, notes, bonds payable in less than 1 year				
17 Other current liabilities *(attach statement)*				
18 All nonrecourse loans				
19 Mortgages, notes, bonds payable in 1 year or more				
20 Other liabilities *(attach statement)*				
21 Partners' capital accounts				
22 Total liabilities and capital				

Schedule M-1 Reconciliation of Income (Loss) per Books With Income (Loss) per Return

Note. Schedule M-3 may be required instead of Schedule M-1 (see instructions).

1	Net income (loss) per books	6	Income recorded on books this year not included on Schedule K, lines 1 through 11 (itemize): a Tax-exempt interest $
2	Income included on Schedule K, lines 1, 2, 3c, 5, 6a, 7, 8, 9a, 10, and 11, not recorded on books this year (itemize):	7	Deductions included on Schedule K, lines 1 through 13d, and 16l, not charged against book income this year (itemize): a Depreciation $
3	Guaranteed payments (other than health insurance)	8	Add lines 6 and 7
4	Expenses recorded on books this year not included on Schedule K, lines 1 through 13d, and 16l (itemize): a Depreciation $ b Travel and entertainment $	9	Income (loss) (Analysis of Net Income (Loss), line 1). Subtract line 8 from line 5
5	Add lines 1 through 4		

Schedule M-2 Analysis of Partners' Capital Accounts

1	Balance at beginning of year	6	Distributions: a Cash b Property
2	Capital contributed: a Cash b Property	7	Other decreases (itemize):
3	Net income (loss) per books	8	Add lines 6 and 7
4	Other increases (itemize):	9	Balance at end of year. Subtract line 8 from line 5
5	Add lines 1 through 4		

765 Kentucky
41A765
Department of Revenue

A ___ ___ ___ ___ ___ ___
Kentucky Corporation/LLET Account Number

2007

➤ *See separate instructions.*

Taxable period
beginning _____ , 2007, and ending _____ , 200__ .

KENTUCKY PARTNERSHIP INCOME AND LLET RETURN

B *Check applicable box(es):*
LLET
Receipts Method
☑ Gross Receipts
☐ Gross Profits
☐ $175 minimum

Nonfiling Status Code
Enter Code ____

C
Income Return
Nonfiling Status Code
Enter Code ____

D Federal Identification Number ___ ___ - ___ ___ ___ ___ ___ ___ ___

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

Name of Partnership *(Print or type)*: S & B Limited Partnership
☐ Change of name

State and Date of Organization

Number and Street
☐ Change of address

Principal Business Activity in KY

NAICS Code Number (Relating to Kentucky Activity) (See www.census.gov)

City	State	ZIP Code	Telephone Number
Frankfort	KY.	40601	

E *Check if applicable:*
☐ LLC ☐ LP ☐ LLP ☐ Qualified investment pass-through entity
☐ Initial return ☐ Final return (attach explanation) ☐ Amended return
☐ Short-period return (attach explanation)

F
Number of Partners (Attach K-1s) ➤ _____

PART I—ORDINARY INCOME (LOSS) COMPUTATION

1. Federal ordinary income (loss) (see instructions)	2,000,000	00
ADDITIONS		
2. State taxes		00
3. Federal depreciation (do not include Section 179 expense deduction)	100,000	00
4. Related party expenses		00
5. Other (attach schedule)		00
6. Total (add lines 1 through 5)		00
SUBTRACTIONS		
7. Federal work opportunity credit		00
8. Kentucky depreciation (do not include Section 179 expense deduction)	100,000	00
9. Other (attach schedule)		00
10. **Kentucky ordinary income (loss)** (line 6 less lines 7 through 9)	2,000,000	00

PART II—LLET COMPUTATION

1. Schedule LLET, Section D, line 1	4,940	00
2. Recycling/composting equipment tax credit recapture		
3. Total (add lines 1 and 2)	4,940	00
4. Nonrefundable LLET credit from Kentucky Schedule(s) K-1		00
5. Nonrefundable tax credits (Sch. TCS)		00
6. LLET liability (greater of line 3 less lines 4 and 5 or $175 minimum)	4,940	00
7. Estimated tax payments		00
8. Extension payment		00
9. Prior year's tax credit		00
10. **LLET due** (line 6 less lines 7 through 9)		00
11. **LLET overpayment** (lines 7 through 9 less line 6)		00
12. Credited to 2008 LLET		00
13. **Amount to be refunded**		00

➤ **Federal Form 1065, all pages, and any supporting schedules must be attached.**

TAX PAYMENT SUMMARY
(Round to nearest dollar)

Make check payable to:
Kentucky State Treasurer

Mail return with payment to:
Kentucky Department of Revenue
Frankfort, Kentucky 40620

LLET

LLET due (Part II, line 10) $_____

Penalty $_____

Interest $_____

Total Payment $_____

SCHEDULE Q—KENTUCKY PARTNERSHIP QUESTIONNAIRE

IMPORTANT: Questions 4—9 must be completed by all partnerships. If this is the partnerships's initial return or if the partnership did not file a return under the same name and same federal I.D. number for the preceding year, questions 1, 2 and 3 must be answered. **Failure to do so may result in a request for a delinquent return.**

1. Indicate whether: (a) ☐ new business; (b) ☐ successor to previously existing business which was organized as: (1) ☐ corporation; (2) ☐ partnership; (3) ☐ sole proprietorship; or (4) ☐ other _____

   If successor to previously existing business, give name, address and federal I.D. number of the previous business organization. _____

2. List the following ***Kentucky*** account numbers. Enter N/A for any number not applicable.
   Employer Withholding _____
   Sales and Use Tax Permit _____
   Consumer Use Tax _____
   Unemployment Insurance _____
   Coal Severance and/or Processing Tax _____

3. If a foreign partnership, enter the date qualified to do business in Kentucky. __ __ / __ __ / __ __

4. The partnership's books are in care of: (name and address) _____

5. Are disregarded entities included in this return? ☐ Yes ☐ No. If yes, list name, address and federal I.D. number of the entity. _____

6. For the taxable period being reported, was the partnership a partner in a pass-through entity doing business in Kentucky? ☐ Yes ☐ No

   If yes, list name and federal I.D. number of the pass-through entity(ies). _____

   For the taxable period being reported, was the partnership doing business in Kentucky, other than the interest held in a pass-through entity doing business in Kentucky? ☐ Yes ☐ No

7. Was this return prepared on: (a) ☐ cash basis, (b) ☐ accrual basis, (c) ☐ other _____

8. Did the partnership file a Kentucky tangible personal property tax return for January 1, 2008? ☐ Yes ☐ No

9. Is the partnership currently under audit by the Internal Revenue Service? ☐ Yes ☐ No

   If yes, enter years under audit _____

   If the Internal Revenue Service has made final and unappealable adjustments to the partnership's taxable income which have not been reported to this department, check here ☐ and file Form 765, Amended Kentucky Partnership Income Tax or LLET Return, for each year adjusted and attach a copy of the final determination.

I, the undersigned, declare under the penalties of perjury, that I have examined these returns, including all accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct and complete.

Signature of partner or member	SSN or FEIN	Date
Name of person or firm preparing return	SSN, PTIN or FEIN	Date

May the DOR discuss this return with the preparer?
☐ Yes ☐ No
E-mail Address:
Telephone No.:

www.revenue.ky.gov

SCHEDULE K—PARTNERS' SHARES OF INCOME, CREDITS, DEDUCTIONS, ETC. (See Specific Instructions for Each Line Item)

SECTION I	(a) Distributive Share Items		(b) Total Amount
Income (Loss) and Deductions			
1. Kentucky ordinary income (loss) from trade or business activities (page 1, Part I, line 10)	1	2,000,000	00
2. Net income (loss) from rental real estate activities (attach federal Form 8825)	2		00
3. (a) Gross income from other rental activities 3(a)	00		
(b) Less expenses from other rental activities (attach schedule) (b)	00		
(c) Net income (loss) from other rental activities (line 3a less line 3b)	(c)		00
4. Portfolio income (loss):			
(a) Interest income	4(a)		00
(b) Dividend income	(b)	100,000	00
(c) Royalty income	(c)		00
(d) Net short-term capital gain (loss) (attach federal Schedule D and Kentucky Schedule D if applicable)	(d)		00
(e) Net long-term capital gain (loss) (attach federal Schedule D and Kentucky Schedule D if applicable)	(e)		00
(f) Other portfolio income (loss) (attach schedule)	(f)		00
5. Guaranteed payments to partners	5	50,000	00
6. Section 1231 net gain (loss) (other than due to casualty or theft)(attach federal and Kentucky Forms 4797)	6		00
7. Other income (loss) (attach schedule)	7		00
8. Charitable contributions (attach schedule) and housing for homeless deduction (attach Schedule HH)	8	1,000	00
9. IRC Section 179 expense deduction (attach federal Form 4562 and Kentucky converted Form 4562)	9		00
10. Deductions related to portfolio income (loss) (attach schedule)	10		00
11. Other deductions (attach schedule)	11		00
Investment Interest			
12. (a) Interest expense on investment debts	12(a)		00
(b) (1) Investment income included on lines 4(a), 4(b), 4(c) and 4(f) above	(b)(1)		00
(2) Investment expenses included on line 10 above	(2)		00
Tax Credits			
13. Skills Training Investment Tax Credit (attach copy(ies) of certification)	13		00
14. Historic Preservation Restoration Tax Credit	14		00
15. Kentucky Unemployment Tax Credit (attach Schedule UTC)	15		00
16. Recycling and Composting Equipment Tax Credit (attach Schedule RC)	16		00
17. Kentucky Investment Fund Tax Credit (attach copy(ies) of certification)	17		00
18. Credit for purchases of Kentucky coal used for generating electricity (attach copy of Schedule CI)	18		00
19. Qualified Research Facility Tax Credit (attach Schedule QR)	19		00
20. GED Incentive Tax Credit (attach Form DAEL-31)	20		00
21. Voluntary Environmental Remediation Tax Credit (Brownfield)(attach Schedule VERB)	21		00
22. Biodiesel Tax Credit (attach Schedule BIO)	22		00
23. Environmental Stewardship Tax Credit	23		00
24. Clean Coal Incentive Tax Credit	24		00

SCHEDULE K—PARTNERS' SHARES OF INCOME, CREDITS, DEDUCTIONS, ETC. (See Specific Instructions for Each Line Item)

SECTION I—continued	(a) Distributive Share Items		(b) Total Amount	
Other Items				
25. (a) Type of Section 59(e)(2) expenditures ➤ _____		25(a)		
(b) Amount of Section 59(e)(2) expenditures		(b)		00
26. Tax-exempt interest income		26		00
27. Other tax-exempt income		27		00
28. Nondeductible expenses		28		00
29. Total property distributions (including cash)		29		00
30. Other items and amounts required to be reported separately to partners (attach schedule)		30		
Recapture of Tax Credits				
31. Recapture of Recycling and Composting Equipment Tax Credit		31		00

SECTION II—LLET Pass-through Items

1. Partnership's Kentucky sales from Schedule A, Section I, line 1	1	5,600,000	00
2. Partnership's total sales from Schedule A, Section I, line 2	2	5,600,000	00
3. Partnership's Kentucky property from Schedule A, Section I, line 5	3	1,000,000	00
4. Partnership's total property from Schedule A, Section I, line 6	4	1,000,000	00
5. Partnership's Kentucky payroll from Schedule A, Section I, line 8	5	1,000,000	00
6. Partnership's total payroll from Schedule A, Section I, line 9	6	1,000,000	00
7. Partnership's Kentucky gross profits from Schedule LLET, Section A, Column A, line 5	7	4,600,000	00
8. Partnership's total gross profits from all sources from Schedule LLET, Section A, Column B, line 5	8	4,600,000	00
9. Limited liability entity tax (LLET) nonrefundable credit from page 1, Part II, the total of lines 4 and 6, less $175	9	4,765	00

SCHEDULE LLET

41A720LLET (1-08)

Commonwealth of Kentucky
DEPARTMENT OF REVENUE

Taxable Year Ending
12/07
Mo. Yr.

LIMITED LIABILITY ENTITY TAX
KRS 141.0401

➤ *See instructions.*

➤ **Attach to Form 720, Form 720S, Form 725 or Form 765.**

☐ **Member of a Combined Group**

_____ **Reason Code**

Name of Corporation/Limited Liability Entity	Kentucky Corporation/LLET Account Number
S & B Limited Partnership	

☐ **If the corporation or limited liability pass-through entity is a partner, member, or shareholder of a limited liability pass-through entity or general partnership organized or formed as a general partnership after January 1, 2006 check this box and complete Schedule LLET-C and enter the total amounts from Schedule LLET-C in Section A of this form.**

Section A—Computation of Gross Receipts and Gross Profits

		Column A Kentucky	Column B Total
1. Gross receipts	1	5,600,000	5,600,000
2. Returns and allowances	2		
3. Gross receipts after returns and allowances (line 1 minus line 2 or amount from Schedule LLET-C)	3	5,600,000	5,600,000
4. Cost of goods sold	4	1,000,000	1,000,000
5. Gross profits (line 3 minus line 4 or amount from Schedule LLET-C)	5	4,600,000	4,600,000

Section B—Computation of Gross Receipts LLET

1. If gross receipts from all sources (Column B, line 3) are $3,000,000 or less, **STOP** and enter $175 on Section D, line 1	1		
2. If gross receipts from all sources (Column B, line 3) are greater than $3,000,000 but less than $6,000,000, enter the following: (Column A, line 3 x 0.00095) – [$2,850 x ($6,000,000 – Column A, line 3) / $3,000,000] but in no case shall the result be less than zero	2		
3. If gross receipts from all sources (Column B, line 3) are $6,000,000 or greater, enter the following: Column A, line 3 x 0.00095	3	4,940	
4. Enter the amount from line 2 or line 3	4		

Section C—Computation of Gross Profits LLET

1. If gross profits from all sources (Column B, line 5) are $3,000,000 or less, **STOP** and enter $175 on Section D, line 1	1		
2. If gross profits from all sources (Column B, line 5) are greater than $3,000,000 but less than $6,000,000, enter the following: (Column A, line 5 x 0.0075) – [$22,500 x ($6,000,000 – Column A, line 5) / $3,000,000] but in no case shall the result be less than zero	2		
3. If gross profits from all sources (Column B, line 5) are $6,000,000 or greater, enter the following: Column A, line 5 x 0.0075	3	24,500	
4. Enter the amount from line 2 or line 3	4		

Section D—Computation of LLET

1. Enter the lesser of Section B, line 4 or Section C, line 4 on this line or if -0-, enter $175 on Form 720, Part I, line 1; and for Form 720S, 725, or 765, enter on Part II, line 1	1	4,940	

Mark the applicable Receipts Method box on Form 720, Form 720S, Form 725 or Form 765, page 1, Item B.

(FORM 765)
KENTUCKY SCHEDULE K-1
41A765 (K-1)
DEPARTMENT OF REVENUE

2007

For calendar year 2007 or fiscal year beginning _____, 2007, and ending _____, 200___.

PARTNER'S SHARE OF INCOME, CREDITS, DEDUCTIONS, ETC.

Partner's identifying number ➤	Partnership's FEIN ➤	Kentucky corporation/LLET account number ➤

Partner's name, address and ZIP code
IMA Corporation
Troy, Ohio 45373

Partnership's name, address and ZIP code
Check if applicable: ☐ Qualified investment pass-through entity

A This partner is a ☐ general partner ☐ limited partner
☐ limited liability company member.

B Partner's share of liabilities:
Nonrecourse ..... $ _____
Qualified nonrecourse financing ..... $ _____
Other ..... $ _____

F Enter partner's percentage of:

	(i) Before change or termination	(ii) End of year
Profit sharing	%	97.5 %
Loss sharing	%	%
Ownership of capital	%	%

C What type of entity is this partner?
☐ Individual/Estate/Trust ☐ Corporation ☐ S Corporation
☐ General Partnership ☐ Other Pass-through Entity

D Partner's taxable percentage of partnership's distributive share items below (see instructions)
(1) Resident partner 100%
(2) Nonresident partner (see Schedule A, Section I, line 12) ..... ➤ 100 %

E Check applicable box if nonresident partner's income is reported on:
☐ Kentucky Nonresident Income Tax Withholding on Net Distributive Share Income Transmittal Report (Form 740NP-WH) and Form PTE-WH, or
☐ Composite Return (Form 740-NP)

☐ Final K-1
☐ Amended K-1

(a) Distributive Share Items		(b) Amount
Income (Loss)		
1. Ordinary income (loss) from trade or business activities	1	1,950,000
2. Net income (loss) from rental real estate activities	2	
3. Net income (loss) from other rental activities	3	
4. Portfolio income (loss):		
(a) Interest	4(a)	
(b) Dividends	(b)	97,500
(c) Royalties	(c)	
(d) Net short-term capital gain (loss)	(d)	
(e) Net long-term capital gain (loss)	(e)	
(f) Other portfolio income (loss) (attach schedule)	(f)	
5. Guaranteed payments to partners	5	
6. Net gain (loss) under Section 1231 (other than due to casualty or theft)	6	
7. Other income (loss) (attach schedule)	7	
Deductions		
8. Charitable contributions (attach schedule) and housing for homeless deduction (attach Schedule HH)	8	975
9. IRC Section 179 expense deduction (attach federal Form 4562 and Kentucky converted Form 4562)	9	
10. Deductions related to portfolio income (loss) (attach schedule)	10	
11. Other deductions (attach schedule)	11	
Investment Interest		
12. (a) Interest expense on investment debts	12(a)	
(b) (1) Investment income included on lines 4(a), 4(b), 4(c) and 4(f) above	(b)(1)	
(2) Investment expenses included on line 10 above	(2)	

PARTNER'S SHARE OF INCOME, CREDITS, DEDUCTIONS, ETC.

(a) Distributive Share Items—continued		(b) Amount
Tax Credits		
13. Skills Training Investment Tax Credit	13	
14. Historic Preservation Restoration Tax Credit	14	
15. Kentucky Unemployment Tax Credit	15	
16. Recycling and Composting Equipment Tax Credit	16	
17. Kentucky Investment Fund Tax Credit	17	
18. Credit for purchases of Kentucky coal used for generating electricity	18	
19. Qualified Research Facility Tax Credit	19	
20. GED Incentive Tax Credit	20	
21. Voluntary Environmental Remediation Tax Credit (Brownfield)	21	
22. Biodiesel Tax Credit	22	
23. Environmental Stewardship Tax Credit	23	
24. Clean Coal Incentive Tax Credit	24	
Other Items		
25. (a) Type of Section 59(e)(2) expenditures ➤	25(a)	
(b) Amount of Section 59(e)(2) expenditures	(b)	
26. Tax-exempt interest income	26	
27. Other tax-exempt income	27	
28. Nondeductible expenses	28	
29. Property distributions (including cash)	29	
30. Supplemental information required to be reported to each partner (attach schedules)	30	
Recapture of Tax Credits		
31. Recapture of Recycling and Composting Tax Credit	31	
LLET Pass-through Items		
32. Partner's share of partnership Kentucky sales from Schedule K, Section II, line 1	32	5,460,000
33. Partner's share of partnership total sales from Schedule K, Section II, line 2	33	5,460,000
34. Partner's share of partnership Kentucky property from Schedule K, Section II, line 3	34	975,000
35. Partner's share of partnership total property from Schedule K, Section II, line 4	35	975,000
36. Partner's share of partnership Kentucky payroll from Schedule K, Section II, line 5	36	975,000
37. Partner's share of partnership total payroll from Schedule K, Section II, line 6	37	975,000
38. Partner's share of Kentucky gross profits from Schedule K, Section II, line 7	38	4,485,000
39. Partner's share of total gross profits from all sources from Schedule K, Section II, line 8	39	4,485,000
40. Partner's share of limited liability entity tax (LLET) nonrefundable credit from Schedule K, Section II, line 9	40	4,646
Resident Partner Adjustment		
41. Combination of Kentucky Schedule K-1, lines 1 through 6, 9 and portions of lines 7 and 11. Add income amounts and subtract (loss) and deduction amounts (see instructions)	41	
42. Combination of federal Schedule K-1, lines 1 through 10, 12 and portions of lines 11 and 13. Add income amounts and subtract (loss) and deduction amounts (see instructions)	42	
43. Enter difference of lines 41 and 42 here and on appropriate line on Schedule M (see instructions)	43	

(FORM 765)
KENTUCKY SCHEDULE K-1
41A765 (K-1)
DEPARTMENT OF REVENUE

2007

For calendar year 2007 or fiscal year beginning _____, 2007, and ending _____, 200___.

PARTNER'S SHARE OF INCOME, CREDITS, DEDUCTIONS, ETC.

Partner's identifying number ➤	Partnership's FEIN ➤	Kentucky corporation/LLET account number ➤

Partner's name, address and ZIP code
W V Bill
Nitro, W.Va. 25143

Partnership's name, address and ZIP code
Check if applicable: ☐ Qualified investment pass-through entity

A This partner is a ☐ general partner ☐ limited partner
☐ limited liability company member.

B Partner's share of liabilities:
Nonrecourse ..... $ _____
Qualified nonrecourse financing ..... $ _____
Other ..... $ _____

F Enter partner's percentage of:

	(i) Before change or termination	(ii) End of year
Profit sharing	%	2.5 %
Loss sharing	%	%
Ownership of capital	%	%

C What type of entity is this partner?
☐ Individual/Estate/Trust ☐ Corporation ☐ S Corporation
☐ General Partnership ☐ Other Pass-through Entity

D Partner's taxable percentage of partnership's distributive share items below (see instructions)
(1) Resident partner 100%
(2) Nonresident partner (see Schedule A, Section I, line 12) ..... ➤ 100%

E Check applicable box if nonresident partner's income is reported on:
☐ Kentucky Nonresident Income Tax Withholding on Net Distributive Share Income Transmittal Report (Form 740NP-WH) and Form PTE-WH, or
☐ Composite Return (Form 740-NP)

☐ Final K-1
☐ Amended K-1

(a) Distributive Share Items		(b) Amount
Income (Loss)		
1. Ordinary income (loss) from trade or business activities	1	50,000
2. Net income (loss) from rental real estate activities	2	
3. Net income (loss) from other rental activities	3	
4. Portfolio income (loss):		
(a) Interest	4(a)	
(b) Dividends	(b)	2,500
(c) Royalties	(c)	
(d) Net short-term capital gain (loss)	(d)	
(e) Net long-term capital gain (loss)	(e)	
(f) Other portfolio income (loss) (attach schedule)	(f)	
5. Guaranteed payments to partners	5	50,000
6. Net gain (loss) under Section 1231 (other than due to casualty or theft)	6	
7. Other income (loss) (attach schedule)	7	
Deductions		
8. Charitable contributions (attach schedule) and housing for homeless deduction (attach Schedule HH)	8	25
9. IRC Section 179 expense deduction (attach federal Form 4562 and Kentucky converted Form 4562)	9	
10. Deductions related to portfolio income (loss) (attach schedule)	10	
11. Other deductions (attach schedule)	11	
Investment Interest		
12. (a) Interest expense on investment debts	12(a)	
(b) (1) Investment income included on lines 4(a), 4(b), 4(c) and 4(f) above	(b)(1)	
(2) Investment expenses included on line 10 above	(2)	

PARTNER'S SHARE OF INCOME, CREDITS, DEDUCTIONS, ETC.

(a) Distributive Share Items—continued		(b) Amount
Tax Credits		
13. Skills Training Investment Tax Credit	13	
14. Historic Preservation Restoration Tax Credit	14	
15. Kentucky Unemployment Tax Credit	15	
16. Recycling and Composting Equipment Tax Credit	16	
17. Kentucky Investment Fund Tax Credit	17	
18. Credit for purchases of Kentucky coal used for generating electricity	18	
19. Qualified Research Facility Tax Credit	19	
20. GED Incentive Tax Credit	20	
21. Voluntary Environmental Remediation Tax Credit (Brownfield)	21	
22. Biodiesel Tax Credit	22	
23. Environmental Stewardship Tax Credit	23	
24. Clean Coal Incentive Tax Credit	24	
Other Items		
25. (a) Type of Section 59(e)(2) expenditures ➤	25(a)	
(b) Amount of Section 59(e)(2) expenditures	(b)	
26. Tax-exempt interest income	26	
27. Other tax-exempt income	27	
28. Nondeductible expenses	28	
29. Property distributions (including cash)	29	
30. Supplemental information required to be reported to each partner (attach schedules)	30	
Recapture of Tax Credits		
31. Recapture of Recycling and Composting Tax Credit	31	
LLET Pass-through Items		
32. Partner's share of partnership Kentucky sales from Schedule K, Section II, line 1	32	140,000
33. Partner's share of partnership total sales from Schedule K, Section II, line 2	33	140,000
34. Partner's share of partnership Kentucky property from Schedule K, Section II, line 3	34	25,000
35. Partner's share of partnership total property from Schedule K, Section II, line 4	35	25,000
36. Partner's share of partnership Kentucky payroll from Schedule K, Section II, line 5	36	25,000
37. Partner's share of partnership total payroll from Schedule K, Section II, line 6	37	25,000
38. Partner's share of Kentucky gross profits from Schedule K, Section II, line 7	38	115,000
39. Partner's share of total gross profits from all sources from Schedule K, Section II, line 8	39	115,000
40. Partner's share of limited liability entity tax (LLET) nonrefundable credit from Schedule K, Section II, line 9	40	119
Resident Partner Adjustment		
41. Combination of Kentucky Schedule K-1, lines 1 through 6, 9 and portions of lines 7 and 11. Add income amounts and subtract (loss) and deduction amounts (see instructions)	41	
42. Combination of federal Schedule K-1, lines 1 through 10, 12 and portions of lines 11 and 13. Add income amounts and subtract (loss) and deduction amounts (see instructions)	42	
43. Enter difference of lines 41 and 42 here and on appropriate line on Schedule M (see instructions)	43	

PASS-THROUGH ENTITIES

Overview & Compliance

APPENDIX

Relevant Forms

Form **1120S**

Department of the Treasury
Internal Revenue Service

U.S. Income Tax Return for an S Corporation

▶ **Do not file this form unless the corporation has filed or is attaching Form 2553 to elect to be an S corporation.**
▶ **See separate instructions.**

OMB No. 1545-0130

2010

For calendar year 2010 or tax year beginning , 2010, ending , 20

A S election effective date	TYPE OR PRINT Name	D Employer identification number
B Business activity code number *(see instructions)*	Number, street, and room or suite no. If a P.O. box, see instructions.	E Date incorporated
C Check if Sch. M-3 attached ☐	City or town, state, and ZIP code	F Total assets *(see instructions)* $

G Is the corporation electing to be an S corporation beginning with this tax year? ☐ Yes ☐ No If "Yes," attach Form 2553 if not already filed

H Check if: (1) ☐ Final return (2) ☐ Name change (3) ☐ Address change
(4) ☐ Amended return (5) ☐ S election termination or revocation

I Enter the number of shareholders who were shareholders during any part of the tax year ▶

Caution. *Include **only** trade or business income and expenses on lines 1a through 21. See the instructions for more information.*

Income	1a	Gross receipts or sales	b Less returns and allowances	c Bal ▶ 1c	
	2	Cost of goods sold (Schedule A, line 8)		2	
	3	Gross profit. Subtract line 2 from line 1c		3	
	4	Net gain (loss) from Form 4797, Part II, line 17 *(attach Form 4797)*		4	
	5	Other income (loss) *(see instructions—attach statement)*		5	
	6	**Total income (loss).** Add lines 3 through 5 ▶		6	
Deductions (see instructions for limitations)	7	Compensation of officers		7	
	8	Salaries and wages (less employment credits)		8	
	9	Repairs and maintenance		9	
	10	Bad debts		10	
	11	Rents		11	
	12	Taxes and licenses		12	
	13	Interest		13	
	14	Depreciation not claimed on Schedule A or elsewhere on return *(attach Form 4562)*		14	
	15	Depletion **(Do not deduct oil and gas depletion.)**		15	
	16	Advertising		16	
	17	Pension, profit-sharing, etc., plans		17	
	18	Employee benefit programs		18	
	19	Other deductions *(attach statement)*		19	
	20	**Total deductions.** Add lines 7 through 19 ▶		20	
	21	**Ordinary business income (loss).** Subtract line 20 from line 6		21	
Tax and Payments	22a	Excess net passive income or LIFO recapture tax *(see instructions)*	22a		
	b	Tax from Schedule D (Form 1120S)	22b		
	c	Add lines 22a and 22b *(see instructions for additional taxes)*		22c	
	23a	2010 estimated tax payments and 2009 overpayment credited to 2010	23a		
	b	Tax deposited with Form 7004	23b		
	c	Credit for federal tax paid on fuels *(attach Form 4136)*	23c		
	d	Add lines 23a through 23c		23d	
	24	Estimated tax penalty *(see instructions)*. Check if Form 2220 is attached ▶ ☐		24	
	25	**Amount owed.** If line 23d is smaller than the total of lines 22c and 24, enter amount owed		25	
	26	**Overpayment.** If line 23d is larger than the total of lines 22c and 24, enter amount overpaid		26	
	27	Enter amount from line 26 **Credited to 2011 estimated tax** ▶	**Refunded** ▶	27	

Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ Signature of officer Date ▶ Title

May the IRS discuss this return with the preparer shown below (see instructions)? ☐ Yes ☐ No

Paid Preparer Use Only

Print/Type preparer's name	Preparer's signature	Date	Check ☐ if self-employed PTIN
Firm's name ▶			Firm's EIN ▶
Firm's address ▶			Phone no.

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11510H Form **1120S** (2010)

Form 1120S (2010) Page 2

Schedule A **Cost of Goods Sold** (see instructions)

1	Inventory at beginning of year	1	
2	Purchases	2	
3	Cost of labor	3	
4	Additional section 263A costs (*attach statement*)	4	
5	Other costs (*attach statement*)	5	
6	**Total.** Add lines 1 through 5	6	
7	Inventory at end of year	7	
8	**Cost of goods sold.** Subtract line 7 from line 6. Enter here and on page 1, line 2	8	

9a Check all methods used for valuing closing inventory: *(i)* ☐ Cost as described in Regulations section 1.471-3
(ii) ☐ Lower of cost or market as described in Regulations section 1.471-4
(iii) ☐ Other (Specify method used and attach explanation.) ▶

b Check if there was a writedown of subnormal goods as described in Regulations section 1.471-2(c) ▶ ☐

c Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970) ▶ ☐

d If the LIFO inventory method was used for this tax year, enter percentage (or amounts) of closing inventory computed under LIFO | 9d |

e If property is produced or acquired for resale, do the rules of section 263A apply to the corporation? ☐ Yes ☐ No

f Was there any change in determining quantities, cost, or valuations between opening and closing inventory? ☐ Yes ☐ No
If "Yes," attach explanation.

