

KY Tax Modernization

2005 Individual Income Tax and Sales & Excise Taxes

(Revised January 25, 2006)



DEPARTMENT OF REVENUE

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Foreword from the Commissioner

Mark A. Treesh, CPA, CMA

In March of this year the Governor signed into law HB 272, the most sweeping tax change in the history of the Commonwealth. Significant changes were made in the way that Kentucky taxes businesses and individuals, and that has been the cause of no small amount of uncertainty on what the impact of all this will be on both taxpayers and tax preparers.

We at the Department of Revenue have been working since the bill was passed to prepare for the full implementation of the new act. We have been making changes in computer systems, forms, and regulations and we have been doing our best to provide information as soon as it is ready.

We are glad to be able to assist in this explanation of the new tax law. This program would not have come together if it were not for the efforts of many dedicated tax administrators at the Department of Revenue. They are truly among the finest tax professionals with whom I have had the privilege to work. We certainly also appreciate the efforts of all the tax preparers outside the Department who have contributed much time and effort. Their input has been invaluable.

It is my goal as Commissioner that we implement tax modernization in a way that is as simple as the law will allow for both taxpayers and tax preparers. This manual and the seminars in which it will be used will do much to accomplish that goal. I would further encourage everyone to follow the latest Kentucky tax developments on our website at <http://revenue.ky.gov/>. It is the best source for the latest news on tax administration.

Frankfort, KY
October, 2005

Taxpayer Assistance

If you file your return with the department's preprinted labels affixed to the envelope and the tax return, you will be able to access information about the receipt of your return using a touch-tone telephone. This information is available through the Automated Refund and Tax Information System (ARTIS). **Receipt of the return can only be verified with the use of the bar-coded labels.** *Use of the labels does not increase your chance of audit or in any other way subject your return to closer examination by the Department of Revenue.*



ARTIS also provides information on the status of your income tax refund after the tax return has been processed. A touch-tone telephone and the following information from your return will be required: the first Social Security number on your return and the **exact** whole-dollar amount of refund.

Once you have the required information, call (502) 564-1600 and follow the recorded instructions.

If during the call you do not receive a refund mailing date, please allow seven days before calling again.

Information and forms are available from Kentucky Taxpayer Service Centers in the following cities.

Ashland

134 Sixteenth Street, 41101-7670
(606) 920-2037

Bowling Green

201 West Professional Park Court, 42104-3278
(270) 746-7470

Central Kentucky (Frankfort)

200 Fair Oaks Lane, 40620-0001
(502) 564-4581 (General Information)
(502) 564-3058 (Telecommunication Device
for the Deaf)
(502) 564-3658 (Forms)
www.revenue.ky.gov (Internet)

Corbin

15100 North US 25E
Suite 2, 40701-6188
(606) 528-3322

Hopkinsville

181 Hammond Drive, 42240-7926
(270) 889-6521

Louisville

620 South Third Street
Suite 102, 40202-2446
(502) 595-4512

Northern Kentucky

Turfway Ridge Office Park
7310 Turfway Road, Suite 190
Florence, 41042-4871
(859) 371-9049

Owensboro

311 West Second Street, 42301-0734
(270) 687-7301

Paducah

Clark Business Complex, Suite G
2928 Park Avenue, 42001-4024
(270) 575-7148

Pikeville

Uniplex Center
126 Trivette Drive, Suite 203, 41501-1275
(606) 433-7675

Filing Tips

- ✓ **File** early!
- ✓ **File** electronically and use direct deposit or direct debit.
- ✓ **Avoid** delays by attaching all necessary forms and W-2s.
- ✓ **Exclude** up to \$41,110 of any IRA, pension or retirement plan distribution, even if you are not retired.
- ✓ **Pay** use tax due on out-of-state purchases and avoid penalties and interest.



YOUR RIGHTS AS A KENTUCKY TAXPAYER

The mission of the Kentucky Department of Revenue (DOR) is to administer tax laws, collect revenue, and provide services in a fair, courteous, and efficient manner for the benefit of the Commonwealth and its citizens.

As a Kentucky taxpayer, you have the right to expect the DOR to honor its mission and uphold your rights every time you contact or are contacted by the DOR.

RIGHTS OF TAXPAYER

Privacy—You have the right to privacy of information provided to the DOR.

Assistance—You have the right to advice and assistance from the DOR in complying with state tax laws.

Explanation—You have the right to a clear and concise explanation of:

- basis of assessment of additional taxes, interest and penalties, or the denial or reduction of any refund or credit claim;
- procedure for protest and appeal of a determination of the DOR; and
- tax laws and changes in tax laws so that you can comply with the law.

Protest and Appeal—You have the right to protest and appeal a determination of the DOR if you disagree with an assessment of tax or penalty, reduction or a denial of a refund, a revocation of a license or permit, or other determination made by the DOR.

Conference—You have the right to a conference to discuss a tax matter.

Representation—You have the right to representation by your authorized agent (attorney, accountant or other person) in any hearing or conference with the DOR. You have the right to be informed of this right prior to the conference or hearing. If you intend for your representative to attend the conference or hearing in your place, you may be required to give your representative a power of attorney before the DOR can discuss tax matters with your authorized agent.

Recordings—You have the right to make an audio recording of any meeting, conference or hearing with the DOR, or to be notified in advance if the DOR plans to record the proceedings and to receive a copy of any recording.

Consideration—You have the right to consideration of:

- waiver of penalties or collection fees if "reasonable cause" for reduction or waiver is given ("reasonable cause" is defined in KRS 131.010(9) as: "an event, happening, or circumstance entirely beyond the knowledge or control of a taxpayer who has exercised due care and prudence in the filing of a return or report or the payment of monies due the department pursuant to law or administrative regulation");
- installment payments of delinquent taxes, interest and penalties;

- waiver of interest and penalties, but not taxes, resulting from incorrect written advice from the DOR if all facts were given and the law did not change or the courts did not issue a ruling to the contrary;

- extension of time for filing reports or returns; and
- payment of charges incurred resulting from an erroneous filing of a lien or levy by the DOR.

Guarantee—You have the right to a guarantee that DOR employees are not paid, evaluated or promoted based on taxes assessed or collected, or a tax assessment or collection quota or goal imposed or suggested.

Damages—You have the right to file a claim for actual and direct monetary damages with the Kentucky Board of Claims if a DOR employee willfully, recklessly and intentionally disregards your rights as a Kentucky taxpayer.

Interest—You have the right to receive interest on an overpayment of tax, except delinquent property tax, payable at the same rate you would pay if you underpaid your tax.

DEPARTMENT OF REVENUE RESPONSIBILITIES

The DOR has the responsibility to:

- perform audits, conduct conferences and hearings with you at reasonable times and places;
- authorize, require or conduct an investigation or surveillance of you only if it relates to a tax matter;
- make a written request for payment of delinquent taxes which are due and payable at least 30 days prior to seizure and sale of your assets;
- conduct educational and informational programs to help you understand and comply with the laws;
- publish clear and simple statements to explain tax procedures, remedies, your rights and obligations, and the rights and obligations of the DOR;
- notify you in writing when an erroneous lien or levy is released and, if requested, notify major credit reporting companies in counties where lien was filed;
- advise you of procedures, remedies and your rights and obligations with an original notice of audit or when an original notice of tax due is issued, a refund or credit is denied or reduced, or whenever a license or permit is denied, revoked or canceled;
- notify you in writing prior to termination or modification of a payment agreement;
- furnish copies of the agent's audit workpapers and a written narrative explaining the reason(s) for the assessment;
- resolve tax controversies on a fair and equitable basis at the administrative level whenever possible; and
- notify you in writing at your last known address at least 60 days prior to publishing your name on a list of delinquent taxpayers for which a tax or judgment lien has been filed.

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PROTEST AND APPEAL PROCEDURE

Protest—If you receive a notice of assessment, a Notice of Tax Due for tax or penalty or if the DOR notifies you that a tax refund or credit has been reduced or denied, a license or permit revoked or denied, or other determination made by the DOR, you have the right to protest. To do so:

- submit a written protest within 45 days from the original notice date;
- identify the type of tax involved and give the account number, Social Security number or other identification number and attach a copy of the DOR notice of determination to support that protest is timely;
- explain why you disagree;
- attach any proof or documentation available to support your protest or request additional time to support your protest;
- sign your statement, include your daytime telephone number and mailing address; and
- mail to the Kentucky Department of Revenue, Frankfort, KY 40620.

Conference—If you have not been able to resolve the tax matter through your protest, you have the right to request a conference to discuss the issue.

Independent Informal Review—If you feel after the conference that you have not been treated in a fair and equitable manner, you have the right to request an independent informal review.

Final Ruling—If you do not want to have a conference or if the conference did not resolve your protest, you have the right to request a final ruling of the DOR so that you can appeal your case further.

Appeal—If you do not agree with the DOR's final ruling, you can file a written appeal with the Kentucky Board of Tax Appeals. If you do not agree with the decision of the Kentucky Board of Tax Appeals, you have the right to appeal the ruling to the Kentucky courts (first to the circuit court in your home county or in Franklin County, then to the Kentucky Court of Appeals, and you have the right to request a review by the Kentucky Supreme Court).

Note: The above protest and appeal procedures do not apply for assessments of all types of property tax. Contact the local PVA for information about how to appeal the valuation of real property.

WHERE TO GET ASSISTANCE

The DOR has offices in Frankfort and taxpayer service centers in nine cities and towns throughout Kentucky. DOR employees in the service centers answer tax questions and provide assistance. The office locations and telephone numbers are listed elsewhere in this packet.

The DOR also has a Taxpayer Ombudsman's Office which consists of the Ombudsman and a staff whose job is to serve as an advocate for taxpayers' rights. One of the main functions of the office is to ensure that your rights as a Kentucky taxpayer are protected by the DOR.

Also, an important function of the Taxpayer Ombudsman's Office is to confer with DOR employees when you have a problem or conflict that you have been unable to resolve. However, it is not the role of the Ombudsman's Office to intercede in an audit, handle a protest, waive taxes, penalty or interest, or answer technical tax questions. To file a protest, see PROTEST AND APPEAL PROCEDURE. Please do not mail your protest to the Ombudsman.

The Ombudsman's Office is your advocate and is there to make sure your rights are protected. If you think you are not being treated fairly or if you have a problem or complaint, please contact the Ombudsman's Office so they can help you.

The Taxpayer Ombudsman's Office may be contacted by telephone at (502) 564-7822 (between 8:00 a.m. and 4:30 p.m. weekdays). From a Telecommunication Device for the Deaf (TDD), call (502) 564-3058. The mailing address is: Office of Taxpayer Ombudsman, P.O. Box 930, Frankfort, Kentucky 40602-0930.

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This information merely summarizes your rights as a Kentucky taxpayer and the responsibilities of the Department of Revenue. The Kentucky Taxpayers' Bill of Rights may be found in the Kentucky Revised Statutes (KRS) at Chapter 131.041—131.081. Additional rights and responsibilities are provided for in KRS 131.020, 131.110, 131.170, 131.183, 131.500, 133.120, 133.130, 134.580 and 134.590.

KY Tax Modernization

Individual Income Tax

- Chapter 1** - Internal Revenue Code Update
- Chapter 2** - Business Incentive & Other Tax Credits
- Chapter 3** - New Individual Income Tax Credits
- Chapter 4** - KY Individual Income Tax Forms & Publications
- Chapter 5** - 2005 Session of the KY General Assembly
- Chapter 6** - Other Changes to Individual Income Tax

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.

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 or regulatory authority.

Chapter One – Internal Revenue Code Update

Updating the Reference to Internal Revenue Code

(Effective for tax periods beginning on or after Jan. 1, 2005, except where otherwise indicated.) Kentucky uses the Internal Revenue Code as the basis or 'beginning point' for Kentucky income taxes. By updating the reference date, Kentucky's tax laws conform more closely to federal laws, providing ease of filing for taxpayers and ease of administering by the Department of Revenue. House Bill 272 updates the IRC reference date to Dec. 31, 2004, with three exceptions, as the basis for Kentucky income taxes.

The exceptions are:

1. For property placed in service after September 10, 2001, only the depreciation and expense deductions allowed under Sections 168 and 179 of the IRC in effect on Dec. 31, 2001, exclusive of any amendments made subsequent to that date, shall be allowed. Depreciation calculations are based on the Code in effect at December 31, 2001. This continues depreciation calculations without the bonus depreciation allowed after September 11, 2001. This is not a change. Corporations and individuals will continue to use the methods in place prior to September 11, 2001.
2. The provisions of the Military Family Tax Relief Act of 2003, Pub. L. No. 108-121, are effective on the dates specified in that act. Individuals who were impacted unfavorably should file an amended return. The provisions of MFTRA that now apply for Kentucky, include but are not limited, to the following:
 - **Military Death Benefit**—MFTRA increases the excludable amount for federal tax purposes to \$12,000 (effective with respect to deaths occurring after September 10, 2001).
 - **Benefits for Astronauts**—Exclusion for certain income and death benefits of astronauts who have lost their lives on a space mission (effective for qualified individuals whose lives are lost after December 31, 2002).
 - **Homeowner's Assistance**—An exclusion for amounts received by certain employees and members of the armed forces under the federal Department of Defense Homeowners Assistance Program, which is designed to offset the adverse effects on housing values that result from a military base realignment or foreclosure (effective for payments made after November 11, 2003).

- **National Guard and Reserve Travel**—An above-the-line deduction for overnight transportation, meals, and lodging expenses of National Guard and Reserve members who must travel away from home more than 100 miles and who must stay overnight to attend National Guard and Reserve meetings (effective with respect to amounts paid or incurred in taxable years beginning after 2002). Kentucky National Guard and Reserve members may deduct expenses as a miscellaneous itemized deduction subject to the 2% floor. Form 2106 is required.
- **Home Sale Exclusion**—The five-year test period for ownership and use of a residence to be suspended for up to 10 years in excluding gain from the sale or exchange of a principal residence, if during the period of the suspension the individual or the individual's spouse is serving on qualified official extended duty in the uniformed services or the Foreign Service of the United States (effective for sales or exchanges made after May 6, 1997).

3. Kentucky will not allow the deduction for state and local general sales and use taxes in lieu of state and local income taxes. KRS 141.010(11)(a) was amended to deny the deduction.

KRS 141.010 (11)(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.

Under the provisions of KRS 141.050, the Department of Revenue (DOR) generally follows the administrative regulations and rulings of the Internal Revenue Service including accounting methods and procedures in those areas where no specific Kentucky law exists. KRS 141.050 provides that changes to federal income tax law made after the IRC reference date contained in KRS 141.010(3) shall not apply for purposes of Chapter 141 unless specifically adopted by the General Assembly.

Changes to the IRC that impact income must be either added to or subtracted from federal adjusted gross income using Schedule M, Kentucky Federal Adjusted Gross Income Modifications. Changes that impact federal itemized deductions should be ignored in completing Kentucky Schedule A, Itemized Deductions. The following provisions are summarized and not intended to be inclusive.

Exceptions to the Code enacted after December 31, 2004:

Charitable Deduction Extension for Tsunami Donations—H.R. 241, passed on January 6 and signed by the President into law on January 7, 2005, permits accelerated tax deductions for charitable cash donations made to assist victims of the recent tsunami in the Indian Ocean. Specifically, the bill allows taxpayers to claim a tax deduction in tax year 2004 for cash gifts made specifically for tsunami disaster relief until January 31, 2005.

***TIP:** Kentucky taxpayers must claim a tax deduction for tsunami-related gifts made until January 31, 2005, on the 2005 tax return.*

Disaster Relief Exclusion Legislation—On April 15, 2005, the President signed legislation (H.R. 1134) designed to create federal income tax exclusion for disaster relief mitigation payments. The new law also treats certain dispositions of property under hazard mitigation programs as involuntary conversions. The law applies with retroactive effect and would be available to taxpayers with respect to any tax years still open under the statute of limitations. The legislation was primarily designed to reverse a ruling from the IRS in June, 2004 that determined grants from the Federal Emergency Management Agency (FEMA) were taxable income.