Schedule B **Other Information** (see instructions) — Yes / No

1 Check accounting method: **a** ☐ Cash **b** ☐ Accrual **c** ☐ Other (specify) ▶

2 See the instructions and enter the:
a Business activity ▶ **b** Product or service ▶

3 At the end of the tax year, did the corporation own, directly or indirectly, 50% or more of the voting stock of a domestic corporation? (For rules of attribution, see section 267(c).) If "Yes," attach a statement showing: **(a)** name and employer identification number (EIN), **(b)** percentage owned, and **(c)** if 100% owned, was a qualified subchapter S subsidiary election made?

4 Has this corporation filed, or is it required to file, **Form 8918,** Material Advisor Disclosure Statement, to provide information on any reportable transaction?

5 Check this box if the corporation issued publicly offered debt instruments with original issue discount ▶ ☐
If checked, the corporation may have to file **Form 8281,** Information Return for Publicly Offered Original Issue Discount Instruments.

6 If the corporation: **(a)** was a C corporation before it elected to be an S corporation **or** the corporation acquired an asset with a basis determined by reference to the basis of the asset (or the basis of any other property) in the hands of a C corporation **and (b)** has net unrealized built-in gain in excess of the net recognized built-in gain from prior years, enter the net unrealized built-in gain reduced by net recognized built-in gain from prior years *(see instructions)* ▶ $

7 Enter the accumulated earnings and profits of the corporation at the end of the tax year. $

8 Are the corporation's total receipts (*see instructions*) for the tax year **and** its total assets at the end of the tax year less than $250,000? If "Yes," the corporation is not required to complete Schedules L and M-1

9 During the tax year, was a qualified subchapter S subsidiary election terminated or revoked? If "Yes," see instructions

Schedule K **Shareholders' Pro Rata Share Items** — Total amount

Income (Loss)

1	Ordinary business income (loss) (page 1, line 21)		1	
2	Net rental real estate income (loss) (*attach Form 8825*)		2	
3a	Other gross rental income (loss)	3a		
b	Expenses from other rental activities (*attach statement*)	3b		
c	Other net rental income (loss). Subtract line 3b from line 3a		3c	
4	Interest income		4	
5	Dividends: **a** Ordinary dividends		5a	
	b Qualified dividends	5b		
6	Royalties		6	
7	Net short-term capital gain (loss) (*attach Schedule D (Form 1120S)*)		7	
8a	Net long-term capital gain (loss) (*attach Schedule D (Form 1120S)*)		8a	
b	Collectibles (28%) gain (loss)	8b		
c	Unrecaptured section 1250 gain (*attach statement*)	8c		
9	Net section 1231 gain (loss) (*attach Form 4797*)		9	
10	Other income (loss) (*see instructions*) Type ▶		10	

Form **1120S** (2010)

Form 1120S (2010) Page 3

		Shareholders' Pro Rata Share Items (continued)		Total amount
Deductions	11	Section 179 deduction (*attach Form 4562*)	11	
	12a	Contributions	12a	
	b	Investment interest expense	12b	
	c	Section 59(e)(2) expenditures (1) Type ▶ (2) Amount ▶	12c(2)	
	d	Other deductions (*see instructions*) Type ▶	12d	
Credits	13a	Low-income housing credit (section 42(j)(5))	13a	
	b	Low-income housing credit (other)	13b	
	c	Qualified rehabilitation expenditures (rental real estate) (*attach Form 3468*)	13c	
	d	Other rental real estate credits (*see instructions*) Type ▶	13d	
	e	Other rental credits (*see instructions*) Type ▶	13e	
	f	Alcohol and cellulosic biofuel fuels credit (*attach Form 6478*)	13f	
	g	Other credits (*see instructions*) Type ▶	13g	
Foreign Transactions	14a	Name of country or U.S. possession ▶		
	b	Gross income from all sources	14b	
	c	Gross income sourced at shareholder level	14c	
		Foreign gross income sourced at corporate level		
	d	Passive category	14d	
	e	General category	14e	
	f	Other (*attach statement*)	14f	
		Deductions allocated and apportioned at shareholder level		
	g	Interest expense	14g	
	h	Other	14h	
		Deductions allocated and apportioned at corporate level to foreign source income		
	i	Passive category	14i	
	j	General category	14j	
	k	Other (*attach statement*)	14k	
		Other information		
	l	Total foreign taxes (check one): ▶ ☐ Paid ☐ Accrued	14l	
	m	Reduction in taxes available for credit (*attach statement*)	14m	
	n	Other foreign tax information (*attach statement*)		
Alternative Minimum Tax (AMT) Items	15a	Post-1986 depreciation adjustment	15a	
	b	Adjusted gain or loss	15b	
	c	Depletion (other than oil and gas)	15c	
	d	Oil, gas, and geothermal properties—gross income	15d	
	e	Oil, gas, and geothermal properties—deductions	15e	
	f	Other AMT items (*attach statement*)	15f	
Items Affecting Shareholder Basis	16a	Tax-exempt interest income	16a	
	b	Other tax-exempt income	16b	
	c	Nondeductible expenses	16c	
	d	Distributions (*attach statement if required*) (*see instructions*)	16d	
	e	Repayment of loans from shareholders	16e	
Other Information	17a	Investment income	17a	
	b	Investment expenses	17b	
	c	Dividend distributions paid from accumulated earnings and profits	17c	
	d	Other items and amounts (*attach statement*)		
Recon-ciliation	18	**Income/loss reconciliation.** Combine the amounts on lines 1 through 10 in the far right column. From the result, subtract the sum of the amounts on lines 11 through 12d and 14l	18	

Form **1120S** (2010)

Form 1120S (2010) Page 4

Schedule L **Balance Sheets per Books**

	Assets	Beginning of tax year (a)	Beginning of tax year (b)	End of tax year (c)	End of tax year (d)
1	Cash				
2a	Trade notes and accounts receivable				
b	Less allowance for bad debts	( )		( )	
3	Inventories				
4	U.S. government obligations				
5	Tax-exempt securities (*see instructions*)				
6	Other current assets (*attach statement*)				
7	Loans to shareholders				
8	Mortgage and real estate loans				
9	Other investments (*attach statement*)				
10a	Buildings and other depreciable assets				
b	Less accumulated depreciation	( )		( )	
11a	Depletable assets				
b	Less accumulated depletion	( )		( )	
12	Land (net of any amortization)				
13a	Intangible assets (amortizable only)				
b	Less accumulated amortization	( )		( )	
14	Other assets (*attach statement*)				
15	Total assets				
	Liabilities and Shareholders' Equity				
16	Accounts payable				
17	Mortgages, notes, bonds payable in less than 1 year				
18	Other current liabilities (*attach statement*)				
19	Loans from shareholders				
20	Mortgages, notes, bonds payable in 1 year or more				
21	Other liabilities (*attach statement*)				
22	Capital stock				
23	Additional paid-in capital				
24	Retained earnings				
25	Adjustments to shareholders' equity (*attach statement*)				
26	Less cost of treasury stock		( )		( )
27	Total liabilities and shareholders' equity				

Schedule M-1 **Reconciliation of Income (Loss) per Books With Income (Loss) per Return**

Note: Schedule M-3 required instead of Schedule M-1 if total assets are $10 million or more—see instructions

1	Net income (loss) per books		5	Income recorded on books this year not included on Schedule K, lines 1 through 10 (itemize): a Tax-exempt interest $	
2	Income included on Schedule K, lines 1, 2, 3c, 4, 5a, 6, 7, 8a, 9, and 10, not recorded on books this year (itemize):				
3	Expenses recorded on books this year not included on Schedule K, lines 1 through 12 and 14l (itemize): a Depreciation $ b Travel and entertainment $		6	Deductions included on Schedule K, lines 1 through 12 and 14l, not charged against book income this year (itemize): a Depreciation $	
			7	Add lines 5 and 6	
4	Add lines 1 through 3		8	Income (loss) (Schedule K, line 18). Line 4 less line 7	

Schedule M-2 **Analysis of Accumulated Adjustments Account, Other Adjustments Account, and Shareholders' Undistributed Taxable Income Previously Taxed** (see instructions)

		(a) Accumulated adjustments account	(b) Other adjustments account	(c) Shareholders' undistributed taxable income previously taxed
1	Balance at beginning of tax year			
2	Ordinary income from page 1, line 21			
3	Other additions			
4	Loss from page 1, line 21	( )		
5	Other reductions	( )	( )	
6	Combine lines 1 through 5			
7	Distributions other than dividend distributions			
8	Balance at end of tax year. Subtract line 7 from line 6			

Form **1120S** (2010)

Form **1120**
Department of the Treasury
Internal Revenue Service

U.S. Corporation Income Tax Return

For calendar year 2010 or tax year beginning _____, 2010, ending _____, 20 ____
▶ See separate instructions.

OMB No. 1545-0123
2010

A Check if:
1a Consolidated return (attach Form 851) ☐
b Life/nonlife consolidated return ☐
2 Personal holding co. (attach Sch. PH) ☐
3 Personal service corp. (see instructions) ☐
4 Schedule M-3 attached ☐

Print or type

Name
Number, street, and room or suite no. If a P.O. box, see instructions.
City or town, state, and ZIP code

B Employer identification number
C Date incorporated
D Total assets (see instructions) $

E Check if: (1) ☐ Initial return (2) ☐ Final return (3) ☐ Name change (4) ☐ Address change

Income	1a	Gross receipts or sales	b Less returns and allowances	c Bal ▶	1c
	2	Cost of goods sold (Schedule A, line 8)			2
	3	Gross profit. Subtract line 2 from line 1c			3
	4	Dividends (Schedule C, line 19)			4
	5	Interest			5
	6	Gross rents			6
	7	Gross royalties			7
	8	Capital gain net income (attach Schedule D (Form 1120))			8
	9	Net gain or (loss) from Form 4797, Part II, line 17 (attach Form 4797)			9
	10	Other income (see instructions—attach schedule)			10
	11	**Total income.** Add lines 3 through 10		▶	11
Deductions (See instructions for limitations on deductions.)	12	Compensation of officers (Schedule E, line 4)		▶	12
	13	Salaries and wages (less employment credits)			13
	14	Repairs and maintenance			14
	15	Bad debts			15
	16	Rents			16
	17	Taxes and licenses			17
	18	Interest			18
	19	Charitable contributions			19
	20	Depreciation from Form 4562 not claimed on Schedule A or elsewhere on return (attach Form 4562)			20
	21	Depletion			21
	22	Advertising			22
	23	Pension, profit-sharing, etc., plans			23
	24	Employee benefit programs			24
	25	Domestic production activities deduction (attach Form 8903)			25
	26	Other deductions (attach schedule)			26
	27	**Total deductions.** Add lines 12 through 26		▶	27
	28	Taxable income before net operating loss deduction and special deductions. Subtract line 27 from line 11			28
	29	**Less:** a Net operating loss deduction (see instructions)	29a		
		b Special deductions (Schedule C, line 20)	29b		29c
Tax, Refundable Credits, and Payments	30	**Taxable income.** Subtract line 29c from line 28 (see instructions)			30
	31	**Total tax** (Schedule J, line 10)			31
	32a	2009 overpayment credited to 2010	32a		
	b	2010 estimated tax payments	32b		
	c	2010 refund applied for on Form 4466	32c ( )	d Bal ▶ 32d	
	e	Tax deposited with Form 7004		32e	
	f	Credits: (1) Form 2439 (2) Form 4136		32f	
	g	Refundable credits from Form 3800, line 19c, and Form 8827, line 8c		32g	32h
	33	Estimated tax penalty (see instructions). Check if Form 2220 is attached		▶ ☐	33
	34	**Amount owed.** If line 32h is smaller than the total of lines 31 and 33, enter amount owed			34
	35	**Overpayment.** If line 32h is larger than the total of lines 31 and 33, enter amount overpaid			35
	36	Enter amount from line 35 you want: **Credited to 2011 estimated tax** ▶		**Refunded** ▶	36

Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

▶ Signature of officer _____ Date _____ ▶ Title _____

May the IRS discuss this return with the preparer shown below (see instructions)? ☐ Yes ☐ No

Paid Preparer Use Only

Print/Type preparer's name	Preparer's signature	Date	Check ☐ if self-employed	PTIN
Firm's name ▶			Firm's EIN ▶	
Firm's address ▶			Phone no.	

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 11450Q Form **1120** (2010)

Form 1120 (2010) Page 2

Schedule A **Cost of Goods Sold** (see instructions)

1	Inventory at beginning of year	1	
2	Purchases	2	
3	Cost of labor	3	
4	Additional section 263A costs (attach schedule)	4	
5	Other costs (attach schedule)	5	
6	**Total.** Add lines 1 through 5	6	
7	Inventory at end of year	7	
8	**Cost of goods sold.** Subtract line 7 from line 6. Enter here and on page 1, line 2	8	

9a Check all methods used for valuing closing inventory:

(i) ☐ Cost

(ii) ☐ Lower of cost or market

(iii) ☐ Other (Specify method used and attach explanation.) ▶

b Check if there was a writedown of subnormal goods ▶ ☐

c Check if the LIFO inventory method was adopted this tax year for any goods (if checked, attach Form 970) ▶ ☐

d If the LIFO inventory method was used for this tax year, enter percentage (or amounts) of closing inventory computed under LIFO | 9d |

e If property is produced or acquired for resale, do the rules of section 263A apply to the corporation? ☐ Yes ☐ No

f Was there any change in determining quantities, cost, or valuations between opening and closing inventory? If "Yes," attach explanation ☐ Yes ☐ No

Schedule C **Dividends and Special Deductions** (see instructions)

		(a) Dividends received	(b) %	(c) Special deductions (a) × (b)
1	Dividends from less-than-20%-owned domestic corporations (other than debt-financed stock)		70	
2	Dividends from 20%-or-more-owned domestic corporations (other than debt-financed stock)		80	
3	Dividends on debt-financed stock of domestic and foreign corporations		see instructions	
4	Dividends on certain preferred stock of less-than-20%-owned public utilities		42	
5	Dividends on certain preferred stock of 20%-or-more-owned public utilities		48	
6	Dividends from less-than-20%-owned foreign corporations and certain FSCs		70	
7	Dividends from 20%-or-more-owned foreign corporations and certain FSCs		80	
8	Dividends from wholly owned foreign subsidiaries		100	
9	**Total.** Add lines 1 through 8. See instructions for limitation			
10	Dividends from domestic corporations received by a small business investment company operating under the Small Business Investment Act of 1958		100	
11	Dividends from affiliated group members		100	
12	Dividends from certain FSCs		100	
13	Dividends from foreign corporations not included on lines 3, 6, 7, 8, 11, or 12			
14	Income from controlled foreign corporations under subpart F (attach Form(s) 5471)			
15	Foreign dividend gross-up			
16	IC-DISC and former DISC dividends not included on lines 1, 2, or 3			
17	Other dividends			
18	Deduction for dividends paid on certain preferred stock of public utilities			
19	**Total dividends.** Add lines 1 through 17. Enter here and on page 1, line 4 ▶			
20	**Total special deductions.** Add lines 9, 10, 11, 12, and 18. Enter here and on page 1, line 29b ▶			

Schedule E **Compensation of Officers** (see instructions for page 1, line 12)

Note: *Complete Schedule E only if total receipts (line 1a plus lines 4 through 10 on page 1) are $500,000 or more.*

	(a) Name of officer	(b) Social security number	(c) Percent of time devoted to business	Percent of corporation stock owned (d) Common	(e) Preferred	(f) Amount of compensation
1			%	%	%	
			%	%	%	
			%	%	%	
			%	%	%	
			%	%	%	

2	Total compensation of officers	
3	Compensation of officers claimed on Schedule A and elsewhere on return	
4	Subtract line 3 from line 2. Enter the result here and on page 1, line 12	

Form **1120** (2010)

Form 1120 (2010) Page 3

Schedule J **Tax Computation** (see instructions)

1	Check if the corporation is a member of a controlled group (attach Schedule O (Form 1120)) ▶ ☐				
2	Income tax. Check if a qualified personal service corporation (see instructions) ▶ ☐			2	
3	Alternative minimum tax (attach Form 4626)			3	
4	Add lines 2 and 3			4	
5a	Foreign tax credit (attach Form 1118)	5a			
b	Credit from Form 8834, line 29	5b			
c	General business credit (attach Form 3800)	5c			
d	Credit for prior year minimum tax (attach Form 8827)	5d			
e	Bond credits from Form 8912	5e			
6	**Total credits.** Add lines 5a through 5e			6	
7	Subtract line 6 from line 4			7	
8	Personal holding company tax (attach Schedule PH (Form 1120))			8	
9	Other taxes. Check if from: ☐ Form 4255 ☐ Form 8611 ☐ Form 8697 ☐ Form 8866 ☐ Form 8902 ☐ Other (attach schedule)			9	
10	**Total tax.** Add lines 7 through 9. Enter here and on page 1, line 31			10	

Schedule K **Other Information** (see instructions)

		Yes	No
1	Check accounting method: a ☐ Cash b ☐ Accrual c ☐ Other (specify) ▶		
2	See the instructions and enter the:		
a	Business activity code no. ▶		
b	Business activity ▶		
c	Product or service ▶		
3	Is the corporation a subsidiary in an affiliated group or a parent-subsidiary controlled group?		
	If "Yes," enter name and EIN of the parent corporation ▶		
4	At the end of the tax year:		
a	Did any foreign or domestic corporation, partnership (including any entity treated as a partnership), trust, or tax-exempt organization own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? If "Yes," complete Part I of Schedule G (Form 1120) (attach Schedule G)		
b	Did any individual or estate own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of the corporation's stock entitled to vote? If "Yes," complete Part II of Schedule G (Form 1120) (attach Schedule G)		
5	At the end of the tax year, did the corporation:		
a	Own directly 20% or more, or own, directly or indirectly, 50% or more of the total voting power of all classes of stock entitled to vote of any foreign or domestic corporation not included on **Form 851,** Affiliations Schedule? For rules of constructive ownership, see instructions If "Yes," complete (i) through (iv).		

(i) Name of Corporation	(ii) Employer Identification Number (If any)	(iii) Country of Incorporation	(iv) Percentage Owned in Voting Stock

Form **1120** (2010)

Form 1120 (2010) Page 4

Schedule K *Continued*

	Yes	No
b Own directly an interest of 20% or more, or own, directly or indirectly, an interest of 50% or more in any foreign or domestic partnership (including an entity treated as a partnership) or in the beneficial interest of a trust? For rules of constructive ownership, see instructions If "Yes," complete (i) through (iv).		

(i) Name of Entity	(ii) Employer Identification Number (if any)	(iii) Country of Organization	(iv) Maximum Percentage Owned in Profit, Loss, or Capital

6 During this tax year, did the corporation pay dividends (other than stock dividends and distributions in exchange for stock) in excess of the corporation's current and accumulated earnings and profits? (See sections 301 and 316.)		
If "Yes," file **Form 5452,** Corporate Report of Nondividend Distributions. If this is a consolidated return, answer here for the parent corporation and on Form 851 for each subsidiary.		
7 At any time during the tax year, did one foreign person own, directly or indirectly, at least 25% of **(a)** the total voting power of all classes of the corporation's stock entitled to vote or **(b)** the total value of all classes of the corporation's stock?		
For rules of attribution, see section 318. If "Yes," enter: **(i)** Percentage owned ▶ ---------- and **(ii)** Owner's country ▶ ---------- **(c)** The corporation may have to file **Form 5472,** Information Return of a 25% Foreign-Owned U.S. Corporation or a Foreign Corporation Engaged in a U.S. Trade or Business. Enter the number of Forms 5472 attached ▶ ----------		
8 Check this box if the corporation issued publicly offered debt instruments with original issue discount ▶ ☐ If checked, the corporation may have to file **Form 8281,** Information Return for Publicly Offered Original Issue Discount Instruments.		
9 Enter the amount of tax-exempt interest received or accrued during the tax year ▶ $ ----------		
10 Enter the number of shareholders at the end of the tax year (if 100 or fewer) ▶ ----------		
11 If the corporation has an NOL for the tax year and is electing to forego the carryback period, check here ▶ ☐ If the corporation is filing a consolidated return, the statement required by Regulations section 1.1502-21(b)(3) must be attached or the election will not be valid.		
12 Enter the available NOL carryover from prior tax years (do not reduce it by any deduction on line 29a.) ▶ $ ----------		
13 Are the corporation's total receipts (line 1a plus lines 4 through 10 on page 1) for the tax year **and** its total assets at the end of the tax year less than $250,000?		
If "Yes," the corporation is not required to complete Schedules L, M-1, and M-2 on page 5. Instead, enter the total amount of cash distributions and the book value of property distributions (other than cash) made during the tax year. ▶ $ ----------		
14 Is the corporation required to file Schedule UTP (Form 1120), Uncertain Tax Position Statement (see instructions)?		
If "Yes," complete and attach Schedule UTP.		

Form **1120** (2010)

Form 1120 (2010) Page 5

Schedule L Balance Sheets per Books	Beginning of tax year		End of tax year	
Assets	(a)	(b)	(c)	(d)
1 Cash				
2a Trade notes and accounts receivable				
b Less allowance for bad debts	( )		( )	
3 Inventories				
4 U.S. government obligations				
5 Tax-exempt securities (see instructions)				
6 Other current assets (attach schedule)				
7 Loans to shareholders				
8 Mortgage and real estate loans				
9 Other investments (attach schedule)				
10a Buildings and other depreciable assets				
b Less accumulated depreciation	( )		( )	
11a Depletable assets				
b Less accumulated depletion	( )		( )	
12 Land (net of any amortization)				
13a Intangible assets (amortizable only)				
b Less accumulated amortization	( )		( )	
14 Other assets (attach schedule)				
15 Total assets				
Liabilities and Shareholders' Equity				
16 Accounts payable				
17 Mortgages, notes, bonds payable in less than 1 year				
18 Other current liabilities (attach schedule)				
19 Loans from shareholders				
20 Mortgages, notes, bonds payable in 1 year or more				
21 Other liabilities (attach schedule)				
22 Capital stock: a Preferred stock				
b Common stock				
23 Additional paid-in capital				
24 Retained earnings—Appropriated (attach schedule)				
25 Retained earnings—Unappropriated				
26 Adjustments to shareholders' equity (attach schedule)				
27 Less cost of treasury stock		( )		( )
28 Total liabilities and shareholders' equity				

Schedule M-1 Reconciliation of Income (Loss) per Books With Income per Return

Note: Schedule M-3 required instead of Schedule M-1 if total assets are $10 million or more—see instructions

1 Net income (loss) per books		7 Income recorded on books this year not included on this return (itemize): Tax-exempt interest $	
2 Federal income tax per books			
3 Excess of capital losses over capital gains			
4 Income subject to tax not recorded on books this year (itemize):			
5 Expenses recorded on books this year not deducted on this return (itemize):		8 Deductions on this return not charged against book income this year (itemize):	
a Depreciation $		a Depreciation $	
b Charitable contributions $		b Charitable contributions $	
c Travel and entertainment $			
6 Add lines 1 through 5		9 Add lines 7 and 8	
		10 Income (page 1, line 28)—line 6 less line 9	

Schedule M-2 Analysis of Unappropriated Retained Earnings per Books (Line 25, Schedule L)

1 Balance at beginning of year		5 Distributions: a Cash	
2 Net income (loss) per books		b Stock	
3 Other increases (itemize):		c Property	
		6 Other decreases (itemize):	
		7 Add lines 5 and 6	
4 Add lines 1, 2, and 3		8 Balance at end of year (line 4 less line 7)	

Form 1120 (2010)

720
41A720
Department of Revenue

➤ *See Instructions.*
Taxable period beginning _____, 2010, and ending _____, 20 __ __.

A ___ ___ ___ ___ ___ ___
Kentucky Corporation/LLET Account Number

KENTUCKY CORPORATION INCOME TAX AND LLET RETURN **2010**

B *Check applicable box(es):*
LLET
Receipts Method
☐ Gross Receipts
☐ Gross Profits
☐ $175 minimum
Nonfiling Status Code
Enter Code ____ ____

C Income Tax Return
☐ Elected Consolidated *Attach Form 722*
☐ Mandatory NEXUS
Nonfiling Status Code
Enter Code ____ ____

D Federal Identification Number ____-_____

Taxable Year Ending __ __/__ __ (Mo. Yr.)

Name of Corporation or Affiliated Group *(Print or type)*

State and Date of Incorporation

Number and Street

Principal Business Activity in KY

City | State | ZIP Code | Telephone Number

NAICS Code Number (Relating to Kentucky Activity) (See www.census.gov)

E Name of Common Parent

Kentucky Corporation/LLET Account Number ___ ___ ___ ___ ___ ___

F *Check if applicable:* ☐ Initial return ☐ Final return *(Complete Part IV)*
☐ Short-period return *(Complete Part IV)* ☐ Change of name ☐ Change of address ☐ Change of accounting period

G *Check if applicable:* ☐ Amended return ☐ Amended return–RAR
Provide explanation of changes in Part V—Explanation of Amended Return Changes.

PART I—LLET COMPUTATION

1. **Schedule LLET**, Section D, line 1	1		00
2. Recycling/composting equipment tax credit recapture	2		00
3. **Total** (add lines 1 and 2)	3		00
4. Nonrefundable LLET credit from Kentucky Schedule(s) K-1	4		00
5. Nonrefundable tax credits (Schedule TCS)	5		00
6. **LLET liability** (greater of line 3 less lines 4 and 5 or $175 minimum)	6		00
7. Withholding tax (Form PTE-WH)	7		00
8. Estimated tax payments	8		00
9. Certified rehabilitation tax credit	9		00
10. Film industry tax credit	10		00
11. Extension payment	11		00
12. Prior year's tax credit	12		00
13. Income tax overpayment from Part II, line 17	13		00
14. LLET paid on original return	14		00
15. LLET overpayment on original return	15		00
16. **LLET due** (lines 6 and 15 less lines 7 through 14)	16		00
17. **LLET overpayment** (lines 7 through 14 less lines 6 and 15)	17		00
18. Credited to 2010 income tax	18		00
19. Credited to 2011 LLET	19		00
20. **Amount to be refunded**	20		00

PART II—INCOME TAX COMPUTATION

1. **Income tax** (see instructions)	1		00
2. Recycling/composting equipment tax credit recapture	2		00
3. Tax installment on LIFO recapture	3		00
4. **Total** (add lines 1 through 3)	4		00
5. Nonrefundable LLET credit from the Limited Liability Pass-through Entity LLET Credit Worksheet(s) (see instructions)	5		00
6. Nonrefundable LLET credit (Part I, line 6 less $175)	6		00
7. Nonrefundable tax credits (Schedule TCS)	7		00
8. **Net income tax liability** (line 4 less lines 5 through 7, but not less than zero)	8		00
9. Estimated tax payments ☐ Check if Form 2220-K attached	9		00
10. Extension payment	10		00
11. Prior year's tax credit	11		00
12. LLET overpayment from Part I, line 18	12		00
13. Corporation income tax paid on original return	13		00
14. Corporation income tax overpayment on original return	14		00
15. **Income tax due** (lines 8 and 14 less lines 9 through 13)	15		00
16. **Income tax overpayment** (lines 9 through 13 less lines 8 and 14)	16		00
17. Credited to 2010 LLET	17		00
18. Credited to 2011 corporation income tax	18		00
19. **Amount to be refunded**	19		00

TAX PAYMENT SUMMARY (Round to nearest dollar)

LLET

1. LLET due (Part I, Line 16)	$_____
2. Penalty	$_____
3. Interest	$_____
4. Subtotal	$_____

INCOME

1. Income tax due (Part II, Line 15)	$_____
2. Penalty	$_____
3. Interest	$_____
4. Subtotal	$_____

TOTAL PAYMENT (Add Subtotals) ➤ $ _____

➤ **Federal Form 1120, all pages, and any supporting schedules must be attached.**

Make check payable to:
Kentucky State Treasurer

Mail return with payment to:
Kentucky Department of Revenue
Frankfort, Kentucky 40620

PART III—TAXABLE INCOME COMPUTATION

1. Federal taxable income (Form 1120, line 28)	1		00	14. Federal work opportunity credit	14		00
ADDITIONS:				15. Depreciation adjustment	15		00
2. Interest income (state and local obligations)	2		00	16. Other (attach Schedule O-720)	16		00
3. State taxes based on net/gross income	3		00	17. Revenue Agent Report (RAR)	17		00
4. Depreciation adjustment	4		00	18. **Net income** (line 11 less lines 12 through 17)	18		00
5. Deductions attributable to nontaxable income	5		00	19. Current net operating loss adjustment (mandatory nexus only)	19		00
6. Related party expenses	6		00	20. **Kentucky net income** (add lines 18 and 19)	20		00
7. Dividend paid deduction (REIT)	7		00	21. **Taxable net income** (attach Schedule A if applicable)	21		00
8. Domestic production activities deduction	8		00	22. Net operating loss deduction (NOLD)	22		00
9. Other (attach Schedule O-720)	9		00	23. **Taxable net income** after NOLD (line 21 less line 22)	23		00
10. Revenue Agent Report (RAR)	10		00	24. Kentucky domestic production activities deduction (KDPAD)	24		00
11. **Total** (add lines 1 through 10)	11		00	25. **Taxable net income after KDPAD** (line 23 less line 24)	25		00
SUBTRACTIONS:							
12. Interest income (U.S. obligations)	12		00				
13. Dividend income	13		00				

PART IV—EXPLANATION OF FINAL RETURN AND/OR SHORT–PERIOD RETURN

PART V—EXPLANATION OF AMENDED RETURN CHANGES

Form 720 (2010)
Commonwealth of Kentucky
DEPARTMENT OF REVENUE

SCHEDULE Q—KENTUCKY CORPORATION/LLET QUESTIONNAIRE

IMPORTANT: Questions 4—13 must be completed by all corporations. If this is the corporation's initial return or if the corporation did not file a return under the same name and same federal I.D. number for the preceding year, questions 1, 2 and 3 must be answered. **Failure to do so may result in a request for a delinquent return.**

1. Indicate whether: (a) ☐ new business; (b) ☐ successor to previously existing business which was organized as: (1) ☐ corporation; (2) ☐ partnership; (3) ☐ sole proprietorship; or (4) ☐ other _____
   If successor to previously existing business, give name, address and federal I.D. number of the previous business organization. _____
2. List the following ***Kentucky*** account numbers. Enter N/A for any number not applicable.
   Employer Withholding _____
   Sales and Use Tax Permit _____
   Consumer Use Tax _____
   Unemployment Insurance _____
   Coal Severance and/or Processing Tax _____
3. If a foreign corporation, enter the date qualified to do business in Kentucky. __ __ / __ __ / __ __
4. If change of accounting period, Item F on page 1, is checked, complete the following information:
   Year End before the change:
   Month _____ and Day _____
   a. ☐ Change from a Fiscal Year to a Calendar Year (NOT a 52/53 week filer)
   b. ☐ Change from a Calendar Year to a Fiscal Year (NOT a 52/53 week filer):
      New Year End:
      Month _____ and Day _____
   c. ☐ Change from a Fiscal Year to a Calendar Year (52/53 week filer):
      New Year End: December and day of week _____
   d. ☐ Change from a Calendar Year to a Fiscal Year (52/53 week filer):
      New Year End:
      Month _____ and day of week _____
      If a 52/53 week filer: (Choose one of the options below.)
      i. ☐ Option A: Ends on the same day of the week and whatever date this same day of the week last occurs in a calendar month.
      ii. ☐ Option B: Ends on the same day of the week and whatever date this same day of the week occurs that is the nearest to the last day of the calendar month.
5. The corporation's books are in care of: (name and address)
   _____
6. Are disregarded entities included in this return?
   ☐ Yes ☐ No. If yes, list name, address and federal I.D. number of each entity. _____
7. Was the corporation a partner or member in a pass-through entity doing business in Kentucky? ☐ Yes ☐ No. If yes, attach schedule listing name and federal I.D. number of the pass-through entity(ies). _____
   Was the corporation doing business in Kentucky other than through its interest held in a pass-through entity doing business in Kentucky? ☐ Yes ☐ No
8. Are related party costs made to related members as defined in KRS 141.205(1)(l) included in this return? ☐ Yes ☐ No. If yes, attach schedule listing name, federal I.D. and/or Kentucky Corporation/LLET account number of the individual(s) or entity(ies).
9. Did the corporation at any time during the taxable year do business in Kentucky and own 80 percent or more of the voting stock of another corporation doing business in Kentucky? ☐ Yes ☐ No. If yes, list name, address and federal I.D. number of each entity. _____
10. Was 80 percent or more of the corporation's voting stock owned by any corporation doing business in Kentucky at any time of the year? ☐ Yes ☐ No. If yes, list name, address and federal I.D. number of each entity. _____
11. Was this return prepared on: (a) ☐ cash basis, (b) ☐ accrual basis, (c) ☐ other _____
12. Did the corporation file a Kentucky tangible personal property tax return for January 1, 2011? ☐ Yes ☐ No
13. Is the corporation currently under audit by the Internal Revenue Service? ☐ Yes ☐ No
    If yes, enter years under audit _____
    If the Internal Revenue Service has made final and unappealable adjustments to the corporation's taxable income which have not been reported to the department, check here ☐ and file an amended return. See 2010 Kentucky Corporation Income Tax and LLET Return instructions for information regarding amended returns. Attach a copy of the final determination to each amended return.

OFFICER INFORMATION (Failure to Provide Requested Information May Result in a Penalty)

Attach a schedule listing the name, home address and Social Security number of the vice president, secretary and treasurer.

Has the attached officer information changed from the last return filed? ☐ Yes ☐ No

President's Name _____ President's Home Address _____

President's Social Security Number _____

Date Became President __ __ / __ __ / __ __ __ __

I, the undersigned, declare under the penalties of perjury, that I have examined this return, including all accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct and complete.

_____ Signature of principal officer or chief accounting officer

_____ Date

_____ Name of person or firm preparing return

__ __ __ __ __ __ __ __ __ SSN, PTIN or FEIN

May the DOR discuss this return with the preparer?
☐ Yes ☐ No

E-mail Address:

Telephone Number:

www.revenue.ky.gov

720S
41A720S
Department of Revenue
➤ *See instructions.*

A ___ ___ ___ ___ ___ ___
Kentucky Corporation/LLET Account Number

KENTUCKY S CORPORATION INCOME TAX AND LLET RETURN 2010

Taxable period beginning _____, 2010, and ending _____, 20 ___ ___.

B *Check applicable box(es):*
LLET
Receipts Method
☐ Gross Receipts
☐ Gross Profits
☐ $175 minimum

Nonfiling Status Code
Enter Code ____ ____

C Income Tax Return
Nonfiling Status Code
Enter Code ____ ____

D Federal Identification Number ___ ___ – ___ ___ ___ ___ ___ ___ ___

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

Name of S Corporation *(Print or type)*

Number and Street

City | State | ZIP Code | Telephone Number

State and Date of Incorporation

Principal Business Activity in KY

NAICS Code Number (Relating to Kentucky Activity) (See www.census.gov)

E *Check if applicable:* ☐ Qualified investment pass-through entity ☐ LLC ☐ Initial return ☐ Final return *(attach explanation)* ☐ Short-period return *(attach explanation)* ☐ Amended return ☐ Change of name ☐ Change of address ☐ Change of accounting period

F *Number of Shareholders (Attach K-1s)* ➤ _____
Number of QSSSs Included In This Return (Attach Schedule) ➤ _____

PART I—ORDINARY INCOME (LOSS) COMPUTATION

1. Federal ordinary income (loss) (see instructions)	1		00
ADDITIONS			
2. State taxes based on net/gross income	2		00
3. Federal depreciation (do not include Section 179 expense deduction)	3		00
4. Related party expenses	4		00
5. Other (attach Schedule O-PTE)	5		00
6. Total (add lines 1 through 5)	6		00
SUBTRACTIONS			
7. Federal work opportunity credit	7		00
8. Kentucky depreciation (do not include Section 179 expense deduction)	8		00
9. Other (attach Schedule O-PTE)	9		00
10. **Kentucky ordinary income (loss)** (line 6 less lines 7 through 9)	10		00

PART II—LLET COMPUTATION

1. Schedule LLET, Section D, line 1	1		00
2. Recycling/composting equipment tax credit recapture	2		00
3. Total (add lines 1 and 2)	3		00
4. Nonrefundable LLET credit from Kentucky Schedule(s) K-1	4		00
5. Nonrefundable tax credits (Schedule TCS)	5		00
6. LLET liability (greater of line 3 less lines 4 and 5 or $175 minimum)	6		00
7. Estimated tax payments	7		00
8. Certified rehabilitation tax credit	8		00
9. Film industry tax credit	9		00
10. Extension payment	10		00
11. Prior year's tax credit	11		00
12. Income tax overpayment from Part III, line 11	12		00
13. **LLET due** (line 6 less lines 7 through 12)	13		00
14. **LLET overpayment** (lines 7 through 12 less line 6)	14		00
15. Credited to 2010 income tax	15		00
16. Credited to 2011 LLET	16		00
17. **Amount to be refunded**	17		00

PART III—INCOME TAX COMPUTATION

1. Excess net passive income tax	1		00
2. Built-in gains tax	2		00
3. Tax installment on LIFO recapture	3		00
4. **Total** (add lines 1 through 3)	4		00
5. Estimated tax payments ☐ Check if Form 2220-K attached	5		00
6. Extension payment	6		00
7. Prior year's tax credit	7		00
8. LLET overpayment from Part II, line 15	8		00
9. **Income tax due** (line 4 less lines 5 through 8)	9		00
10. **Income tax overpayment** (lines 5 through 8 less line 4)	10		00
11. Credited to 2010 LLET	11		00
12. Credited to 2011 corporation income tax	12		00
13. **Amount to be refunded**	13		00

TAX PAYMENT SUMMARY (Round to nearest dollar)

LLET		INCOME	
1. LLET due (Part II, Line 13)	$_____	*1. Income tax due (Part III, Line 9)*	$_____
2. Penalty	$_____	*2. Penalty*	$_____
3. Interest	$_____	*3. Interest*	$_____
4. Subtotal	$_____	*4. Subtotal*	$_____

TOTAL PAYMENT (Add Subtotals) ➤ $ _____

➤ Federal Form 1120S, all pages and any supporting schedules must be attached.

Make check payable to:
Kentucky State Treasurer

Mail return with payment to:
Kentucky Department of Revenue
Frankfort, Kentucky 40620

Form 720S (2010)
Commonwealth of Kentucky
DEPARTMENT OF REVENUE

SCHEDULE Q — KENTUCKY S CORPORATION QUESTIONNAIRE

IMPORTANT: Questions 4—10 must be completed by all S corporations. If this is the S corporation's initial return or if the S corporation did not file a return under the same name and same federal I.D. number for the preceding year, questions 1, 2 and 3 must be answered. **Failure to do so may result in a request for a delinquent return.**

1. Indicate whether: (a) ☐ new business; (b) ☐ successor to previously existing business which was organized as:
   (1) ☐ corporation; (2) ☐ partnership; (3) ☐ sole proprietorship; or (4) ☐ other _____
   If successor to previously existing business, give name, address and federal I.D. number of the previous business organization.
   _____
2. List the following ***Kentucky*** account numbers. Enter N/A for any number not applicable.
   Employer Withholding _____
   Sales and Use Tax Permit _____
   Consumer Use Tax _____
   Unemployment Insurance _____
   Coal Severance and/or Processing Tax _____
3. If a foreign S corporation, enter the date qualified to do business in Kentucky. __ __ / __ __ / __ __
4. If change of accounting period, Item E on page 1, is checked, complete the following information:
   Year End before the change:
   Month _____ and Day _____
   a. ☐ Change from a Fiscal Year to a Calendar Year (NOT a 52/53 week filer)
   b. ☐ Change from a Calendar Year to a Fiscal Year (NOT a 52/53 week filer):
      New Year End:
      Month _____ and Day _____
   c. ☐ Change from a Fiscal Year to a Calendar Year (52/53 week filer):
      New Year End: December and day of week _____
   d. ☐ Change from a Calendar Year to a Fiscal Year (52/53 week filer):
      New Year End:
      Month _____ and day of week _____
      If a 52/53 week filer: (Choose one of the options below.)
      i. ☐ Option A: Ends on the same day of the week and whatever date this same day of the week last occurs in a calendar month.
      ii. ☐ Option B: Ends on the same day of the week and whatever date this same day of the week occurs that is the nearest to the last day of the calendar month.
5. The S corporation's books are in care of: (name and address)
   _____
6. Are disregarded entities included in this return? ☐ Yes ☐ No. If yes, list name, address and federal I.D. number of each entity.
   _____
7. Was the S corporation a partner or member in a pass-through entity doing business in Kentucky? ☐ Yes ☐ No. If yes, list name and federal I.D. number of each pass-through entity.
   _____
   Was the S corporation doing business in Kentucky other than through its interest held in a pass-through entity doing business in Kentucky? ☐ Yes ☐ No
8. Was this return prepared on: (a) ☐ cash basis, (b) ☐ accrual basis, (c) ☐ other _____
9. Did the S corporation file a Kentucky tangible personal property tax return for January 1, 2011? ☐ Yes ☐ No
10. Is the S corporation currently under audit by the Internal Revenue Service? ☐ Yes ☐ No
    If yes, enter years under audit _____
    If the Internal Revenue Service has made final and unappealable adjustments to the corporation's taxable income which have not been reported to the department, check here ☐ and file an amended Form 720S for each year adjusted. Attach a copy of the final determination to each amended return.

OFFICER INFORMATION (Failure to Provide Requested Information May Result in a Penalty)

Has the officer information entered below changed from the last return filed? ☐ Yes ☐ No

President's Name: _____
President's Home Address: _____
_____
President's Social Security Number: _____
Date Became President __ __ / __ __ / __ __ __ __
Vice President's Name: _____
Vice President's Home Address: _____
_____
Vice President's Social Security Number: _____

Treasurer's Name: _____
Treasurer's Home Address: _____
_____
Treasurer's Social Security Number: _____
Secretary's Name: _____
Secretary's Home Address: _____
_____
Secretary's Social Security Number: _____

I, the undersigned, declare under the penalties of perjury, that I have examined this return, including all accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct and complete.

✍ _____ Signature of principal officer or chief accounting officer
_____ Date

_____ Name of person or firm preparing return
__ __ __ __ __ __ __ __ __ SSN, PTIN or FEIN
_____ Date

May the DOR discuss this return with the preparer?
☐ Yes ☐ No

E-mail Address:

Telephone No.:

www.revenue.ky.gov

Form 720S (2010)
Schedule K
Commonwealth of Kentucky
DEPARTMENT OF REVENUE

SCHEDULE K—SHAREHOLDERS' SHARES OF INCOME, CREDITS, DEDUCTIONS, ETC.

SECTION I	(a) Pro Rata Share Items				(b) Total Amount
Income (Loss) and Deductions					
1. Kentucky ordinary income (loss) from trade or business activities (page 1, Part I, line 10)				1	00
2. Net income (loss) from rental real estate activities (attach federal Form 8825)				2	00
3. (a) Gross income from other rental activities	3(a)		00		
(b) Less expenses from other rental activities (attach schedule)	(b)		00		
(c) Net income (loss) from other rental activities (line 3a less line 3b)				3(c)	00
4. Portfolio income (loss):					
(a) Interest income				4(a)	00
(b) Dividend income				(b)	00
(c) Royalty income				(c)	00
(d) Net short-term capital gain (loss) (attach federal Schedule D and Kentucky Schedule D, if applicable)				(d)	00
(e) Net long-term capital gain (loss) (attach federal Schedule D and Kentucky Schedule D, if applicable)				(e)	00
(f) Other portfolio income (loss) (attach schedule)				(f)	00
5. Section 1231 net gain (loss) (other than due to casualty or theft) (attach federal and Kentucky Forms 4797)				5	00
6. Other income (loss) (attach schedule)				6	00
7. Charitable contributions (attach schedule) and housing for homeless deduction (attach Schedule HH)				7	00
8. IRC Section 179 expense deduction (attach federal Form 4562 and Kentucky Form 4562)				8	00
9. Deductions related to portfolio income (loss) (attach schedule)				9	00
10. Other deductions (attach schedule)				10	00
Investment Interest					
11. (a) Interest expense on investment debts				11(a)	00
(b) (1) Investment income included on lines 4(a), 4(b), 4(c) and 4(f) above				(b)(1)	00
(2) Investment expenses included on line 9 above				(2)	00
Tax Credits					
12. Skills Training Investment Tax Credit (attach copy of certification(s))				12	00
13. Certified Rehabilitation Tax Credit (attach copy of certification(s))				13	00
14. Kentucky Unemployment Tax Credit (attach Schedule UTC)				14	00
15. Recycling/Composting Equipment Tax Credit (attach Schedule RC)				15	00
16. Kentucky Investment Fund Tax Credit (attach KEDFA notification)				16	00
17. Coal Incentive Tax Credit (attach Schedule CI)				17	00
18. Qualified Research Facility Tax Credit (attach Schedule QR)				18	00
19. GED Incentive Tax Credit (attach Form DAEL-31)				19	00
20. Voluntary Environmental Remediation Tax Credit (attach Schedule VERB)				20	00
21. Biodiesel Tax Credit (attach Schedule BIO)				21	00
22. Environmental Stewardship Tax Credit (attach Schedule KESA)				22	00

Form 720S (2010)
Schedule K
Commonwealth of Kentucky
DEPARTMENT OF REVENUE

SCHEDULE K—SHAREHOLDERS' SHARES OF INCOME, CREDITS, DEDUCTIONS, ETC.

SECTION I—continued	(a) Pro Rata Share Items		(b) Total Amount
Tax Credits—continued			
23. Clean Coal Incentive Tax Credit (attach Schedule CCI)	23		00
24. Ethanol Tax Credit (attach Schedule ETH)	24		00
25. Cellulosic Ethanol Tax Credit (attach Schedule CELL)	25		00
Form 5695-K Pass-through Amounts (attach Form 5695-K)			
26. Energy Efficiency Products Tax Credit from Form 5695-K, line 6	26		00
27. Energy Efficiency Products Tax Credit from Form 5695-K, line 12	27		00
28. Energy Efficiency Products Tax Credit from Form 5695-K, line 18	28		00
29. Energy Efficiency Products Tax Credit from Form 5695-K, line 36	29		00
30. Energy Efficiency Products Tax Credit from Form 5695-K, line 36	30		00
31. Energy Efficiency Products Tax Credit from Form 5695-K, line 51	31		00
32. Energy Efficiency Products Tax Credit from Form 5695-K, line 51	32		00
33. Energy Efficiency Products Tax Credit from Form 5695-K, line 57	33		00
34. Energy Efficiency Products Tax Credit from Form 5695-K, line 63	34		00
35. Railroad Maintenance and Improvement Tax Credit (attach Schedule RR-I)	35		00
Other Items			
36. (a) Type of Section 59(e)(2) expenditures ➤ _____	36(a)		
(b) Amount of Section 59(e)(2) expenditures	(b)		00
37. Tax-exempt interest income	37		00
38. Other tax-exempt income	38		00
39. Nondeductible expenses	39		00
40. Total property distributions (including cash) other than dividends reported on line 42 below	40		00
41. Other items and amounts required to be reported separately to shareholders (attach schedule)	41		
42. Total dividend distributions paid from accumulated earnings and profits	42		00

SECTION II—Pass-through Items			
1. S corporation's Kentucky sales from Schedule A, Section I, line 1	1		00
2. S corporation's total sales from Schedule A, Section I, line 2	2		00
3. S corporation's Kentucky property from Schedule A, Section I, line 5	3		00
4. S corporation's total property from Schedule A, Section I, line 6	4		00
5. S corporation's Kentucky payroll from Schedule A, Section I, line 8	5		00
6. S corporation's total payroll from Schedule A, Section I, line 9	6		00
7. S corporation's Kentucky gross profits from Schedule LLET, Section A, Column A, line 5	7		00
8. S corporation's total gross profits from all sources from Schedule LLET, Section A, Column B, line 5	8		00
9. Limited liability entity tax (LLET) nonrefundable credit from page 1, Part II, the total of lines 4 and 6, less $175	9		00

SCHEDULE LLET

41A720LLET (10-10)

Commonwealth of Kentucky
DEPARTMENT OF REVENUE

➤ *See instructions.*

➤ **Attach to Form 720, Form 720S, Form 725 or Form 765.**

LIMITED LIABILITY ENTITY TAX
KRS 141.0401

Taxable Year Ending
__ __ / __ __
Mo. Yr.

☐ **Member of a Combined Group**

_____ **Reason Code**

Name of Corporation/Limited Liability Entity	Kentucky Corporation/LLET Account Number

☐ **If the corporation or limited liability pass-through entity is a partner, member or shareholder of: (i) a limited liability pass-through entity; or (ii) a general partnership organized or formed as a general partnership after January 1, 2006, check this box and complete Schedule LLET-C and enter the total amounts from Schedule LLET-C in Section A of this form.**

Section A—Computation of Gross Receipts and Gross Profits

		Column A Kentucky		Column B Total	
1. Gross receipts	1		00		00
2. Returns and allowances	2		00		00
3. Gross receipts after returns and allowances (line 1 less line 2 or amount from Schedule LLET-C)	3		00		00
4. Cost of goods sold	4		00		00
5. Gross profits (line 3 less line 4 or amount from Schedule LLET-C)	5		00		00

Section B—Computation of Gross Receipts LLET

1. If gross receipts from all sources (Column B, line 3) are $3,000,000 or less, **STOP** and enter $175 on Section D, line 1	1			
2. If gross receipts from all sources (Column B, line 3) are greater than $3,000,000 but less than $6,000,000, enter the following: (Column A, line 3 x 0.00095) – [$2,850 x ($6,000,000 – Column A, line 3) / $3,000,000] but in no case shall the result be less than zero	2		00	
3. If gross receipts from all sources (Column B, line 3) are $6,000,000 or greater, enter the following: Column A, line 3 x 0.00095	3		00	
4. Enter the amount from line 2 or line 3	4		00	

Section C—Computation of Gross Profits LLET

1. If gross profits from all sources (Column B, line 5) are $3,000,000 or less, **STOP** and enter $175 on Section D, line 1	1			
2. If gross profits from all sources (Column B, line 5) are greater than $3,000,000 but less than $6,000,000, enter the following: (Column A, line 5 x 0.0075) – [$22,500 x ($6,000,000 – Column A, line 5) / $3,000,000] but in no case shall the result be less than zero	2		00	
3. If gross profits from all sources (Column B, line 5) are $6,000,000 or greater, enter the following: Column A, line 5 x 0.0075	3		00	
4. Enter the amount from line 2 or line 3	4		00	

Section D—Computation of LLET

1. Enter the lesser of Section B, line 4 or Section C, line 4, or a minimum of $175 on this line and on Form 720, Part I, line 1; for Form 720S, Form 725, or Form 765, enter on Part II, line 1	1		00	

STOP **Mark the applicable Receipts Method box on Form 720, Form 720S, Form 725, or Form 765, page 1, Item B.**

SCHEDULE LLET-C

41A720LLET-C (10-10)

Commonwealth of Kentucky
DEPARTMENT OF REVENUE

LIMITED LIABILITY ENTITY TAX—Continuation Sheet

(For a corporation or limited liability pass-through entity subject to the limited liability entity tax that is also a partner or member of a limited liability pass-through entity or general partnership organized or formed as a general partnership after January 1, 2006)

KRS 141.0401

Taxable Year Ending

__ __ / __ __
Mo. Yr.

➤ *See instructions.*

➤ **Attach to Form 720, Form 720S, Form 725 or Form 765.**

Name of Corporation or Limited Liability Pass-through Entity	Federal Identification Number	Kentucky Corporation/LLET Account Number
	__ __ - __ __ __ __ __ __	___ ___ ___ ___ ___ ___

Section A — Total from Kentucky Sources		Corporation or Limited Liability Pass-through Entity Filing Return	Name FEIN KY Corp./LLET Acct. No.	Name FEIN KY Corp./LLET Acct. No.	Name FEIN KY Corp./LLET Acct. No.	Total
1. Kentucky gross receipts	1	00				
2. Kentucky returns and allowances	2	00				
3. Kentucky gross receipts after returns and allowances (line 1 less line 2). **Enter the total on Schedule LLET, Section A, Column A, Line 3**	3	00	00	00	00	00
4. Kentucky cost of goods sold	4	00				
5. Kentucky gross profits (line 3 less line 4). **Enter the total on Schedule LLET, Section A, Column A, Line 5**	5	00	00	00	00	00
Section B — Total from All Sources						
1. Gross receipts	1	00				
2. Returns and allowances	2	00				
3. Gross receipts after returns and allowances (line 1 less line 2). **Enter the total on Schedule LLET, Section A, Column B, Line 3.**	3	00	00	00	00	00
4. Cost of goods sold	4	00				
5. Gross profits (line 3 less line 4). **Enter the total on Schedule LLET, Section A, Column B, Line 5.**	5	00	00	00	00	00

SCHEDULE LLET-C

41A720LLET-C (10-10)

Commonwealth of Kentucky
DEPARTMENT OF REVENUE

Page 2 ____

LIMITED LIABILITY ENTITY TAX—Continuation Sheet

(For a corporation or limited liability pass-through entity subject to the limited liability entity tax that is also a partner or member of a limited liability pass-through entity or general partnership organized or formed as a general partnership after January 1, 2006)

KRS 141.0401

➤ *See instructions.*

➤ **Attach to Form 720, Form 720S, Form 725 or Form 765.**

Name of Corporation or Limited Liability Pass-through Entity	Federal Identification Number	Kentucky Corporation/LLET Account Number
	__ __ - __ __ __ __ __ __ __	__ __ __ __ __ __

	Name FEIN KY Corp./LLET Acct. No.	Name FEIN KY Corp./LLET Acct. No.	Name FEIN KY Corp./LLET Acct. No.	Name FEIN KY Corp./LLET Acct. No.	Name FEIN KY Corp./LLET Acct. No.
Section A – Total from Kentucky Sources					
1. Kentucky gross receipts					
2. Kentucky returns and allowances					
3. Kentucky gross receipts after returns and allowances (line 1 less line 2). **Enter the total on Schedule LLET, Section A, Column A, Line 3**	00	00	00	00	00
4. Kentucky cost of goods sold					
5. Kentucky gross profits (line 3 less line 4). **Enter the total on Schedule LLET, Section A, Column A, Line 5**	00	00	00	00	00
Section B – Total from All Sources					
1. Gross receipts					
2. Returns and allowances					
3. Gross receipts after returns and allowances (line 1 less line 2). **Enter the total on Schedule LLET, Section A, Column B, Line 3**	00	00	00	00	00
4. Cost of goods sold					
5. Gross profits (line 3 less line 4). **Enter the total on Schedule LLET, Section A, Column B, Line 5**	00	00	00	00	00

SCHEDULE F (Form 1040)

Department of the Treasury Internal Revenue Service (99)

Profit or Loss From Farming

▶ Attach to Form 1040, Form 1040NR, Form 1041, Form 1065, or Form 1065-B.
▶ See Instructions for Schedule F (Form 1040).

OMB No. 1545-0074

2010

Attachment Sequence No. 14

Name of proprietor | Social security number (SSN)

A Principal product. Describe in one or two words your principal crop or activity for the current tax year. | B Enter code from Part IV ▶

C Accounting method: (1) ☐ Cash (2) ☐ Accrual | D Employer ID number (EIN), if any

E Did you "materially participate" in the operation of this business during 2010? If "No," see instructions for limit on passive losses. ☐ Yes ☐ No

Part I **Farm Income—Cash Method.** Complete Parts I and II (Accrual method. Complete Parts II and III, and Part I, line 11.) Do not include sales of livestock held for draft, breeding, sport, or dairy purposes. Report these sales on Form 4797.

1	Sales of livestock and other items you bought for resale		1					
2	Cost or other basis of livestock and other items reported on line 1		2					
3	Subtract line 2 from line 1					3		
4	Sales of livestock, produce, grains, and other products you raised					4		
5a	Cooperative distributions (Form(s) 1099-PATR)	5a			5b Taxable amount	5b		
6a	Agricultural program payments (see instructions)	6a			6b Taxable amount	6b		
7	Commodity Credit Corporation (CCC) loans (see instructions):							
a	CCC loans reported under election					7a		
b	CCC loans forfeited	7b			7c Taxable amount	7c		
8	Crop insurance proceeds and federal crop disaster payments (see instructions):							
a	Amount received in 2010	8a			8b Taxable amount	8b		
c	If election to defer to 2011 is attached, check here ▶ ☐				8d Amount deferred from 2009	8d		
9	Custom hire (machine work) income					9		
10	Other income, including federal and state gasoline or fuel tax credit or refund (see instructions)					10		
11	**Gross income.** Add amounts in the right column for lines 3 through 10. If you use the accrual method to figure your income, enter the amount from Part III, line 51 ▶					11		

Part II **Farm Expenses—Cash and Accrual Method.** Do not include personal or living expenses such as taxes, insurance, or repairs on your home.

12	Car and truck expenses (see instructions). Also attach Form 4562	12		25	Pension and profit-sharing plans	25		
13	Chemicals	13		26	Rent or lease (see instructions):			
14	Conservation expenses (see instructions)	14		a	Vehicles, machinery, and equipment	26a		
15	Custom hire (machine work)	15		b	Other (land, animals, etc.)	26b		
16	Depreciation and section 179 expense deduction not claimed elsewhere (see instructions)	16		27	Repairs and maintenance	27		
				28	Seeds and plants	28		
				29	Storage and warehousing	29		
17	Employee benefit programs other than on line 25	17		30	Supplies	30		
				31	Taxes	31		
18	Feed	18		32	Utilities	32		
19	Fertilizers and lime	19		33	Veterinary, breeding, and medicine	33		
20	Freight and trucking	20		34	Other expenses (specify):			
21	Gasoline, fuel, and oil	21		a		34a		
22	Insurance (other than health)	22		b		34b		
23	Interest:			c		34c		
a	Mortgage (paid to banks, etc.)	23a		d		34d		
b	Other	23b		e		34e		
24	Labor hired (less employment credits)	24		f		34f		

35	**Total expenses.** Add lines 12 through 34f. If line 34f is negative, see instructions ▶	35		
36	**Net farm profit or (loss).** Subtract line 35 from line 11. Partnerships, see instructions. • If a profit, enter the profit on both **Form 1040, line 18,** and **Schedule SE, line 1a;** on **Form 1040NR, line 19;** or on **Form 1041, line 6.** • If a loss, you **must** go to line 37.	36		
37	If you have a loss, you **must** check the box that describes your investment in this activity and whether you received any applicable subsidy (see instructions). • If you checked 37a, enter the loss on both **Form 1040, line 18,** and **Schedule SE, line 1a;** on **Form 1040NR, line 19;** or on **Form 1041, line 6.** • If you checked 37b, your loss may be limited. See instructions.	37a ☐ All investment is at risk and you did not receive a subsidy. 37b ☐ Some investment is not at risk or you received a subsidy.		

For Paperwork Reduction Act Notice, see your tax return instructions. Cat. No. 11346H **Schedule F (Form 1040) 2010**

Part III **Farm Income—Accrual Method** (see instructions).

Do not include sales of livestock held for draft, breeding, sport, or dairy purposes. Report these sales on Form 4797 and do not include this livestock on line 46 below.

38	Sales of livestock, produce, grains, and other products					38		
39a	Cooperative distributions (Form(s) 1099-PATR)	39a			39b Taxable amount	39b		
40a	Agricultural program payments	40a			40b Taxable amount	40b		
41	Commodity Credit Corporation (CCC) loans:							
a	CCC loans reported under election					41a		
b	CCC loans forfeited	41b			41c Taxable amount	41c		
42	Crop insurance proceeds					42		
43	Custom hire (machine work) income					43		
44	Other income, including federal and state gasoline or fuel tax credit or refund					44		
45	Add amounts in the right column for lines 38 through 44					45		
46	Inventory of livestock, produce, grains, and other products at beginning of the year		46					
47	Cost of livestock, produce, grains, and other products purchased during the year		47					
48	Add lines 46 and 47		48					
49	Inventory of livestock, produce, grains, and other products at end of year		49					
50	Cost of livestock, produce, grains, and other products sold. Subtract line 49 from line 48*					50		
51	**Gross income.** Subtract line 50 from line 45. Enter the result here and on Part I, line 11 ▶					51		

*If you use the unit-livestock-price method or the farm-price method of valuing inventory and the amount on line 49 is larger than the amount on line 48, subtract line 48 from line 49. Enter the result on line 50. Add lines 45 and 50. Enter the total on line 51 and on Part I, line 11.

Part IV **Principal Agricultural Activity Codes**

CAUTION *File Schedule C (Form 1040) or Schedule C-EZ (Form 1040) instead of Schedule F if* ***(a)*** *your principal source of income is from providing agricultural services such as soil preparation, veterinary, farm labor, horticultural, or management for a fee or on a contract basis, or* ***(b)*** *you are engaged in the business of breeding, raising, and caring for dogs, cats, or other pet animals.*

These codes for the Principal Agricultural Activity classify farms by their primary activity to facilitate the administration of the Internal Revenue Code. These six-digit codes are based on the North American Industry Classification System (NAICS).

Select the code that best identifies your primary farming activity and enter the six digit number on page 1, line B.