Bankruptcy Reform Legislation—On April 20, 2005, the President signed the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005. The effective date for the majority of the provisions is 180 days after signing, or October 17, 2005. Included in the tax title of the legislation are a number of provisions addressing various aspects of the treatment under the bankruptcy laws of tax obligations, claims and liens. Also addressed in the consumer protection title of the legislation is protection for tax-favored retirement and education funds.

Energy Legislation—On August 8, 2005, the President signed the Energy Policy Act of 2005. August 8, 2005, therefore, becomes the effective date for the legislation, although many of the provisions specify different effective dates for the particular provision. The legislation includes a tax package with tax breaks related to oil and gas production, distribution and refining; electricity reliability; renewable and clean energy incentives; clean coal; and energy conservation.

Most of the oil and gas incentives relate to more generous write-offs of equipment and exploration costs. In revenue raising offsets modifying the recapture rules for amortizable Code Sec. 197 intangible assets is included.

The electricity reliability provisions include enhanced depreciation write-offs, deductions for nuclear decommissioning fund contributions, deferred taxation of certain gains by utilities on sale of transmission assets, a production tax credit for new nuclear power facilities, and a carryback of net operating losses calculated based on the cost of electric transmission capital and pollution control expenditures.

The clean coal provisions create three tax credits for investments in clean coal facilities, more generous amortization of pollution control facilities, and include the tax credit for fuel produced from non-conventional sources as a general business credit.

New energy conservation incentives tax credits are included for hybrid, fuel cell, advanced lean burn diesel and other alternative power vehicles, replacing the current deduction for clean fuel (including hybrid) vehicles.

TIP: *Kentucky taxpayers may claim the deduction for clean fuel vehicles provided in IRC Section 179A for 2005. The deduction is reduced by 75% in 2006.*

Highway Legislation—On August 10, 2005, President Bush signed the Safe, Accountable, Flexible, and Efficient Transportation Equity Act: A Legacy for Users (SAFETEA-LU). August 10, 2005 now becomes the effective date for the legislation, although specific provisions in the legislation may specify a different effective date for that provision.

Alcohol excise taxes are modified to repeal the special occupational excise taxes relating to alcoholic beverages, create a new income tax credit associated with having excise tax-paid products in inventory, and relax the filing requirements for small distillers, brewers and winemakers.

The legislation also authorizes bonds for highway projects and rail-truck transfer facilities and clarifies the tax treatment of state ownership of railroad real estate investment trusts.

Katrina Tax Relief Legislation—On September 23, 2005, President Bush signed the Katrina Emergency Tax Relief Act of 2005, passed by Congress on September 21, 2005. The measure would provide tax relief for individuals and businesses affected by the hurricane and incentives to promote charitable donations for victims.

The legislation includes provisions that would provide:

1. Penalty-free withdrawals from IRAs and other qualified retirement plans;
2. Tax-free recontributions of withdrawals made for interrupted home purchases;
3. Expanded qualified plan loan limits;
4. Expansion of the work opportunity tax credit;
5. New employee retention credit;
6. Temporary suspension of individual and corporate limitations on charitable contributions and overall limitation on itemized deductions;

7. Increase in standard mileage rate for charitable use of vehicles and exclusion of mileage reimbursement to charitable volunteers;
8. Expanded deduction for contributions of food and book inventories;
9. Exclusions of certain hurricane related cancellations of indebtedness;
10. Suspension of 10% threshold and \$100 floor for casualty losses;
11. Additional exemptions for housing displaced individuals;
12. Election for individuals to calculate their earned income tax credit and refundable child tax credit for 2005 using 2004 earned income;
13. Temporary suspension of first-time homebuyer requirements to permit low-rate mortgages, and,
14. Extension of the replacement period required for non-recognition of gain.

New Domestic Production Deduction

Provision 102 of the American Jobs Creation Act of 2004 passed October 22, 2004, added a deduction based on domestic production activities available to corporations, individuals, S-corporations and partnerships. This provision created a new Internal Revenue Code (IRC) section 199. For pass-through entities, the deduction is based on the activities of the partnership or S corporation, and it is computed at the individual partner or shareholder level. The partner or shareholder is allocated its share of items to compute the deduction via the K-1. This deduction is available for tax years beginning after December 31, 2004.

The IRC section 199 deduction is calculated by taking the qualified production activity gross receipts and then reducing it by cost of goods sold, direct expenses and a portion of the indirect expenses. This results in the taxpayer's qualified production activity income. Taxable income is compared to qualified production activity income and the lesser amount is multiplied by the applicable percentage. For 2005 and 2006, the applicable percentage is 3%; and this applicable percentage increases to 6% for 2007 through 2009 and to 9% for 2010 and after. This calculated amount is then limited by 50% of the W-2 wages paid by the taxpayer.

"Production activities" is defined more broadly than just manufacturing, a qualifying activity. It also includes construction, film production, farming, software development and other production activities. These activities must substantially take place in the United States for the taxpayer to be able to claim the benefit. There is a safe harbor to determine if the product is substantially produced in the United States. Under the safe harbor method, labor and overhead costs incurred by the taxpayer in the United

States for the production of the product must be at least 20% of the total cost of goods sold of the property.

For production gross receipts to qualify, the gross receipts must be the result of a lease, rental, sale, license, exchange or other disposition of the property. There are special rules for film production, utilities, construction, engineering and architectural services, and for food and beverage production. A taxpayer may be required to allocate its gross receipts between qualified domestic production gross receipts and non-qualified domestic production gross receipts. To do this, the taxpayer must use a reasonable method to make this determination. If less than 5% of the total gross receipts are non-qualified, there is a safe harbor that provides that no allocation is required.

Once gross receipts are determined, costs must be allocated to determine the net qualified activity production income. A simplified method is available for businesses that have average annual gross receipts of \$25 million or less.

The W-2 wages limitation is only based on the wages of the taxpayer's common law employees. There are three methods provided to compute the W-2 wages, which include a simplified method based on the total entries in Box 1 or Box 5 of the Form W-2.

Kentucky and other states are waiting on the publication of additional federal guidance on this issue. Once the federal rules are published we can add to those rules and issue guidance on how to take this deduction on the Kentucky return. There will be issues regarding how the deduction is calculated on state corporation income tax returns regarding consolidated filers and pass-through entities. As soon as the Kentucky rules are finalized, they will be published at our website at revenue.ky.gov.

Chapter Two – Business Incentive & Other Tax Credits

General Overview

The General Assembly has passed legislation over the last several years creating direct income tax credits. The law requires certain credits must be utilized before others, may be carried over to succeeding tax years, are lost if not utilized in the current year, and may pass through to a shareholder or partner.

In years prior to 2005, Schedule TC was necessary to claim the credits listed below. However, the 2005 Kentucky Individual Income Tax Returns, Form 740, and Form 740 NP have been revised to include Section A, Business Incentive and Other Credits, which will be used to claim the following non-refundable credits on the returns.

Sequence of Non – Refundable Credits

- KRS 141.420(3)(a) – Corporation Income Tax Credit**
- KRS 141.347, 141.400, 141.403, 141.407, 154.12-2088 – Skills Training Investment Tax Credit and other Economic Development Credits**
- KRS 171.397 – Certified Historic Preservation Credit**
- KRS 141.070 – Credit for Tax Paid to Other States**
- KRS 141.065 – Employer’s Unemployment Tax Credit**
- KRS 141.390 – Recycling and/or Composting Equipment Tax Credit**
- KRS 154.20-263 – Kentucky Investment Fund Tax Credit**
- KRS 141.0405 – Coal Incentive Tax Credit**
- KRS 141.395 – Qualified Research Facilities Tax Credit**
- KRS 151B127(3) – GED – Incentive Tax Credit**
- KRS 141.418 – Environmental Remediation (Brownfields) Credit**
- KRS 141.423 – Biodiesel Credit**
- KRS 154.48-025 – Environmental Stewardship Credit**
- KRS 141.428 – Clean Coal Incentive Credit**

There are four additional non-refundable tax credits available to the individual taxpayer, which are not reflected on Section A, Business Incentive and Other Credits. These are:

- KRS 141.020 – Personal and Dependency Credits**
- KRS 141.066 – Nonrefundable Family Size Tax Credit**
- KRS 141.069 – Education Tuition Credit**
- KRS 141.067 – Household (Child) and Dependent Care**

New Refundable Credit for Individual Taxpayers For 2005

KRS 141.420(3)(c) – Refundable Corporation Income Tax Credit

Economic Development Incentives & Credits

New limits on Kentucky Investment Fund Act (KIFA) Credits—(Effective July 1, 2005.) KIFA tax credits available to any single investment fund are limited to \$1.3 million for all investors and all taxable years. Total KIFA tax credits available for all investors in all investment funds shall not exceed \$5 million per fiscal year. **KRS 154.20-263**

Clean Coal Incentive Credit—(Effective for tax periods ending on or after Dec. 31, 2006.) A potential credit is available to an electricity generation facility certified as using clean coal equipment and technology and burning coal subject to Kentucky's severance tax. The nonrefundable credit may be taken against corporation income, individual income, corporation license and public service property taxes at the rate of \$2 per ton of qualifying coal burned. The credit applies to electricity generation facilities with an investment of more than \$150 million that meet Natural Resources and Environmental Protection Cabinet standards. **KRS 141.428**

Environmental Remediation (Brownfields) Credit—(Effective for tax periods beginning after Dec. 31, 2004.) Taxpayers who agree to clean up or develop an existing abandoned brownfield area may qualify for a nonrefundable credit against corporation or individual income taxes in a maximum amount of \$150,000. The credit may be carried forward for ten successive taxable years. **KRS 141.418**

Environmental Stewardship Credit—(Effective for tax years ending on or after Jan. 31, 2007.) A nonrefundable credit is available against the corporation and individual income taxes for a corporation or individual that undertakes an environmental stewardship project with a minimum investment of at least \$5 million. The Cabinet for Economic Development must approve these projects. The taxpayer must meet certain wage requirements in order to qualify. The credit will cover 100 percent of eligible skills upgrade training costs and up to 25 percent of eligible equipment costs. The project must produce an environmental stewardship product, which is defined to mean a new manufactured product or substantially improved existing manufactured product that has a lesser or reduced adverse effect on human health and the environment. It may also be used for improvement to human health and the environment when compared with existing products or competing products that serve the same purpose. The maximum amount of credit claimed for any single fiscal year may not exceed 25 percent of the total authorized inducement. **KRS 154.48-025**

Biodiesel Credit—(Effective for tax periods beginning on or after Jan. 1, 2005.) A nonrefundable credit may be taken against corporation or individual income taxes for producing or blending biodiesel fuels of up to \$1 per gallon produced or blended, limited to a maximum statewide credit of \$1.5 million. The credit may not be carried forward. **KRS 141.423**

Recycling Tax Credits—(Effective for tax periods beginning after Dec. 31, 2004.) Corporation and individual income tax recycling credits available are expanded for major recyclers who make a significant investment in plant and equipment and who meet certain employment standards. Credits are allowed for up to 50 percent of the cost of new and expanded recycling equipment, limited each taxable year to 50 percent of the total tax liability for the year the credit is claimed over the tax liability for the most recent taxable year ending prior to Jan. 1, 2005, or \$2.5 million, whichever is less. Any unused approved credit may be carried forward for a period of ten years commencing with the date the recycling credit application is approved.

This bill also provides for the recapture of the credit if the equipment is no longer used in a qualifying manner or is sold or disposed of within five years from the date it is purchased, based upon the useful life of the equipment and year of disposition. An exception to the recapture exists in the case of transfers due to death or change in business ownership or organization as long as the equipment remains qualifying equipment. **KRS 141.390**

Historic Preservation Credit—(Effective for tax periods ending on or after Dec. 31, 2005.) This bill allows a nonrefundable credit against corporation or individual income taxes for a portion of the cost of restoring a qualified residential and commercial structure listed on the National Registry of Historic Places. The credit is equal to 30 percent of the rehabilitation expenses, in the case of owner-occupied residential property, and 20 percent of the rehabilitation expenses, in the case of all other property. The total credit available is capped at \$3 million annually, with each individual owner-occupied property receiving no more than \$60,000. **KRS 171.397**

An application for credit must be submitted to the Kentucky Heritage Council within thirty (30) days following the close of a calendar year. The council shall determine the amount of credit approved for each taxpayer and notify the taxpayer and Department of Revenue of the approved credit amount by the thirty first day of the third month following the close of the calendar year.

Credits received under this section may be transferred or assigned, for some or no consideration, along with any related benefits, rights, responsibilities, and liabilities to any entity subject to the tax imposed by KRS 136.505. Within thirty (30) days of the date of any transfer of credits, the party transferring the credits shall notify the Department of Revenue of:

- (a) The name, address, employer identification number, and bank routing and transfer number, of the party to which the credits are transferred;
- (b) The amount of credits transferred; and,
- (c) Any additional information the Department of Revenue deems necessary.

The provisions of this subsection shall apply to any credits that pass through to a successor or beneficiary of a taxpayer.

The taxpayer may carry the excess tax credit forward until the tax credit is used, provided that any tax credits not used within seven (7) years of the taxable year the certified rehabilitation was complete shall be lost.

ECONOMIC DEVELOPMENT INCENTIVES & CREDITS	
<i>INCENTIVE</i>	<i>NEW OR REVISED FORM</i>
Recycling and/or Composting Equipment Tax Credit	Schedule RC Schedule RC (K1) Schedule RC-R Schedule RC-R (K-1)
Environmental Remediation (Brownfields) Credit	Schedule VERB Schedule VERB-S Schedule VERB (K1)
Biodiesel Credit	Schedule BIO Schedule BIO (K1)
Environmental Stewardship Credit	<i>Form will be available in 2006</i>
Clean Coal Incentive Credit	<i>Form will be available in 2006</i>

Chapter Three – New Individual Income Tax Credits

New Individual Income Tax Credits

Corporation Income Tax Base Expansion—(Effective for tax periods beginning on or after Jan. 1, 2005.) The corporation income tax base is expanded to include all limited liability entities (corporations, LLPs, LLCs, including single member LLCs, limited partnerships, and S corporations). Under current law, many of these entities may choose to be taxed as a corporation or as a partnership. Pass-through entities (PTEs), such as Limited Liability Companies (LLC), partnerships with limited liability, and S Corporations for taxable years beginning after December 31, 2004, are taxed as corporations under KRS 141.040. For purposes of this manual, a pass-through entity subject to corporation income tax will be referred to as a PTE.

General partnerships and sole proprietorships will not be subject to the expanded corporation income tax. Publicly traded partnerships and their limited partnership and limited liability company affiliates will be taxed as general partnerships.

Treatment of Non-Individual Owners—Nothing passes through to non-individual owners of PTEs (including income and losses). Income is taxed at the entity level and is not taxed to the non-individual owner.

Treatment of Individual Owners—Partners, members and shareholders of these PTEs shall continue to report and pay individual income tax on the distributive share of net income, gain, loss or deduction determined as nearly as practicable in a manner identical to that required for federal income tax purposes except to the extent required by differences between Kentucky income tax law and federal income tax law and regulations. They will also receive a credit for the tax paid on net income at the entity level based on the same ratio of distributive share income.

KRS 141.420

(1)(a) Every corporation identified in KRS 141.010(24)(b) to (h) that is 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 applicable federal return with the form prescribed and furnished by the department.

(b) For a corporation filing a return under paragraph (a) of this subsection, the individual partner's, member's, or shareholder's distributive share of net income, gain, loss, or deduction shall be computed as nearly as practicable in a manner identical to that required for federal income tax purposes except to the extent required by differences between this chapter and the federal income tax law and regulations.

(2)(a) Resident individuals who are members, partners, or shareholders of a corporation required to file a return under subsection (1)(a) of this section shall report and pay tax on the distributive share of net income, gain, loss, or deduction as determined in subsection (1)(b) of this section.

(b) Nonresident individuals who are members, partners, or shareholders of a corporation required to file a return under subsection (1)(a) of this section shall report and pay tax on the distributive share of net income, gain, loss, or deduction as determined in subsection (1)(b) of this section multiplied by the apportionment fraction in KRS 141.120(8).

(3)(a) Resident and nonresident individuals who are members, shareholders, or partners of a corporation required to file a return under paragraph (a) of subsection (1) of this section shall be entitled to a nonrefundable credit against the tax imposed under KRS 141.020.

(b) The credit determined under this subsection shall be the members', shareholders', or partners' proportionate share of the tax due from the corporation as determined under KRS 141.040, before the application of any credits identified in KRS 141.0205(4) and reduced by the required minimum imposed by KRS 141.040(6).

(c) Notwithstanding the provisions of paragraph (a) of this subsection, for taxable years beginning after December 31, 2004, and before January 1, 2007, the portion of the credit computed under paragraph (b) of this subsection that exceeds the credit that would have been utilized if the corporation's income were taxed at the rates in KRS 141.020 shall be refundable. The refundable portion of the credit shall be the individual members', shareholders', or partners' proportionate share of the amount computed by multiplying the amount the corporation's income exceeds two hundred sixteen thousand six hundred dollars (\$216,600) by one percent (1%).

(d) The credit determined under paragraphs (a) and (b) of this subsection shall not operate to reduce the members', shareholders', or partners' tax due to an amount that is less than that would have been payable were the income attributable to doing business in this state by the corporation ignored.

(4) For purposes of computing the basis of an ownership interest or stock in a corporation identified in KRS 141.010(24)(b) to (h), the basis attributable to a member, partner, or shareholder shall be adjusted by the distributive share of the items of net income, gain, loss and

deduction as though the items had been passed through to the member, partner, or shareholder.

(5) Except as otherwise provided in this chapter, distributions by or from a corporation shall be treated in the same manner as they are treated for federal tax purposes.

What does this mean?

Individuals are required to begin the Kentucky individual income tax return with federal adjusted gross income (FAGI). Adjustments to FAGI are those required by KRS 141.010(10) & (11). KRS 141.010(10) & (11) do not allow for a deduction or exclusion of income taxed on the PTE'S corporation return.

To compensate, a limited nonrefundable credit is provided for in KRS 141.420(3) (b) & (c). Resident and nonresident individuals who are members, shareholders, or partners of a PTE required to file a return are entitled to a credit for the proportionate share of tax due before the application of any credits identified in subsection (4) of KRS 141.0205 and reduced by the \$175 required minimum.

The credit further limited by KRS 141.420(d) to the tax savings if the income taxed on the corporation's return had been omitted on the individual's return, or the proportionate share of tax paid by the entity less the required minimum tax of \$175.00, whichever is less. The limitation is calculated separately for each PTE. The individual tax limitation is zero if the PTE passes through a loss.

In addition, a refundable credit is provided for individual owners for tax periods ending after January 1, 2005 and before January 1, 2007. The credit is based on the 1% difference between the top corporate rate and the top individual rate, and only applies when corporate tax exceeds individual tax on the same income. Specifically, if the corporation has taxable income in excess of \$216,600 the refundable credit is equal to the income over \$216,600 multiplied by one percent (1%).

Individual owners of disregarded single member LLCs (SMLLCs) that file on Schedules C, E, or F for federal income tax shall file Form 725, Kentucky Single Member LLC Corporation Income Tax Return, to compute and pay the corporation income tax. The individual member shall report income or loss from the entity and determine credit in the same manner as other PTEs. The credit shall be calculated separately for each LLC. Income used to compute the limitation shall be based upon the amount of LLC income included in federal adjusted gross income plus or minus any differences between Kentucky income tax law and federal income tax law reported on Schedule M.

For PTEs including SMLLCs that are doing business both within and without Kentucky, the income that is omitted to determine the amount of allowable credit is that portion of the income subject to the corporation income tax. The PTE shall compute and report the amount of nonrefundable and refundable credit available to the partners, members or shareholders.

The Department has provided the worksheet below to assist with determining this limitation. The worksheet will be included in the electronic filing software and you will be able to submit the worksheet electronically to claim the credit. This will allow for additional returns to be filed using ELF.

Kentucky Corporation Tax Credit Worksheet

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

Name _____
 Address _____
 FEIN _____

1. Enter Kentucky taxable income from Form 740, (740NP) Line 11..... _____
2. Enter income included in Line 1 and taxed under KRS 141.040..... _____
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 corporation tax paid on income reported on Kentucky return..... _____
8. Enter the lesser of Line 6 or Line 7. This is your credit. Enter here and on Form 740, (740NP) Section A, Line 1..... _____

Example #1 – Single Member LLC – Illustrated

James Doe is the owner of Jim’s Auto, LLC. He files Schedule C to report income from the LLC. Jim owns the building and rents from himself. Jim is single and invests in the stock market. He contributes to a SEP based upon income from the business and purchases health insurance through the business.

Jim’s Auto, LLC	
Gross receipts	\$3,010,000
Returns and allowances	10,000
Cost of goods sold	2,525,000
Gross profits	475,000
Contribution by LLC	1,000
Net profit or loss Sch. C	330,000
Taxable income	300,000
Income tax	18,500
Gross Receipts tax	2,850
Gross Profits tax	3,562
Tax Liability	18,500
Nonrefundable KY corporation income tax credit	17,491
Refundable KY corporation income tax credit	834
SEP contribution	20,000
Health insurance	9,000
Other income	
Interest	60,969
Dividend	50,000
Capital Gains	70,000
Rental income	30,000

Forms attached:

Federal **Form 1040, U.S. Individual Income Tax Return**
 Federal **Schedule C, Profit or Loss From Business**
Form 725, Kentucky Single Member LLC Individually Owned
Corporation Income Tax Return
Form 740, Kentucky Individual Income Tax Return
 Kentucky Corporation Tax Credit Worksheet

Form 1040 Department of the Treasury—Internal Revenue Service **2005** (99) IRS Use Only—Do not write or staple in this space.

For the year Jan. 1–Dec. 31, 2005, or other tax year beginning . . . 2005, ending . . . 20 . . . OMB No. 1545-0074

Label (See instructions on page 16.) **Use the IRS label.** Otherwise, please print or type.

LABEL HERE

Your first name and initial: **James** Last name: **Doe** Your social security number: **400-99-9999**

If a joint return, spouse's first name and initial: Last name: Spouse's social security number:

Home address (number and street). If you have a P.O. box, see page 16. Apt. no. **▲ You must enter your SSN(s) above ▲**

City, town or post office, state, and ZIP code. If you have a foreign address, see page 16. Checking a box below will not change your tax or refund.

Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund (see page 16) **You** **Spouse**

Filing Status

1 Single 4 Head of household (with qualifying person). (See page 17.) If the qualifying person is a child but not your dependent, enter this child's name here ▶

2 Married filing jointly (even if only one had income)

3 Married filing separately. Enter spouse's SSN above and full name here ▶

5 Qualifying widow(er) with dependent child (see page 17)

Check only one box.

Exemptions

6a **Yourself.** If someone can claim you as a dependent, do not check box 6a.

6b **Spouse**

6c **Dependents:** (1) First name Last name (2) Dependent's social security number (3) Dependent's relationship to you (4) If qualifying child for child tax credit (see page 18)

If more than four dependents, see page 18.

Boxes checked on 6a and 6b: No. of children on 6c who: lived with you did not live with you due to divorce or separation (see page 18). Dependents on 6c not entered above:

6d Total number of exemptions claimed Add numbers on lines above ▶

Income

7 Wages, salaries, tips, etc. Attach Form(s) W-2 **7**

8a Taxable interest. Attach Schedule B if required **8a** 60,969

8b Tax-exempt interest. Do not include on line 8a **8b**

9a Ordinary dividends. Attach Schedule B if required **9a** 50,000

9b Qualified dividends (see page 20) **9b**

10 Taxable refunds, credits, or offsets of state and local income taxes (see page 20) **10**

11 Alimony received **11**

12 Business income or (loss). Attach Schedule C or C-EZ **12** 330,000

13 Capital gain or (loss). Attach Schedule D if required. If not required, check here **13** 70,000

14 Other gains or (losses). Attach Form 4797 **14**

15a IRA distributions **15a** **15b** Taxable amount (see page 22)

16a Pensions and annuities **16a** **16b** Taxable amount (see page 22)

17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E **17** 30,000

18 Farm income or (loss). Attach Schedule F **18**

19 Unemployment compensation **19**

20a Social security benefits **20a** **20b** Taxable amount (see page 24)

21 Other income. List type and amount (see page 24) **21**

22 Add the amounts in the far right column for lines 7 through 21. This is your **total income** ▶ **22** 540,969

Adjusted Gross Income

23 Educator expenses (see page 26) **23**

24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ **24**

25 Health savings account deduction. Attach Form 8889 **25**

26 Moving expenses. Attach Form 3903 **26**

27 One-half of self-employment tax. Attach Schedule SE **27** 9,999

28 Self-employed SEP, SIMPLE, and qualified plans **28** 20,000

29 Self-employed health insurance deduction (see page XX) **29** 9,000

30 Penalty on early withdrawal of savings **30**

31a Alimony paid b Recipient's SSN ▶ **31a**

32 IRA deduction (see page XX) **32**

33 Student loan interest deduction (see page XX) **33**

34 Tuition and fees deduction (see page XX) **34**

35 Domestic production activities deduction. Attach Form 8803 **35**

36 Add lines 23 through 31a and 32 through 35 **36** 38,999

37 Subtract line 36 from line 22. This is your **adjusted gross income** ▶ **37** 501,970

For Disclosure, Privacy Act, and Paperwork Reduction Act Notice, see page 75. Cal. No. 11320B Form **1040** (2005)

**SCHEDULE C
(Form 1040)**

Department of the Treasury
Internal Revenue Service

**Profit or Loss From Business
(Sole Proprietorship)**

► Partnerships, joint ventures, etc., must file Form 1065 or 1065-B.
► Attach to Form 1040 or 1041. ► See instructions for Schedule C (Form 1040).

OMB No. 1545-0074

2005
Attachment
Sequence No. 09

Name of proprietor
James Doe

Social security number (SSN)
400-99-9999

A Principal business or profession, including product or service (see page C-2 of the instructions)
Auto Sales

B Enter code from pages C-7, 8, & 9
▶

C Business name. If no separate business name, leave blank.
Jim's Auto, LLC

D Employer ID number (EIN), if any
61 ; 1111111

E Business address (including suite or room no.) ▶ **123 Anyplace**
City, town or post office, state, and ZIP code **City, KY 40000**

F Accounting method: (1) Cash (2) Accrual (3) Other (specify) ▶

G Did you "materially participate" in the operation of this business during 2005? If "No," see page C-3 for limit on losses Yes No

H If you started or acquired this business during 2005, check here

Part I Income

1 Gross receipts or sales. Caution. If this income was reported to you on Form W-2 and the "Statutory employee" box on that form was checked, see page C-3 and check here. ▶ <input type="checkbox"/>	1	3,010,000
2 Returns and allowances:	2	10,000
3 Subtract line 2 from line 1	3	3,000,000
4 Cost of goods sold (from line 42 on page 2)	4	2,525,000
5 Gross profit. Subtract line 4 from line 3.	5	475,000
6 Other income, including Federal and state gasoline or fuel tax credit or refund (see page C-3)	6	---
7 Gross income. Add lines 5 and 6	7	475,000

Part II Expenses. Enter expenses for business use of your home only on line 30.

8 Advertising	8	20,000	18 Office expense	18	
9 Car and truck expenses (see page C-3)	9	7,300	19 Pension and profit-sharing plans	19	
10 Commissions and fees	10	75,000	20 Rent or lease (see page C-5):	20a	
11 Contract labor (see page C-4)	11		a Vehicles, machinery, and equipment	20b	30,000
12 Depletion	12		b Other business property	21	
13 Depreciation and section 179 expense deduction (not included in Part III) (see page C-4)	13	9,924	22 Repairs and maintenance	22	
14 Employee benefit programs (other than on line 19)	14		23 Supplies (not included in Part III)	23	776
15 Insurance (other than health)	15	2,000	24 Taxes and licenses	24a	
16 Interest:			a Travel	24b	
a Mortgage (paid to banks, etc.)	16a		b Deductible meals and entertainment (see page C-5)	25	
b Other	16b		26 Utilities	26	
17 Legal and professional services	17		27 Wages (less employment credits)	27	
			28 Other expenses (from line 48 on page 2)	28	145,000
28 Total expenses before expenses for business use of home. Add lines 8 through 27 in columns	28			29	330,000
29 Tentative profit (loss). Subtract line 28 from line 7	29			30	---
30 Expenses for business use of your home. Attach Form 8829	30			31	330,000
31 Net profit or (loss). Subtract line 30 from line 29.					
• If a profit, enter on Form 1040, line 12 , and also on Schedule SE, line 2 (statutory employees, see page C-6). Estates and trusts, enter on Form 1041, line 3.					
• If a loss, you must go to line 32.					
32 If you have a loss, check the box that describes your investment in this activity (see page C-6).					
• If you checked 32a, enter the loss on Form 1040, line 12 , and also on Schedule SE, line 2 (statutory employees, see page C-6). Estates and trusts, enter on Form 1041, line 3.				32a	<input type="checkbox"/> All investment is at risk.
• If you checked 32b, you must attach Form 6198 . Your loss may be limited.				32b	<input type="checkbox"/> Some investment is not at risk.

For Paperwork Reduction Act Notice, see Form 1040 Instructions.

Cat. No. 11334P

Schedule C (Form 1040) 2005

725
41A725
Department of Revenue

**Kentucky Single Member LLC
Individually Owned
Corporation Income Tax Return**

2005
Taxable Year Ending

See separate instructions. Taxable period beginning _____, 2005, and ending _____, 200____, Mo. / ____ Yr.

A Check applicable box. <input type="checkbox"/> Composite Return <input type="checkbox"/> Nexus Consolidation <input checked="" type="checkbox"/> Single Return	B Federal Identification Number <u>61-111111</u> Social Security Number <u>400-99-9999</u>	C Kentucky Corporation Account Number <u>121111</u>	
	Name of LLC (Place preaddressed label here; otherwise print or type.) <u>Jim's Auto LLC</u>		State and Date of Organization KY 1995
	Name of Owner (Place preaddressed label here; otherwise print or type.) <u>James Doe</u>		Principal Business Activity in KY Auto Sales
	Number and Street <u>123 Anyplace</u>	NAICS Code Number (Relating to Kentucky Activity) (See www.census.gov) _____	Telephone Number (000) 000-0000 _____

D Check if applicable: 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. Ordinary income (loss)	330,000
2. Other income (loss) (attach schedule)	
3. Total federal income (loss) (add lines 1 and 2) ..	330,000
4. Charitable contributions	1,000
5. Other deductions (attach schedule)	29,000
6. Total (line 3 less lines 4 and 5)	300,000
7. Federal depreciation and Section 179 expense deduction from Form 4562	9,924
8. Kentucky depreciation and Section 179 expense deduction from Form 4562	9,924
9. Kentucky statutory differences (KRS 141.010(12) and (13)) (attach schedule)	0
10. Kentucky net income (loss) (add lines 6, 7 and 9 less line 8)	300,000
11. Current net operating loss adjustment	0
12. Income (loss) after NOL limitation (add lines 10 and 11)	300,000
13. Taxable net income (loss) (amount from line 12 or Schedule A)	300,000

PART IV—TAX COMPUTATION

1. Tax liability (Part III, greater of line 1, line 2 or \$175 minimum)	18,500
ADDITIONS	
2. Recycling/composting equipment tax credit recapture	
3. Total (add lines 1 and 2)	18,500
SUBTRACTIONS	
4. Total nonrefundable credits from Part V	500
5. Net tax liability (greater of line 3 less line 4 or \$175)	18,000
6. Estimated tax payments	9,450
7. Extension tax payment	500
8. Prior year's tax credit	
9. Tax due	8,050
10. Tax overpayment	
11. Credited to 2006	
12. Amount to be refunded	

PART II—ALTERNATIVE MINIMUM (AMC)

Gross Receipts	
1. Kentucky gross receipts (less Kentucky returns and allowances)	3,000,000
2. Tax (line 1 multiplied by .00095)	2,850
Gross Profits	
3. Kentucky gross receipts	3,010,000
(a) Less Kentucky returns and allowances	10,000
(b) Less Kentucky cost of goods sold	2,525,000
4. Gross profit (subtract lines 3(a) and 3(b) from line 3)	475,000
5. Tax (line 4 multiplied by .0075)	3,562

PART V—SCHEDULE OF TAX CREDITS

1. Economic development tax credits	
2. Other credits (see instructions)	500
3. Total credits (enter on Part IV, line 4)	500

PART VI—CORPORATION INCOME TAX CREDIT

1. Tax due (Part IV, line 1)	18,500
2. Minimum tax	175 00
3. Corporation income tax credit (line 1 less line 2)	18,325
4. Nonrefundable Kentucky corporation income tax credit (KRS 141.420(3))	17,491
5. Refundable Kentucky corporation income tax credit (KRS 141.420(3)(c))	834

PART III—TAX COMPARISON

1. Regular income tax (see instructions)	18,500
2. Alternative minimum (AMC) (lesser of Part II, line 2 or line 5)	2,850

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 \$8,050 Interest _____

Penalty _____ TOTAL (Including Penalty and Interest) \$8,050

No packet required for 2006. **➤ Federal Schedules C, E and F, and any other supporting schedules must be attached.**



KENTUCKY INDIVIDUAL INCOME TAX RETURN
Full-Year Residents Only

42A740
Department of Revenue

For calendar year or other taxable year beginning _____, 2005, and ending _____, 200__.