Crop Production

111100 Oilseed and grain farming
111210 Vegetable and melon farming
111300 Fruit and tree nut farming
111400 Greenhouse, nursery, and floriculture production
111900 Other crop farming

Animal Production

112111 Beef cattle ranching and farming
112112 Cattle feedlots
112120 Dairy cattle and milk production
112210 Hog and pig farming
112300 Poultry and egg production
112400 Sheep and goat farming
112510 Aquaculture
112900 Other animal production

Forestry and Logging

113000 Forestry and logging (including forest nurseries and timber tracts)

Form **4797**

Department of the Treasury
Internal Revenue Service (99)

Sales of Business Property

(Also Involuntary Conversions and Recapture Amounts Under Sections 179 and 280F(b)(2))

▶ **Attach to your tax return.** ▶ **See separate instructions.**

OMB No. 1545-0184

2010

Attachment Sequence No. **27**

Name(s) shown on return | **Identifying number**

1 Enter the gross proceeds from sales or exchanges reported to you for 2010 on Form(s) 1099-B or 1099-S (or substitute statement) that you are including on line 2, 10, or 20 (see instructions)	**1**	

Part I **Sales or Exchanges of Property Used in a Trade or Business and Involuntary Conversions From Other Than Casualty or Theft—Most Property Held More Than 1 Year** (see instructions)

2 (a) Description of property	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Gross sales price	(e) Depreciation allowed or allowable since acquisition	(f) Cost or other basis, plus improvements and expense of sale	(g) Gain or (loss) Subtract (f) from the sum of (d) and (e)

3 Gain, if any, from Form 4684, line 42	**3**	
4 Section 1231 gain from installment sales from Form 6252, line 26 or 37	**4**	
5 Section 1231 gain or (loss) from like-kind exchanges from Form 8824	**5**	
6 Gain, if any, from line 32, from other than casualty or theft	**6**	
7 Combine lines 2 through 6. Enter the gain or (loss) here and on the appropriate line as follows:	**7**	
Partnerships (except electing large partnerships) and S corporations. Report the gain or (loss) following the instructions for Form 1065, Schedule K, line 10, or Form 1120S, Schedule K, line 9. Skip lines 8, 9, 11, and 12 below. **Individuals, partners, S corporation shareholders, and all others.** If line 7 is zero or a loss, enter the amount from line 7 on line 11 below and skip lines 8 and 9. If line 7 is a gain and you did not have any prior year section 1231 losses, or they were recaptured in an earlier year, enter the gain from line 7 as a long-term capital gain on the Schedule D filed with your return and skip lines 8, 9, 11, and 12 below.		
8 Nonrecaptured net section 1231 losses from prior years (see instructions)	**8**	
9 Subtract line 8 from line 7. If zero or less, enter -0-. If line 9 is zero, enter the gain from line 7 on line 12 below. If line 9 is more than zero, enter the amount from line 8 on line 12 below and enter the gain from line 9 as a long-term capital gain on the Schedule D filed with your return (see instructions)	**9**	

Part II **Ordinary Gains and Losses** (see instructions)

10 Ordinary gains and losses not included on lines 11 through 16 (include property held 1 year or less):

11 Loss, if any, from line 7	**11**	( )
12 Gain, if any, from line 7 or amount from line 8, if applicable	**12**	
13 Gain, if any, from line 31	**13**	
14 Net gain or (loss) from Form 4684, lines 34 and 41a	**14**	
15 Ordinary gain from installment sales from Form 6252, line 25 or 36	**15**	
16 Ordinary gain or (loss) from like-kind exchanges from Form 8824	**16**	
17 Combine lines 10 through 16	**17**	
18 For all except individual returns, enter the amount from line 17 on the appropriate line of your return and skip lines a and b below. For individual returns, complete lines a and b below:		
a If the loss on line 11 includes a loss from Form 4684, line 38, column (b)(ii), enter that part of the loss here. Enter the part of the loss from income-producing property on Schedule A (Form 1040), line 28, and the part of the loss from property used as an employee on Schedule A (Form 1040), line 23. Identify as from "Form 4797, line 18a." See instructions	**18a**	
b Redetermine the gain or (loss) on line 17 excluding the loss, if any, on line 18a. Enter here and on Form 1040, line 14	**18b**	

For Paperwork Reduction Act Notice, see separate instructions. Cat. No. 13086I Form **4797** (2010)

Form 4797 (2010) Page 2

Part III **Gain From Disposition of Property Under Sections 1245, 1250, 1252, 1254, and 1255** (see instructions)

19 (a) Description of section 1245, 1250, 1252, 1254, or 1255 property:	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)
A		
B		
C		
D		

These columns relate to the properties on lines 19A through 19D. ▶		Property A	Property B	Property C	Property D
20 Gross sales price (**Note:** *See line 1 before completing.*)	20				
21 Cost or other basis plus expense of sale	21				
22 Depreciation (or depletion) allowed or allowable	22				
23 Adjusted basis. Subtract line 22 from line 21	23				
24 Total gain. Subtract line 23 from line 20	24				
25 **If section 1245 property:**					
a Depreciation allowed or allowable from line 22	25a				
b Enter the **smaller** of line 24 or 25a	25b				
26 **If section 1250 property:** If straight line depreciation was used, enter -0- on line 26g, except for a corporation subject to section 291.					
a Additional depreciation after 1975 (see instructions)	26a				
b Applicable percentage multiplied by the **smaller** of line 24 or line 26a (see instructions)	26b				
c Subtract line 26a from line 24. If residential rental property **or** line 24 is not more than line 26a, skip lines 26d and 26e	26c				
d Additional depreciation after 1969 and before 1976	26d				
e Enter the **smaller** of line 26c or 26d	26e				
f Section 291 amount (corporations only)	26f				
g Add lines 26b, 26e, and 26f	26g				
27 **If section 1252 property:** Skip this section if you did not dispose of farmland or if this form is being completed for a partnership (other than an electing large partnership).					
a Soil, water, and land clearing expenses	27a				
b Line 27a multiplied by applicable percentage (see instructions)	27b				
c Enter the **smaller** of line 24 or 27b	27c				
28 **If section 1254 property:**					
a Intangible drilling and development costs, expenditures for development of mines and other natural deposits, mining exploration costs, and depletion (see instructions)	28a				
b Enter the **smaller** of line 24 or 28a	28b				
29 **If section 1255 property:**					
a Applicable percentage of payments excluded from income under section 126 (see instructions)	29a				
b Enter the **smaller** of line 24 or 29a (see instructions)	29b				

Summary of Part III Gains. Complete property columns A through D through line 29b before going to line 30.

30 Total gains for all properties. Add property columns A through D, line 24	30	
31 Add property columns A through D, lines 25b, 26g, 27c, 28b, and 29b. Enter here and on line 13	31	
32 Subtract line 31 from line 30. Enter the portion from casualty or theft on Form 4684, line 36. Enter the portion from other than casualty or theft on Form 4797, line 6	32	

Part IV **Recapture Amounts Under Sections 179 and 280F(b)(2) When Business Use Drops to 50% or Less** (see instructions)

		(a) Section 179	(b) Section 280F(b)(2)
33 Section 179 expense deduction or depreciation allowable in prior years	33		
34 Recomputed depreciation (see instructions)	34		
35 Recapture amount. Subtract line 34 from line 33. See the instructions for where to report	35		

Form **4797** (2010)

Form **8825**
(Rev. December 2006)
Department of the Treasury
Internal Revenue Service

Rental Real Estate Income and Expenses of a Partnership or an S Corporation

▶ See instructions on back.
▶ Attach to Form 1065, Form 1065-B, or Form 1120S.

OMB No. 1545-1186

Name

Employer identification number

1 Show the kind and location of each property. See page 2 to list additional properties.

A

B

C

D

			Properties A		Properties B		Properties C		Properties D	
	Rental Real Estate Income									
2	Gross rents	2								
	Rental Real Estate Expenses									
3	Advertising	3								
4	Auto and travel	4								
5	Cleaning and maintenance	5								
6	Commissions	6								
7	Insurance	7								
8	Legal and other professional fees	8								
9	Interest	9								
10	Repairs	10								
11	Taxes	11								
12	Utilities	12								
13	Wages and salaries	13								
14	Depreciation (see instructions)	14								
15	Other (list) ▶	15								
16	Total expenses for each property. Add lines 3 through 15	16								

17	Total gross rents. Add gross rents from line 2, columns A through H	17	
18	Total expenses. Add total expenses from line 16, columns A through H	18	( )
19	Net gain (loss) from Form 4797, Part II, line 17, from the disposition of property from rental real estate activities	19	
20a	Net income (loss) from rental real estate activities from partnerships, estates, and trusts in which this partnership or S corporation is a partner or beneficiary (from Schedule K-1)	20a	
b	Identify below the partnerships, estates, or trusts from which net income (loss) is shown on line 20a. Attach a schedule if more space is needed:		
	(1) Name	**(2)** Employer identification number	
21	Net rental real estate income (loss). Combine lines 17 through 20a. Enter the result here and on: • **Form 1065 or 1120S:** Schedule K, line 2, or • **Form 1065-B:** Part I, line 4	21	

For Paperwork Reduction Act Notice, see back of form. Cat. No. 10136Z Form **8825** (12-2006)

1 Show the kind and location of each property.

E

F

G

H

			Properties							
			E		F		G		H	
	Rental Real Estate Income									
2	Gross rents	2								
	Rental Real Estate Expenses									
3	Advertising	3								
4	Auto and travel	4								
5	Cleaning and maintenance	5								
6	Commissions	6								
7	Insurance	7								
8	Legal and other professional fees	8								
9	Interest	9								
10	Repairs	10								
11	Taxes	11								
12	Utilities	12								
13	Wages and salaries	13								
14	Depreciation (see instructions)	14								
15	Other (list) ▶	15								
16	Total expenses for each property. Add lines 3 through 15	16								

Instructions

Section references are to the Internal Revenue Code.

What's New

The IRS will revise this December 2006 version of Form 8825 only when necessary. Continue to use this version of the form for tax years beginning after 2006 until a new revision is issued.

Purpose of form. Partnerships and S corporations use Form 8825 to report income and deductible expenses from rental real estate activities, including net income (loss) from rental real estate activities that flow through from partnerships, estates, or trusts.

Before completing this form, be sure to read:

- *Passive Activity Limitations* in the instructions for Form 1065 or Form 1120S, or *Passive Loss Limitation Activities* in the instructions for Form 1065-B, especially for the definition of "rental activity."
- *Extraterritorial Income Exclusion* in the instructions for Form 1065, 1065-B, or 1120S.

Specific Instructions. Form 8825 provides space for up to eight properties. If there are more than eight properties, attach additional Forms 8825.

The number of columns to be used for reporting income and expenses on this form may differ from the number of rental real estate activities the partnership or S corporation has for purposes of the passive activity limitations. For example, a partnership owns two apartment buildings, each located in a different city. For purposes of the passive activity limitations, the partnership grouped both buildings into a single activity. Although the partnership has only one rental real estate activity for purposes of the passive activity limitations, it must report the income and deductions for each building in separate columns.

However, if the partnership or S corporation has more than one rental real estate activity for purposes of the passive activity limitations, attach a statement to Schedule K that reports the net income (loss) for each separate activity. Also, attach a statement to each Schedule K-1 that reports each partner's or shareholder's share of the net income (loss) by separate activity (except for limited partners in an electing large partnership). See *Passive Activity Reporting Requirements* in the instructions for Form 1065, Form 1065-B, or Form 1120S for additional information that must be provided for each activity.

Complete lines 1 through 16 for each property. But complete lines 17 through 21 on only one Form 8825. The figures on lines 17 and 18 should be the combined totals for all forms.

Do not report on Form 8825 any:

- Income or deductions from a trade or business activity or a rental activity other than rental real estate. These items are reported elsewhere.
- Portfolio income or deductions.
- Section 179 expense deduction.
- Other items that must be reported separately to the partners or shareholders.
- Commercial revitalization deductions.

Line 1. Show the kind of property rented out (for example, "apartment building"). Give the street address, city or town, and state.

Line 14. The partnership or S corporation may claim a depreciation deduction each year for rental property (except for land, which is not depreciable). If the partnership or S corporation placed property in service during the current tax year or claimed depreciation on any vehicle or other listed property, complete and attach Form 4562, Depreciation and Amortization. See Form 4562 and its instructions to figure the depreciation deduction.

Paperwork Reduction Act Notice. We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is: Recordkeeping, 6 hr., 27 min.; Learning about the law or the form, 34 min.; Preparing the form, 1 hr., 37 min.; Copying, assembling, and sending the form to the IRS, 16 min.

If you have comments concerning the accuracy of these time estimates or suggestions for making this form simpler, we would be happy to hear from you. See the instructions for the tax return with which this form is filed.

SCHEDULE D (Form 1065)

Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

▶ Attach to Form 1065. ▶ See separate instructions.
▶ Use Schedule D-1 to list additional transactions for lines 1 and 7.

OMB No. 1545-0099

2010

Name of partnership

Employer identification number

Part I Short-Term Capital Gains and Losses—Assets Held One Year or Less

	(a) Description of property (Example: 100 shares of "Z" Co.)	(b) Date acquired (month, day, year)	(c) Date sold (month, day, year)	(d) Sales price (see instructions)	(e) Cost or other basis (see instructions)	(f) Gain or (loss) Subtract (e) from (d)
1						

2	Enter short-term capital gain or (loss), if any, from Schedule D-1, line 2	2	
3	Short-term capital gain from installment sales from Form 6252, line 26 or 37	3	
4	Short-term capital gain (loss) from like-kind exchanges from Form 8824	4	
5	Partnership's share of net short-term capital gain (loss), including specially allocated short-term capital gains (losses), from other partnerships, estates, and trusts	5	
6	**Net short-term capital gain or (loss).** Combine lines 1 through 5 in column (f). Enter here and on Form 1065, Schedule K, line 8 or 11	6	

Part II Long-Term Capital Gains and Losses—Assets Held More Than One Year

	(a) Description of property (Example: 100 shares of "Z" Co.)	(b) Date acquired (month, day, year)	(c) Date sold (month, day, year)	(d) Sales price (see instructions)	(e) Cost or other basis (see instructions)	(f) Gain or (loss) Subtract (e) from (d)
7						

8	Enter long-term gain or (loss), if any, from Schedule D-1, line 8	8	
9	Long-term capital gain from installment sales from Form 6252, line 26 or 37	9	
10	Long-term capital gain (loss) from like-kind exchanges from Form 8824	10	
11	Partnership's share of net long-term capital gain (loss), including specially allocated long-term capital gains (losses), from other partnerships, estates, and trusts	11	
12	Capital gain distributions	12	
13	**Net long-term capital gain or (loss).** Combine lines 7 through 12 in column (f). Enter here and on Form 1065, Schedule K, line 9a or 11	13	

For Paperwork Reduction Act Notice, see the Instructions for Form 1065. Cat. No. 11393G Schedule D (Form 1065) 2010

740NP-WH
40A201 (10-10)

For Taxable Year Ended
___/___/___

Check if
- ☐ Composite Income Tax Return
- ☐ Amended Return
- ☐ Estimated Payment
- ☐ Extension Payment
- ☐ Change of address

KENTUCKY NONRESIDENT INCOME TAX WITHHOLDING ON DISTRIBUTIVE SHARE INCOME TRANSMITTAL REPORT AND COMPOSITE INCOME TAX RETURN
(To be completed by Pass-through Entities Only)

(1) FEIN			
(2) Kentucky Corporation/LLET Account Number			
(3) Name of Pass-through Entity			
Street Address			
City State ZIP Code			
(4) Number of nonresident individuals, estates, trusts and C corporations subject to withholding	4		
(5) Number of nonresident individuals, estates, and trusts subject to income tax **(composite return only)**	5		
(6) Kentucky distributive share income before apportionment (see instructions)	6		00
(7) 100% or the apportionment factor from Schedule A, Section I, line 12	7		%
(8) Kentucky distributive share income subject to withholding/income tax (line 6 multiplied by line 7)	8		00
(9) Tax before credit (line 8 multiplied by .06 (6%))	9		00
(10) Enter pass-through partners', members' or shareholders' non-refundable credits (attach schedule)	10		00
(11) Kentucky income tax due (line 9 less line 10)	11		00
(12) Amount paid (see instructions)	12		00
(13) Balance of tax due. If line 11 is greater than line 12, enter line 11 less line 12.	13		00
(14) Tax overpayment. If line 11 is less than line 12, enter line 12 less line 11.	14		00
(15) Amount credited to 2011	15		00
(16) Amount to be refunded (line 14 less line 15)	16		00

Make check(s) or money order(s) payable to Kentucky State Treasurer.

Mail to:
Kentucky Department of Revenue
Frankfort, KY 40619-0006.

TAX PAYMENT SUMMARY
(Round to nearest dollar)

1. *Tax (Line (13))* $_____
2. *Penalty* $_____
3. *Interest* $_____
4. ***Total Payment*** $_____

I declare under the penalties of perjury that this return, including all accompanying schedules and statements, has been examined by me and, to the best of my knowledge and belief, it is true, correct and complete.

Print name of partner, member or shareholder | Signature of partner, member or shareholder | Daytime telephone number | Date

Name of person or firm preparing return | Date

___ ___ ___ ___ ___ ___ ___ ___ ___
SSN, PTIN or FEIN

May the DOR discuss this return with the preparer?
☐ Yes ☐ No

E-mail Address:

Telephone No.:

PTE-WH
40A200 (10-10)

☐ Amended
☐ Composite

KENTUCKY NONRESIDENT INCOME TAX WITHHOLDING ON DISTRIBUTIVE SHARE INCOME

For Taxable Year Ended
___ ___ / ___ ___ / ___ ___

(1) **Pass-through entity's** FEIN

(2) **Pass-through entity's** Kentucky Corporation/LLET Acct. No.

(3) **Pass-through entity's** name, address and ZIP Code

(4) **Partner's, member's or shareholder's** Social Security Number or FEIN
☐ Check Box if a Corporation

(5) **Partner's, member's or shareholder's** name, address and ZIP Code

(6) Kentucky distributive share income subject to withholding/income tax ..	6		00
(7) Tax before credit (line 6 multiplied by .06 (6%))	7		00
(8) Enter **partner's, member's or shareholder's** credits (see instructions)	8		00
(9) Kentucky income tax withheld/paid	9		00

Copy A—For Kentucky Department of Revenue

PTE-WH
40A200 (10-10)

☐ Amended
☐ Composite

KENTUCKY NONRESIDENT INCOME TAX WITHHOLDING ON DISTRIBUTIVE SHARE INCOME

For Taxable Year Ended
___ ___ / ___ ___ / ___ ___

(1) **Pass-through entity's** FEIN

(2) **Pass-through entity's** Kentucky Corporation/LLET Acct. No.

(3) **Pass-through entity's** name, address and ZIP Code

(4) **Partner's, member's or shareholder's** Social Security Number or FEIN
☐ Check Box if a Corporation

(5) **Partner's, member's or shareholder's** name, address and ZIP Code

(6) Kentucky distributive share income subject to withholding/income tax ..	6		00
(7) Tax before credit (line 6 multiplied by .06 (6%))	7		00
(8) Enter **partner's, member's or shareholder's** credits (see instructions)	8		00
(9) Kentucky income tax withheld/paid	9		00

Copy B—File With Individual's or Corporation's Income Tax Return

PTE-WH
40A200 (10-10)

☐ Amended
☐ Composite

KENTUCKY NONRESIDENT INCOME TAX WITHHOLDING ON DISTRIBUTIVE SHARE INCOME

For Taxable Year Ended
___ ___ / ___ ___ / ___ ___

(1) **Pass-through entity's** FEIN

(2) **Pass-through entity's** Kentucky Corporation/LLET Acct. No.

(3) **Pass-through entity's** name, address and ZIP Code

(4) **Partner's, member's or shareholder's** Social Security Number or FEIN
☐ Check Box if a Corporation

(5) **Partner's, member's or shareholder's** name, address and ZIP Code

(6) Kentucky distributive share income subject to withholding/income tax ..	6		00
(7) Tax before credit (line 6 multiplied by .06 (6%))	7		00
(8) Enter **partner's, member's or shareholder's** credits (see instructions)	8		00
(9) Kentucky income tax withheld/paid	9		00

Copy C—Keep With Individual's or Corporation's Records

PTE-WH
40A200 (10-10)

☐ Amended
☐ Composite

KENTUCKY NONRESIDENT INCOME TAX WITHHOLDING ON DISTRIBUTIVE SHARE INCOME

For Taxable Year Ended
___ ___ / ___ ___ / ___ ___

(1) **Pass-through entity's** FEIN

(2) **Pass-through entity's** Kentucky Corporation/LLET Acct. No.

(3) **Pass-through entity's** name, address and ZIP Code

(4) **Partner's, member's or shareholder's** Social Security Number or FEIN
☐ Check Box if a Corporation

(5) **Partner's, member's or shareholder's** name, address and ZIP Code

(6) Kentucky distributive share income subject to withholding/income tax ..	6		00
(7) Tax before credit (line 6 multiplied by .06 (6%))	7		00
(8) Enter **partner's, member's or shareholder's** credits (see instructions)	8		00
(9) Kentucky income tax withheld/paid	9		00

Copy D—For Pass-through Entity's Records

APPENDIX

2004 Kentucky Revised Statutes:

- **141.010 Definitions for chapter.**
- **141.206 Filing of returns by, and liability of, partnerships and S corporations.**

APPENDIX

141.010 Definitions for chapter.

As used in this chapter, unless the context requires otherwise:

(1) "Secretary" means the secretary of revenue;

(2) "Cabinet" means the Revenue Cabinet;

(3) "Internal Revenue Code" means the Internal Revenue Code in effect on December 31, 2001, exclusive of any amendments made subsequent to that date, other than amendments that extend provisions in effect on December 31, 2001, that would otherwise terminate, and as modified by KRS 141.0101,

(4) "Dependent" means those persons defined as dependents in the Internal Revenue Code;

(5) "Fiduciary" means "fiduciary" as defined in Section 7701(a)(6) of the Internal Revenue Code;

(6) "Fiscal year" means "fiscal year" as defined in Section 7701(a)(24) of the Internal Revenue Code;

(7) "Individual" means a natural person;

(8) For taxable years beginning on or after January 1, 1974, "federal income tax" means the amount of federal income tax actually paid or accrued for the taxable year on taxable income as defined in Section 63 of the Internal Revenue Code, and taxed under the provisions of this chapter, minus any federal tax credits actually utilized by the taxpayer;

(9) "Gross income," in the case of taxpayers other than corporations, means "gross income" as defined in Section 61 of the Internal Revenue Code;

(10) "Adjusted gross income," in the case of taxpayers other than corporations, means gross income as defined in subsection (9) of this section minus the deductions allowed individuals by Section 62 of the Internal Revenue Code and as modified by KRS 141.0101 and adjusted as follows, except that deductions shall be limited to amounts allocable to income subject to taxation under the provisions of this chapter, and except that nothing in this chapter shall be construed to permit the same item to be deducted more than once:

(a) Exclude income that is exempt from state taxation by the Kentucky Constitution and the Constitution and statutory laws of the United States and Kentucky;

(b) Exclude income from supplemental annuities provided by the Railroad Retirement Act of 1937 as amended and which are subject to federal income tax by Public Law 89-699;

(c) Include interest income derived from obligations of sister states and political subdivisions thereof;

(d) Exclude employee pension contributions picked up as provided for in KRS 6.505, 16.545, 21.360, 61.560, 65.155, 67A.320, 67A.510, 78.610, and 161.540 upon a ruling by the Internal Revenue Service or the federal courts that these contributions shall not be included as gross income until such time as the contributions are distributed or made available to the employee;

(e) Exclude Social Security and railroad retirement benefits subject to federal income tax;

(f) Include, for taxable years ending before January 1, 1991, all overpayments of federal income tax refunded or credited for taxable years;

(g) Deduct, for taxable years ending before January 1, 1991, federal income tax paid for taxable years ending before January 1, 1990;

(h) Exclude any money received because of a settlement or judgment in a lawsuit brought against a manufacturer or distributor of "Agent Orange" for damages resulting from

exposure to Agent Orange by a member or veteran of the Armed Forces of the United States or any dependent of such person who served in Vietnam;

(i) 1. Exclude the applicable amount of total distributions from pension plans, annuity contracts, profit-sharing plans, retirement plans, or employee savings plans.

2. The "applicable amount" shall be:

a. Twenty-five percent (25%), but not more than six thousand two hundred fifty dollars ($6,250), for taxable years beginning after December 31, 1994, and before January 1, 1996;

b. Fifty percent (50%), but not more than twelve thousand five hundred dollars ($12,500), for taxable years beginning after December 31, 1995, and before January 1, 1997;

c. Seventy-five percent (75%), but not more than eighteen thousand seven hundred fifty dollars ($18,750), for taxable years beginning after December 31, 1996, and before January 1, 1998; and

d. One hundred percent (100%), but not more than thirty-five thousand dollars ($35,000), for taxable years beginning after December 31, 1997.

3. As used in this paragraph:

a. "Distributions" includes but is not limited to any lump-sum distribution from pension or profit-sharing plans qualifying for the income tax averaging provisions of Section 402 of the Internal Revenue Code; any distribution from an individual retirement account as defined in Section 408 of the Internal Revenue Code; and any disability pension distribution;

b. "Annuity contract" has the same meaning as set forth in Section 1035 of the Internal Revenue Code; and

c. "Pension plans, profit-sharing plans, retirement plans, or employee savings plans" means any trust or other entity created or organized under a written retirement plan and forming part of a stock bonus, pension, or profit-sharing plan of a public or private employer for the exclusive benefit of employees or their beneficiaries and includes plans qualified or unqualified under Section 401 of the Internal Revenue Code and individual retirement accounts as defined in Section 408 of the Internal Revenue Code;

(j) 1.

a. Exclude the distributive share of a shareholder's net income from an S corporation subject to the franchise tax imposed under KRS 136.505 or the capital stock tax imposed under KRS 136.300; and

b. Exclude the portion of the distributive share of a shareholder's net income from an S corporation related to a qualified subchapter S subsidiary subject to the franchise tax imposed under KRS 136.505 or the capital stock tax imposed under KRS 136.300.

2. The shareholder's basis of stock held in a S corporation where the S corporation or its qualified subchapter S subsidiary is subject to the franchise tax imposed under KRS 136.505 or the capital stock tax imposed under KRS 136.300 shall be the same as the basis for federal income tax purposes;

(k) Exclude for taxable years beginning after December 31, 1998, to the extent not already excluded from gross income, any amounts paid for health insurance, or the value of any voucher or similar instrument used to provide health insurance, which constitutes medical

care coverage for the taxpayer, the taxpayer's spouse, and dependents during the taxable year. Any amounts paid by the taxpayer for health insurance that are excluded pursuant to this paragraph shall not be allowed as a deduction in computing the taxpayer's net income under subsection (11) of this section;

(l) Exclude income received for services performed as a precinct worker for election training or for working at election booths in state, county, and local primary, regular, or special elections;

(m) Exclude any amount paid during the taxable year for insurance for long-term care as defined in KRS 304.14-600;

(n) Exclude any capital gains income attributable to property taken by eminent domain;

(o) Exclude any amount received by a producer of tobacco or a tobacco quota owner from the multistate settlement with the tobacco industry, known as the Master Settlement Agreement, signed on November 22, 1998;

(p) Exclude any amount received from the secondary settlement fund, referred to as "Phase II," established by tobacco companies to compensate tobacco farmers and quota owners for anticipated financial losses caused by the national tobacco settlement;

(q) Exclude any amount received from funds of the Commodity Credit Corporation for the Tobacco Loss Assistance Program as a result of a reduction in the quantity of tobacco quota allotted;

(r) Exclude any amount received as a result of a tobacco quota buydown program that all quota owners and growers are eligible to participate in;

(11) "Net income," in the case of taxpayers other than corporations, means adjusted gross income as defined in subsection (10) of this section, minus the standard deduction allowed by KRS 141.081, or, at the option of the taxpayer, the deduction allowed by KRS 141.0202' minus any amount paid for vouchers or similar instruments that provide health insurance coverage to employees or their families, and minus all the deductions allowed individuals by Chapter 1 of the Internal Revenue Code as modified by KRS 141.010 except those listed below, except that deductions shall be limited to amounts allocable to income subject to taxation under the provisions of this chapter and that nothing in this chapter shall be construed to permit the same item to be deducted more than once:

(a) Any deduction allowed by the Internal Revenue Code for state taxes measured by gross or net income, except that such taxes paid to foreign countries may be deducted;

(b) Any deduction allowed by the Internal Revenue Code for amounts allowable under KRS 140.090(1)(h) in calculating the value of the distributive shares of the estate of a decedent, unless there is filed with the income return a statement that such deduction has not been claimed under KRS 140.090(1)(h);

(c) The deduction for personal exemptions allowed under Section 151 of the Internal Revenue Code and any other deductions in lieu thereof; and

(d) Any deduction for amounts paid to any club, organization, or establishment which has been determined by the courts or an agency established by the General Assembly and charged with enforcing the civil rights laws of the Commonwealth, not to afford full and equal membership and full and equal enjoyment of its goods, services, facilities, privileges, advantages, or accommodations to any person because of race, color, religion, national origin, or sex, except nothing shall be

construed to deny a deduction for amounts paid to any religious or denominational club, group, or establishment or any organization operated solely for charitable or educational purposes which restricts membership to persons of the same religion or denomination in order to promote the religious principles for which it is established and maintained; and

(12) "Gross income," in the case of corporations, means "gross income" as defined in Section 61 of the Internal Revenue Code and as modified by KRS 141.0101 and adjusted as follows:

(a) Exclude income that is exempt from state taxation by the Kentucky Constitution and the Constitution and statutory laws of the United States;

(b) Exclude all dividend income received after December 31, 1969;

(c) Include interest income derived from obligations of sister states and political subdivisions thereof;

(d) Exclude fifty percent (50%) of gross income derived from any disposal of coal covered by Section 631(c) of the Internal Revenue Code if the corporation does not claim any deduction for percentage depletion, or for expenditures attributable to the making and administering of the contract under which such disposition occurs or to the preservation of the economic interests retained under such contract;

(e) Include in the gross income of lessors income tax payments made by lessees to lessors, under the provisions of Section 110 of the Internal Revenue Code, and exclude such payments from the gross income of lessees;

(f) Include the amount calculated under KRS 141.205;

(g) Ignore the provisions of Section 281 of the Internal Revenue Code in computing gross income;

(h) Exclude income from "safe harbor leases" (Section 168(f)(8) of the Internal Revenue Code);

(i) Exclude any amount received by a producer of tobacco or a tobacco quota owner from the multistate settlement with the tobacco industry, known as the Master Settlement Agreement, signed on November 22, 1998;

(j) Exclude any amount received from the secondary settlement fund, referred to as "Phase II," established by tobacco companies to compensate tobacco farmers and quota owners for anticipated financial losses caused by the national tobacco settlement;

(k) Exclude any amount received from funds of the Commodity Credit Corporation for the Tobacco Loss Assistance Program as a result of a reduction in the quantity of tobacco quota allotted;

(l) Exclude any amount received as a result of a tobacco quota buydown program that all quota owners and growers are eligible to participate in;

(13) "Net income," in the case of corporations, means "gross income" as defined in subsection (12) of this section minus the deduction allowed by KRS 141.0202, minus any amount paid for vouchers or similar instruments that provide health insurance coverage to employees or their families, and minus all the deductions from gross income allowed corporations by Chapter 1 of the Internal Revenue Code and as modified by KRS 141.0101, except the following:

(a) Any deduction for a state tax which is computed, in whole or in part, by reference to gross or net income and which is paid or accrued to any state of the United States, the District of Columbia, the Commonwealth of Puerto Rico, any territory or possession of the United States, or to any foreign country or political subdivision thereof;
(b) The deductions contained in Sections 243, 244, 245, and 247 of the Internal Revenue Code;
(c) The provisions of Section 281 of the Internal Revenue Code shall be ignored in computing net income;
(d) Any deduction directly or indirectly allocable to income which is either exempt from taxation or otherwise not taxed under the provisions of this chapter, and nothing in this chapter shall be construed to permit the same item to be deducted more than once;
(e) Exclude expenses related to "safe harbor leases" (Section 168(f)(8) of the Internal Revenue Code);
(f) Any deduction for amounts paid to any club, organization, or establishment which has been determined by the courts or an agency established by the General Assembly and charged with enforcing the civil rights laws of the Commonwealth, not to afford full and equal membership and full and equal enjoyment of its goods, services, facilities, privileges, advantages, or accommodations to any person because of race, color, religion, national origin, or sex, except nothing shall be construed to deny a deduction for amounts paid to any religious or denominational club, group, or establishment or any organization operated solely for charitable or educational purposes which restricts membership to persons of the same religion or denomination in order to promote the religious principles for which it is established and maintained;

(14)

(a) "Taxable net income," in the case of corporations that are taxable in this state and taxable in another state, means "net income" as defined in subsection (13) of this section and as allocated and apportioned under KRS 141.120. A corporation is taxable in another state if, in any state other than Kentucky, the corporation is required to file a return for or pay a net income tax, franchise tax measured by net income, franchise tax for the privilege of doing business, or corporate stock tax;
(b) "Taxable net income," in the case of homeowners' associations as defined in Section 528(c) of the Internal Revenue Code, means "taxable income" as defined in Section 528(d) of the Internal Revenue Code. Notwithstanding the provisions of subsection (3) of this section, the Internal Revenue Code sections referred to in this paragraph shall be those code sections in effect for the applicable tax year; and
(c) “Property” means either real property or tangible personal property which is either owned or leased. “Payroll” means compensation paid to one (1) or more individuals, as described in KRS 141.120(8)(b). Property and payroll are deemed to be entirely within this state if all other states are prohibited by Public Law 86-272, as it existed on December 31, 1975 from enforcing income tax jurisdiction;
(d) “Taxable net income” in the case of homeowner’s associations as defined in Section 528(c) of the Internal Revenue Service Code, means “taxable income” as defined in Section 528(d)

of the Internal Revenue Service Code. Notwithstanding the provisions of subsection (3) of this section, the Internal Revenue Code sections referred to in this paragraph shall be those code sections in effect for the applicable tax year; and

(e) "Taxable net income," in the case of a corporation that meets the requirements established under Section 856 of the Internal Revenue Code to be a real estate investment trust, means "real estate investment trust taxable income" as defined in Section 857(b)(2) of the Internal Revenue Code;

(15) "Person" means "person" as defined in Section 7701(a)(1) of the Internal Revenue Code;

(16) "Taxable year" means the calendar year or fiscal year ending during such calendar year, upon the basis of which net income is computed, and in the case of a return made for a fractional part of a year under the provisions of this chapter or under regulations prescribed by the commissioner, "taxable year" means the period for which the return is made;

(17) "Resident" means an individual domiciled within this state or an individual who is not domiciled in this state, but maintains a place of abode in this state and spends in the aggregate more than one hundred eighty-three (183) days of the taxable year in this state;

(18) "Nonresident" means any individual not a resident of this state;

(19) "Employer" means "employer" as defined in Section 3401(d) of the Internal Revenue Code;

(20) "Employee" means "employee" as defined in Section 3401(c) of the Internal Revenue Code;

(21) "Number of withholding exemptions claimed" means the number of withholding exemptions claimed in a withholding exemption certificate in effect under KRS 141.325, except that if no such certificate is in effect, the number of withholding exemptions claimed shall be considered to be zero;

(22) "Wages" means "wages" as defined in Section 3401(a) of the Internal Revenue Code and includes other income subject to withholding as provided in Section 3401(f) and Section 3402(k), (o), (p), (q), and (s) of the Internal Revenue Code;

(23) "Payroll period" means "payroll period" as defined in Section 3401(b) of the Internal Revenue Code;

(24) “Corporations” means “corporations” as defined in Section 7701(a)(3) of the Internal Revenue Code;

(25) “S corporation” means “S corporation” as defined in Section 1361(a) of the Internal Revenue Code. Stockholders of a corporation qualifying as an “S corporation” under this chapter may elect to treat such qualification as an initial qualification under Subchapter S of the Internal Revenue Code Sections.

141.206 Filing of returns by, and liability of, partnerships and S corporations.

(1) Every partnership or S corporation owning property or engaging in business in Kentucky, shall, on or before the fifteenth day of the fourth month following the close of its annual accounting period, file a copy of its federal partnership return or S corporation return with the form prescribed and furnished by the cabinet.

(2) Partnerships and S corporations shall determine taxable income in the same manner as in the case of an individual under KRS 141.010(9) to (11) and the adjustment required under Sections 703(a) and 1363(b) of the Internal Revenue Code. Computation of taxable income under this section and the computation of the partners or shareholders distributive share shall be computed as nearly as practicable identical with those required for federal income tax purposes except to the extent required by differences between this chapter and the federal income tax law and regulations.

(3) Individuals or corporations carrying on a business as a partnership or S corporation shall be liable for income tax only in their individual or corporate capacities, and no income tax shall be assessed upon the income of any partnership or S corporation except as prescribed in KRS 141.040(5).

    a. Resident and nonresident individuals who are partnership or S corporation shareholders must report and pay tax on the distributive share of net income, gain, loss, deduction, or credit, as determined in subsection (2) of this section, except as provided in subsections (4) and (5) of this section. Partnerships and S corporations may be required to withhold Kentucky income tax on the distributive share under administrative regulations issued by the cabinet.
    b. Corporations which are partners must include their distributive share of net income, gain, loss, deduction, or credit, as determined under subsection (2) of this section, except as provided in subsections (4) and (5) of this section.

(4) Resident and nonresident individuals and corporations which are partners in a partnership or shareholders in an S corporation carrying on business only in Kentucky are taxable on all items of income gain, loss, deduction, or credit determined under subsection (2) of this section and reported as their distributive share from the partnership or S corporation.

(5) Nonresident individuals and corporations which are partners in a partnership or shareholders in an S corporation which does business within and without Kentucky are taxable on their proportionate share of the distributive income passed through the partnership or S corporation attributable to business done in Kentucky.

    a. Business done in Kentucky is determined by the ratio of gross receipts from sales to purchasers or customers in Kentucky or services performed in Kentucky to the total gross receipts from sales or service everywhere.

(6) Resident partners, S corporation shareholders and corporations which are partners in a multistate partnership or shareholders in a multistate S corporation are taxable on one hundred percent (100%) of the distributive share of income, gains, losses, deductions, or credits.

(7) Resident individuals who are partners in a partnership or shareholders in an S corporation which does not carry on business in Kentucky are subject to tax under KRS 141.020 on federal net income, gain, deduction, loss or credit passed through the partnership or S corporation.

(8) S corporation for purposes of this section means a corporation which has elected for federal tax purposes to be taxed as an S corporation. An election for federal tax purposes is a binding election for Kentucky tax purposes.

(9) Nonresident individuals shall not be taxable on investment income distributed by a qualified investment partnership. For purposes of this subsection a “qualified investment partnership” means a partnership formed to hold only investments that produce income that would not be taxable to the nonresident individual if held or owned individually.

APPENDIX

2005 Kentucky Revised Statutes:

- **141.010 Definitions for chapter.**
- **141.040. Corporation income tax—Exemption—Rate.**
- **141.206. Filing of returns by partnerships – Publicly traded partnership treated as general partnership.**

141.010. Definitions for chapter.

As used in this chapter, unless the context requires otherwise.

(1) "Commissioner" means the commissioner of the Department of Revenue;
(2) "Department" means the Department of Revenue;
(3) "Internal Revenue Code" means the Internal Revenue Code in effect on December 31,2004, exclusive of any amendments made subsequent to that date, other than amendments that extend provisions in effect on December 31, 2004, that would otherwise terminate, and as modified by KRS 141.0101, except that for property placed in service after September 10, 2001, only the depreciation and expense deductions allowed under Sections 168 and 179 of the Internal Revenue Code in effect on December 31, 2001, exclusive of any amendments made subsequent to that date, shall be allowed, and including the provisions of the Military Family Tax Relief Act of 2003, Pub. L. No. 108-121, effective on the dates specified in that Act;
(4) "Dependent" means those persons defined as dependents in the Internal Revenue Code;
(5) "Fiduciary" means "fiduciary" as defined in Section 7701(a)(6) of the Internal Revenue Code;
(6) "Fiscal year" means "fiscal year" as defined in Section 7701(a)(24) of the Internal Revenue Code;
(7) "Individual" means a natural person;
(8) "Modified gross income" means adjusted gross income as defined in Section 62 of the Internal Revenue Code of 1986, including any subsequent amendments in effect on December 31 of the taxable year, and adjusted as follows:
    (a) Include interest income derived from obligations of sister states and political subdivisions thereof; and
    (b) Include lump-sum pension distributions taxed under the special transition rules of Pub. L. No. 104-188, sec. 1401(c)(2);
(9) "Gross income" in the case of taxpayers other than corporations means "gross income" as defined in Section 61 of the Internal Revenue Code;
(10) "Adjusted gross income" in the case of taxpayers other than corporations means gross income as defined in subsection (9) of this section minus the deductions allowed individuals by Section 62 of the Internal Revenue Code and as modified by KRS 141.0101 and adjusted as follows, except that deductions shall be limited to amounts allocable to income subject to taxation under the provisions of this chapter, and except that nothing in this chapter shall be construed to permit the same item to be deducted more than once:
    (a) Exclude income that is exempt from state taxation by the Kentucky Constitution and the Constitution and statutory laws of the United States and Kentucky;
    (b) Exclude income from supplemental annuities provided by the Railroad Retirement Act of 1937 as amended and which are subject to federal income tax by Public Law 89-699;
    (c) Include interest income derived from obligations of sister states and political subdivisions thereof;
    (d) Exclude employee pension contributions picked up as provided for in KRS 6.505, 16.545, 21.360, 61.560, 65.155, 67A.320, 67A.510, 78.610, and 161.540 upon a ruling by the Internal Revenue Service or the federal courts that these contributions shall not be included as gross income until such time as the contributions are distributed or made available to the employee;
    (e) Exclude Social Security and railroad retirement benefits subject to federal income tax;

(f) Include, for taxable years ending before January 1, 1991, all overpayments of federal income tax refunded or credited for taxable years;

(g) Deduct, for taxable years ending before January 1, 1991, federal income tax paid for taxable years ending before January 1, 1990;

(h) Exclude any money received because of a settlement or judgment in a lawsuit brought against a manufacturer or distributor of "Agent Orange" for damages resulting from exposure to Agent Orange by a member or veteran of the Armed Forces of the United States or any dependent of such person who served in Vietnam;

(i)

1. For taxable years ending prior to December 31, 2005, exclude the applicable amount of total distributions from pension plans, annuity contracts, profit-sharing plans, retirement plans, or employee savings plans.
   The "applicable amount" shall be:
   a. Twenty-five percent (25%), but not more than six thousand two hundred fifty dollars ($6,250), for taxable years beginning after December 31, 1994, and before January 1, 1996;
   b. Fifty percent (50%), but not more than twelve thousand five hundred dollars ($12,500), for taxable years beginning after December 31, 1995, and before January 1, 1997;
   c. Seventy-five percent (75%), but not more than eighteen thousand seven hundred fifty dollars ($18,750), for taxable years beginning after December 31, 1996, and before January 1, 1998; and
   d. One hundred percent (100%), but not more than thirty-five thousand dollars ($35,000), for taxable years beginning after December 31, 1997.
2. For taxable years beginning after December 31, 2005, exclude up to forty-one thousand one hundred ten dollars ($41,110) of total distributions from pension plans, annuity contracts, profit-sharing plans, retirement plans, or employee savings plans.
3. As used in this paragraph:
   a. "Distributions" includes but is not limited to any lump-sum distribution from pension or profit-sharing plans qualifying for the income tax averaging provisions of Section 402 of the Internal Revenue Code; any distribution from an individual retirement account as defined in Section 408 of the Internal Revenue Code; and any disability pension distribution;
   b. "Annuity contract" has the same meaning as set forth in Section 1035 of the Internal Revenue Code; and
   c. "Pension plans, profit-sharing plans, retirement plans, or employee savings plans" means any trust or other entity created or organized under a written retirement plan and forming part of a stock bonus, pension, or profit-sharing plan of a public or private employer for the exclusive benefit of employees or their beneficiaries and includes plans qualified or unqualified under Section 401 of the Internal Revenue Code and individual retirement accounts as defined in Section 408 of the Internal Revenue Code;

(j) 1.

a. Exclude the portion of the distributive share of a shareholder's net income from an S corporation subject to the franchise tax imposed under KRS 136.505 or the capital stock tax imposed under KRS 136.300; and

b. Exclude the portion of the distributive share of a shareholder's net income from an S corporation related to a qualified subchapter S subsidiary subject to the franchise tax imposed under KRS 136.505 or the capital stock tax imposed under KRS 136.300.

2. The shareholder's basis of stock held in a S corporation where the S corporation or its qualified subchapter S subsidiary is subject to the franchise tax imposed under KRS 136.505 or the capital stock tax imposed under KRS 136.300 shall be the same as the basis for federal income tax purposes;

(k) Exclude for taxable years beginning after December 31, 1998, to the extent not already excluded from gross income, any amounts paid for health insurance, or the value of any voucher or similar instrument used to provide health insurance, which constitutes medical care coverage for the taxpayer, the taxpayer's spouse, and dependents during the taxable year. Any amounts paid by the taxpayer for health insurance that are excluded pursuant to this paragraph shall not be allowed as a deduction in computing the taxpayer's net income under subsection (11) of this section;

(l) Exclude income received for services performed as a precinct worker for election training or for working at election booths in state, county, and local primary, regular, or special elections;

(m) Exclude any amount paid during the taxable year for insurance for long-term care as defined in KRS 304.14-600;

(n) Exclude any capital gains income attributable to property taken by eminent domain;

(o) Exclude any amount received by a producer of tobacco or a tobacco quota owner from the multistate settlement with the tobacco industry, known as the Master Settlement Agreement, signed on November 22, 1998;

(p) Exclude any amount received from the secondary settlement fund, referred to as "Phase II," established by tobacco companies to compensate tobacco farmers and quota owners for anticipated financial losses caused by the national tobacco settlement;

(q) Exclude any amount received from funds of the Commodity Credit Corporation for the Tobacco Loss Assistance Program as a result of a reduction in the quantity of tobacco quota allotted;

(r) Exclude any amount received as a result of a tobacco quota buydown program that all quota owners and growers are eligible to participate in;

(s) Exclude state Phase II payments received by a producer of tobacco or a tobacco quota owner;

(11) "Net income," in the case of taxpayers other than corporations, means adjusted gross income as defined in subsection (10) of this section, minus the standard deduction allowed by KRS 141.081, or, at the option of the taxpayer, the deduction allowed by KRS 141.0202; minus any amount paid for vouchers or similar instruments that provide health insurance coverage to employees or their families, and minus all the deductions allowed individuals by Chapter 1 of the Internal Revenue Code as modified by KRS 141.0101 except those listed below, except that deductions shall be limited to amounts allocable to income subject to taxation under the

provisions of this chapter and that nothing in this chapter shall be construed to permit the same item to be deducted more than once:

(a) Any deduction allowed by the Internal Revenue Code for state or foreign taxes measured by gross or net income, including state and local general sales taxes allowed in lieu of state and local income taxes under the provisions of Section 164(b)(5) of the Internal Revenue Code;

(b) Any deduction allowed by the Internal Revenue Code for amounts allowable under KRS 140.090(1)(h) in calculating the value of the distributive shares of the estate of a decedent, unless there is filed with the income return a statement that such deduction has not been claimed under KRS 140.090(1)(h);

(c) The deduction for personal exemptions allowed under Section 151 of the Internal Revenue Code and any other deductions in lieu thereof;

(d) Any deduction for amounts paid to any club, organization, or establishment which has been determined by the courts or an agency established by the General Assembly and charged with enforcing the civil rights laws of the Commonwealth, not to afford full and equal membership and full and equal enjoyment of its goods, services, facilities, privileges, advantages, or accommodations to any person because of race, color, religion, national origin, or sex, except nothing shall be construed to deny a deduction for amounts paid to any religious or denominational club, group, or establishment or any organization operated solely for charitable or educational purposes which restricts membership to persons of the same religion or denomination in order to promote the religious principles for which it is established and maintained; and

(12) "Gross income," in the case of corporations, means "gross income" as defined in Section 61 of the Internal Revenue Code and as modified by KRS 141.0101 and adjusted as follows:

(a) Exclude income that is exempt from state taxation by the Kentucky Constitution and the Constitution and statutory laws of the United States;

(b) Exclude all dividend income received after December 31, 1969;

(c) Include interest income derived from obligations of sister states and political subdivisions thereof;

(d) Exclude fifty percent (50%) of gross income derived from any disposal of coal covered by Section 631(c) of the Internal Revenue Code if the corporation does not claim any deduction for percentage depletion, or for expenditures attributable to the making and administering of the contract under which such disposition occurs or to the preservation of the economic interests retained under such contract;

(e) Include in the gross income of lessors income tax payments made by lessees to lessors, under the provisions of Section 110 of the Internal Revenue Code, and exclude such payments from the gross income of lessees;

(f) Include the amount calculated under KRS 141.205;

(g) Ignore the provisions of Section 281 of the Internal Revenue Code in computing gross income;

(h) Exclude income from "safe harbor leases" (Section 168(f)(8) of the Internal Revenue Code);

(i) Exclude any amount received by a producer of tobacco or a tobacco quota owner from the multistate settlement with the tobacco industry, known as the Master Settlement Agreement, signed on November 22, 1998;

(j) Exclude any amount received from the secondary settlement fund, referred to as "Phase II," established by tobacco companies to compensate tobacco farmers and quota owners for anticipated financial losses caused by the national tobacco settlement;

(k) Exclude any amount received from funds of the Commodity Credit Corporation for the Tobacco Loss Assistance Program as a result of a reduction in the quantity of tobacco quota allotted;

(l) Exclude any amount received as a result of a tobacco quota buydown program that all quota owners and growers are eligible to participate in;

(m) Exclude the distributive share income or loss received from a corporation subject to the tax imposed by KRS 141.040; and

(n) Exclude state Phase II payments received by a producer of tobacco or a tobacco quota owner;

(13) "Net income," in the case of corporations, means "gross income" as defined in subsection (12) of this section minus the deduction allowed by KRS 141.0202, minus any amount paid for vouchers or similar instruments that provide health insurance coverage to employees or their families, and minus all the deductions from gross income allowed corporations by Chapter 1 of the Internal Revenue Code and as modified by KRS 141.0101, except the following:

(a) Any deduction for a state tax which is computed, in whole or in part, by reference to gross or net income and which is paid or accrued to any state of the United States, the District of Columbia, the Commonwealth of Puerto Rico, any territory or possession of the United States, or to any foreign country or political subdivision thereof;

(b) The deductions contained in Sections 243, 244, 245, and 247 of the Internal Revenue Code;

(c) The provisions of Section 281 of the Internal Revenue Code shall be ignored in computing net income;

(d) Any deduction directly or indirectly allocable to income which is either exempt from taxation or otherwise not taxed under the provisions of this chapter, and nothing in this chapter shall be construed to permit the same item to be deducted more than once;

(e) Exclude expenses related to "safe harbor leases" (Section 168(f)(8) of the Internal Revenue Code);

(f) Any deduction for amounts paid to any club, organization, or establishment which has been determined by the courts or an agency established by the General Assembly and charged with enforcing the civil rights laws of the Commonwealth, not to afford full and equal membership and full and equal enjoyment of its goods, services, facilities, privileges, advantages, or accommodations to any person because of race, color, religion, national origin, or sex, except nothing shall be construed to deny a deduction for amounts paid to any religious or denominational club, group, or establishment or any organization operated solely for charitable or educational purposes which restricts membership to persons of the same religion or denomination in order to promote the religious principles for which it is established and maintained;

(g) Any deduction prohibited by KRS 141.205;

(14)

(a) "Taxable net income," in the case of corporations that are taxable in this state, means "net income" as defined in subsection (13) of this section;

(b) "Taxable net income," in the case of corporations that are taxable in this state and taxable in another state, means "net income" as defined in subsection (13) of this section and as

allocated and apportioned under KRS 141.120. A corporation is taxable in another state if, in any state other than Kentucky, the corporation is required to file a return for or pay a net income tax, franchise tax measured by net income, franchise tax for the privilege of doing business, or corporate stock tax;

(c) "Taxable net income," in the case of homeowners' associations as defined in Section 528(c) of the Internal Revenue Code, means "taxable income" as defined in Section 528(d) of the Internal Revenue Code. Notwithstanding the provisions of subsection (3) of this section, the Internal Revenue Code sections referred to in this paragraph shall be those code sections in effect for the applicable tax year; and

(d) "Taxable net income," in the case of a corporation that meets the requirements established under Section 856 of the Internal Revenue Code to be a real estate investment trust, means "real estate investment trust taxable income" as defined in Section 857(b)(2) of the Internal Revenue Code;

(15) "Person" means "person" as defined in Section 7701(a)(1) of the Internal Revenue Code;

(16) "Taxable year" means the calendar year or fiscal year ending during such calendar year, upon the basis of which net income is computed, and in the case of a return made for a fractional part of a year under the provisions of this chapter or under regulations prescribed by the commissioner, "taxable year" means the period for which the return is made;

(17) "Resident" means an individual domiciled within this state or an individual who is not domiciled in this state, but maintains a place of abode in this state and spends in the aggregate more than one hundred eighty-three (183) days of the taxable year in this state;

(18) "Nonresident" means any individual not a resident of this state;

(19) "Employer" means "employer" as defined in Section 3401(d) of the Internal Revenue Code;

(20) "Employee" means "employee" as defined in Section 3401(c) of the Internal Revenue Code;

(21) "Number of withholding exemptions claimed" means the number of withholding exemptions claimed in a withholding exemption certificate in effect under KRS 141.325, except that if no such certificate is in effect, the number of withholding exemptions claimed shall be considered to be zero;

(22) "Wages" means "wages" as defined in Section 3401(a) of the Internal Revenue Code and includes other income subject to withholding as provided in Section 3401(f) and Section 3402(k), (o), (p), (q), and (s) of the Internal Revenue Code;

(23) "Payroll period" means "payroll period" as defined in Section 3401(b) of the Internal Revenue Code;

(24) “Corporations” means:

(a) "Corporations" as defined in Section 7701(a)(3) of the Internal Revenue Code;

(b) S corporations as defined in Section 1361(a) of the Internal Revenue Code;

(c) A foreign limited liability company as defined in KRS 275.015;

(d) A limited liability company as defined in KRS 275.015;

(e) A professional limited liability company as defined in KRS 275.015;

(f) A foreign limited partnership as defined in KRS 362.2-102(9);

(g) A limited partnership as defined in KRS 362.2-102(14);

(h) A limited liability partnership as defined in KRS 362.155(7) or in 362.1-101(7) or (8);

(i) A real estate investment trust as defined in Section 856 of the Internal Revenue Code;

(j) A regulated investment company as defined in Section 851 of the Internal Revenue Code;

(k) A real estate mortgage investment conduit as defined in Section 860D of the Internal Revenue Code;
(l) A financial asset securitization investment trust as defined in Section 860L of the Internal Revenue Code; and
(m) Other similar entities created with limited liability for their partners, members, or shareholders.

"Corporation" shall not include any publicly traded partnership as defined by Section 7704(b) of the Internal Revenue Code that is treated as a partnership for federal tax purposes under Section 7704(c) of the Internal Revenue Code or its publicly traded partnership affiliates. As used in this paragraph, "publicly traded partnership affiliates" shall include any limited liability company or limited partnership for which at least eighty percent (80%) of the limited liability company member interests or limited partner interests are owned directly or indirectly by the publicly traded partnership;

(25) "Doing business in this state" includes but is not limited to:
(a) Being organized under the laws of this state;
(b) Having a commercial domicile in this state;
(c) Owning or leasing property in this state;
(d) Having one (1) or more individuals performing services in this state;
(e) Maintaining an interest in a pass-through entity doing business in this state;
(f) Deriving income from or attributable to sources within this state, including deriving income directly or indirectly from a trust doing business in this state, or deriving income directly or indirectly from a single-member limited liability company that is doing business in this state and is disregarded as an entity separate from its single member for federal income tax purposes; or
(g) Directing activities at Kentucky customers for the purpose of selling them goods or services.

Nothing in this subsection shall be interpreted in a manner that goes beyond the limitations imposed and protections provided by the United States Constitution or Pub. L. No. 86-272;

(26) “Cost of goods sold: means the cost of goods sold calculated using the same method specified by the Internal Revenue Service for the purpose of computing federal income tax. In determining cost of goods sold:
(a) Labor costs shall be limited to direct labor costs as defined in subsection (28) of this section; and
(b) Bulk delivery costs as defined in subsection (29) of this section may be included;

(27) “Kentucky gross profits” means Kentucky gross receipts reduced by returns and allowances attributable to Kentucky gross receipts, less the cost of goods sold attributable to Kentucky gross receipts;

(28) “Direct labor” means labor that is incorporated into the product to the consumer if the product sold or is an integral part of the manufacturing process; and

(29) “Bulk delivery costs” means the cost of delivering the product to the consumer if the product is delivered in bulk and requires specialized equipment that generally precludes commercial shipping and is taxable under KRS 138.220.

141.040. Corporation income tax—Exemption—Rate.

(1) Every corporation doing business in this state, except those corporations listed in paragraphs (a) to (h) of this subsection, shall pay for each taxable year a tax to be computed by the taxpayer on taxable net income or the alternative minimum calculation computed under this section at the rates specified in this section:
   (a) Financial institutions, as defined in KRS 136.500, except bankers banks organized under KRS 287.135;
   (b) Savings and loan associations organized under the laws of this state and under the laws of the United States and making loans to members only;
   (c) Banks for cooperatives;
   (d) Production credit associations;
   (e) Insurance companies, including farmers or other mutual hail, cyclone, windstorm, or fire insurance companies, insurers, and reciprocal underwriters;
   (f) Corporations or other entities exempt under Section 501 of the Internal Revenue Code;
   (g) Religious, educational, charitable, or like corporations not organized or conducted for pecuniary profit; and
   (h) Corporations whose only owned or leased property located in this state is located at the premises of a printer with which it has contracted for printing, provided that:
      1. The property consists of the final printed product, or copy from which the printed product is produced; and
      2. The corporation has no individuals receiving compensation in this state as provided in KRS 141.120(8)(b).
(2) For tax years ending before January 1, 1990, the following rates shall apply:
   (a) Three percent (3%) of the first twenty-five thousand dollars ($25,000) of taxable net income;
   (b) Four percent (4%) of the amount of taxable net income in excess of twenty-five thousand dollars ($25,000), but not in excess of fifty thousand dollars ($50,000);
   (c) Six percent (6%) of the amount of taxable net income in excess of one hundred thousand dollars ($100,000), but not in excess of two hundred fifty thousand dollars ($250,000); and
   (d) Seven and twenty-five one hundredths percent (7.25%) of the amount of taxable net income in excess of two hundred fifty thousand dollars ($250,000).
(3) For tax years beginning after December 31, 1989, and before January 1, 2005, the following rates shall apply:
   (a) Four percent (4%) of the first twenty-five thousand dollars ($25,000) of taxable net income;
   (b) Five percent (5%) of the amount of taxable net income in excess of twenty-five thousand dollars ($25,000), but not in excess of fifty thousand dollars ($50,000);
   (c) Six percent (6%) of the amount of taxable net income in excess of fifty thousand dollars ($50,000), but not in excess of one hundred thousand dollars ($100,000);
   (d) Seven percent (7%) of the amount of taxable net income in excess of one hundred thousand dollars ($100,000), but not in excess of two hundred fifty thousand dollars ($250,000).

(4) For tax years beginning before January 1, 1990, and ending after December 31, 1989, the tax shall be the sum of the amounts determined in paragraphs (a) and (b) as follows:
   (a) Apply the tax rates in subsection (2) of this section to the taxable net income for the year and multiply the result by a fraction, the numerator of which is the number of days from the first day of the taxable year through December 31, 1989, and the denominator of which is the total number of days of the taxable year; and
   (b) Apply the tax rates in subsection (3) of this section to the taxable net income for the year and multiply the result by a fraction, the numerator of which is the number of days from January 1, 1990, through the last day of the taxable year and the denominator of which is the total number of days of the taxable year.

(5) For taxable years beginning on or after January 1, 2005, corporations subject to the tax imposed by this section shall pay the greater of the tax computed under paragraph (a) of this subsection, the tax computed under paragraph (b) 1. or 2. of this subsection, or the minimum tax imposed by subsection (6) of this section. The tax computed under this subsection is as follows:
   (a) 1. Four percent (4%) of the first fifty thousand dollars ($50,000) of taxable net income;
      2. Five percent (5%) of taxable net income over fifty thousand dollars ($50,000) up to one hundred thousand dollars ($100,000);
      3. Seven percent (7%) of taxable net income over one hundred thousand dollars ($100,000) for taxable years beginning on or after January 1, 2005 and prior to January 1, 2007; and
      4. For taxable years beginning on or after January 1, 2007, six percent (6%) of taxable net income over one hundred thousand dollars ($100,000); or
   (b) An alternative minimum calculation of an amount equal to the lesser of the amount computed under subparagraph 1. or 2. of this paragraph:
      1. Nine and one-half cents ($0.095) per one hundred dollars ($100) of the corporation's gross receipts. For purposes of this paragraph, "gross receipts" means the numerator of the sales factor under the provisions of KRS 141.120(8)(c); or
      2. Seventy-five cents ($0.75) per one hundred dollars ($100) of the corporations Kentucky gross profits.

(6) A minimum of one hundred seventy-five dollars ($175) shall be due for the taxable year from each corporation subject to the tax imposed by this section, regardless of the application of any tax credits provided under this chapter or any other provision of the Kentucky Revised Statutes for which the business entity may qualify.

(7) The alternative minimum calculation portion of the tax computation provided in subsection (5) of this section shall not apply to:
   (a) Public service corporations subject to tax under KRS 136.120;
   (b) Open-ended registered investment companies organized under the laws of this state and registered under the Investment Company Act of 1940;
   (c) Any property or facility which has been certified as a fluidized bed energy production facility as defined in KRS 211.390; and
   (d) An alcohol production facility as defined in KRS 247.910.