2005

A. Spouse's Social Security Number		B. Your Social Security Number	
		400 99 9999	
Name—Last, First, Middle Initial (Joint or combined return, give both names and initials.)			
Doe, James			
Mailing Address (Number and Street or P.O. Box)		Apartment Number	
125 Anyplace			
City, Town or Post Office	State	ZIP Code	
City	KY	40000	

DRAFT
9-29-05

FILING STATUS (see instructions)		POLITICAL PARTY FUND	
1	<input checked="" type="checkbox"/> Single	Designating \$2 will not change your refund or tax due.	
2	<input type="checkbox"/> Married, filing separately on this combined return. (If both had income.)	A. Spouse B. Yourself	
3	<input type="checkbox"/> Married, filing joint return.	Democratic (1) <input type="checkbox"/>	(4) <input type="checkbox"/>
4	<input type="checkbox"/> Married, filing separate returns. Enter spouse's Social Security number above and full name here.	Republican (2) <input type="checkbox"/>	(5) <input checked="" type="checkbox"/>
		No Designation (3) <input type="checkbox"/>	(6) <input type="checkbox"/>

INCOME/TAX		A. Spouse (Use if Filing Status 2 is checked.)		B. Yourself (or Joint)	
5	Enter amount from federal Form 1040, line 37; 1040A, line 21 or 1040EZ, line 4. (If total of Columns A and B is \$25,736 or less, you may qualify for the Family Size Tax Credit. See instructions.)	00		501,970	00
6	Additions from Schedule M, line 6	00		---	00
7	Add lines 5 and 6	00		501,970	00
8	Subtractions from Schedule M, line 16	00		---	00
9	Subtract line 8 from line 7. This is your Kentucky Adjusted Gross Income	00		501,970	00
10	Itemizers: Enter itemized deductions from Kentucky Schedule A.				
	Nonitemizers: Enter \$1,910 in Columns A and/or B	00		1,970	00
11	Subtract line 10 from line 9. This is your Taxable Income	00		500,000	00
12	Enter tax from Tax Table, Computation or Schedule J.				
	Check if from Schedule J <input type="checkbox"/>	00		29,666	00
13	Enter tax from Form 4972-K <input type="checkbox"/> ; Schedule RC-R <input type="checkbox"/>	00		00	00
14	Add lines 12 and 13 and enter total here	00		29,666	00
15	Enter amounts from page 2, Section A, lines 13A and 13B	00		17,491	00
16	Subtract line 15 from line 14. If line 15 is larger than line 14, enter zero	00		12,175	00
17	Enter amounts from page 2, Section B, lines 4A and 4B	00		20	00
18	Subtract line 17 from line 16. If line 17 is larger than line 16, enter zero	00		12,155	00
19	Add tax amount(s) in Columns A and B, line 18 and enter here			12,155	00
20	Check the box that represents your total family size (see instructions before completing lines 20 and 21)			1 <input checked="" type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/>	
21	Multiply line 19 by Family Size Tax Credit decimal amount (0%) and enter here			0	00
22	Subtract line 21 from line 19			12,155	00
23	Enter the Education Tuition Tax Credit from Form 8863-K, line 12			0	00
24	Subtract line 23 from line 22			12,155	00
25	Enter Child and Dependent Care Credit from federal Form 2441, line 9 x 20% (.20)			0	00
26	Income Tax Liability. Subtract line 25 from line 24. If line 25 is larger than line 24, enter zero			12,155	00
27	Enter KENTUCKY USE TAX from worksheet in the instructions			250	00
28	Add lines 26 and 27. Enter here and on page 2, line 29. This is your Total Tax Liability			12,405	00

Attach a complete copy of federal Form 1040 if you received farm, business, or rental income or loss. If not required, check here. Do you wish to receive a packet next year? (check one) 1 Yes 2 No

I, the undersigned, declare under 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. I also understand and agree that our election to file a combined return under the provisions of Regulation 103 KAR 1:020 will result in refunds being made payable to us jointly and in each of us being jointly and severally liable for all taxes accruing under this return.

James Doe (Signature) 4/15/04 (Date Signed) Telephone Number (daytime) _____
 Your Signature (if joint or combined return, both must sign.) Spouse's Signature Date Signed Telephone Number (daytime)
 Typed or Printed Name of Preparer Other than Taxpayer I.D. Number of Preparer Date

FORM 740 (2005)

www.revenue.ky.gov

REFUND/TAX PAYMENT SUMMARY

29	Enter total tax liability from page 1, line 28	29	12,405	00
30	(a) Enter Kentucky income tax withheld as shown on attached 2005 Form W-2(s) and other supporting statements	30(a)	---	00
	(b) Enter 2005 Kentucky estimated tax payments	30(b)	15,000	00
	(c) Enter refundable Kentucky corporation tax credit (KRS 141.420(3)(c))	30(c)	834	00
31	Add lines 30(a) through 30(c)	31	15,834	00
32	If line 31 is larger than line 29, enter AMOUNT OVERPAID (see instructions)	32	3,429	00
See instructions for a detailed description of funds. > (Enter amount(s) checked)				
33	Nature and Wildlife Fund Contribution <input type="checkbox"/> \$2 <input type="checkbox"/> \$5 <input type="checkbox"/> \$10 <input type="checkbox"/> Other	33		00
34	Child Victims' Trust Fund Contribution <input type="checkbox"/> \$2 <input type="checkbox"/> \$4 <input type="checkbox"/> Other	34		00
35	Veterans' Program Trust Fund Contribution	35		00
36	Breast Cancer Research and Education Trust Fund Contribution	36		00
37	Add lines 33 through 36	37	0	00
38	Amount of line 32 to be CREDITED TO YOUR 2006 ESTIMATED TAX	38	3,000	00
39	Subtract lines 37 and 38 from line 32. Amount to be REFUNDED TO YOU	39	429	00
40	If line 29 is larger than line 31, enter ADDITIONAL TAX DUE	40		00
41	(a) Estimated tax penalty <input type="checkbox"/> Check if Form 2210-K attached (c) Late payment penalty	41(e)		00
	(b) Interest (d) Late filing penalty (e) Add lines 41(a) through 41(d). Enter here	41(e)		00
42	Add lines 40 and 41(e) and enter here. This is the AMOUNT YOU OWE	42		00

Make check payable to Kentucky State Treasurer. Write your Social Security number and "KY Income Tax—2005" on the check. Staple check on top of attached wage and tax statements on page 1.

SECTION A—BUSINESS INCENTIVE AND OTHER TAX CREDITS

	A. Spouse	B. Yourself
1	00	17,491 00
2	00	00
3	00	00
4	00	00
5	00	00
6	00	00
7	00	00
8	00	00
9	00	00
10	00	00
11	00	00
12	00	00
13	00	17,491 00

SECTION B—PERSONAL TAX CREDITS

1	(a) Credits for yourself: <input checked="" type="checkbox"/> Regular <input type="checkbox"/> 65 or over <input type="checkbox"/> blind	1	Enter number of boxes checked on line 1	1
	(b) Credits for spouse: <input type="checkbox"/> Regular <input type="checkbox"/> 65 or over <input type="checkbox"/> blind		2	Enter number of dependents who: lived with you, did not live with you (see instructions), other dependents
2	Dependents:		3	Enter total credits
	First name, Last name, Dependent's Social Security number, Dependent's relationship to you, Check if qualifying child for family size tax credit			
3	Add total number of credits claimed on lines 1 and 2. If married filing separately on a combined return (filing Status 2), each taxpayer must claim his or her own credits from line 1, divide the credits on line 2, and enter the totals in Boxes 3A and 3B. All other filers enter the amount from line 3 in Box 3B			
4	Multiply credits on line 3A by \$20 and enter on line 4A. Multiply credits on line 3B by \$20 and enter on line 4B. Enter here and on page 1, line 17, Columns A and B			

SECTION C—FAMILY SIZE TAX CREDIT (List the name and Social Security number of qualifying children that are not claimed as dependents in Section B.)

First name	Last name	Social Security number	First name	Last name	Social Security number

REFUNDS Mail to: Kentucky Department of Revenue, Frankfort, KY 40618-0006.
 PAYMENTS Mail to: Kentucky Department of Revenue, Frankfort, KY 40619-0008.

Official Use Only						
EST	CF	NT	P	B	F	R
						1 2

Kentucky Corporation Tax Credit Worksheet

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

Name Jim's Auto, LLC

Address 123 Anyplace, City, KY 40000

FEIN 61-1111111

1. Enter Kentucky taxable income from Form 740, Line 11	<u>500,000</u>
2. Enter income included in Line 1 and taxed under KRS 141.040	<u>300,000</u>
3. Subtract Line 2 from Line 1 and enter total here	<u>200,000</u>
4. Enter Kentucky tax on income amount on Line 1	<u>29,666</u>
5. Enter Kentucky tax on income amount on Line 3	<u>11,666</u>
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	<u>18,000</u>
7. Enter nonrefundable corporation tax paid on income reported on Kentucky return	<u>17,491</u>
8. Enter the lesser of Line 6 or Line 7. This is your credit. Enter here and on Form 740, Section A, Line 1	<u>17,491</u>

Recap of Lessons Learned From Example One

- Individually owned Single Member LLCs that do not elect corporate tax treatment must file Form 725, Kentucky Single Member LLC Individually Owned Corporation Income Tax Return.
- Credit for taxes paid on Form 725 may be claimed on Form 740 in Section A-Business Incentive and Other Tax Credits.
- Kentucky Corporation Tax Credit Worksheet must be completed to determine the amount of allowable credit.
- The refundable corporation tax credit is not limited by tax on the return.
- Contribution to pension plans connected to the business may be deducted on the corporation and individual return.
- Self-employed health insurance premiums may be claimed on the corporation and individual return.
- Charitable contributions made by the corporation are deductible on the corporation and individual return.
- One-half of self-employment tax is not deductible on the corporation return.

Example #2 – Partner LP – Illustrated

Partnership A, LLC is a grocery store with two members, Partner One and Partner Two, each owning 50%. Partnership A, LLC does not elect corporation tax treatment and files a partnership return for federal purposes. Partner One and Partner Two are Kentucky residents. Partnership A, LLC files Kentucky Form 765, Kentucky Partnership Income Tax Return. Partner One has income from the LLC and interest income. His federal adjusted gross income is \$115,000. Partner Two has income from the LLC, a farm loss, capital loss, and interest income. He contributes the maximum to an IRA. The entity pays \$5,000 for each member for health insurance, contributes \$2,000 to charity, has hired qualified unemployed staff and earned an unemployment tax credit of \$2,000.

Partnership A, LLC	
Gross receipts	\$9,333,000
Returns and allowances	0
Cost of goods sold	7,499,700
Gross profits	1,833,300
Contribution by LLC	2,000
Health insurance	10,000
Net income or loss	148,000
Taxable income	148,000
Income tax	7,860
Gross Receipts tax	8,866
Gross Profits tax	13,749
Tax Liability	8,866
Net Tax Liability	6,866
Nonrefundable KY corporation income tax credit	8,691
Refundable KY corporation income tax credit	0
Guaranteed payments	90,000

Forms attached:

- Kentucky Form 765, Kentucky Partnership Income Tax Return**
- Form 765, page 2**
- Form 765, page 4, Schedule OI, Ordinary Income (Loss) Computation**
- Form 765, page 4, Schedule K, Partner's Share of Income, Credits, Deductions, Etc.**
- Form 765, Kentucky Schedule K-1**
- Form 740, Kentucky Individual Income Tax Return**
- Kentucky Corporation Tax Credit Worksheet**

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Example #2

765 41A765 Department of Revenue		KENTUCKY PARTNERSHIP INCOME TAX RETURN (LLC, LLP and LP TAXED AS A CORPORATION) ▶ See separate instructions.	2005 Taxable Year Ending _____ / _____ / _____ Mo. Yr.
Taxable period beginning _____, 2005, and ending _____, 200__			
A Number of Partners (Attach K-1s) ▶ <u>2</u>	B Federal Identification Number _____	C Kentucky Corporation Account Number _____	
D Type of Return <input checked="" type="checkbox"/> Separate Return <input type="checkbox"/> Nexus Consolidation		Name of Partnership (Place preaddressed label here; otherwise print or type.) Partnership A, LLC State and Date of Organization _____ Principal Business Activity in KY Grocery NAICS Code Number (Relating to Kentucky Activity) (See www.census.gov) _____	
Number and Street _____ City _____ State _____ ZIP Code _____ Telephone Number _____			
E Check if applicable: <input checked="" type="checkbox"/> LLC <input type="checkbox"/> LP <input type="checkbox"/> LLP <input type="checkbox"/> Initial return <input type="checkbox"/> Final return (attach explanation) <input type="checkbox"/> Amended return <input type="checkbox"/> Short-period return (attach explanation) <input type="checkbox"/> Change of name <input type="checkbox"/> Change of address			
PART I—TAXABLE INCOME COMPUTATION			
1. Kentucky ordinary income (loss) (from Schedule K, Section I, line 1)	160,000	24. Current net operating loss adjustment	—
2. Net income (loss) from rental real estate activities		25. Income (loss) after NOL limitation (add lines 23 and 24)	148,000
3. Net income (loss) from other rental activities		26. Taxable net income (loss) (amount from line 25 or Schedule A)	148,000
4. Interest income		PART II—ALTERNATIVE MINIMUM (AMC)	
5. Royalty income		Gross Receipts	
6. Net short-term capital gain		1. Kentucky gross receipts (less Kentucky returns and allowances)	9,333,000
7. Net long-term capital gain		2. Tax (line 1 multiplied by .00095)	8,866
8. Other portfolio income (loss)		Gross Profits	
9. Section 1231 net gain (loss) (other than due to casualty or theft)		3. Kentucky gross receipts	9,333,000
10. Other income (loss)		(a) Less Kentucky returns and allowances	—
11. Total additions (add lines 1 through 10)	160,000	(b) Less Kentucky cost of goods sold	7,499,700
12. Other income (loss) (KRS 141.010(12)):		4. Gross profit (subtract lines 3(a) and 3(b) from line 3)	1,833,300
(a) Related party expenses (KRS 141.205)		5. Tax (line 4 multiplied by .0075)	13,749
(b) Deductions attributable to nontaxable income		PART III—TAX COMPARISON	
(c) Add net distributable loss from corporations		1. Regular income tax (see instructions)	7,860
(d) Subtract net distributable income from corporations		2. Alternative minimum (AMC) (lesser of Part II, line 2 or line 5)	8,866
(e) Other		PART IV—TAX COMPUTATION	
13. Total income after adjustments (add lines 11 and 12)	160,000	1. Tax liability (Part III, greater of line 1, line 2 or \$175 minimum)	8,866
14. Charitable contributions (see instructions)	2,000	ADDITIONS	
15. Section 179 expense deduction (Kentucky Form 4562)		2. Recycling/composting equipment tax credit recapture	
16. Deductions related to portfolio income (loss)		3. Total (add lines 1 and 2)	8,866
17. Other deductions	10,000	SUBTRACTIONS	
18. Section 59(a)(2) expenses		4. Total nonrefundable credits from page 2, Part V ..	2,000
19. Total deductions (add lines 14 through 18)	12,000	5. Net tax liability (greater of line 3 less line 4 or \$175)	6,866
20. Oil and gas depletion		6. Estimated tax payments	
21. Other adjustments (KRS 141.010(13))		7. Extension tax payment	1,000
22. Total deductions (add lines 19 through 21)	12,000	8. Prior year's tax credit	
23. Net income (loss) (line 13 less line 22)	148,000	9. Tax due	5,866
		10. Tax overpayment	
		11. Credited to 2006	
		12. Amount to be refunded	
TAX PAYMENT SUMMARY (Round to Nearest Dollar)			
<input type="checkbox"/> Income <input checked="" type="checkbox"/> AMC Gross Receipts <input type="checkbox"/> AMC Gross Profits <input type="checkbox"/> Minimum \$175			
Tax <u>\$5,866</u>		Interest _____	
Penalty _____		TOTAL (Including Penalty and Interest) <u>\$5,866</u>	
<input type="checkbox"/> No packet required for 2006.			

PART V—SCHEDULE OF TAX CREDITS

1. Economic development tax credits	1		
2. Historic preservation restoration tax credit	2		
3. Unemployment tax credit	3	2000	
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	2,000	

PART VI—CORPORATION INCOME TAX CREDIT

1. Income tax due (page 1, Part IV, line 1)	1	8,866	
2. Minimum tax	2	175	00
3. Corporation income tax (non-individual partners)	3	---	
4. Corporation income tax credit (individual partners)	4	8,691	
5. Nonrefundable Kentucky corporation income tax credit (KRS 141.420(3))	5	8,691	
6. Refundable Kentucky corporation income tax credit (KRS 141.420(3)(c))	6	---	

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.

Example #2

Form 765 (2005)

Page 4

SCHEDULE OI—ORDINARY INCOME (LOSS) COMPUTATION

1. Federal ordinary income (loss) (see instructions)	1	150,000
ADDITIONS		
2. State taxes	2	0
3. Federal depreciation (do not include Section 179 expense deduction)	3	30,000
4. Other (attach schedule)	4	
5. Total (add lines 1 through 4)	5	180,000
SUBTRACTIONS		
6. Federal work opportunity credit	6	
7. Kentucky depreciation (do not include Section 179 expense deduction)	7	20,000
8. Other (attach schedule)	8	
9. Kentucky ordinary income (loss) (line 5 less lines 6 through 8)	9	160,000

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	160,000
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)	
(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	90,000
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	2,000
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	10,000

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	148,000
2. Individual partners' share of net distributable income (loss) taxed under KRS 141.040	2	148,000
3. Nonrefundable Kentucky corporation income tax credit (KRS 141.420(3)) (page 2, Part VI, line 5)	3	8,691
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 > **400-99-9999** Partnership's FEIN > _____

Partner's name, address and ZIP code Partnership's name, address and ZIP code

Partner One

Partnership A, LLC

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

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

E Enter partner's percentage of:
Profit sharing % **50** %
Loss sharing % **50** %
Ownership of capital % **50** %

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) %

Final K-1
 Amended K-1

		(a) Distributive Share Items	(b) Amount
Income (Loss)	1. Ordinary income (loss) from trade or business activities	1	80,000.00
	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)	
	(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	45,000.00
	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	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	5,000.00
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	74,000.00
	20. Nonrefundable Kentucky corporation income tax credit (KRS 141.420(3))	20	4,345.50
	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	125,000.00
	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	120,000.00
	24. Enter difference of lines 22 and 23 here and on appropriate line on Schedule M (see instructions)	24	5,000.00

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 Partnership's name, address and ZIP code

Partner Two

Partnership A, LLC

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

B Partner's share of liabilities:

Nonrecourse \$ _____
 Qualified nonrecourse financing \$ _____
 Other \$ _____

E Enter partner's percentage of:

	(i) Before change or termination	(ii) End of year
Profit sharing	_____ %	50 %
Loss sharing	_____ %	_____ %
Ownership of capital	_____ %	50 %

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) > _____ %

Final K-1
 Amended K-1

		(a) Distributive Share Items	(b) Amount
Income (loss)	1. Ordinary income (loss) from trade or business activities	1	80,000.00
	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)	
	(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	45,000.00
	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	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	5,000.00
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	74,000.00
	20. Nonrefundable Kentucky corporation income tax credit (KRS 141.420(3))	20	4,345.50
	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	125,000.00
	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	120,000.00
	24. Enter difference of lines 22 and 23 here and on appropriate line on Schedule M (see instructions)	24	5,000.00

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KENTUCKY INDIVIDUAL INCOME TAX RETURN
Full-Year Residents Only

42A740
 Department of Revenue

For calendar year or other taxable year beginning _____, 2005, and ending _____, 2005.

2005

A. Spouse's Social Security Number _____	B. Your Social Security Number _____	DRAFT 9-29-05
Name—Last, First, Middle Initial (Joint or combined return, give both names and initials) Partner One		
Mailing Address (Number and Street or P.O. Box) _____ Apartment Number _____		
City, Town or Post Office _____ State _____ ZIP Code _____		

FILING STATUS (see instructions) 1 <input type="checkbox"/> Single 2 <input type="checkbox"/> Married, filing separately on this combined return. (If both had income.) 3 <input type="checkbox"/> Married, filing joint return. 4 <input type="checkbox"/> Married, filing separate returns. Enter spouse's Social Security number above and full name here. _____	POLITICAL PARTY FUND <i>Designating \$2 will not change your refund or tax due.</i> <table style="width:100%;"> <tr> <td></td> <td style="text-align: center;">A. Spouse</td> <td style="text-align: center;">B. Yourself</td> </tr> <tr> <td>Democratic</td> <td style="text-align: center;">(1) <input type="checkbox"/></td> <td style="text-align: center;">(4) <input type="checkbox"/></td> </tr> <tr> <td>Republican</td> <td style="text-align: center;">(2) <input type="checkbox"/></td> <td style="text-align: center;">(5) <input type="checkbox"/></td> </tr> <tr> <td>No Designation</td> <td style="text-align: center;">(3) <input type="checkbox"/></td> <td style="text-align: center;">(6) <input type="checkbox"/></td> </tr> </table>		A. Spouse	B. Yourself	Democratic	(1) <input type="checkbox"/>	(4) <input type="checkbox"/>	Republican	(2) <input type="checkbox"/>	(5) <input type="checkbox"/>	No Designation	(3) <input type="checkbox"/>	(6) <input type="checkbox"/>
	A. Spouse	B. Yourself											
Democratic	(1) <input type="checkbox"/>	(4) <input type="checkbox"/>											
Republican	(2) <input type="checkbox"/>	(5) <input type="checkbox"/>											
No Designation	(3) <input type="checkbox"/>	(6) <input type="checkbox"/>											

		A. Spouse (Use if Filing Status 2 is checked.)	B. Yourself (or Joint)
5 Enter amount from federal Form 1040, line 37; 1040A, line 21 or 1040EZ, line 4. (If total of Columns A and B is \$25,736 or less, you may qualify for the Family Size Tax Credit. See instructions.)	5	00	115,000 00
6 Additions from Schedule M, line 6	6	00	5,000 00
7 Add lines 5 and 6	7	00	120,000 00
8 Subtractions from Schedule M, line 16	8	00	--- 00
9 Subtract line 8 from line 7. This is your Kentucky Adjusted Gross Income	9	00	120,000 00
10 Itemizers: Enter itemized deductions from Kentucky Schedule A. Nonitemizers: Enter \$1,910 in Columns A and/or B	10	00	12,000 00
11 Subtract line 10 from line 9. This is your Taxable Income	11	00	108,000 00
12 Enter tax from Tax Table, Computation or Schedule J. Check if from Schedule J <input type="checkbox"/>	12	00	6,146 00
13 Enter tax from Form 4972-K <input type="checkbox"/> ; Schedule RC-R <input type="checkbox"/>	13	00	--- 00
14 Add lines 12 and 13 and enter total here	14	00	6,146 00
15 Enter amounts from page 2, Section A, lines 13A and 13B	15	00	4,346 00
16 Subtract line 15 from line 14. If line 15 is larger than line 14, enter zero	16	00	1,800 00
17 Enter amounts from page 2, Section B, lines 4A and 4B	17	00	20 00
18 Subtract line 17 from line 16. If line 17 is larger than line 16, enter zero	18	00	1,780 00
19 Add tax amount(s) in Columns A and B, line 18 and enter here	19		1,780 00
20 Check the box that represents your total family size (see instructions before completing lines 20 and 21)	20	1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/>	
21 Multiply line 19 by Family Size Tax Credit decimal amount (____%) and enter here	21		00
22 Subtract line 21 from line 19	22		00
23 Enter the Education Tuition Tax Credit from Form 8863-K, line 12	23		00
24 Subtract line 23 from line 22	24		00
25 Enter Child and Dependent Care Credit from federal Form 2441, line 9 > _____ x 20% (.20)	25		00
26 Income Tax Liability. Subtract line 25 from line 24. If line 25 is larger than line 24, enter zero	26		00
27 Enter KENTUCKY USE TAX from worksheet in the instructions	27		00
28 Add lines 26 and 27. Enter here and on page 2, line 29. This is your Total Tax Liability	28		00

Attach a complete copy of federal Form 1040 if you received farm, business, or rental income or loss. If not required, check here. Do you wish to receive a packet next year? (check one) 1 Yes 2 No

I, the undersigned, declare under 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. I also understand and agree that our election to file a combined return under the provisions of Regulation 103 KAR 17:020 will result in refunds being made payable to us jointly and in each of us being jointly and severally liable for all taxes accruing under this return.

Your Signature (If joint or combined return, both must sign) _____ Spouse's Signature _____ Date Signed _____ Telephone Number (daytime) _____

Typed or Printed Name of Preparer Other than Taxpayer _____ I.D. Number of Preparer _____ Date _____

FORM 740 (2005)

www.revenue.ky.gov

REFUND/TAX PAYMENT SUMMARY

29	Enter total tax liability from page 1, line 28	29	1,780	00
30	(a) Enter Kentucky income tax withheld as shown on attached 2005 Form W-2(s) and other supporting statements	30(a)	00	
	(b) Enter 2005 Kentucky estimated tax payments	30(b)	00	
	(c) Enter refundable Kentucky corporation tax credit (KRS 141.420(3)(c))	30(c)	00	
31	Add lines 30(a) through 30(c)	31		00
32	If line 31 is larger than line 29, enter AMOUNT OVERPAID (see instructions)	32		00
See instructions for a detailed description of funds. (Enter amount(s) checked)				
33	Nature and Wildlife Fund Contribution <input type="checkbox"/> \$2 <input type="checkbox"/> \$5 <input type="checkbox"/> \$10 <input type="checkbox"/> Other	33	00	
34	Child Victims' Trust Fund Contribution <input type="checkbox"/> \$2 <input type="checkbox"/> \$4 <input type="checkbox"/> Other	34	00	
35	Veterans' Program Trust Fund Contribution	35	00	
36	Breast Cancer Research and Education Trust Fund Contribution	36	00	
37	Add lines 33 through 36	37		00
38	Amount of line 32 to be CREDITED TO YOUR 2006 ESTIMATED TAX	38		00
39	Subtract lines 37 and 38 from line 32. Amount to be REFUNDED TO YOU	39		00
40	If line 29 is larger than line 31, enter ADDITIONAL TAX DUE	40		00
41	(a) Estimated tax penalty (c) Late payment penalty			
	<input type="checkbox"/> Check if Form 2210-K attached (d) Late filing penalty			
	(b) Interest (e) Add lines 41(a) through 41(d). Enter here	41(e)		00
42	Add lines 40 and 41(e) and enter here. This is the AMOUNT YOU OWE	42	1,780	00

Make check payable to Kentucky State Treasurer. Write your Social Security number and "KY Income Tax—2005" on the check. Staple check on top of attached wage and tax statements on page 1.

SECTION A—BUSINESS INCENTIVE AND OTHER TAX CREDITS

	A. Spouse	B. Yourself
1 Enter nonrefundable Kentucky corporation tax credit (KRS 141.420(3))	00	4,346
2 Enter skills training investment credit (attach copy(ies) of certification)	00	00
3 Enter historic preservation restoration credit	00	00
4 Enter credit for tax paid to another state (attach copy of return(s) filed with other state)	00	00
5 Enter unemployment credit (attach Schedule UTC)	00	00
6 Enter recycling and/or composting equipment credit (attach Schedule RC)	00	00
7 Enter Kentucky Investment Fund credit (attach copy(ies) of certification)	00	00
8 Enter credit for purchases of Kentucky coal used for generating electricity	00	00
9 Enter qualified research facility credit (attach Schedule QR)	00	00
10 Enter GED incentive credit (attach Form DAEL-31)	00	00
11 Enter voluntary environmental remediation credit (Brownfields)	00	00
12 Enter biodiesel credit	00	00
13 Add lines 1 through 12, Columns A and B. Enter here and on page 1, line 15	00	4,346

SECTION B—PERSONAL TAX CREDITS

1 (a) Credits for yourself: <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	1 Enter number of boxes checked on line 1	1
(b) Credits for spouse: <input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	2 Enter number of dependents who:	
2 Dependents:				• lived with you	
First name	Last name	Dependent's Social Security number	Dependent's relationship to you	• did not live with you (see instructions)	
				• other dependents	
3 Add total number of credits claimed on lines 1 and 2. If married filing separately on a combined return (Filing Status 2), each taxpayer must claim his or her own credits from line 1, divide the credits on line 2, and enter the totals in Boxes 3A and 3B. All other filers enter the amount from line 3 in Box 3B				3 Enter total credits	1
				* 3A	* 3B
				x \$20	x \$20
4 Multiply credits on line 3A by \$20 and enter on line 4A. Multiply credits on line 3B by \$20 and enter on line 4B. Enter here and on page 1, line 17, Columns A and B				4A	4B
					20

SECTION C—FAMILY SIZE TAX CREDIT (List the name and Social Security number of qualifying children that are not claimed as dependents in Section B.)

First name	Last name	Social Security number	First name	Last name	Social Security number

REFUNDS Mail to: Kentucky Department of Revenue, Frankfort, KY 40618-0006.
 PAYMENTS Mail to: Kentucky Department of Revenue, Frankfort, KY 40619-0008.

Official Use Only						
EST	CF	NT	P	B	F	R
						1 2

Kentucky Corporation Tax Credit Worksheet

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

Name Partnership A LLC - Partner One

Address _____

FEIN _____

1. Enter Kentucky taxable income from Form 740, Line 11	<u>108,000</u>
2. Enter income included in Line 1 and taxed under KRS 141.040	<u>74,000</u>
3. Subtract Line 2 from Line 1 and enter total here	<u>34,000</u>
4. Enter Kentucky tax on income amount on Line 1	<u>6,146</u>
5. Enter Kentucky tax on income amount on Line 3	<u>1,788</u>
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	<u>4,358</u>
7. Enter nonrefundable corporation tax paid on income reported on Kentucky return	<u>4,346</u>
8. Enter the lesser of Line 6 or Line 7. This is your credit. Enter here and on Form 740, Section A, Line 1	<u>4,346</u>

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740 **Kentucky**

KENTUCKY INDIVIDUAL INCOME TAX RETURN
Full-Year Residents Only

42A740
 Department of Revenue

For calendar year or
 other taxable year beginning _____, 2005, and ending _____, 200__.