(8)
   (a) As used in this subsection, "qualified exempt organization" means an entity listed in subsection (1)(a) to (h) of this section and shall not include any entity whose exempt status has been disallowed by the Internal Revenue Service.

(b) Notwithstanding any other provisions of this section or KRS 141.010, any corporation of the type listed in KRS 141.010(24)(B) to (h) that is owned in whole or in part by a qualified exempt organization shall, in calculating its taxable net income, gross receipts, or Kentucky gross profits, exclude the proportionate share of its taxable net income, gross receipts, or Kentucky gross profits attributable to the ownership interest of the qualified exempt organization.

(c) Any corporation that reduces taxable net income, gross receipts, or Kentucky gross profits in accordance with paragraph (b) of this subsection shall disregard the ownership interest of the qualified exempt organization in determining the amount of credit available under KRS 141.420.

(d) The Department of Revenue may promulgate an administrative regulation to further define "qualified exempt organization" to include an entity for which exemption is constitutionally or legally required, or to exclude any entity created primarily for tax avoidance purposes with no legitimate business purpose.

(9)

(a) To the extent that a corporation identified in KRS 141.010(24)(b) to (h) is doing business in this state, any member, shareholder, or partner of the corporation may elect to pay, on behalf of the corporation his, her, or its proportionate share of the tax imposed by this section against the corporation. If an election is made, the electing member, shareholder, or partner shall be treated in the same manner as the corporation regarding the proportionate part of the tax paid by the member, shareholder, or partner. An election made pursuant to this subsection shall not:

1. Be used by the Department of Revenue or the taxpayer to assert that the party making the election is doing business in Kentucky;
2. Result in an increase of the amount of credit allowable under KRS 141.420; or
3. Apply to any corporation that is required to be included in a consolidated return under KRS 141.200(2) to (5) and (9) to (12).

(b) The Department of Revenue shall prescribe forms and promulgate regulations to execute and administer the provisions of this subsection.

141.206. Filing of returns by partnerships – Publicly traded partnership treated as general partnership.

(1) As used in this section unless the context requires otherwise:

a. "General partnership" means a partnership not subject to the tax imposed by KRS 141.040, including any publicly traded partnership as defined by Section 7704(b) of the Internal Revenue Code that is treated as a partnership for federal tax purposes under Section 7704(c) of the Internal Revenue Code and its publicly traded partnership affiliates. "Publicly traded partnership affiliates" shall include any limited liability company or limited partnership for which at least eighty percent (80%) of the limited liability company member interests or limited partner interests are owned directly or indirectly by the publicly traded partnership;

b. "Property" means real property or tangible personal property which is owned or leased; and

c. "Payroll" means compensation paid to one (1) or more individuals as described in KRS 141.120(8)(b).

(2) Every partnership doing business in this state shall, on or before the fifteenth day of the fourth month following the close of its annual accounting period, file a copy of it federal partnership return with the form prescribed and furnished by the department.

(3) General partnerships shall determine net income in the same manner as in the case of an individual under KRS 141.010(9) to (11) and the adjustment required under Section 703(a) of the Internal Revenue Code. Computation of net income under this section and the computation of the partners' distributive share shall be computed as nearly as practicable identical with those required for federal income tax purposes except to the extent required by differences between this chapter and the federal income tax law and regulations.

(4) Individuals, estates, trusts, or corporations doing business in this state as a partner in a general partnership shall be liable for income tax only in their individual, fiduciary, or corporate capacities, and no income tax shall be assessed upon the income of any general partnership. General partnerships may be required to withhold Kentucky income tax on the distributive share of partners under administrative regulations promulgated by the department.

(5) In determining the tax under this chapter, a resident individual, estate, or trust that is a partner in a general partnership shall take into account the partner's total distributive share of the partnership's items of income, loss, deduction, and credit.

(6) In determining the tax under this chapter, a nonresident individual, estate or trust that is a partner in a general partnership required to file a return under subsection (2) of this section shall take into account:

a. 1. If the partnership is doing business only in this state, the partner's total distributive share of the partnership's items of income, loss, and deduction. A general partnership is doing business only in the state if property and payroll are entirely within this state. Property and payroll are deemed to be entirely within this state if all other states are prohibited by Pub. L. No. 86-272, as it existed on December 31, 1975, from enforcing income tax jurisdiction; or

2. If the partnership is doing business both within and without this state, the partner's distributive share of the general partnership's items of income, loss, and deduction multiplied by the apportionment fraction of the partnership as prescribed in subsection (9) of this section; and

b. The partner's total distributive share of credits of the partnership.

(7) A corporation that is subject to tax under KRS 141.040 and is a partner in a general partnership shall take into account:

a. The corporation's distributive share of the partnership's items of income, loss, and deduction and, when applicable, multiplied by the apportionment fraction of the partnership as prescribed in subsection (9) of this section; and

b. Credits from the partnership.

(8)

(a) If a general partnership is doing business both within and without this state, the partnership shall compute and furnish to each partner an apportionment fraction determined in accordance with subsection (9) of this section.

(b) For purposes of determining an apportionment factor under paragraph (a) of this subsection, if the general partnership is:
1. Doing business both within and without this state; and
2. A partner in another general partnership;
then the general partnership shall be deemed to own the pro rata share of the property owned or leased by the other general partnership, and shall also include its pro rata share of the other general partnership's payroll and sales.

(c) The phrase "a partner in another general partnership" shall extend to each level of multiple-tiered general partnerships.

(d) The attribution to the general partnership of the pro rata share of property, payroll and sales from its role as a partner in another general partnership will also apply when determining the general partnership's ultimate apportionment factor for property, payroll and sales as required under subsection (9) of this section.

(9) A general partnership doing business within and without the state shall apportion its net income by a fraction, the numerator of which is the property factor, representing twenty-five percent (25%) of the fraction, plus the payroll factor, representing twenty-five percent (25%) of the fraction, plus the sales factor, representing fifty percent (50%) of the fraction, with each factor determined in the same manner as provided in KRS 141.120(8), and the denominator of which is four (4), reduced by the number of factors, if any, having no denominator, provided that if the sales factor has no denominator, then the denominator shall be reduced by two (2).

(10) Resident individuals, estates, or trusts that are partners in a partnership, members of a limited liability company electing partnership tax treatment for federal income tax purposes, owners of single member limited liability companies, or shareholders in an S corporation which does not do business in this state are subject to tax under KRS 141.020 on federal net income, gain, deduction, or loss or credit passed through the partnership, limited liability company, or S corporation.

(11) "S corporation" for purposes of this section means a corporation which has elected for federal tax purposes to be taxed as an S corporation. An election for federal tax purposes is a binding election for Kentucky tax purposes.

(12) Nonresident individuals shall not be taxable on investment income distributed by a qualified investment partnership. For purposes of this subsection a "qualified investment partnership" means a general partnership, a limited partnership, or a limited liability partnership formed to hold only investments that produce income that would not be taxable to the nonresident individual if held or owned individually. A qualified investment partnership shall be subject to all other provisions relating to a general partnership under this section and shall not be subject to the tax imposed under KRS 141.040.

(13)

(a) A general partnership may file a composite income tax return on behalf of electing nonresident individual partners reporting and paying income tax at the highest marginal rate provided in this chapter on the partners' pro rata or distributive shares of income of the general partnership from doing business in, or deriving income from sources within, this state. The partners' pro rata or deduction used to compute adjusted gross income on the Kentucky return that is passed through to the partner by the partnership, including but not limited to interest, dividend, capital gains and losses, guaranteed payments, and rents.

(b) A nonresident individual partner whose only source of income within this state is from one (1) or more general partnerships may elect to be included in a composite return filed pursuant to this section.

(c) A nonresident individual partner that has been included in a composite return may file an individual income tax return and shall receive credit for tax paid on the partner's behalf by the general partnership.

(d) A general partnership shall deliver to the department a return upon a form prescribed by the department showing the total amounts paid or credited to its electing nonresident individual partners, the amount paid in accordance with this subsection, and any other information the department may require. A general partnership shall furnish to its nonresident partner annually, but not later than the fifteenth day of the fourth month after the end of its taxable year, a record of the amount of tax paid on behalf of the partner on a form prescribed by the department.

APPENDIX

2006 Kentucky Revised Statutes:

- **141.010. Definitions for chapter.**
- **141.040. Corporation income tax—Exemption—Rate.**
- **141.206 Filing of returns by partnerships—Publicly traded partnership treated as general partnership.**

141.010. Definitions for chapter.

As used in this chapter, unless the context requires otherwise:

(1) "Commissioner" means the commissioner of the Department of Revenue;

(2) "Department" means the Department of Revenue;

(3) "Internal Revenue Code" means the Internal Revenue Code in effect on December 31, 2004, exclusive of any amendments made subsequent to that date, other than amendments that extend provisions in effect on December 31, 2004, that would otherwise terminate, and as modified by KRS 141.0101, except that for property placed in service after September 10, 2001, only the depreciation and expense deductions allowed under Sections 168 and 179 of the Internal Revenue Code in effect on December 31, 2001, exclusive of any amendments made subsequent to that date, shall be allowed, and including the provisions of the Military Family Tax Relief Act of 2003, Pub. L. No. 108-121, effective on the dates specified in that Act;

(4) "Dependent" means those persons defined as dependents in the Internal Revenue Code;

(5) "Fiduciary" means "fiduciary" as defined in Section 7701(a)(6) of the Internal Revenue Code;

(6) "Fiscal year" means "fiscal year" as defined in Section 7701(a)(24) of the Internal Revenue Code;

(7) "Individual" means a natural person;

(8) "Modified gross income" means adjusted gross income as defined in Section 62 of the Internal Revenue Code of 1986, including any subsequent amendments in effect on December 31 of the taxable year, and adjusted as follows:

   (a) Include interest income derived from obligations of sister states and political subdivisions thereof; and

   (b) Include lump-sum pension distributions taxed under the special transition rules of Pub. L. No. 104-188, sec. 1401(c)(2);

(9) "Gross income" in the case of taxpayers other than corporations means "gross income" as defined in Section 61 of the Internal Revenue Code;

(10) "Adjusted gross income" in the case of taxpayers other than corporations means gross income as defined in subsection (9) of this section minus the deductions allowed individuals by Section 62 of the Internal Revenue Code and as modified by KRS 141.0101 and adjusted as follows, except that deductions shall be limited to amounts allocable to income subject to taxation under the provisions of this chapter, and except that nothing in this chapter shall be construed to permit the same item to be deducted more than once;

   (a) Exclude income that is exempt from state taxation by the Kentucky Constitution and the Constitution and statutory laws of the United States and Kentucky;

   (b) Exclude income from supplemental annuities provided by the Railroad Retirement Act of 1937 as amended and which are subject to federal income tax by Public Law 89-699;

   (c) Include interest income derived from obligations of sister states and political subdivisions thereof;

   (d) Exclude employee pension contributions picked up as provided for in KRS 6.505, 16.545, 21.360, 61.560, 65.155, 67A.320, 67A.510, 78.610, and 161.540 upon a ruling by the Internal Revenue Service or the federal courts that these contributions shall not be included as gross income until such time as the contributions are distributed or made available to the employee;

(e) Exclude Social Security and railroad retirement benefits subject to federal income tax;

(f) Include, for taxable years, ending before January 1, 1991, all overpayments of federal income tax refunded or credited for taxable years;

(g) Deduct, for taxable years ending before January 1, 1991, federal income tax paid for taxable years ending before January 1, 1990;

(h) Exclude any money received because of a settlement or judgment in a lawsuit brought against a manufacturer or distributor of "Agent Orange" for damages resulting from exposure to Agent Orange by a member or veteran of the Armed Forces of the United States or any dependent of such person who served in Vietnam;

(i)

1. For taxable years ending prior to December 31, 2005, exclude the applicable amount of total distributions from pension plans, annuity contracts, profit-sharing plans, retirement plans, or employee savings plans.

   The applicable amount shall be:

   a. Twenty-five percent (25%), but not more than six thousand two hundred fifty dollars ($6,250), for taxable years beginning after December 31, 1994, and before January 1, 1996;
   b. Fifty percent (50%), but not more than twelve thousand five hundred dollars ($12, 500), for taxable years beginning after December 31, 1995, and before January 1, 1997;
   c. Seventy-five percent (75%), but not more than eighteen thousand seven hundred fifty dollars ($18, 750), for taxable years beginning after December 31, 1996, and before January 1, 1998; and
   d. One hundred percent (100%), but not more than thirty-five thousand dollars ($35,000), for taxable years beginning after December 31, 1997.

2. For taxable years beginning after December 31, 2005, exclude up to forty-one thousand one hundred ten dollars ($41, 110) of total distributions from pension plans, annuity contracts, profit-sharing plans, retirement plans, or employee savings plans.

3. As used in this paragraph:

   a. "Distributions" includes, but is not limited to, any lump-sum distribution from pension or profit-sharing plans qualifying for the income tax averaging provisions of Section 402 of the Internal Revenue Code; any distribution from an individual retirement account as defined in Section 408 of the Internal Revenue Code; and any disability pension distribution;
   b. "Annuity contract" has the same meaning as set forth in Section 1035 of the Internal Revenue Code; and
   c. "Pension plans, profit-sharing plans, retirement plans, or employee savings plans" means any trust or other entity created or organized under a written retirement plan and forming part of a stock bonus, pension, or profit-sharing plan of a public or private employer for the exclusive benefit of employees or their beneficiaries and includes plans qualified or unqualified under Section 401 of the Internal Revenue Code and individual retirement accounts as defined in Section 408 of the Internal Revenue Code;

(j)

1.

a. Exclude the portion of the distributive share of a shareholder's net income from an S corporation subject to the franchise tax imposed under KRS 136.505 or the capital stock tax imposed under KRS 136.300; and

b. Exclude the portion of the distributive share of a shareholder's net income from an S corporation related to a qualified subchapter S subsidiary subject to the franchise tax imposed under KRS 136.505 or the capital stock tax imposed under KRS 136.300.

2. The shareholder's basis of stock held in a S corporation where the S corporation or its qualified subchapter S subsidiary is subject to the franchise tax imposed under KRS 136.505 or the capital stock tax imposed under KRS 136.300 shall be the same as the basis for federal income tax purposes;

(k) Exclude for taxable years beginning after December 31, 1998, to the extent not already excluded from gross income, any amounts paid for health insurance, or the value of any voucher or similar instrument used to provide health insurance, which constitutes medical care coverage for the taxpayer, the taxpayer's spouse, and dependents during the taxable year. Any amounts paid by the taxpayer for health insurance that are excluded pursuant to this paragraph shall not be allowed as a deduction in computing the taxpayer's net income under subsection (11) of this section;

(l) Exclude income received for services performed as a precinct worker for election training or for working at election booths in state, county, and local primary, regular, or special elections;

(m) Exclude any amount paid during the taxable year for insurance for long-term care as defined in KRS 304.12-600;

(n) Exclude any capital gains income attributable to property taken by eminent domain;

(o) Exclude any amount received by a producer of tobacco or a tobacco quota owner from the multistate settlement with the tobacco industry, known as the Master Settlement Agreement, signed on November 22, 1998;

(p) Exclude any amount received from the secondary settlement fund, referred to as "Phase II," established by tobacco companies to compensate tobacco farmers and quota owners for anticipated financial losses caused by the national tobacco settlement;

(q) Exclude any amount received from funds of the Commodity Credit Corporation for the Tobacco Loss Assistance Program as a result of a reduction in the quantity of tobacco quota allotted;

(r) Exclude any amount received as a result of a tobacco quota buydown program that all quota owners and growers are eligible to participate in; and

(s) Exclude state Phase II payments received by a producer of tobacco or a tobacco quota owner;

(11) "Net income" in the case of taxpayers other than corporations means adjusted gross income as defined in subsection (10) of this section, minus the standard deduction allowed by KRS 141.081, or, at the option of the taxpayer, minus the deduction allowed by KRS 141.0202, minus any amount paid for vouchers or similar instruments that provide health insurance coverage to employees or their families, and minus all the deductions allowed individuals by Chapter 1 of the Internal Revenue Code as modified by KRA 141.0101 except those listed below, except that deductions shall be limited to amount allocable to income subject to

taxation under the provisions of this chapter and that nothing in this chapter shall be construed to permit the same item to be deducted more than once:

(a) Any deduction allowed by the Internal Revenue Code for state or foreign taxes measured by gross or net income, including state and local general sales taxes allowed in lieu of state and local income taxes under the provisions of Section 164(b)(5) of the Internal Revenue Code;

(b) Any deduction allowed by the Internal Revenue Code for amounts allowable under KRS 140.090(1)(h) in calculating the value of the distributive shares of the estate of a decedent, unless there is filed with the income return a statement that such deduction has not been claimed under KRS 140.090(1)(h);

(c) The deduction for personal exemptions allowed under Section 151 of the Internal Revenue Code and any other deductions in lieu thereof; and

(d) Any deduction for amounts paid to any club, organization, or establishment which has been determined by the courts or an agency established by the General Assembly and charged with enforcing the civil rights laws of the Commonwealth, not to afford full and equal membership and full and equal enjoyment of its goods, services, facilities, privileges, advantages, or accommodations to any person because of race, color, religion, national origin, or sex, except nothing shall be construed to deny a deduction for amounts paid to any religious or denominational club, group, or establishment or any organization operated solely for charitable or educational purposes which restricts membership to persons of the same religion or denomination in order to promote the religious principles for which it is established and maintained;

(12) "Gross income," in the case of corporations, means "gross income," as defined in Section 61 of the Internal Revenue Code and as modified by KRS 141.0101 and adjusted as follows:

(a) Exclude income that is exempt from state taxation by the Kentucky Constitution and the Constitution and statutory laws of the United States;

(b) Exclude all dividend income received after December 31, 1969;

(c) Include interest income derived from obligations of sister states and political subdivisions thereof;

(d) Exclude fifty percent (50%) of gross income derived from any disposal of coal covered by Section 631(c) of the Internal Revenue Code if the corporation does not claim any deduction for percentage depletion, or for expenditures attributable to the making and administering of the contract under which such disposition occurs or to the preservation of the economic interests retained under such contract;

(e) Include in the gross income of lessor income tax payments made by lessees to lessor, under the provisions of Section 110 of the Internal Revenue Code, and exclude such payments from the gross income of lessees;

(f) Include the amount calculated under KRS 141.205;

(g) Ignore the provisions of Section 281 of the Internal Revenue Code in computing gross income;

(h) Exclude income from "safe harbor leases" (Section 168(f)(8) of the Internal Revenue Code);

(i) Exclude any amount received by a producer of tobacco or a tobacco quota owner from the multistate settlement with the tobacco industry, known as the Master Settlement Agreement, signed on November 22, 1998;

(j) Exclude any amount received from the secondary settlement fund, referred to as "Phase II," established by tobacco companies to compensate tobacco farmers and quota owners for anticipated financial losses caused by the national tobacco settlement;

(k) Exclude any amount received from funds of the Commodity Credit Corporation for the Tobacco Loss Assistance Program as a result of a reduction in the quantity of tobacco quota allotted;

(l) Exclude any amount received as a result of a tobacco quota buydown program that all quota owners and growers are eligible to participate in;

(m) Exclude the distributive share income or loss received from a corporation subject to the tax imposed by KRS 141.040; and

(n) Exclude state Phase II payments received by a producer of tobacco or a tobacco quota owner;

(13) "Net income," in the case of corporations, means "gross income" as defined in subsection (12) of this section minus the deduction allowed by KRS 141.0202, minus any amount paid for vouchers or similar instruments that provide health insurance coverage to employees or their families, and minus all the deductions from gross income allowed corporations by Chapter 1 of the Internal Revenue Code and modified by KRS 141.0101, except the following:

(a) Any deduction for a state tax which is computed, in whole or in part, by reference to gross or net income and which is paid or accrued to any state of the United Stated, the District of Columbia, the Commonwealth of Puerto Rico, any territory or possession of the United States, or to any foreign country or political subdivision thereof;

(b) The deductions contained in Sections 243, 244, 245, and 247 of the Internal Revenue Code;

(c) The provisions of Section 281 of the Internal Revenue Code shall be ignored in computing net income;

(d) Any deduction directly or indirectly allocable to income which is either exempt from taxation or otherwise not taxed under the provisions of this chapter, and nothing in this chapter shall be construed to permit the same item to be deducted more than once;

(e) Exclude expenses related to "safe harbor leases" (Section 168(f)(8) of the Internal Revenue Code);

(f) Any deduction for amounts paid to any club, organization, or establishment which has been determined by the courts or an agency established by the General Assembly and charged with enforcing the civil rights laws of the Commonwealth, not to afford full and equal membership and full and equal enjoyment of its goods, services, facilities, privileges, advantages, or accommodations to any person because of race, color, religion, national origin, or sex, except nothing shall be construed to deny a deduction for amounts paid to any religious or denominational club, group, or establishment or any organization operated solely for charitable or educational purposes which restricts membership to persons of the same religion or denomination in order to promote the religious principles for which it is established and maintained;

(g) Any deduction prohibited by KRS 141.205;

(14)

(a) "Taxable net income," in the case of corporations that are taxable in this state, means "net income" as defined in subsection (13) of this section;

(b) "Taxable net income," in the case of corporations that are taxable in this state and taxable in another state, means "net income" as defined in subsection (13) of this section and as allocated and apportioned under KRS 141.120. A corporation is taxable in another state if, in any state other than Kentucky, the corporation tax measured by net income, franchise tax for the privilege of doing business, or corporate stock tax;

(c) "Taxable net income," in the case of homeowners' associations as defined in Section 528(c) of the Internal Revenue Code, means "taxable income" as defined in Section 528(d) of the Internal Revenue Code. Notwithstanding the provisions of subsection (3) this paragraph shall be those code sections in effect for the applicable tax year; and

(d) "Taxable net income," in the case of a corporation that meets the requirements established under Section 856 of the Internal Revenue Code to be a real estate investment trust, means "real estate investment trust income" as defined in Section 857(b)(2) of the Internal Revenue Code;

(15) "Person" means "person" as defined in Section 7701(a)(1) of the Internal Revenue Code;

(16) "Taxable year" means the calendar year or fiscal year ending during such calendar year, upon the basis of which net income is computed, and in the case of a return made for a fractional part of a year under the provisions of this chapter or under regulations prescribed by the commissioner, "taxable year" means the period for which the return is made;

(17) "Resident" means an individual domiciled within this state or an individual who is not domiciled in this state, but maintains a place of abode in this state and spends in the aggregate more than one hundred eighty-three (183) days of the taxable year in this state;

(18) "Nonresident" means any individual not a resident of this state;

(19) "Employer" means "employer" as defined in Section 3401(d) of the Internal Revenue Code;

(20) "Employee" means "employee" as defined in Section 3401(c) of the Internal Revenue Code;

(21) "Number of withholding exemptions claimed" means the number of withholding exemptions claimed in a withholding exemption certificate in effect under KRS 141.325, except that is no such certificate is in effect, the number of withholding exemptions claimed shall be considered to be zero;

(22) "Wages" means "wages" as defined in Section 3401(a) of the Internal Revenue Code and includes other income subject to withholding as provided in Section 3401(f) and Section 3402(k), (o), (p), (q), and (s) of the Internal Revenue Code;

(23) "Payroll period" means "payroll period" as defined in Section 3401(b) of the Internal Revenue Code;

(24) "Corporations" means:

(a) "Corporations" as defined in Section 7701(a)(3) of the Internal Revenue Code;

(b) S corporations as defined in Section 1361(a) of the Internal Revenue Code;

(c) A foreign limited liability company as defined in KRS 275.015(6);

(d) A limited liability company as defined in KRS 275.015(8);

(e) A professional limited liability company as defined in KRS 275.015(19);

(f) A foreign limited partnership as defined in KRS 362.401(4);

(g) A limited partnership as defined in KRS 362.401(7);

(h) A registered limited liability partnership as defined in KRS 362.155(7);
(i) A real estate investment trust as defined in Section 856 of the Internal Revenue Code;
(j) A regulated investment company as defined in Section 851 of the Internal Revenue Code;
(k) A real estate mortgage investment conduit as defined in Section 860D of the Internal Revenue Code;
(l) A financial asset securitization investment trust as defined in Section 860L of the Internal Revenue Code; and
(m) Other similar entities created with limited liability for their partners, members, or shareholders.

"Corporation," shall not include any publicly traded partnership as defined by Section 7704(b) of the Internal Revenue Code that is treated as a partnership for federal tax purposes under Section 7704(c) of the Internal Revenue Code or its publicly traded partnership affiliates. "Publicly traded partnership affiliates" shall include any limited liability company or limited partnership for which at least eighty percent (80%) of the limited liability company member interests or limited partner interests are owned directly or indirectly by the publicly traded partnership;

(25) "Doing business in this state" includes but is not limited to:
(a) Being organized under the laws of this state;
(b) Having a commercial domicile in this state;
(c) Owning or leasing property in this state;
(d) Having one (1) or more individuals performing services in this state;
(e) Maintaining an interest in a general partnership doing business in this state;
(f) Deriving income from or attributable to sources within this state, including deriving income directly or indirectly from a trust doing business in this state; or
(g) Directing activities at Kentucky customers for the purpose of selling them goods or services.

Nothing in this subsection shall be interpreted in a manner that goes beyond the limitations imposed and protections provided by the United States Constitution or Pub. L. No. 86-272;

(26) "Cost of goods sold" means the cost of goods sold calculated using the same method specified by the Internal Revenue Service for the purpose of computing federal income tax. In determining the cost of goods sold:
(a) Labor costs shall be limited to direct labor costs as defined in subsection (28) of this section; and
(b) Bulk delivery costs as defined in subsection (29) of this section may be included;

(27) "Kentucky gross profits" means Kentucky gross receipts reduced by returns and allowances attributable to Kentucky gross receipts, less the cost of goods sold attributable to Kentucky gross receipts;

(28) "Direct labor" means labor that is incorporated into the product sold or is an integral part of the manufacturing process; and

(29) "Bulk delivery costs" means the cost of delivering the product to the consumer if the product is delivered in bulk and requires specialized equipment that generally precludes commercial shipping and is taxable under KRS 138.220.

141.040. Corporation income tax—Exemption—Rate.

(1) Every corporation doing business in this state, except those corporations listed in paragraph (a) to (h) of this subsection, shall pay for each taxable year a tax to be computed by the taxpayer on taxable net income or the alternative minimum calculation computed under this section at the rates specified in this section:
   (a) Financial institutions, as defined in KRS 136.500, except bankers banks organized under KRS 287.135;
   (b) Savings and loan associations organized under the laws of this state and under the laws of the United States and making loans to members only;
   (c) Banks for cooperatives;
   (d) Production credit associations;
   (e) Insurance companies, including farmers or other mutual hail, cyclone, windstorm, or fire insurance companies, insurers, and reciprocal underwriters;
   (f) Corporations or other entities exempt under Section 501 of the Internal Revenue Code;
   (g) Religious, educational, charitable, or like corporations not organized or conducted for pecuniary profit; and
   (h) Corporations whose only owned or leased property located in this state is located at the premises of a printer with which it has contracted for printing, provided that:
      1. The property consists of the final printed product, or copy from which the printed product is produced; and
      2. The corporation has no individuals receiving compensation in this state as provided in KRS 141.120(8)(b).

(2) For tax years ending before January 1, 1990, the following rates shall apply:
   (a) Three percent (3%) of the first twenty-five thousand dollars ($25,000) of taxable net income;
   (b) Four percent (4%) of the amount of taxable net income in excess of twenty-five thousand dollars ($25,000), but not in excess of fifty thousand dollars ($50,000);
   (c) Five percent (5%) of the amount of taxable net income in excess of fifty thousand dollars ($50,000), but not in excess of one hundred thousand dollars ($100,000);
   (d) Six percent (6%) of the amount of taxable net income in excess of one hundred thousand dollars ($100,000), but not in excess of two hundred fifty thousand dollars ($250,000);
   (e) Seven and twenty-five one hundredths percent (7.25%) of the amount of taxable net income in excess of two hundred fifty thousand dollars ($250,000).

(3) For tax years beginning after December 31, 1989, and before January 1, 2005, the following rates shall apply:
   (a) Four percent (4%) of the first twenty-five thousand dollars ($25,000) of taxable net income;
   (b) Five percent (5%) of the amount of taxable net income in excess of twenty-five thousand dollars ($25,000), but not in excess of fifty thousand dollars ($50,000);
   (c) Six percent (6%) of the amount of taxable net income in excess of fifty thousand dollars ($50,000), but not in excess of one hundred thousand dollars ($100,000);

(d) Seven percent (7%) of the amount of taxable net income in excess of one hundred thousand dollars ($100,000), but not in excess of two hundred fifty thousand dollars ($250,000); and
(e) Eight and twenty-five one hundredths percent (8.25%) of the amount of taxable net income in excess of two hundred fifty thousand dollars ($250,000).

(4) For tax years beginning before January 1, 1990, and ending after December 31, 1989, the tax shall be the sum of the amounts determined in paragraphs (a) and (b) as follows:
(a) Apply the tax rates in subsection (2) of this section to the taxable net income for the year and multiply the result by a fraction, the numerator of which is the number of days from the first day of the taxable year through December 31, 1989, and the denominator of which is the total number of days of the taxable year; and
(b) Apply the tax rates in subsection (3) of this section to the taxable net income for the year and multiply the result by a fraction, the numerator of which is the number of days from January 1, 1990, through the last day of the taxable year and the denominator of which is the total number of days of the taxable year.

(5) For taxable years beginning on or after January 1, 2005, corporations subject to the tax imposed by this section shall pay the greater of the tax computed under paragraph (a) of this subsection, the tax computed under paragraph (b)1. or 2. of this subsection, or the minimum tax imposed by subsection (6) of this section. The tax computed under this subsection is as follows:
(a) 1. Four percent (4%) of the first fifty thousand dollars ($50,000) of taxable net income;
2. Five percent (5%) of taxable net income over fifty thousand dollars ($50,000) up to one hundred thousand dollars ($100,000);
3. Seven percent (7%) of taxable net income over one hundred thousand dollars ($100,000) for taxable years beginning on or after January 1, 2005, and prior to January 1, 2007; and
4. For taxable years beginning on or after January 1, 2007, six percent (6%) of taxable net income over one hundred thousand dollars ($100,000); or
(b) An alternative minimum calculation of an amount equal to the lesser of the amount computed under subparagraph 1. or 2. of this paragraph:
1. Nine and one-half cents ($0.095) per one hundred dollars ($100) of the corporation's gross receipts. For purposes of this paragraph, "gross receipts" means the numerator of the sales factor under the provisions of KRS 141.120(8)(c); or
2. Seventy-five cents ($0.75) per one hundred dollars ($100) of the corporation's Kentucky gross profits.