2005

DRAFT
9-29-05

A. Spouse's Social Security Number		B. Your Social Security Number	
Name—Last, First, Middle Initial (Joint or combined return, give both names and initials.)			
Partner Two			
Mailing Address (Number and Street or P.O. Box)		Apartment Number	
City, Town or Post Office		State	ZIP Code

FILING STATUS (see instructions) 1 <input checked="" type="checkbox"/> Single 2 <input type="checkbox"/> Married, filing separately on this combined return. (If both had income.) 3 <input type="checkbox"/> Married, filing joint return. 4 <input type="checkbox"/> Married, filing separate returns. Enter spouse's Social Security number above and full name here. _____		POLITICAL PARTY FUND <i>Designating \$2 will not change your refund or tax due.</i> <table border="1"> <tr> <td></td> <td>A. Spouse</td> <td>B. Yourself</td> </tr> <tr> <td>Democratic</td> <td>(1) <input type="checkbox"/></td> <td>(4) <input type="checkbox"/></td> </tr> <tr> <td>Republican</td> <td>(2) <input type="checkbox"/></td> <td>(5) <input type="checkbox"/></td> </tr> <tr> <td>No Designation</td> <td>(3) <input type="checkbox"/></td> <td>(6) <input type="checkbox"/></td> </tr> </table>			A. Spouse	B. Yourself	Democratic	(1) <input type="checkbox"/>	(4) <input type="checkbox"/>	Republican	(2) <input type="checkbox"/>	(5) <input type="checkbox"/>	No Designation	(3) <input type="checkbox"/>	(6) <input type="checkbox"/>
	A. Spouse	B. Yourself													
Democratic	(1) <input type="checkbox"/>	(4) <input type="checkbox"/>													
Republican	(2) <input type="checkbox"/>	(5) <input type="checkbox"/>													
No Designation	(3) <input type="checkbox"/>	(6) <input type="checkbox"/>													

INCOME/TAX		A. Spouse (Use if Filing Status 2 is checked.)	B. Yourself (or Joint)
5	Enter amount from federal Form 1040, line 37; 1040A, line 21 or 1040EZ, line 4. (If total of Columns A and B is \$25,736 or less, you may qualify for the Family Size Tax Credit. See instructions.)	00	77,500 00
6	Additions from Schedule M, line 6	00	5,000 00
7	Add lines 5 and 6	00	82,500 00
8	Subtractions from Schedule M, line 16	00	--- 00
9	Subtract line 8 from line 7. This is your Kentucky Adjusted Gross Income	00	82,500 00
10	Itemizers: Enter itemized deductions from Kentucky Schedule A. Nonitemizers: Enter \$1,910 in Columns A and/or B	00	26,000 00
11	Subtract line 10 from line 9. This is your Taxable Income	00	56,500 00
12	Enter tax from Tax Table, Computation or Schedule J. Check if from Schedule J <input type="checkbox"/>	00	3,093 00
13	Enter tax from Form 4972-K <input type="checkbox"/> ; Schedule RC-R <input type="checkbox"/>	00	00
14	Add lines 12 and 13 and enter total here	00	3,093 00
15	Enter amounts from page 2, Section A, lines 13A and 13B	00	3,093 00
16	Subtract line 15 from line 14. If line 15 is larger than line 14, enter zero	00	0 00
17	Enter amounts from page 2, Section B, lines 4A and 4B	00	20 00
18	Subtract line 17 from line 16. If line 17 is larger than line 16, enter zero	00	0 00
19	Add tax amount(s) in Columns A and B, line 18 and enter here		0 00
20	Check the box that represents your total family size (see instructions before completing lines 20 and 21)		1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/>
21	Multiply line 19 by Family Size Tax Credit decimal amount (0%) and enter here		00
22	Subtract line 21 from line 19		00
23	Enter the Education Tuition Tax Credit from Form 8863-K, line 12		00
24	Subtract line 23 from line 22		00
25	Enter Child and Dependent Care Credit from federal Form 2441, line 9 x 20% (.20)		00
26	Income Tax Liability. Subtract line 25 from line 24. If line 25 is larger than line 24, enter zero		00
27	Enter KENTUCKY USE TAX from worksheet in the instructions		00
28	Add lines 26 and 27. Enter here and on page 2, line 29. This is your Total Tax Liability		00

Attach Form W-2(s). Other Supporting Statement(s) and Payment Here—Step to Top Page Only

Attach a complete copy of federal Form 1040 if you received farm, business, or rental income or loss. If not required, check here. Do you wish to receive a packet next year? (check one) 1 Yes 2 No

I, the undersigned, declare under 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. I also understand and agree that our election to file a combined return under the provisions of Regulation 103 KAR 17:020 will result in refunds being made payable to us jointly and in each of us being jointly and severally liable for all taxes accruing under this return.

Your Signature (If joint or combined return, both must sign) _____ Spouse's Signature _____ Date Signed _____ Telephone Number (daytime) _____

Typed or Printed Name of Preparer Other than Taxpayer _____ I.D. Number of Preparer _____ Date _____

FORM 740 (2005)

www.revenue.ky.gov

REFUND/TAX PAYMENT SUMMARY

29	Enter total tax liability from page 1, line 28	29	0	00
30	(a) Enter Kentucky income tax withheld as shown on attached 2005 Form W-2(s) and other supporting statements	30(a)	00	
	(b) Enter 2005 Kentucky estimated tax payments	30(b)	00	
	(c) Enter refundable Kentucky corporation tax credit (KRS 141.420(3)(c))	30(c)	00	
31	Add lines 30(a) through 30(c)	31		00
32	If line 31 is larger than line 29, enter AMOUNT OVERPAID (see instructions)	32		00
See instructions for a detailed description of funds. > (Enter amount(s) checked)				
33	Nature and Wildlife Fund Contribution <input type="checkbox"/> \$2 <input type="checkbox"/> \$5 <input type="checkbox"/> \$10 <input type="checkbox"/> Other	33	00	
34	Child Victims' Trust Fund Contribution <input type="checkbox"/> \$2 <input type="checkbox"/> \$4 <input type="checkbox"/> Other	34	00	
35	Veterans' Program Trust Fund Contribution	35	00	
36	Breast Cancer Research and Education Trust Fund Contribution	36	00	
37	Add lines 33 through 36	37		00
38	Amount of line 32 to be CREDITED TO YOUR 2006 ESTIMATED TAX	38		00
39	Subtract lines 37 and 38 from line 32. Amount to be REFUNDED TO YOU	39		00
40	If line 29 is larger than line 31, enter ADDITIONAL TAX DUE	40		00
41	(a) Estimated tax penalty <input type="checkbox"/> Check if Form 2210-K attached (c) Late payment penalty	41(e)		00
	(b) Interest			
	(d) Late filing penalty			
42	Add lines 40 and 41(e) and enter here. This is the AMOUNT YOU OWE	42		00

SECTION A—BUSINESS INCENTIVE AND OTHER TAX CREDITS

	A. Spouse	B. Yourself
1 Enter nonrefundable Kentucky corporation tax credit (KRS 141.420(3))	00	3,093 00
2 Enter skills training investment credit (attach copy(ies) of certification)	00	00
3 Enter historic preservation restoration credit	00	00
4 Enter credit for tax paid to another state (attach copy of return(s) filed with other state)	00	00
5 Enter unemployment credit (attach Schedule UTC)	00	00
6 Enter recycling and/or composting equipment credit (attach Schedule RC)	00	00
7 Enter Kentucky Investment Fund credit (attach copy(ies) of certification)	00	00
8 Enter credit for purchases of Kentucky coal used for generating electricity	00	00
9 Enter qualified research facility credit (attach Schedule QR)	00	00
10 Enter GED incentive credit (attach Form DAEL-31)	00	00
11 Enter voluntary environmental remediation credit (Brownfields)	00	00
12 Enter biodiesel credit	00	00
13 Add lines 1 through 12. Columns A and B. Enter here and on page 1, line 15	00	3,093 00

SECTION B—PERSONAL TAX CREDITS

1 (a) Credits for yourself: <input checked="" type="checkbox"/> Regular <input type="checkbox"/> 65 or over <input type="checkbox"/> blind	1 Enter number of boxes checked on line 1	1
(b) Credits for spouse: <input type="checkbox"/> Regular <input type="checkbox"/> 65 or over <input type="checkbox"/> blind	2 Enter number of dependents who: - lived with you	
2 Dependents:	- did not live with you (see instructions)	
First name Last name Dependent's Social Security number Dependent's relationship to you Check if qualifying child for family size tax credit	- other dependents	
3 Add total number of credits claimed on lines 1 and 2. If married filing separately on a combined return (Filing Status 2), each taxpayer must claim his or her own credits from line 1, divide the credits on line 2, and enter the totals in Boxes 3A and 3B. All other filers enter the amount from line 3 in Box 3B	3 Enter total credits	1
4 Multiply credits on line 3A by \$20 and enter on line 4A. Multiply credits on line 3B by \$20 and enter on line 4B. Enter here and on page 1, line 17, Columns A and B		

SECTION C—FAMILY SIZE TAX CREDIT (List the name and Social Security number of qualifying children that are not claimed as dependents in Section B.)

First name	Last name	Social Security number	First name	Last name	Social Security number

REFUNDS Mail to: Kentucky Department of Revenue, Frankfort, KY 40618-0006.
 PAYMENTS Mail to: Kentucky Department of Revenue, Frankfort, KY 40618-0008.

Official Use Only					
EST	CF	NT	P	B	F R
					1 2

Kentucky Corporation Tax Credit Worksheet

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

Name Partnership A LLC - Partner Two

Address _____

FEIN _____

1. Enter Kentucky taxable income from Form 740, Line 11	<u>56,500</u>
2. Enter income included in Line 1 and taxed under KRS 141.040	<u>74,000</u>
3. Subtract Line 2 from Line 1 and enter total here	<u>(17,500)</u>
4. Enter Kentucky tax on income amount on Line 1	<u>3,093</u>
5. Enter Kentucky tax on income amount on Line 3	<u>0</u>
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.....	<u>3,093</u>
7. Enter nonrefundable corporation tax paid on income reported on Kentucky return	<u>4,346</u>
8. Enter the lesser of Line 6 or Line 7. This is your credit. Enter here and on Form 740, Section A, Line 1	<u>3,093</u>

Recap of Lesson Learned from Example Two

- Contributions to IRAs are not deductible on the corporation return.
- Credits based upon AMC can be utilized on the individual return. Partner One was able to use all of the credit, including the portion that exceeded income tax.
- Nonrefundable and refundable credit is based upon tax before the application of entity's credits.
- Guaranteed payments are deductible on the corporation's return.
- Guaranteed payments can be used to offset itemized deductions and IRA deductions.

Example #3 – Multi-Tiered Structure – Illustrated

D S CORP is an S corporation with five shareholders. Included in the illustration is Jim Shareholder, who owns a 20% share. D S CORP is the single member owner of D, LLC.

D, LLC must file Form 720S, Kentucky S Corporation Income Tax Return because its single member is an S corporation.

D S CORP also files Form 720S.

D, LLC net loss	\$ (10,000)
AMC tax less \$175	500
D S CORP net income	100,000
Total income after adjustments	110,000
Taxable income	110,000
Income tax	5,200
Tax Liability	6,500
Net Tax Liability	6,500
Nonrefundable KY corporation income tax credit	6,325
Refundable KY corporation income tax credit	0
Jim Shareholder	20%
Federal share of distributive income	\$20,000
D S CORP Kentucky share of distributive income	\$22,000
Nonrefundable corporation tax credit	1,265
D, LLC Kentucky share of distributive income	(2,000)
Nonrefundable corporation tax credit	100

Forms attached:

Kentucky Form 720S, Kentucky S Corporation Income Tax Return

Form 720S, Kentucky Schedule K-1

Form 720S, page 2

Form 720S, page 4, Schedule OI, Ordinary Income (Loss) Computation

Form 720S, page 4, Schedule K-1, Shareholders' Share of Income, Credits, Deductions, Etc.

Schedule of income, loss and credit from D, LLC

Form 740, Kentucky Individual Income Tax Return

Kentucky Corporation Tax Credit Worksheet

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720S

41A720S



**Kentucky S Corporation
Income Tax Return**

➤ See separate instructions.

2005

Taxable Year Ending

Department of Revenue

Taxable period beginning _____, 2005, and ending _____, 2005, Mo. 1 Yr. _____

A Number of Shareholders (Attach K-1s) ➤ _____	B Federal Identification Number _____	C Kentucky Corporation Account Number _____
	Name of S Corporation (Place preaddressed label here; otherwise print or type.) D S Corp	
D Number of QSSSs Included in This Return (Attach Schedule) ➤ _____	State and Date of Incorporation _____	
	Principal Business Activity in KY _____	
	NAICS Code Number (Relating to Kentucky Activity) (See www.census.gov) _____	
	Number and Street _____	City _____ State _____ ZIP Code _____ Telephone Number _____

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

PART I—TAXABLE INCOME COMPUTATION		PART II—ALTERNATIVE MINIMUM (AMC)	
1. Kentucky ordinary income (loss) (from Schedule K, Section I, line 1)	100,000	Gross Receipts	
2. Net income (loss) from rental real estate activities		1. Kentucky gross receipts (less Kentucky returns and allowances)	7,000,000
3. Net income (loss) from other rental activities		2. Tax (line 1 multiplied by .00095)	6,650
4. Interest income		Gross Profits	
5. Royalty income		3. Kentucky gross receipts	7,400,000
6. Net short-term capital gain		(a) Less Kentucky returns and allowances	400,000
7. Net long-term capital gain		(b) Less Kentucky cost of goods sold	6,133,333
8. Other portfolio income (loss)		4. Gross profit (subtract lines 3(a) and 3(b) from line 3)	866,667
9. Section 1231 net gain (loss) (other than due to casualty or theft)		5. Tax (line 4 multiplied by .0075)	6,500
10. Other income (loss)		PART II—TAX COMPARISON	
11. Total additions (add lines 1 through 10)	100,000	1. Regular income tax (see instructions)	5,200
12. Other income (loss) (KRS 141.010(12)):		2. Alternative minimum (AMC) (lesser of Part II, line 2 or line 5)	6,500
(a) Related party expenses (KRS 141.205)		PART IV—TAX COMPUTATION	
(b) Deductions attributable to nontaxable income		1. Tax liability (Part III, greater of line 1, line 2 or \$175 minimum)	6,500
(c) Add net distributable loss from corporations	10,000	ADDITIONS	
(d) Subtract net distributable income from corporations		2. Recycling/composting equipment tax credit recapture	
(e) Other		3. Total (add lines 1 and 2)	6,500
13. Total income after adjustments (add lines 11 and 12)	110,000	SUBTRACTIONS	
14. Charitable contributions (see instructions)		4. Total nonrefundable credits from page 2, Part V	0
15. Section 179 expense deduction (Kentucky Form 4562)		5. Net tax liability (greater of line 3 less line 4 or \$175)	6,500
16. Deductions related to portfolio income (loss)		6. Estimated tax payments	
17. Other deductions		7. Extension tax payment	
18. Section 59(e)(2) expenses		8. Prior year's tax credit	
19. Total deductions (add lines 14 through 18)		9. Tax due	6,500
20. Oil and gas depletion		10. Tax overpayment	
21. Other adjustments (KRS 141.010(13))		11. Credited to 2006	
22. Total deductions (add lines 19 through 21)		12. Amount to be refunded	
23. Net income (loss) (line 13 less line 22)		TAX PAYMENT SUMMARY (Round to Nearest Dollar)	
24. Taxable net income (loss) (amount from line 23 or Schedule A)	110,000	TAX (check applicable box) <input type="checkbox"/> income <input type="checkbox"/> AMC Gross Receipts	
		<input checked="" type="checkbox"/> AMC Gross Profits <input type="checkbox"/> Minimum \$175	
		Tax	\$6,500
		Penalty	
		Interest	
		TOTAL (Including Penalty and Interest)	\$6,500

Make check(s) payable to: **Kentucky State Treasurer, Kentucky Department of Revenue, Frankfort, Kentucky 40620.**
 Mail return with payment to: _____
 No packet required for 2006. ➤ Federal Form 1120S, pages 1, 2, 3 and 4, and any supporting schedules must be attached.