(6) A minimum of one hundred seventy-five dollars ($175) shall be due for the taxable year from each corporation subject to the tax imposed by this section, regardless of the application of any tax credits provided under this chapter or any other provision of the Kentucky Revised Statutes for which the business entity may qualify.

(7) The alternative minimum calculation portion of the tax computation provided in subsection (5) of this section shall not apply to:
(a) Public service corporations subject to tax under KRS 136.120;
(b) Open-end registered investment companies organized under the laws of this state and registered under the Investment Company Act of 1940;

(c) Any property or facility which has been certified as a fluidized bed energy production facility as defined in KRS 211.390; and
(d) An alcohol production facility as defined in KRS 247.910.

(8)
(a) As used in this subsection, "qualified exempt organization" means an entity listed in subsection (1)(a) to (h) of this section and shall not include any entity whose exempt status has been disallowed by the Internal Revenue Service.
(b) Notwithstanding any other provisions of this section or KRS 141.010, any corporation of the type listed in KRS 141.010(24)(b) to (h) that is owned in whole or in part by a qualified exempt organization shall, in calculating its taxable net income, gross share of its taxable net income, gross receipts, or Kentucky gross profits attributable to the ownership interest of the qualified exempt organization.
(c) Any corporation that reduces taxable net income, gross receipts, or Kentucky gross profits in accordance with paragraph (b) of this subsection shall disregard the ownership interest of the qualified exempt organization in determining the amount of credit available under KRS 141.420.
(d) The Department of Revenue may promulgate an administrative regulation to further define "qualified exempt organization" to include an entity for which exemption is constitutionally or legally required, or to exclude any entity created primarily for tax avoidance purposes with no legitimate business purpose.

(9)
(a) To the extent that a corporation identified in KRS 141.010(24)(b) to (h) is doing business in this state, any member, shareholder, or partner of the corporation may elect to pay, on behalf of the corporation, his, her, or its proportionate share of the tax imposed by this section against the corporation. If an election is made, the electing member, shareholder, or partner shall be treated in the same manner as the corporation regarding the proportionate part of the tax paid by the member, shareholder or partner. An election made pursuant to this subsection shall not:
    1. Be used by the Department of Revenue or the taxpayer to assert that the party making the election is doing business in Kentucky;
    2. Result in an increase of the amount of credit allowable under KRS 141.420; or
    3. Apply to any corporation that is required to be included in a consolidated return under KRS 141.200(2) to (5) and (9) to (12).
(b) The Department of Revenue shall prescribe forms and promulgate regulations to execute and administer the provisions of this subsection.

141.206 Filing of returns by partnerships—Publicly traded partnership treated as general partnership.

(1) As used in this section unless the context requires otherwise:
(a) "General partnership" means a partnership not subject to the tax imposed by KRS 141.040, including any publicly traded partnership as defined by Section 7704(b) of the Internal Revenue Code that is treated as a partnership for federal tax purposes under Section 7704(c) of the Internal Revenue Code and its publicly traded partnership affiliates. "Publicly

traded partnership affiliates" shall include any limited liability company or limited partnership for which at least eighty percent (80%) of the limited liability company member interests or limited partner interests are owned directly or indirectly by the publicly traded partnership;

(b) "Property" means real property or tangible personal property which is owned or leased; and

(c) "Payroll" means compensation paid to one (1) or more individuals as described in KRS 141.120(8)(b).

(2) Every partnership doing business in this state shall, on or before the fifteenth day of the fourth month following the close of its annual accounting period, file a copy of its federal partnership return with the form prescribed and furnished by the Department.

(3) General partnerships shall determine net income in the same manner as in the case of an individual under KRS 141.010(9) to (11) and the adjustment required under Section 703(a) of the Internal Revenue Code. Computation of net income under this section and the computation of the partners' distributive share shall be computed as nearly as practicable identical with those required for federal income tax purposes except to the extent required by differences between this chapter and the federal income tax law and regulations.

(4) Individuals, estates, trusts or corporations doing business in this state as a partner in a general partnership shall be liable for income tax only in their individual, fiduciary, or corporate capacities and no income tax shall be assessed upon the income of any general partnership. General partnerships may be required to withhold Kentucky income tax on the distributive share of partners under administrative regulations promulgated by the department.

(5) In determining the tax under this chapter, a resident individual, estate, or trust that is a partner in a general partnership shall take into account the partner's total distributive share of the partnership's items of income, loss, deduction and credit.

(6) In determining the tax under this chapter, a nonresident individual, estate, or trust that is a partner in a general partnership required to file a return under subsection (2) of this section shall take into account:

(a) 1. If the partnership is doing business only in this state, the partner's total distributive share of the partnership's items of income, loss, and deduction. A general partnership is doing business only in the state if property and payroll are entirely within this state. Property and payroll are deemed to be entirely within this state if all other states are prohibited by Pub. L. No. 86-272, as it existed on December 31, 1975, from enforcing income tax jurisdiction; or

2. If the partnership is doing business both within and without this state, the partner's distributive share of the general partnership's items of income, loss, and deduction multiplied by the apportionment fraction of the partnership as prescribed in subsection (9) of this section; and

(b) The partner's total distributive share of credits of the partnership.

(7) A corporation that is subject to tax under KRS 141.040 and is a partner in a general partnership shall take into account:

(a) The corporation's distributive share of the partnership's items of income, loss and deduction and, when applicable, multiplied by the apportionment fraction of the partnership as prescribed in subsection (9) of this section; and

(b) Credits from the partnership.

(8)

(a) If a general partnership is doing business both within and without this state, the partnership shall compute and furnish to each partner an apportionment fraction determined in accordance with subsection (9) of this section.

(b) For purposes of determining an apportionment factor under paragraph (a) of this subsection, if the general partnership is:

1. Doing business both within and without this state; and

2. A partner in another general partnership;

then the general partnership shall be deemed to own the pro rata share of the property owned or leased by the other general partnership, and shall all include its pro rata share of the other general partnership's payroll and sales.

(c) The phrase "a partnership in another general partnership" shall extend to each level of multiple-tiered general partnerships.

(d) The attribution to the general partnership of the pro rata share of property, payroll and sales from its role as a partner in another general partnership will also apply when determining the general partnership's ultimate apportionment factor for property, payroll and sales as required under subsection (9) of this section.

(9) A general partnership doing business within and without the state shall apportion its net income by a fraction, the numerator of which is the property factor, representing twenty-five percent (25%) of the fraction, plus the payroll factor, representing twenty-five percent (25%) of the fraction, plus the sales factor, representing fifty percent (50%) of the fraction with each factor determined in the same manner as provided in KRS 141.120(8), and the denominator of which is four (4), reduced by the number of factors, if any, having no denominator, provided that if the sales factor has no denominator, then the denominator shall be reduced by two (2).

(10) Resident individuals, estates, or trusts that are partners in a partnership, members of a limited liability company electing partnership tax treatment for federal income tax purposes, owners of single member limited liability companies, or shareholders in an S corporation which does not do business in this state are subject to tax under KRS 141.020 on federal net income, gain, deduction, or loss or credit passed through the partnership, limited liability company, or S corporation.

(11) "S corporation," for purposes of this section means a corporation which has elected for federal tax purposes to be taxed as an S corporation. An election for federal tax purposes is a binding election for Kentucky tax purposes.

(12) Nonresident individuals shall not be taxable on investment income distributed by a qualified investment partnership. For purposes of this subsection, a "qualified investment partnership" means a general partnership, a limited partnership, or a limited liability partnership formed to hold only investments that produce income that would not be taxable to the nonresident individual if held or owned individually. A qualified investment partnership shall be subject to all other provisions relating to a general partnership under this section and shall not be subject to the tax imposed under KRS 141.040.

(13)

(a) A general partnership may file a composite income tax return on behalf of electing nonresident individual partners reporting and paying income tax at the highest marginal rate provided in this chapter on the partners' pro rata or distributive shares of income of the general partnership from doing business in, or deriving income from sources within, this

state. The partners' pro rata or distributive share of income shall include all items of income or deduction used to compute adjusted gross income on the Kentucky return that is passed through to the partner by the partnership, including, but not limited to interest, dividend, capital gains and losses, guaranteed payments, and rents.

(b) A nonresident individual partner whose only source of income within this state is from one (1) or more general partnerships may elect to be included in a composite return filed pursuant to this section.

(c) A nonresident individual partner that has been included in a composite return may file an individual income tax return and shall receive credit for tax paid on the partner's behalf by the general partnership.

(d) A general partnership shall deliver to the department a return upon a form prescribed by the department showing the total amounts paid or credited to its electing nonresident individual partners, the amount paid in accordance with this subsection, and any other information the department may require. A general partnership shall furnish to its nonresident partner annually, but not later than the fifteenth day of the fourth month after the end of its taxable year, a record of the amount of tax paid on behalf of the partner on a form prescribed by the department.

APPENDIX

2007 Kentucky Revised Statutes:

- **141.010. Definitions for chapter.**
- **141.040 Corporation income tax – Exemption – Rate.**
- **141.0401. Limited liability entity tax – Exemptions – Rate.**
- **141.206. Filing of returns by pass-through entities—withholding requirements on owners of pass-through entities—Apportionment issues for pass-through entities—Composite returns.**

APPENDIX

141.010. Definitions for chapter.

As used in this chapter, unless the context requires otherwise:

(1) "Commissioner" means the commissioner of the Department of Revenue;

(2) "Department" means the Department of Revenue;

(3) "Internal Revenue Code" means the Internal Revenue Code in effect on December 31, 2006, exclusive of any amendments made subsequent to that date, other than amendments that extend provisions in effect on December 31, 2006, that would otherwise terminate, and as modified by KRS 141.0101, except that for property placed in service after September 10, 2001, only the depreciation and expense deductions allowed under Sections 168 and 179 of the Internal Revenue Code in effect on December 31, 2001, exclusive of any amendments made subsequent to that date, shall be allowed, and including the provisions of the Military Family Tax Relief Act of 2003, Pub. L. No. 108-121, effective on the dates specified in that Act;

(4) "Dependent" means those persons defined as dependents in the Internal Revenue Code;

(5) "Fiduciary" means "fiduciary" as defined in Section 7701(a)(6) of the Internal Revenue Code;

(6) "Fiscal year" means "fiscal year" as defined in Section 7701(a)(24) of the Internal Revenue Code;

(7) "Individual" means a natural person;

(8) "Modified gross income" means the greater of:

    (a) Adjusted gross income as defined in Section 62 of the Internal Revenue Code of 1986, including any subsequent amendments in effect on December 31 of the taxable year, and adjusted as follows:

        1. Include interest income derived from obligations of sister states and political subdivisions thereof; and

        2. Include lump-sum pension distributions taxed under the special transition rules of Pub. L. No. 104-188, sec. 1401(c)(2);

(9) "Adjusted gross income" in the case of taxpayers other than corporations means gross income as defined in subsection (9) of this section minus the deductions allowed individuals by Section 62 of the Internal Revenue Code and as modified by KRS 141.0101 and adjusted as follows, except that deductions shall be limited to amounts allocable to income subject to taxation under the provisions of this chapter, and except that nothing in this chapter shall be construed to permit the same item to be deducted more than once;

    (a) Exclude income that is exempt from state taxation by the Kentucky Constitution and the Constitution and statutory laws of the United States and Kentucky;

    (b) Exclude income from supplemental annuities provided by the Railroad Retirement Act of 1937 as amended and which are subject to federal income tax by Public Law 89-699;

    (c) Include interest income derived from obligations of sister states and political subdivisions thereof;

    (d) Exclude employee pension contributions picked up as provided for in KRS 6.505, 16.545, 21.360, 61.560, 65.155, 67A.320, 67A.510, 78.610, and 161.540 upon a ruling by the Internal Revenue Service or the federal courts that these contributions shall not be included as gross income until such time as the contributions are distributed or made available to the employee;

    (e) Exclude Social Security and railroad retirement benefits subject to federal income tax;

(f) Include, for taxable years, ending before January 1, 1991, all overpayments of federal income tax refunded or credited for taxable years;

(g) Deduct, for taxable years ending before January 1, 1991, federal income tax paid for taxable years ending before January 1, 1990;

(h) Exclude any money received because of a settlement or judgment in a lawsuit brought against a manufacturer or distributor of "Agent Orange" for damages resulting from exposure to Agent Orange by a member or veteran of the Armed Forces of the United States or any dependent of such person who served in Vietnam;

(i)

1. For taxable years ending prior to December 31, 2005, exclude the applicable amount of total distributions from pension plans, annuity contracts, profit-sharing plans, retirement plans, or employee savings plans.
   The applicable amount shall be:
   a. Twenty-five percent (25%), but not more than six thousand two hundred fifty dollars ($6,250), for taxable years beginning after December 31, 1994, and before January 1, 1996;
   b. Fifty percent (50%), but not more than twelve thousand five hundred dollars ($12, 500), for taxable years beginning after December 31, 1995, and before January 1, 1997;
   c. Seventy-five percent (75%), but not more than eighteen thousand seven hundred fifty dollars ($18,750), for taxable years beginning after December 31, 1996, and before January 1, 1998; and
   d. One hundred percent (100%), but not more than thirty-five thousand dollars ($35,000), for taxable years beginning after December 31, 1997.
2. For taxable years beginning after December 31, 2005, exclude up to forty-one thousand one hundred ten dollars ($41,110) of total distributions from pension plans, annuity contracts, profit-sharing plans, retirement plans, or employee savings plans.
3. As used in this paragraph:
   a. "Distributions" includes, but is not limited to, any lump-sum distribution from pension or profit-sharing plans qualifying for the income tax averaging provisions of Section 402 of the Internal Revenue Code; any distribution from an individual retirement account as defined in Section 408 of the Internal Revenue Code; and any disability pension distribution;
   b. "Annuity contract" has the same meaning as set forth in Section 1035 of the Internal Revenue Code; and
   c. "Pension plans, profit-sharing plans, retirement plans, or employee savings plans" means any trust or other entity created or organized under a written retirement plan and forming part of a stock bonus, pension, or profit-sharing plan of a public or private employer for the exclusive benefit of employees or their beneficiaries and includes plans qualified or unqualified under Section 401 of the Internal Revenue Code and individual retirement accounts as defined in Section 408 of the Internal Revenue Code;

(j)

1.

a. Exclude the portion of the distributive share of a shareholder's net income from an S corporation subject to the franchise tax imposed under KRS 136.505 or the capital stock tax imposed under KRS 136.300; and

b. Exclude the portion of the distributive share of a shareholder's net income from an S corporation related to a qualified subchapter S subsidiary subject to the franchise tax imposed under KRS 136.505 or the capital stock tax imposed under KRS 136.300.

2. The shareholder's basis of stock held in a S corporation where the S corporation or its qualified subchapter S subsidiary is subject to the franchise tax imposed under KRS 136.505 or the capital stock tax imposed under KRS 136.300 shall be the same as the basis for federal income tax purposes;

(k) Exclude for taxable years beginning after December 31, 1998, to the extent not already excluded from gross income, any amounts paid for health insurance, or the value of any voucher or similar instrument used to provide health insurance, which constitutes medical care coverage for the taxpayer, the taxpayer's spouse, and dependents during the taxable year. Any amounts paid by the taxpayer for health insurance that are excluded pursuant to this paragraph shall not be allowed as a deduction in computing the taxpayer's net income under subsection (11) of this section;

(l) Exclude income received for services performed as a precinct worker for election training or for working at election booths in state, county, and local primary, regular, or special elections;

(m) Exclude any amount paid during the taxable year for insurance for long-term care as defined in KRS 304.12-600;

(n) Exclude any capital gains income attributable to property taken by eminent domain;

(o) Exclude any amount received by a producer of tobacco or a tobacco quota owner from the multistate settlement with the tobacco industry, known as the Master Settlement Agreement, signed on November 22, 1998;

(p) Exclude any amount received from the secondary settlement fund, referred to as "Phase II," established by tobacco companies to compensate tobacco farmers and quota owners for anticipated financial losses caused by the national tobacco settlement;

(q) Exclude any amount received from funds of the Commodity Credit Corporation for the Tobacco Loss Assistance Program as a result of a reduction in the quantity of tobacco quota allotted;

(r) Exclude any amount received as a result of a tobacco quota buydown program that all quota owners and growers are eligible to participate in; and

(s) Exclude state Phase II payments received by a producer of tobacco or a tobacco quota owner;

(t) Exclude all income from all sources for active duty and reserve members and officers of the Armed Forces of the United States or National Guard who are killed in the line of duty, for the year during which the death occurred and the year prior to the year during which the death occurred. For the purposes of this paragraph, "all income from all sources" shall include all federal and state death benefits payable to the estate or any beneficiaries;

(11) "Net income" in the case of taxpayers other than corporations means adjusted gross income as defined in subsection (10) of this section, minus the standard deduction allowed by KRS

141.081, or, at the option of the taxpayer, minus the deduction allowed by KRS 141.0202, minus any amount paid for vouchers or similar instruments that provide health insurance coverage to employees or their families, and minus all the deductions allowed individuals by Chapter 1 of the Internal Revenue Code as modified by KRA 141.0101 except those listed below, except that deductions shall be limited to amount allocable to income subject to taxation under the provisions of this chapter and that nothing in this chapter shall be construed to permit the same item to be deducted more than once:

(a) Any deduction allowed by the Internal Revenue Code for state or foreign taxes measured by gross or net income, including state and local general sales taxes allowed in lieu of state and local income taxes under the provisions of Section 164(b)(5) of the Internal Revenue Code;

(b) Any deduction allowed by the Internal Revenue Code for amounts allowable under KRS 140.090(1)(h) in calculating the value of the distributive shares of the estate of a decedent, unless there is filed with the income return a statement that such deduction has not been claimed under KRS 140.090(1)(h);

(c) The deduction for personal exemptions allowed under Section 151 of the Internal Revenue Code and any other deductions in lieu thereof; and

(d) Any deduction for amounts paid to any club, organization, or establishment which has been determined by the courts or an agency established by the General Assembly and charged with enforcing the civil rights laws of the Commonwealth, not to afford full and equal membership and full and equal enjoyment of its goods, services, facilities, privileges, advantages, or accommodations to any person because of race, color, religion, national origin, or sex, except nothing shall be construed to deny a deduction for amounts paid to any religious or denominational club, group, or establishment or any organization operated solely for charitable or educational purposes which restricts membership to persons of the same religion or denomination in order to promote the religious principles for which it is established and maintained;

(12) "Gross income, " in the case of corporations, means "gross income, as defined in Section 61 of the Internal Revenue Code and as modified by KRS 141.0101 and adjusted as follows:

(a) Exclude income that is exempt from state taxation by the Kentucky Constitution and the Constitution and statutory laws of the United States;

(b) Exclude all dividend income received after December 31, 1969;

(c) Include interest income derived from obligations of sister states and political subdivisions thereof;

(d) Exclude fifty percent (50%) of gross income derived from any disposal of coal covered by Section 631(c) of the Internal Revenue Code if the corporation does not claim any deduction for percentage depletion, or for expenditures attributable to the making and administering of the contract under which such disposition occurs or to the preservation of the economic interests retained under such contract;

(e) Include in the gross income of lessor income tax payments made by lessees to lessor, under the provisions of Section 110 of the Internal Revenue Code, and exclude such payments from the gross income of lessees;

(f) Include the amount calculated under KRS 141.205;

(g) Ignore the provisions of Section 281 of the Internal Revenue Code in computing gross income;

(h) Exclude income from "safe harbor leases" (Section 168(f)(8) of the Internal Revenue Code);

(i) Exclude any amount received by a producer of tobacco or a tobacco quota owner from the multistate settlement with the tobacco industry, known as the Master Settlement Agreement, signed on November 22, 1998;

(j) Exclude any amount received from the secondary settlement fund, referred to as "Phase II," established by tobacco companies to compensate tobacco farmers and quota owners for anticipated financial losses caused by the national tobacco settlement;

(k) Exclude any amount received from funds of the Commodity Credit Corporation for the Tobacco Loss Assistance Program as a result of a reduction in the quantity of tobacco quota allotted;

(l) Exclude any amount received as a result of a tobacco quota buydown program that all quota owners and growers are eligible to participate in;

(m) For taxable years beginning after December 31, 2004, and before January 1, 2007, exclude the distributive share income or loss received from a corporation defined in subsection (24)(b) of this section whose income has been subject to the tax imposed by KRS 141.040. The exclusion provided in this paragraph shall also apply to a taxable year that begins prior to January 1, 2005, if the income by a corporation defined in subparagraphs 2. to 8. of subsection (24)(b) of this section with a return filed for a period of less than twelve (12) months that begins on or after January 1, 2005, and ends on or before December 31, 2005. This paragraph shall not be used to delay payment of the tax imposed by KRS 141.040; and

(n) Exclude state Phase II payments received by a producer of tobacco or a tobacco quota owner;

(13) "Net income," in the case of corporations, means "gross income" as defined in subsection (12) of this section minus the deduction allowed by KRS 141.0202, minus any amount paid for vouchers or similar instruments that provide health insurance coverage to employees or their families, and minus all the deductions from gross income allowed corporations by Chapter 1 of the Internal Revenue Code and modified by KRS 141.0101, except the following:

(a) Any deduction for a state tax which is computed, in whole or in part, by reference to gross or net income and which is paid or accrued to any state of the United States, the District of Columbia, the Commonwealth of Puerto Rico, any territory or possession of the United States, or to any foreign country or political subdivision thereof;

(b) The deductions contained in Sections 243, 244, 245, and 247 of the Internal Revenue Code;

(c) The provisions of Section 281 of the Internal Revenue Code shall be ignored in computing net income;

(d) Any deduction directly or indirectly allocable to income which is either exempt from taxation or otherwise not taxed under the provisions of this chapter, and nothing in this chapter shall be construed to permit the same item to be deducted more than once;

(e) Exclude expenses related to "safe harbor leases" (Section 168(f)(8) of the Internal Revenue Code);

(f) Any deduction for amounts paid to any club, organization, or establishment which has been determined by the courts or an agency established by the General Assembly and charged with enforcing the civil rights laws of the Commonwealth, not to afford full and equal membership and full and equal enjoyment of its goods, services, facilities, privileges, advantages, or accommodations to any person because of race, color, religion, national origin, or sex, except nothing shall be construed to deny a deduction for amounts paid to any religious or denominational club, group, or establishment or any organization operated solely for charitable or educational purposes which restricts membership to persons of the same religion or denomination in order to promote the religious principles for which it is established and maintained;

(g) Any deduction prohibited by KRS 141.205;

(h) Any dividends-paid deduction of any captive real estate investment trust;

(14)

(a) "Taxable net income," in the case of corporations that are taxable in this state, means "net income" as defined in subsection (13) of this section;

(b) "Taxable net income," in the case of corporations that are taxable in this state and taxable in another state, means "net income" as defined in subsection (13) of this section and as allocated and apportioned under KRS 141.120. A corporation is taxable in another state if, in any state other than Kentucky, the corporation is required to file a return for or pay a net income tax, franchise tax measured by net income, franchise tax for the privilege of doing business, or corporate stock tax;

(c) "Taxable net income," in the case of homeowners' associations as defined in Section 528(c) of the Internal Revenue Code, means "taxable income" as defined in Section 528(d) of the Internal Revenue Code. Notwithstanding the provisions of subsection (3) this paragraph shall be those code section in effect for the applicable tax year; and

(d) "Taxable net income," in the case of a corporation that meets the requirements established under Section 856 of the Internal Revenue Code to be a real estate investment trust, means "real estate investment trust income" as defined in Section 857(b)(2) of the Internal Revenue Code, except that a captive real estate investment trust shall be allowed any deduction for dividends paid;

(15) "Person" means "person" as defined in Section 7701(a)(1) of the Internal Revenue Code;

(16) "Taxable year" means the calendar year or fiscal year ending during such calendar year, upon the basis of which net income is computed, and in the case of a return made for a fractional part of a year under the provisions of this chapter or under regulations prescribed by the commissioner, "taxable year" means the period for which the return is made;

(17) "Resident" means an individual domiciled within this state or an individual who is not domiciled in this state, but maintains a place of abode in this state and spends in the aggregate more than one hundred eighty-three (183) days of the taxable year in this state;

(18) "Nonresident" means any individual not a resident of this state;

(19) "Employer" means "employer" as defined in Section 3401(d) of the Internal Revenue Code;

(20) "Employee" means "employee" as defined in Section 3401(c) of the Internal Revenue Code;

(21) "Number of withholding exemptions claimed" means the number of withholding exemptions claimed in a withholding exemption certificate in effect under KRS 141.325, except that is no such certificate is in effect, the number of withholding exemptions claimed shall be considered to be zero;

(22) "Wages" means "wages" as defined in Section 3401(a) of the Internal Revenue Code and includes other income subject to withholding as provided in Section 3401(f) and Section 3402(k), (o), (p), (q), and (s) of the Internal Revenue Code;

(23) "Payroll period" means "payroll period" as defined in Section 3401(b) of the Internal Revenue Code;

(24)

(a) For taxable years beginning before January 1, 2005, and after December 31, 2006, "Corporation" means "corporation" as defined in Section 7701(a)(3) of the Internal Revenue Code; and

(b) For taxable years beginning after December 31, 2004, and before January 1, 2007, "corporation" means:

1. "Corporations" as defined in Section 7701(a)(3) of the Internal Revenue Code;
2. S corporations as defined in Section 1361(a) of the Internal Revenue Code;
3. A foreign limited liability company as defined in KRS 275.015;
4. A limited liability company as defined in KRS 275.015;
5. A professional limited liability company as defined in KRS 275.015;
6. A foreign limited partnership as defined in KRS 362.2-102(9);
7. A limited partnership as defined in KRS 362.2-102(14);
8. A limited liability partnership as defined in KRS 362.155(7) or in 362.1-101(7) or (8);
9. A real estate investment trust as defined in Section 856 of the Internal Revenue Code;
10. A regulated investment company as defined in Section 851 of the Internal Revenue Code;
11. A real estate mortgage investment conduit as defined in Section 860D of the Internal Revenue Code;
12. A financial asset securitization investment trust as defined in Section 860L of the Internal Revenue Code;
13. Other similar entities created with limited liability for their partners, members, or shareholders.

For purposes of this paragraph, "corporation" shall not include any publicly traded partnership as defined by Section 7704(b) of the Internal Revenue Code that is treated as a partnership for federal tax purposes under Section 7704(c) of the Internal Revenue Code or its publicly traded partnership affiliates. As used in this paragraph "publicly traded partnership affiliates" shall include any limited liability company or limited partnership for which at least eighty percent (80%) of the limited liability company member interests or limited partner interests are owned directly or indirectly by the publicly traded partnership;

(25) "Doing business in this state" includes but is not limited to:

(a) Being organized under the laws of this state;
(b) Having a commercial domicile in this state;
(c) Owning or leasing property in this state;
(d) Having one (1) or more individuals performing services in this state;
(e) Maintaining an interest in a general partnership doing business in this state;
(f) Deriving income from or attributable to sources within this state, including deriving income directly or indirectly from a trust doing business in this state; or

(g) Directing activities at Kentucky customers for the purpose of selling them goods or services.

Nothing in this subsection shall be interpreted in a manner that goes beyond the limitations imposed and protections provided by the United States Constitution or Pub. L. No. 86-272;

(26) "Pass-through entity" means any partnership, S corporation, limited liability company, limited liability partnership, limited partnership, or similar entity recognized by the laws of this state that is not taxed for federal purposes at the entity level, but instead passes to each partner, member, shareholder, or owner their proportionate share of income, deductions, gains, losses, credits, and any other similar attributes;

(27) "S corporation" means "S corporation" as defined in Section 1361(a) of the Internal Revenue Code;

(28) "Limited liability pass-through entity" means any pass-through entity that affords any of its partners, members, shareholders, or owners, through function of the laws of this state or laws recognized by this state, protection from general liability for actions of the entity; and

(29) "Captive real estate investment trust" means a real estate investment trust as defined in Section 856 of the Internal Revenue Code that meets the following requirements:

(a) 1. The shares or other ownership interests of the real estate investment trust are not regularly traded on an established securities market; or

2. The real estate investment trust does not have enough shareholders or owners to be required to register with the Securities and Exchange Commission; and

(b) 1. The maximum amount of stock or other ownership interest that is owned or constructively owned by a corporation equals or exceeds:

a. Twenty-five percent (25%), if the corporation does not occupy property owned, constructively owned, or controlled by the real estate investment trust; or

b. Ten percent (10%), if the corporation occupies property owned, constructively owned, or controlled by the real estate investment trust.

The total ownership interest of a corporation shall be determined by aggregating all interests owned or constructively owned by a corporation;

2. For purposes of this paragraph:

a. "Corporation" means a corporation taxable under KRS 141.040, and includes an affiliated group as defined in KRS 141.200, that is required to file a consolidated return pursuant to the provisions of KRS 141.200; and

b. "Owned or constructively owned" means owning shares or having an ownership interest in the real estate investment trust, or owning an interest in the entity that owns shares or has an ownership interest in the real estate investment trust. Constructive ownership shall be determined by looking across multiple layers of a multilayer pass-through structure; and

(c) The real estate investment trust is not owned by another real estate investment trust.

141.040 Corporation income tax – Exemption – Rate.

(1) Every corporation doing business in this state, except those corporations listed in paragraph (a) to (h) of this subsection, shall pay for each taxable year a tax to be computed by the taxpayer on taxable net income or the alternative minimum calculation computed under this section at the rates specified in this section:
    (a) Financial institutions, as defined in KRS 136.500, except bankers banks organized under KRS 287.135;
    (b) Savings and loan associations organized under the laws of this state and under the laws of the United States and making loans to members only;
    (c) Banks for cooperatives;
    (d) Production credit associations;
    (e) Insurance companies, including farmers or other mutual hail, cyclone, windstorm, or fire insurance companies, insurers, and reciprocal underwriters;
    (f) Corporations or other entities exempt under Section 501 of the Internal Revenue Code;
    (g) Religious, educational, charitable, or like corporations not organized or conducted for pecuniary profit; and
    (h) Corporations whose only owned or leased property located in this state is located at the premises of a printer with which it has contracted for printing, provided that:
        1. The property consists of the final printed product, or copy from which the printed product is produced; and
        2. The corporation has no individuals receiving compensation in this state as provided in KRS 141.120(8)(b); and
    (i) For all taxable years except those beginning after December 31, 2004, and before January 1, 2007, S corporations.

(2) For tax years ending before January 1, 1990, the following rates shall apply:
    (a) Three percent (3%) of the first twenty-five thousand dollars ($25,000) of taxable net income;
    (b) Four percent (4%) of the amount of taxable net income in excess of twenty-five thousand dollars ($25,000), but not in excess of fifty thousand dollars ($50,000);
    (c) Five percent (5%) of the amount of taxable net income in excess of fifty thousand dollars ($50,000), but not in excess of one hundred thousand dollars ($100,000);
    (d) Six percent (6%) of the amount of taxable net income in excess of one hundred thousand dollars ($100,000), but not in excess of two hundred fifty thousand dollars ($250,000);
    (e) Seven and twenty-five one hundredths percent (7.25%) of the amount of taxable net income in excess of two hundred fifty thousand dollars ($250,000).