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	6,500	
2. Minimum tax	2	175	00
3. Corporation income tax credit	3	6,325	
4. Nonrefundable Kentucky corporation income tax credit (KRS 141.420(3))	4	6,325	
5. Refundable Kentucky corporation income tax credit (KRS 141.420(3)(c))	5	0	

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—Line 1 less Line 2 (individual shareholders 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 4 and 5—If taxable net income (Part I, Line 24) is greater than \$216,600, multiply the excess by 1 percent and by the total individual shareholders' ownership percentage and enter this amount on Line 5.

Determine the individual shareholders' proportionate share of the tax credit (page 2, Part VI, Line 3) less the amount entered on Line 5, and enter on Line 4.

SCHEDULE OI—ORDINARY INCOME (LOSS) COMPUTATION

1. Federal ordinary income (loss) (see instructions)	1	100,000	
ADDITIONS			
2. State taxes	2		
3. Federal depreciation (do not include Section 179 expense deduction)	3	20,000	
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	20,000	
8. Other (attach schedule)	8		
9. Kentucky ordinary income (loss) (line 5 less lines 6 through 8)	9	100,000	

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

SECTION I	(a) Pro Rata Share Items	(b) Total Amount
Income (Loss) and Deductions		
1. Kentucky Ordinary income (loss) from trade or business activities (Schedule OI, line 9)	1	100,000
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)	
(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. Section 1231 net gain (loss) (other than due to casualty or theft) (attach federal and Kentucky Forms 4797) .	5	
6. Other income (loss) (attach schedule)	6	
7. Charitable contributions (attach schedule) and housing for homeless deduction (attach Schedule HH)	7	
8. IRC Section 179 expense deduction (attach Federal Form 4562 and Kentucky Revised Form 4562)	8	
9. Deductions related to portfolio income (loss) (attach schedule)	9	
10. Other deductions (attach schedule)	10	
Investment Interest		
11. (a) Interest expense on investment debts	11(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		
12. (a) Type of Section 59(e)(2) expenditures ▶	12(a)	
(b) Amount of Section 59(e)(2) expenditures	(b)	
13. Tax-exempt interest income	13	
14. Other tax-exempt income	14	
15. Nondeductible expenses	15	
16. Total property distributions (including cash) other than dividends reported on line 18 below	16	
17. Other items and amounts required to be reported separately to shareholders (attach schedule)	17	
18. Total dividend distributions paid from accumulated earnings and profits	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 24)	1	110,000
2. Individuals' share of net distributable income (loss) taxed under KRS 141.040	2	110,000
3. Nonrefundable Kentucky corporation income tax credit (KRS 141.420(3)) (page 2, Part VI, line 4)	3	6,325
4. Refundable Kentucky corporation income tax credit (KRS 141.420(3)(c)) (page 2, Part VI, line 5)	4	0

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<p>SCHEDULE K-1 (Form 720S) Department of Revenue</p>	<p>KENTUCKY SHAREHOLDER'S SHARE OF INCOME, CREDITS, DEDUCTIONS, ETC.</p>	<p>2005</p>
Taxable period beginning _____, 2005, ending _____, 200__		
Shareholder's identifying number > 61-1111111 Shareholder's name, address and ZIP code D S Corp	S Corporation's identifying number > 61-2222222 S Corporation's name, address and ZIP code D, LLC	
A. Shareholder's percentage of stock ownership for tax year > 100 % B. (1) Resident shareholder's taxable percentage of pro rata share items > 100% (2) Nonresident shareholder's taxable percentage of pro rata share items (see Schedule A, Section I, line 12) > _____ % C. What type of entity is this shareholder? _____ D. Check if applicable: (1) <input type="checkbox"/> Final K-1 (2) <input checked="" type="checkbox"/> Amended K-1		
<p>IMPORTANT: Refer to Shareholder's Instructions for Schedule K-1 before entering information from Schedule K-1 on your tax return.</p>		
(a) Pro Rata Share Items		
	(b) Amount	
Income (Loss)	1. Ordinary income (loss) from trade or business activities	1 (10,000)
	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)
	(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. Net gain (loss) under Section 1231 (other than due to casualty or theft)	5	
6. Other income (loss) (attach schedule)	6	
Deductions	7. Charitable contributions (attach schedule) and housing for homeless deduction (attach Schedule HH)	7
	8. IRC Section 179 expense deduction (attach Federal Form 4562 and Kentucky Revised Form 4562) ...	8
	9. Deductions related to portfolio income (loss) (attach schedule)	9
	10. Other deductions (attach schedule)	10
Interest	11. (a) Interest expense on investment debts	11(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	12. (a) Type of Section 59(e)(2) expenditures >	12(a)
	(b) Amount of Section 59(e)(2) expenditures	(b)
	13. Tax-exempt interest income	13
	14. Other tax-exempt income	14
	15. Nondeductible expenses	15
	16. Property distributions (including cash) other than dividend distributions reported to you on Form 1099-DIV	16
	17. Supplemental information required to be reported to each shareholder (attach schedules)	17
	18. Total dividend distributions paid from accumulated earnings and profits	18
Credits	19. Individual shareholder's net distributable share of taxable income taxed under KRS 141.040	19 (10,000)
	20. Nonrefundable Kentucky corporation income tax credit (KRS 141.420(3))	20 500
	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 5, 8 and portions of lines 6 and 10. Add income amounts and subtract (loss) and deduction amounts (see instructions)	22 (10,000)
	23. Combination of federal Schedule K-1, lines 1 through 9, 11 and portions of lines 10 and 12. Add income amounts and subtract (loss) and deduction amounts (see instructions)	23 (10,000)
	24. Enter the difference of lines 22 and 23 here and on appropriate line on Schedule M (see instructions)	24

SCHEDULE K-1
(Form 720S)
Department of Revenue

KENTUCKY SHAREHOLDER'S SHARE OF INCOME, CREDITS, DEDUCTIONS, ETC.

2005

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

Shareholder's identifying number >
Shareholder's name, address and ZIP code

S Corporation's identifying number >
S Corporation's name, address and ZIP code

Jim Shareholder

D S Corp.

- A. Shareholder's percentage of stock ownership for tax year > 20 %
 B. (1) Resident shareholder's taxable percentage of pro rata share items > 100%
 (2) Nonresident shareholder's taxable percentage of pro rata share items
 (see Schedule A, Section I, line 12) > 100 %
 C. What type of entity is this shareholder? **Individual**
 D. Check if applicable: (1) Final K-1 (2) Amended K-1

IMPORTANT: Refer to Shareholder's Instructions for Schedule K-1 before entering information from Schedule K-1 on your tax return.

		(a) Pro Rata Share Items	(b) Amount
Income (Loss)	1. Ordinary income (loss) from trade or business activities	1	20,000
	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)	
	(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. Net gain (loss) under Section 1231 (other than due to casualty or theft)	5		
6. Other income (loss) (attach schedule)	6		
Deductions	7. Charitable contributions (attach schedule) and housing for homeless deduction (attach Schedule HH)	7	
	8. IRC Section 179 expense deduction (attach Federal Form 4562 and Kentucky Revised Form 4562) ...	8	
	9. Deductions related to portfolio income (loss) (attach schedule)	9	
	10. Other deductions (attach schedule)	10	
Investment Interest	11. (a) Interest expense on investment debts	11(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	12. (a) Type of Section 59(e)(2) expenditures >	12(a)	
	(b) Amount of Section 59(e)(2) expenditures	(b)	
	13. Tax-exempt interest income	13	
	14. Other tax-exempt income	14	
	15. Nondeductible expenses	15	
	16. Property distributions (including cash) other than dividend distributions reported to you on Form 1099-DIV	16	
	17. Supplemental information required to be reported to each shareholder (attach schedules)	17	
	18. Total dividend distributions paid from accumulated earnings and profits	18	
Credits	19. Individual shareholder's net distributable share of taxable income taxed under KRS 141.040	19	22,000
	20. Nonrefundable Kentucky corporation income tax credit (KRS 141.420(3))	20	1,265
	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 5, 8 and portions of lines 6 and 10. Add income amounts and subtract (loss) and deduction amounts (see instructions)	22	20,000
	23. Combination of federal Schedule K-1, lines 1 through 9, 11 and portions of lines 10 and 12. Add income amounts and subtract (loss) and deduction amounts (see instructions)	23	20,000
	24. Enter the difference of lines 22 and 23 here and on appropriate line on Schedule M (see instructions)	24	

740 **Kentucky**

KENTUCKY INDIVIDUAL INCOME TAX RETURN
Full-Year Residents Only

42A740
 Department of Revenue

For calendar year or other taxable year beginning _____, 2005, and ending _____, 2005.

2005

DRAFT
9-29-05

A. Spouse's Social Security Number		B. Your Social Security Number	
Name—Last, First, Middle Initial (Joint or combined return, give both names and initials)			
Shareholder, Jim			
Mailing Address (Number and Street, or P.O. Box)		Apartment Number	
City, Town or Post Office		State	ZIP Code

FILING STATUS (see instructions)

1 Single

2 Married, filing separately on this combined return. (If both had income.)

3 Married, filing joint return.

4 Married, filing separate returns. Enter spouse's Social Security number above and full name here.

POLITICAL PARTY FUND
 Designating \$2 will not change your refund or tax due.

	A. Spouse	B. Yourself
Democratic	(1) <input type="checkbox"/>	(4) <input type="checkbox"/>
Republican	(2) <input type="checkbox"/>	(5) <input type="checkbox"/>
No Designation	(3) <input type="checkbox"/>	(6) <input type="checkbox"/>

INCOME/TAX		A. Spouse (Use if Filing Status 2 is checked.)	B. Yourself (or Joint)
5	Enter amount from federal Form 1040, line 37; 1040A, line 21 or 1040EZ, line 4. (If total of Columns A and B is \$25,736 or less, you may qualify for the Family Size Tax Credit. See instructions.)	00	68,587 00
6	Additions from Schedule M, line 6	00	00
7	Add lines 5 and 6	00	68,587 00
8	Subtractions from Schedule M, line 16	00	00
9	Subtract line 8 from line 7. This is your Kentucky Adjusted Gross Income	00	68,587 00
10	Itemizers: Enter itemized deductions from Kentucky Schedule A. Nonitemizers: Enter \$1,910 in Columns A and/or B	00	6,857 00
11	Subtract line 10 from line 9. This is your Taxable Income	00	61,730 00
12	Enter tax from Tax Table, Computation or Schedule J. Check if from Schedule J <input type="checkbox"/>	00	3,396 00
13	Enter tax from Form 4972-K <input type="checkbox"/> ; Schedule RC-R <input type="checkbox"/>	00	00
14	Add lines 12 and 13 and enter total here	00	3,396 00
15	Enter amounts from page 2, Section A, lines 13A and 13B	00	1,265 00
16	Subtract line 15 from line 14. If line 15 is larger than line 14, enter zero	00	2,231 00
17	Enter amounts from page 2, Section B, lines 4A and 4B	00	20 00
18	Subtract line 17 from line 16. If line 17 is larger than line 16, enter zero	00	2,211 00
19	Add tax amount(s) in Columns A and B, line 18 and enter here		2,211 00
20	Check the box that represents your total family size (see instructions before completing lines 20 and 21)	1 <input type="checkbox"/>	2 <input type="checkbox"/>
21	Multiply line 19 by Family Size Tax Credit decimal amount (___ 0 %) and enter here		00
22	Subtract line 21 from line 19		00
23	Enter the Education Tuition Tax Credit from Form 8863-K, line 12		00
24	Subtract line 23 from line 22		00
25	Enter Child and Dependent Care Credit from federal Form 2441, line 9 > x 20% (.20)		00
26	Income Tax Liability. Subtract line 25 from line 24. If line 25 is larger than line 24, enter zero		00
27	Enter KENTUCKY USE TAX from worksheet in the instructions		00
28	Add lines 26 and 27. Enter here and on page 2, line 29. This is your Total Tax Liability		00

Attach a complete copy of federal Form 1040 if you received farm, business, or rental income or loss. If not required, check here. Do you wish to receive a packet next year? (check one) 1 Yes 2 No

I, the undersigned, declare under 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. I also understand and agree that our election to file a combined return under the provisions of Regulation 103 KAR 17:020 will result in refunds being made payable to us jointly and in each of us being jointly and severally liable for all taxes accruing under this return.

Your Signature (If joint or combined return, both must sign) _____ Spouse's Signature _____ Date Signed _____ Telephone Number (daytime) _____

Typed or Printed Name of Preparer Other than Taxpayer _____ I.D. Number of Preparer _____ Date _____

Attach Form W-2(s), Other Supporting Statement(s) and Payment Here—Staple to Top Page Only

FORM 740 (2005)

www.revenue.ky.gov

Page 2

REFUND/TAX PAYMENT SUMMARY

29	Enter total tax liability from page 1, line 28	29	2,211	00
30	(a) Enter Kentucky income tax withheld as shown on attached 2005 Form W-2(s) and other supporting statements	30(a)	2000	00
	(b) Enter 2005 Kentucky estimated tax payments	30(b)		00
	(c) Enter refundable Kentucky corporation tax credit (KRS 141.420(3)(c))	30(c)		00
31	Add lines 30(a) through 30(c)	31	2,000	00
32	If line 31 is larger than line 29, enter AMOUNT OVERPAID (see instructions)	32		00
See instructions for a detailed description of funds. (Enter amount(s) checked)				
33	Nature and Wildlife Fund Contribution <input type="checkbox"/> \$2 <input type="checkbox"/> \$5 <input type="checkbox"/> \$10 <input type="checkbox"/> Other	33		00
34	Child Victims' Trust Fund Contribution <input type="checkbox"/> \$2 <input type="checkbox"/> \$4 <input type="checkbox"/> Other	34		00
35	Veterans' Program Trust Fund Contribution	35		00
36	Breast Cancer Research and Education Trust Fund Contribution	36		00
37	Add lines 33 through 36	37		00
38	Amount of line 32 to be CREDITED TO YOUR 2006 ESTIMATED TAX	38		00
39	Subtract lines 37 and 38 from line 32. Amount to be REFUNDED TO YOU	39		00
40	If line 29 is larger than line 31, enter ADDITIONAL TAX DUE	40		00
41	(a) Estimated tax penalty <input type="checkbox"/> Check if Form 2210-K attached	(c) Late payment penalty		
	(b) Interest	(d) Late filing penalty		
	(e) Add lines 41(a) through 41(d). Enter here	41(e)		00
42	Add lines 40 and 41(e) and enter here. This is the AMOUNT YOU OWE	42	211	00

Make check payable to Kentucky State Treasurer. Write your Social Security number and "KY Income Tax—2005" on the check.
Staple check on top of attached wage and tax statements on page 1.

SECTION A—BUSINESS INCENTIVE AND OTHER TAX CREDITS

	A. Spouse	B. Yourself
1	00	1,265 00
2	00	00
3	00	00
4	00	00
5	00	00
6	00	00
7	00	00
8	00	00
9	00	00
10	00	00
11	00	00
12	00	00
13	00	1,265 00

SECTION B—PERSONAL TAX CREDITS

1	(a) Credits for yourself: <input checked="" type="checkbox"/> Regular <input type="checkbox"/> Both if 65 or over <input type="checkbox"/> Both if blind	1	Enter number of boxes checked on line 1	1
2	(b) Credits for spouse: <input type="checkbox"/> Regular <input type="checkbox"/> Both if 65 or over <input type="checkbox"/> Both if blind		2	Enter number of dependents who: • lived with you • did not live with you (see instructions) • other dependents
2 Dependents:			3	Enter total credits
First name	Last name	Dependent's Social Security number	Dependent's relationship to you	Check if qualifying child for family size tax credit
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
3 Add total number of credits claimed on lines 1 and 2. If married filing separately on a combined return (filing Status 2), each taxpayer must claim his or her own credits from line 1, divide the credits on line 2, and enter the totals in Boxes 3A and 3B. All other filers enter the amount from line 3 in Box 3B				
4 Multiply credits on line 3A by \$20 and enter on line 4A. Multiply credits on line 3B by \$20 and enter on line 4B. Enter here and on page 1, line 17, Columns A and B		3A	3B	1
		x \$20	x \$20	
		4A	4B	20

SECTION C—FAMILY SIZE TAX CREDIT (List the name and Social Security number of qualifying children that are not claimed as dependents in Section B.)