(3) For tax years beginning after December 31, 1989, and before January 1, 2005, the following rates shall apply:
    (a) Four percent (4%) of the first twenty-five thousand dollars ($25,000) of taxable net income;
    (b) Five percent (5%) of the amount of taxable net income in excess of twenty-five thousand dollars ($25,000), but not in excess of fifty thousand dollars ($50,000);

(c) Six percent (6%) of the amount of taxable net income in excess of fifty thousand dollars ($50,000), but not in excess of one hundred thousand dollars ($100,000);
(d) Seven percent (7%) of the amount of taxable net income in excess of one hundred thousand dollars ($100,000), but not in excess of two hundred fifty thousand dollars ($250,000); and
(e) Eight and twenty-five one hundredths percent (8.25%) of the amount of taxable net income in excess of two hundred fifty thousand dollars ($250,000).

(4) For tax years beginning before January 1, 1990, and ending after December 31, 1989, the tax shall be the sum of the amounts determined in paragraphs (a) and (b) as follows:
(a) Apply the tax rates in subsection (2) of this section to the taxable net income for the year and multiply the result by a fraction, the numerator of which is the number of days from the first day of the taxable year through December 31, 1989, and the denominator of which is the total number of days of the taxable year; and
(b) Apply the tax rates in subsection (3) of this section to the taxable net income for the year and multiply the result by a fraction, the numerator of which is the number of days from January 1, 1990, through the last day of the taxable year and the denominator of which is the total number of days of the taxable year.

(5) For taxable years beginning after December 31, 2004, and before January 1, 2007, corporations subject to the tax imposed by this section shall pay the greater of the tax computed under paragraph (a) of this subsection, the tax computed under paragraph (b)1. or 2. of this subsection, or the minimum tax imposed by subsection (7) of this section. The tax computed under this subsection is as follows:
(a) 1. Four percent (4%) of the first fifty thousand dollars ($50,000) of taxable net income;
2. Five percent (5%) of taxable net income over fifty thousand dollars ($50,000) up to one hundred thousand dollars ($100,000); and
3. Seven percent (7%) of taxable net income over one hundred thousand dollars ($100,000); or
(b) An alternative minimum calculation of an amount equal to the lesser of the amount computed under subparagraph 1. or 2. of this paragraph:
1. The gross receipts calculation contained in subsection (11) of this section; or
2. The gross profits calculation contained in subsection (12) of this section.

(6) For taxable years beginning on or after January 1, 2007, the following rates shall apply:
(a) Four percent (4%) of the first fifty thousand dollars ($50,000) of taxable net income;
(b) Five percent (5%) of taxable net income over fifty thousand dollars ($50,000) up to one hundred thousand dollars ($100,000); and
(c) Six percent (6%) of taxable net income over one hundred thousand dollars ($100,000).

(7) For taxable years beginning on or after January 1, 2005, and before January 1, 2007, a minimum of one hundred seventy-five dollars ($175) shall be due for the taxable year from each corporation subject to the tax imposed by this section, regardless of the application of any tax credits provided under this chapter or any other provision of the Kentucky Revised Statutes for which the business entity may qualify.

(8) The alternative minimum calculation portion of the tax computation provided in subsection (5) of this section shall not apply to:
  (a) Public service corporations subject to tax under KRS 136.120;
  (b) Open-ended registered investment companies organized under the laws of this state and registered under the Investment Company Act of 1940;
  (c) Any property or facility which has been certified as a fluidized bed energy production facility as defined in KRS 211.390;
  (d) An alcohol production facility as defined in KRS 247.910; and
  (e) For taxable years beginning after December 31, 2005, and before January 1, 2007, political organizations as defined in Internal Revenue Code Section 527 and related regulations.

(9) For taxable years beginning after December 31, 2005, and before January 1, 2007, political organizations as defined in Internal Revenue Code Section 527 and related regulations.
  (a) As used in this subsection, "qualified exempt organization" means an entity listed in subsection (1)(a) to (h) of this section and shall not include any entity whose exempt status has been disallowed by the Internal Revenue Service.
  (b) Notwithstanding any other provisions of this section or KRS 141.010, any corporation of the type listed in KRS 141.010(24)(b)2. to 8. that is owned in whole or in part by a qualified exempt organization shall, in calculating its taxable net income, gross receipts, or Kentucky gross profits, exclude the proportionate share of its taxable net income, gross receipts, or Kentucky gross profits attributable to the ownership interest of the qualified exempt organization.
  (c) Any corporation that reduces taxable net income, gross receipts, or Kentucky gross profits in accordance with paragraph (b) of this subsection shall disregard the ownership interest of the qualified exempt organization in determining the amount of credit available under KRS 141.420.
  (d) The Department of Revenue may promulgate an administrative regulation to further define "qualified exempt organization" to include an entity for which exemption is constitutionally or legally required, or to exclude any entity created primarily for tax avoidance purposes with no legitimate business purpose.

(10) For taxable years beginning after December 31, 2004, and before January 1, 2007:
  (a) To the extent that a corporation identified in KRS 141.010(24)(b)2. to 8. is doing business in this state, any member, shareholder or partner of the corporation may elect to pay, on behalf of the corporation, his, her or its proportionate share of the tax imposed by this section against the corporation. If an election is made, the electing member, shareholder or partner shall be treated in the same manner as the corporation regarding the proportionate part of the tax paid by the member, shareholder or partner. An election made pursuant to this subsection shall not:
    1. Be used by the Department of Revenue or the taxpayer to assert that the party making the election is doing business in Kentucky;
    2. Result in an increase of the amount of credit allowable under KRS 141.420; or
    3. Apply to any corporation that is required to be included in a consolidated return under KRS 141.200(2) to (5) and (9) to (12).

(b) The Department of Revenue shall prescribe forms and promulgate regulations to execute and administer the provisions of this subsection.

(11) The alternative minimum calculation for gross receipts shall be:

(a) For taxable years beginning on or after January 1, 2005, and before January 1, 2006, nine and one-half cents ($0.095) per one hundred dollars ($100) of the corporation's Kentucky gross receipts; and

(b) For taxable years beginning on or after January 1, 2006, and before January 1, 2007:

1. If the corporation's gross receipts from all sources are three million dollars ($3,000,000) or less, the alternative minimum calculation shall be zero;
2. If the corporation's gross receipts from all sources are greater than three million dollars ($3,000,000) but less than six million dollars ($6,000,000), the alternative minimum calculation shall be nine and one-half cents ($0.095) per one hundred dollars ($100) of the corporation's Kentucky gross receipts, reduced by an amount equal to two thousand eight hundred fifty dollars ($2,850) multiplied by a fraction, the numerator of which is six million dollars ($6,000,000) less the amount of the corporation's Kentucky gross receipts for the taxable year, and the denominator of which is three million dollars ($3,000,000), but in no case shall the result be less than zero;
3. If the corporation's gross receipts from all sources are equal to or greater than six million dollars ($6,000,000), the alternative minimum calculation shall be nine and one-half cents ($0.095) per one hundred dollars ($100) of the corporation's Kentucky gross receipts.

In determining eligibility for the reductions contained in this paragraph when the alternative minimum calculation is computed on a consolidated return, the gross receipts of the affiliated group shall include the total gross receipts from all sources of the affiliated group, including eliminating entries for transactions among the group.

(12) The alternative minimum calculation for gross profits shall be:

(a) For taxable years beginning on or after January 1, 2005, and before January 1, 2006, seventy-five cents ($0.75) per one hundred dollars ($100) of the corporation's Kentucky gross profits; and

(b) For taxable years beginning on or after January 1, 2006, and before January 1, 2007:

1. If the corporation's gross profits from all sources are three million dollars ($3,000,000) or less, the tax shall be zero;
2. If the corporation's gross profits from all sources are at least three million dollars ($3,000,000) but less than six million dollars ($6,000,000), the tax shall be seventy-five cents ($0.75) per one hundred dollars ($100) of the corporation's Kentucky gross profits, reduced by an amount equal to twenty-two thousand five hundred dollars ($22,500) multiplied by a fraction, the numerator of which is six million dollars ($6,000,000) less the amount of the

corporation's Kentucky gross profits, and the denominator of which is three million dollars ($3,000,000), but in no case shall the result be less than zero;

3. If the corporation's gross profits from all sources are equal to or greater than six million dollars ($6,000,000), the tax shall be seventy-five cents ($0.75) per one hundred dollars ($100) on all of the corporation's Kentucky gross profits.

In determining eligibility for the reductions contained in this paragraph when the alternative minimum calculation is computed on a consolidated return, the gross profits of the affiliated group shall include the total gross profits from all sources of the affiliated group, including eliminating entries for transactions among the group.

(13) As used in subsections (11) and (12) of this section:

(a) "Kentucky gross receipts" means an amount equal to the computation of the numerator of the sales factor under the provisions of KRS 141.120(8)(c);

(b) "Gross receipts from all sources" means an amount equal to the computation of the denominator of the sales factor under the provisions of KRS 141.120(8)(c); and

(c) The terms defined in KRS 141.0401(1)(d) to (l) shall have the same meaning as provided in KRS 141.0401.

(14)

(a) For taxable years beginning on or after January 1, 2007, an S corporation shall pay income tax on the same items of income and in the same manner as required for federal purposes, except to the extent required by differences between this chapter and the federal income tax law and regulations.

(b) 1. If the S corporation is required under Section 1363(d) of the Internal Revenue Code to submit installments of tax on the recapture of LIFO benefits, installments to pay the Kentucky tax due shall be paid on or before the due date of the S corporation's return, as extended, if applicable.

2. Notwithstanding KRS 141.170(3), no interest shall be assessed on the installment payment for the period of extension.

(c) If the S corporation is required under Section 1374 or 1375 of the Internal Revenue Code to pay tax on built-in gains or on passive investment income, the amount of tax imposed by this subsection shall be computed by applying the highest rate of tax for the taxable year.

141.0401. Limited liability entity tax – Exemptions – Rate.

(1) As used in this section:

(a) "Kentucky gross receipts" means an amount equal to the computation of the numerator of the sales factor under the provisions of KRS 141.120(8)(c), and includes the proportionate share of Kentucky gross receipts of all wholly or partially owned limited liability pass-through entities, including all layers of a multi-layered pass-through structure;

(b) "Gross receipts from all sources" means an amount equal to the computation of the denominator of the sales factor under the provisions of KRS 141.120(8)(c), and includes the proportionate share of gross receipts from all sources of all wholly or partially

owned limited liability pass-through entities, including all layers of a multi-layered pass-through structure;

(c) "Combined group" means all members of an affiliated group as defined in KRS 141.200(9)(b) and all limited liability pass-through entities that would be included in an affiliated group if organized as a corporation;

(d) "Cost of goods sold" means:

1. Amounts that are:
   a. Allowable as cost of goods sold pursuant to the Internal Revenue Code and any guidelines issued by the Internal Revenue Service relating to cost of goods sold, unless modified by this paragraph; and
   b. Incurred in acquiring or producing the tangible product generating the Kentucky gross receipts.
2. For manufacturing, producing, reselling, retailing, or wholesaling activities, cost of goods sold shall only include cost directly incurred in acquiring or producing the tangible product. In determining cost of goods sold:
   a. Labor cost shall be limited to direct labor costs as defined in paragraph (f) of this subsection;
   b. Bulk delivery cost as defined in paragraph (g) of this subsection may be included; and
   c. Costs allowable under Section 263A of the Internal Revenue Code may be included only to the extent the costs are incurred in acquiring or producing the tangible product generating the Kentucky gross receipts. Notwithstanding the foregoing, indirect labor costs allowable under Section 263A shall not be included;
3. For any activity other than manufacturing, producing, reselling, retailing, or wholesaling, no costs shall be included in cost of goods sold.

As used in this paragraph, "guidelines issued by the Internal Revenue Service" includes regulations, private letter rulings, or any other guidance issued by the Internal Revenue Service that be relied upon by taxpayers under reliance standards established by the Internal Revenue Service;

(e) 1. "Kentucky gross profits" means Kentucky gross receipts reduced by returns and allowances attributable to Kentucky gross receipts, less the cost of goods sold attributable to Kentucky gross receipts. If the amount of returns and allowances attributable to Kentucky gross receipts and the cost of goods sold attributable to Kentucky gross receipts is zero, then "Kentucky gross profits" means Kentucky gross receipts; and

2. "Gross profits from all sources" means gross receipts from all sources reduced by returns and allowances attributable to gross receipts from all sources, less the cost of goods sold attributable to gross receipts from all sources. If the amount of returns and allowances attributable to gross receipts from all sources and the cost of goods sold attributable to gross receipts from all sources is zero, then gross profits from all sources means gross receipts from all sources;

(f) "Direct labor" means labor that is incorporated into the tangible product sold or is an integral part of the manufacturing process;

(g) "Bulk delivery costs" means the cost of delivering the product to the consumer if:

1. The tangible product is delivered in bulk and requires specialized equipment that generally precludes commercial shipping; and
2. The tangible product is taxable under KRS 138.220;

(h) "Manufacturing" and "producing" means:
1. Manufacturing, producing, constructing, or assembling components to produce a significantly different or enhanced end tangible product;
2. Mining or severing natural resources from the earth; or
3. Growing or raising agricultural or horticultural products or animals;

(i) "Real property" means land and anything growing on, attached to, or erected on it, excluding anything that may be severed without injury to the land;

(j) "Reselling," "retailing," and "wholesaling" mean the sale of a tangible product;

(k) "Tangible personal property" means property, other than real property, that has physical form and characteristics; and

(l) "Tangible product" means real property and tangible personal property;

(2) (a) For taxable years beginning on or after January 1, 2007, an annual limited liability entity tax shall be paid by every corporation and every limited liability pass-through entity doing business in Kentucky on all Kentucky gross receipts or Kentucky gross profits except as provided in this subsection. The tax shall be the greater of the amount computed under paragraph (b) of this subsection or one hundred seventy-five dollars ($175), regardless of the application of any tax credits provided under this chapter or any other provisions of the Kentucky Revised Statutes for which the business entity may qualify.

(b) The limited liability entity tax shall be the lesser of subparagraph 1. or 2. of this paragraph:

1.
a. If the corporation's or limited liability pass-through entity's gross receipts from all sources are three million dollars ($3,000,000) or less, the limited liability entity tax shall be zero;
b. If the corporation's or limited liability pass-through entity's gross receipts from all sources are greater than three million dollars ($3,000,000) but less than six millions dollars ($6,000,000), the limited liability entity tax shall be nine and one-half cents ($0.095) per one hundred dollars ($100) of the corporation's or limited liability pass-through entity's Kentucky gross receipts reduced by an amount equal to two thousand eight hundred fifty dollars ($2,850) multiplied by a fraction, the numerator of which is six million dollars ($6,000,000) less the amount of the corporation's or limited liability pass-through entity's Kentucky gross receipts for the taxable year, and the denominator of which is three million dollars ($3,000,000), but in no case shall the result be less than zero;
c. If the corporation's or limited liability pass-through entity's gross receipts from all sources are equal to or greater than six million dollars ($6,000,000), the limited liability entity tax shall be nine and one-half cents ($0.095) per one hundred dollars ($100) of the corporation's or limited liability pass-through entity's Kentucky gross receipts.

2.
a. If the corporation's or limited liability pass-through entity's gross profits from all sources are three million dollars ($3,000,000) or less, the limited liability entity tax shall be zero;

b. If the corporation's or limited liability pass-through entity's gross profits from all sources are at least three million dollars ($3,000,000) but less than six million dollars ($6,000,000), the limited liability entity tax shall be seventy-five cents ($0.75) per one hundred dollars ($100) of the corporation's or limited liability pass-through entity's Kentucky gross profits, reduced by an amount equal to twenty-two thousand five hundred dollars ($22,500) multiplied by a fraction, the numerator of which is six million dollars ($6,000,000) less the amount of the corporation's or limited liability pass-through entity's Kentucky gross profits, and the denominator of which is three million dollars ($3,000,000), but in no case shall the result be less than zero;

c. If the corporation's or limited liability pass-through entity's gross profits from all sources are equal to or greater than six million dollars ($6,000,000), the limited liability entity tax shall be seventy-five cents ($0.75) per one hundred dollars ($100) of all of the corporation's or limited liability pass-through entity's Kentucky gross profits.

In determining eligibility for the reductions contained in this paragraph, a member of a combined group shall consider the combined gross receipts and the combined gross profits from all sources of the entire combined group, including eliminating entries for transactions among the group.

(c) A credit shall be allowed against the tax imposed under paragraph (a) of this subsection for the current year to a corporation or limited liability pass-through entity that owns an interest in a limited liability pass-through entity. The credit shall be the proportionate share of tax calculated under this subsection by the lower-level pass-through entity, as determined after the amount of tax calculated by the pass-through entity has been reduced by the minimum tax of one hundred seventy-five dollars ($175). The credit shall apply across multiple layers of a multilayered pass-through entity structure. The credit at each layer shall include the credit from each lower layer, after reduction for the minimum tax of one hundred seventy-five dollars ($175) at each layer.

(d) The department may promulgate administrative regulations to establish a method for calculating the cost of goods sold attributable to Kentucky.

(3) A nonrefundable credit based on the tax calculated under subsection (2) of this section shall be allowed against the tax imposed by KRS 141.020 or 141.040. The credit amount shall be determined as follows:

(a) The credit allowed a corporation subject to the tax imposed by KRS 141.040 shall be equal to the amount of tax calculated under subsection (2) of this section for the current year after subtraction of any credits indentified in KRS 141.0205, reduced by the minimum tax of one hundred seventy-five dollars ($175), plus any credit determined in paragraph (b) of this subsection for tax paid by wholly or partially owned limited liability pass-through entities. The amount of credit allowed to a corporation based on the amount of tax paid under subsection (2) of this section for the current year shall be applied to the income tax due from the corporation's activities in this state. Any remaining credit from the corporation shall be disallowed.

(b) The credit allowed members, shareholders, or partners of a limited liability pass-through entity shall be the members', shareholders', or partners' proportionate

share of the tax calculated under subsection (2) of this section for the current year after subtraction of any credits indentified in KRS 141.0205, as determined after the amount of tax paid has been reduced by the minimum tax of one hundred seventy-five dollars ($175). The credit allowed to members, shareholders, or partners of a limited liability pass-through entity shall be applied to income tax assessed on income from the limited liability pass-through entity. Any remaining credit from the limited liability pass-through entity shall be disallowed.

(4) Each taxpayer subject to the tax imposed in this section shall file a return, on forms prepared by the department, on or before the fifteenth day of the fourth month following the close of the taxpayer's taxable year. Any tax remaining due after making the payments required in KRS 141.042 shall be paid by the original due date of the return.

(5) The department shall prescribe forms and promulgate administrative regulations as needed to administer the provisions of this section.

(6) The tax imposed by subsection (2) of this section shall not apply to:

(a) Financial institutions, as defined in KRS 136.500, except, banker's banks organized under KRS 287.135 or 286.3-135;

(b) Savings and loan associations organized under the laws of this state and under the laws of the United States and making loans to members only;

(c) Banks for cooperatives;

(d) Production credit associations;

(e) Insurance companies, including farmers' or other mutual hail, cyclone, windstorm, or fire insurance companies, insurers, and reciprocal underwriters'

(f) Corporations or other entities exempt under Section 501 of the Internal Revenue Code;

(g) Religious, educational, charitable, or like corporations not organized or conducted for pecuniary profit;

(h) Corporations whose only owned or leased property located in this state is located at the premises of a printer with which it has contracted for printing, provided that:

1. The property consists of the final printed product, or copy from which the printed product is produced; and
2. The corporation has no individuals receiving compensation in this state as provided in KRS 141.120(8)(b);

(i) Public service corporations subject to tax under KRS 136.120;

(j) Open-end registered investment companies organized under the laws of this state and registered under the Investment Company Act of 1940;

(k) Any property or facility which has been certified as a fluidized bed energy production facility as defined in KRS 211.390;

(l) An alcohol production facility as defined in KRS 247.910;

(m) Real estate investment trusts as defined in KRS 247.910;

(n) Regulated investment companies as defined in Section 851 of the Internal Revenue Code;

(o) Real estate mortgage investment conduits as defined in Section 860D of the Internal Revenue Code;
(p) Personal service corporations as defined in Section 269A(b)(1) of the Internal Revenue Code;
(q) Cooperative described in Section 521 and 1381 of the Internal Revenue Code, including farmers' agricultural and other cooperatives organized or recognized under KRS Chapter 272, advertising cooperatives, purchasing cooperatives, homeowners associations including those described in Section 528 of the Internal Revenue Code, political organizations as defined in Section 527 of the Internal Revenue Code, and rural electric and rural telephone cooperatives; and
(r) Publicly traded partnerships as defined by Section 7704(b) of the Internal Revenue Code that are treated as partnerships for federal tax purposes under Section 7704(c) of the Internal Revenue Code, or their publicly traded partnership affiliates. "Publicly traded partnership affiliates" shall include any limited liability company or limited partnership for which at least eighty percent (80%) of the limited liability company member interests or limited partner interests are owned directly or indirectly by the publicly traded partnership.

(7)
(a) As used in this subsection, "qualified exempt organization" means an entity listed in subsection (6)(a) to (r) of this section and shall not include any entity whose exempt status has been disallowed by the Internal Revenue Service.
(b) Notwithstanding any other provisions of this section, any limited liability pass-through entity that is owned in whole or in part by a qualified exempt organization shall, in calculating its Kentucky gross receipts or Kentucky gross profits, exclude the proportionate share of its Kentucky gross receipts or Kentucky gross profits attributable to the ownership interest of the qualified exempt organization.
(c) Any limited liability pass-through entity that reduces Kentucky gross receipts or Kentucky gross profits in accordance with paragraph (b) of this subsection shall disregard the ownership interest of the qualified exempt organization in determining the amount of credit available under subsection (3) of this section.
(d) The Department of Revenue may promulgate an administrative regulation to further define "qualified exempt organization" to include an entity for which exemption is constitutionally or legally required, or to exclude any entity created primarily for tax avoidance purposes with no legitimate business purpose.

(8) The credit permitted by subsection (3) of this section shall flow through multiple layers of limited liability pass-through entities and shall be claimed by the taxpayer who ultimately pays the tax on the income of the limited liability pass-through entity.

141.206. Filing of returns by pass-through entities—withholding requirements on owners of pass-through entities—Apportionment issues for pass-through entities—Composite returns.

(1) As used in this section unless the context requires otherwise:
   (a) For taxable years beginning after December 31, 2004, and before January 1, 2007, "pass-through entity" means a general partnership not subject to the tax imposed by KRS 141.040, including any publicly traded partnership as defined by Section 7704(b) of the Internal Revenue Code that is treated as a partnership for federal tax purposes under Section 7704(c) of the Internal Revenue Code and its publicly traded partnership affiliates. "Publicly traded partnership affiliates" shall include any limited liability company or limited partnership for which at least eighty percent (80%) of the limited liability company member interests or limited partner interests are owned directly or indirectly by the publicly traded partnership; and
   (b) For all other taxable years, "pass-through entity" means pass-through entity as defined in KRS 141.010.

(2) Every pass-through entity doing business in this state shall, on or before the fifteenth day of the fourth month following the close of its annual accounting period, file a copy of its federal tax return with the form prescribed and furnished by the department.

(3) Pass-through entities shall determine net income in the same manner as in the case of an individual under KRS 141.010(9) to (11) and the adjustment required under Sections 703(a) and 1363(b) of the Internal Revenue Code. Computation of net income under this section and the computation of the partner's, member's, or shareholder's distributive share shall be computed as nearly as practicable identical with those required for federal income tax purposes except to the extent required by differences between this chapter and the federal income tax law and regulations.

(4)
   (a) Individuals, estates, trusts, or corporations doing business in this state as a partner, member, or shareholder in a pass-through entity shall be liable for income tax only in their individual, fiduciary, or corporate capacities, and no income tax shall be assessed against the net income of any pass-through entity, except as required for S corporations by KRS 141.040(14).
   (b) 1. Every pass-through entity required to file a return under subsection (2) of this section, except publicly traded partnerships as defined in KRS 141.0401(6)(r), shall withhold Kentucky income tax on the distributive share, whether partner, member, or shareholder, or each corporate partner or member that is doing business in Kentucky only through its ownership interest in a pass-through entity. Withholding shall be at the maximum rate provided in KRS 141.020 or 141.040.
   2. If a pass-through entity demonstrates to the department that a partner, member, or shareholder has filed an appropriate tax return for the prior year with the department, then the pass-through entity shall not be required to withhold on that partner, member, or shareholder for the current year unless the exemption from withholding has been revoked pursuant to subparagraph 3. of this paragraph.
   3. An exemption from withholding shall be considered revoked if the partner, member, or shareholder does not file and pay all taxes due in a timely manner. An exemption so revoked shall be reinstated only with permission of the department. If a partner,

member, or shareholder who has been exempted from withholding does not file a return or pay the tax due, the department may require a pass-through entity to pay to the department the amount that should have been withheld, up to the amount of the partner's, member's or shareholder's ownership interest in the entity. The pass-through entity shall be entitled to recover a payment made pursuant to this subparagraph from the partner, member, or shareholder on whose behalf the payment was made.

(c) The department may promulgate administrative regulations as needed to implement this subsection.

(5) In determining the tax under this chapter, a resident individual, estate, or trust that is a partner, member, or shareholder in a pass-through entity shall take into account the partner's, member's, or shareholder's total distributive share of the pass-through entity's items of income, loss, deduction, and credit.

(6) In determining the tax under this chapter, a nonresident individual estate, or trust that is a partner, member, or shareholder in a pass-through entity required to file a return under subsection (2) of this section shall take into account:

(a) 1. If the pass-through entity is doing business only in this state, the partner's, member's, or shareholder's total distributive share of the pass-through entity's items of income, loss, or deduction; or

2. If the pass-through entity is doing business both within and without this state, the partner's, member's, or shareholder's distributive share of the pass-through entity's items of income, loss, and deduction multiplied by the apportionment fraction of the pass-through entity as prescribed in subsection (9) of this section; and

(b) The partner's, member's or shareholder's total distributive share of credits of the pass-through entity.

(7) A corporation that is subject to tax under KRS 141.040 and is a partner or member in a pass-through entity shall take into account the corporation's distributive share of the pass-through entity's items of income, loss, and deduction and:

(a) For taxable years beginning prior to January 1, 2007, the items of income, loss, and deduction, when applicable, shall be multiplied by the apportionment fraction of the pass-through entity's items of income, loss, and deduction and:

(b) For taxable years beginning on or after January 1, 2007:

1. A corporation that owns an interest in a limited liability pass-through entity or that owns an interest in a general partnership organized or formed as a general partnership after January 1, 2006, shall include the proportionate share of the sales, property, and payroll of the limited liability pass-through entity or general partnership in computing its own apportionment factor;

2. A corporation that owns an interest in a general partnership organized or formed on or before January 1, 2006, shall follow the provisions of paragraph (a) of this subsection; and

(c) Credits from the partnership.

(8)

(a) If a pass-through entity is doing business both within and without this state, the pass-through entity shall compute and furnish to each partner, member, or shareholder the numerator and denominator of each factor of the apportionment fraction determined in accordance with subsection (9) of this section.

(b) For purposes of determining an apportionment fraction under paragraph (a) of this subsection, if the pass-through entity is:
1. Doing business both within and without this state; and
2. A partner or member in another pass-through entity;
then the pass-through entity shall be deemed to own the pro rata share of the property owned or leased by the other pass-through entity, and shall also include its pro rata share of the other pass-through entity's payroll and sales.

(c) The phrases "a partner or member in another pass-through entity" and "doing business both within and without this state" shall extend to each level of multiple-tiered pass-through entities.

(d) The attribution to the pass-through entity of the pro rata share of property, payroll and sales from its role as a partner or member in another pass-through entity will also apply when determining the pass-through entity's ultimate apportionment factor for property, payroll and sales as required under subsection (9) of this section.

(9) A pass-through entity doing business within and without the state shall compute an apportionment fraction, the numerator of which is the property factor, representing twenty-five percent (25%) of the fraction, plus the payroll factor, representing twenty-five percent (25%) of the fraction, plus the sales factor, representing fifty percent (50%) of the fraction, with each factor determined in the same manner as provided in KRS 141.120(8), and the denominator of which is four (4), reduced by the number of factors, if any, having no denominator, provided that if the sales factor has no denominator, then the denominator shall be reduced by two (2).

(10) Resident individuals, estates, or trusts that are partners in a partnership, members of a limited liability company electing partnership tax treatment for federal income tax purposes, owners of single member limited liability companies, or shareholders in an S corporation which does not do business in this state are subject to tax under KRS 141.020 on federal net income, gain, deduction, or loss passed through the partnership, limited liability company, or S corporation.

(11) An S corporation election made in accordance with Section 1362 of the Internal Revenue Code for federal tax purposes is a binding election for Kentucky tax purposes.

(12)

(a) Nonresident individuals shall not be taxable on investment income distributed by a qualified investment partnership. For purposes of this subsection, a "qualified investment partnership" means a pass-through entity that, during the taxable year, holds only investments that produce income that would not be taxable to a nonresident individual if held or owned individually.

(b) A qualified investment individual partnership shall be subject to all other provisions relating to a pass-through entity under this section and shall not be subject to the tax imposed under KRS 141.040 or 141.0401.

(13)

(a) A pass-through entity may file a composite income tax return on behalf of electing nonresident individual partners, members, or shareholders, reporting and paying income tax at the highest marginal rate provided in this chapter on the partners', members', or shareholders' pro rata or distributive shares of income of the pass-

through entity from doing business in, or deriving income from sources within, this state. The partners', members', or shareholders' pro rata or distributive share of income shall include all items of income or deduction used to compute adjusted gross income on the Kentucky return that is passed through to the partner, member, or shareholder by the pass-through entity, including, but not limited to interest, dividend, capital gains and losses, guaranteed payments, and rents.

(b) A nonresident individual partner, member, or shareholder whose only source of income within this state is distributive share income from one (1) or more pass-through entities may elect to be included in a composite return filed pursuant to this section.

(c) A nonresident individual partner, member, or shareholder that has been included in a composite return may file an individual income tax return and shall receive credit for tax paid on the partner's behalf by the pass-through entity.

(d) A pass-through entity shall deliver to the department a return upon a form prescribed by the department showing the total amounts paid or credited to its electing nonresident individual partners, members, or shareholders, the amount paid in accordance with this subsection, and any other information the department may require. A pass-through entity shall furnish to its nonresident partner, member, or shareholder annually, but not later than the fifteenth day of the fourth month after the end of its taxable year, a record of the amount of tax paid on behalf of the partner, member, or shareholder on a form prescribed by the department.

APPENDIX