First name	Last name	Social Security number	First name	Last name	Social Security number

REFUNDS Mail to: Kentucky Department of Revenue, Frankfort, KY 40618-0006.
PAYMENTS Mail to: Kentucky Department of Revenue, Frankfort, KY 40619-0008.

Official Use Only							
EST	CF	NT	P	B	F	R	1 2

Kentucky Corporation Tax Credit Worksheet

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

Name D S CORP for Jim Shareholder

Address _____

FEIN 61-1111111

1. Enter Kentucky taxable income from Form 740, Line 11	<u>61,730</u>
2. Enter income included in Line 1 and taxed under KRS 141.040	<u>22,000</u>
3. Subtract Line 2 from Line 1 and enter total here	<u>39,730</u>
4. Enter Kentucky tax on income amount on Line 1	<u>3,396</u>
5. Enter Kentucky tax on income amount on Line 3	<u>2,122</u>
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	<u>1,274</u>
7. Enter nonrefundable corporation tax paid on income reported on Kentucky return	<u>1,265</u>
8. Enter the lesser of Line 6 or Line 7. This is your credit. Enter here and on Form 740, Section A, Line 1	<u>1,265</u>

Kentucky Corporation Tax Credit Worksheet

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

Name D, LLC for JIM SHAREHOLDER

Address _____

FEIN 62-222222

1. Enter Kentucky taxable income from Form 740, Line 11	<u>61,730</u>
2. Enter income included in Line 1 and taxed under KRS 141.040	<u>(2,000)</u>
3. Subtract Line 2 from Line 1 and enter total here	<u>63,730</u>
4. Enter Kentucky tax on income amount on Line 1	<u>3,396</u>
5. Enter Kentucky tax on income amount on Line 3	<u>3,512</u>
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.....	<u>0</u>
7. Enter nonrefundable corporation tax paid on income reported on Kentucky return	<u>100</u>
8. Enter the lesser of Line 6 or Line 7. This is your credit. Enter here and on Form 740, Section A, Line 1.....	<u>0</u>

Recap of Lessons Learned from Example Three

- Losses from an upper/lower tier are not deductible by the corporation member or partner.
- Losses (income) and credit from an upper/lower tier do pass through and are deductible by the individual partner, shareholder or member.
- Kentucky corporation income tax credit is limited to zero if the entity incurs a loss, however, the individual can utilize the loss deduction, subject to limitations; i.e., passive loss or at risk limitations.
- In a multi-tier structure, separate calculations for each tier are necessary to claim the Kentucky corporation Income tax credit.

Schedule of income, loss and credit from D, LLC received by D S CORP

Jim Shareholder

D, LLC
Address
FEIN

Kentucky corporation income tax credit information:

Line 19—Individual shareholder's net distributable share income(loss) taxed under KRS 141.040.	(\$2,000)
Line 20—Nonrefundable Kentucky corporation income tax credit (KRS 141.420(3))	\$100
Line 21—Refundable Kentucky corporation income tax credit (KRS 141.420(3)(c))	-0-

Special Instructions for Multi-Tiered Entities

As stated earlier, individuals are required to begin the Kentucky individual income tax return with federal adjusted gross income (FAGI). FAGI includes income from PTEs that are subject to Kentucky corporation income tax, income from PTEs that are not subject to Kentucky corporation income tax such as foreign PTEs, and income apportioned to another state (earned by a corporation with Kentucky nexus). Information provided to the individual shareholder, partner or owner must include adequate data about each tier in the structure for the individual to compute Schedule M adjustments to FAGI for statutory adjustments and to claim the nonrefundable and refundable credits including the limitations.

When completing Schedule K-1, Forms 720S, include on lines 19-21 only income subject to tax on the entity's return. Do not include amounts from Part I - Taxable income Computation, lines 12 (c) and (d). Provide a separate schedule for income, loss and credit the S corporation, partnership, or LLC received as a partner or member. Include name, address, FEIN, for each entity and the shareholders' pro rata share of items requested for lines 19-21.

The following two pages are provided as an example of how a spreadsheet can be used to accomplish this task and provide other information that the individual shareholder, partner or member needs to complete his or her Kentucky individual income tax return. Using Excel, the spreadsheet is set up to use information from Schedule K and Schedule K-1. The entity recap page will use federal Schedule K information, its own Schedule K items and Schedules K-1s received as a partner or member. Once the entity's information is entered, formulas can be developed using a separate worksheet for each owner to provide the owners with the net distributive share items from each of the tiers.

Corporation's identifying number 61-1111111
 Corporation's name and address DS CORP

Pro Rata Share items

Entity ID	1.	2.	3.	4. (a)	4. (b)	4. (c)	4. (d)
Federal		100000					
61-1111111		110000					
61-2222222		-10000					
total		100000	0	0	0	0	0
Federal	4. (e)	4. (f)	5.	6.	7.	8.	9.
61-1111111							
61-2222222							
total	0	0	0	0	0	0	0
Federal	10.	11.	12.	13.	14.	15.	16.
61-1111111							
61-2222222							
total	0	0	0	0	0	0	0
Federal	17.	18.	19.	20.	21.	22.	23.
61-1111111			110000	6325	0	0	
61-2222222			-10000	500	0	0	
total	0	0	100000	6825	0	0	0
Federal	24.	A.	B. (1)	B. (2)	C.	D.	
61-1111111							
61-2222222							
total	0	0	0	0	0	0	0

New Filing Requirements

Do You Have to File a Kentucky Return?—If you were a Kentucky resident for the entire year, your filing requirement depends upon your family size, modified gross income, Kentucky adjusted gross income and income from self employment. You must file if your modified gross income exceeds the amount in Chart A and your Kentucky adjusted gross income exceeds the amount in Chart B.

Modified Gross Income and Family Size (Use With Chart A)

Family Size—Consists of yourself, your spouse if married and living in the same household and qualifying children. Family size is limited to four.

Qualifying Child—Means a qualifying child as defined in Internal Revenue Code Section 152(c), and includes a child who lives in the household but cannot be claimed as a dependent if the provisions of Internal Revenue Code Section 152(e)(2) and 152(e)(4) apply. In general, to be a taxpayer's qualifying child, a person must satisfy four tests:

Relationship—The taxpayer's child or stepchild (whether by blood or adoption), foster child, sibling or stepsibling, or a descendant of one of these.

Residence—Has the same principal residence as the taxpayer for more than half the tax year. A qualifying child is determined without regard to the exception for children of divorced or separated parents. Other federal exceptions apply.

Age—Must be under the age of 19 at the end of the tax year, or under the age of 24 if a full-time student for at least five months of the year, or be permanently and totally disabled at any time during the year.

Support—Did not provide more than one-half of his/her own support for the year.

Modified Gross Income—Consists of your federal adjusted gross income, your spouse's federal adjusted gross income if living in the same household, plus any tax-exempt interest from municipal bonds (non-Kentucky) or any lump-sum distribution amount taxed on Form 4972-K.

Chart A

If Your Family Size is:		Your Modified Gross Income is greater than:
One	and	\$ 9,570
Two	and	\$12,830
Three.....	and	\$16,090
Four or More	and	\$19,350

**Kentucky Adjusted Gross Income
(Use With Chart B)**

Kentucky Adjusted Gross Income—Consists of your federal adjusted gross income plus any additions and subtractions from Schedule M, Modifications to Federal Adjusted Gross Income.

Chart B

If Your Filing Status is:		Your Kentucky Adjusted Gross Income is greater than:
Single Person—Under age 65.....	and.....	\$ 2,950
Single Person—Age 65 or over or blind	and.....	\$ 4,950
Single Person—Age 65 or over and blind	and.....	\$ 6,200
Husband and Wife—Both under age 65.....	and.....	\$ 3,950
Husband and Wife—One age 65 or over	and.....	\$ 5,600
Husband and Wife—Both age 65 or over.....	and.....	\$ 6,700

Taxpayers with Self-Employment Income—Must file a Kentucky individual income tax return regardless of the amount of Kentucky adjusted gross income used in the Chart B if you have gross receipts from self-employment in excess of modified gross income for your family size in Chart A.

TIP: Even though the filing requirements are not met, an income tax return must be filed to claim a refund of the Kentucky taxes withheld.

Nonresidents & Part-Year Residents

Nonresidents & Part-Year Residents must report income on **Form 740-NP**.

Full-year nonresidents must report all income from Kentucky sources (including distributive share income, Schedule K-1), from activities carried on in Kentucky or from the performance of services in Kentucky and from property located in Kentucky.

Persons moving into Kentucky must report income received from Kentucky sources prior to becoming residents and income received from all sources after becoming Kentucky residents.

Residents moving out of Kentucky during the year must report income from all sources while a resident and from Kentucky sources while a nonresident.

Family Size Tax Credit

The current low income tax credit is repealed for taxable years beginning on or after Jan. 1, 2005. The new Family Size Tax Credit is based on modified gross income (MGI) and the size of the family. If total MGI is \$25,736 or less, you may qualify for Kentucky Family Size Tax Credit.

TIP: Family Size Tax Credit may be claimed by a resident, nonresident, or part year resident. The credit is not pro rata but is the full percentage based upon modified gross income.

To claim the credit you must complete Line 20 and Line 21 on Form 740 or Form 740 NP.

STEP ONE—Determine your family size. Check the box on Line 20 to the right of the number that represents your family size.

Family Size—Consists of yourself, your spouse if married and living in the same household and qualifying children.

Family Size 1 is an individual either single, or married living apart from his or her spouse for the entire year. You may qualify for the family size tax credit even if you are claimed as a dependent on your parent's tax return.

Family Size 2 is an individual with one qualifying child or a married couple.

Family Size 3 is an individual with two qualifying children or a married couple with one qualifying child.

Family Size 4 is an individual with three or more qualifying children or a married couple with two or more qualifying children.

Qualifying Dependent Child—Means a qualifying child as defined in Internal Revenue Code Section 152(c), and includes a child who lives in the household but cannot be claimed as a dependent if the provisions of Internal Revenue Code Section 152(e)(2) and 152(e)(4) apply. In general, to be a taxpayer's qualifying child, a person must satisfy four tests:

- **Relationship**—Must be the taxpayer's child or stepchild (whether by blood or adoption), foster child, sibling or stepsibling, or a descendant of one of these.
- **Residence**—Has the same principal residence as the taxpayer for more than half the tax year. A qualifying child is determined without regard to the exception for children of divorced or separated parents.
- **Age**—Must be under the age of 19 at the end of the tax year, or under the age of 24 if a full-time student for at least five months of the year, or be permanently and totally disabled at any time during the year.
- **Support**—Did not provide more than one-half of his/her own support for the year.

STEP TWO—Determine modified gross income.

Under the provisions of KRS 141.010 (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);

WORKSHEET FOR COMPUTATION OF MODIFIED GROSS INCOME FOR FAMILY SIZE TAX CREDIT	
<i>If federal adjusted gross income is \$25,736 or less, you may qualify for the Family Size Tax Credit. See instructions.</i>	
(a) Enter your federal adjusted gross income from line 5, but not less than zero	(a) _____
(b) Enter your spouse's federal adjusted gross income if married filing separate returns and living in the same household, but not less than zero	(b) _____
(c) Enter tax-exempt interest from municipal bonds (non-Kentucky)	(c) _____
(d) Enter amount of lump-sum distributions not included in federal adjusted gross income (federal Form 4972)	(d) _____
(e) Enter total of lines (a), (b), (c) and (d). This is your Modified Gross Income. Use this amount to determine if you qualify for the Family Size Tax Credit	(e) _____

STEP THREE—Use the Family Size Table to look up the percentage of credit and enter in the space provided on Line 21.

Family Size If MGI . . .	One		Two		Three		Four or More		Credit Percentage is
	is over	is not over	is over	is not over	is over	is not over	is over	is not over	
---	\$ 9,570	---	\$12,830	---	\$16,090	---	\$19,350	---	100
9,570	9,953	12,830	13,343	16,090	16,734	19,350	20,124		90
9,953	10,336	13,343	13,856	16,734	17,377	20,124	20,898		80
10,336	10,718	13,856	14,370	17,377	18,021	20,898	21,672		70
10,718	11,101	14,370	14,883	18,021	18,664	21,672	22,446		60
11,101	11,484	14,883	15,396	18,664	19,308	22,446	23,220		50
11,484	11,867	15,396	15,909	19,308	19,952	23,220	23,994		40
11,867	12,154	15,909	16,294	19,952	20,434	23,994	24,575		30
12,154	12,441	16,294	16,679	20,434	20,917	24,575	25,155		20
12,441	12,728	16,679	17,064	20,917	21,400	25,155	25,736		10
12,728	---	17,064	---	21,400	---	25,736	---		0

STEP FOUR—Multiply tax from Line 19 by the percentage and enter on Line 21. This is your Family Size Tax Credit.

Example 1

Marge and Homer have three children. Marge and Homer file a joint return and have a family size of four (4).

Example 2

Jane Doe is divorced and has two children who live with her more than one-half of the year. Based on the custody agreement, Jane claims the children as dependents in even numbered years. Because 2005 is an odd year, Jane's ex-husband, Jerry, claims the children as dependents on his 2005 tax return.

While Jane cannot claim the children as dependents in 2005, she may count the children for family size. Jane must list the names and social security numbers of the children in Section C on page 2 of Form 740. Her family size is three and she checks the box to the right of the number 3 on Line 20. Jane's adjusted gross income is \$19,975. Using the table, Jane determines that her family size credit percentage is 30% and enters the percentage on line 21 in between the parentheses. Jane multiplies her tax by the credit percentage and her family size credit is \$253.00.

Jerry may not count the children to determine his family size.

17	Enter amounts from page 2, Section B, lines 4A and 4B	17	00	00
18	Subtract line 17 from line 16. If line 17 is larger than line 16, enter zero	18	00	20 00
19	Add tax amount(s) in Columns A and B, line 18 and enter here	19		843 00
20	Check the box that represents your total family size (see instructions before completing lines 20 and 21)	20	•	1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input checked="" type="checkbox"/> 4 <input type="checkbox"/>
21	Multiply line 19 by Family Size Tax Credit decimal amount (30.0 %) and enter here	21	•	253 00
22	Subtract line 21 from line 19	22		590 00
23	Enter the Education Tuition Tax Credit from Form 8863-K, line 12	23	•	00
24	Subtract line 23 from line 22	24		00

(Filing Status 2), each taxpayer must claim his or her own credits from line 1, divide the credits on line 2, and enter the totals in Boxes 3A and 3B. All other filers enter the amount from line 3 in Box 3B

4	Multiply credits on line 3A by \$20 and enter on line 4A. Multiply credits on line 3B by \$20 and enter on line 4B. Enter here and on page 1, line 17, Columns A and B	• 3A	• 3B	1
		x \$20	x \$20	
		4A	4B	20

SECTION C—FAMILY SIZE TAX CREDIT (List the name and Social Security number of qualifying children that are not claimed as dependents in Section B.)

First name	Last name	Social Security number	First name	Last name	Social Security number
Janie	Doe	999-99-9991			
Jesse	Doe	999-99-9992			

Official Use Only

Education Tuition Tax Credit—(Effective for tax periods beginning on or after Dec. 31, 2004.) A credit equal to 25 percent of the amount of the federal Hope Scholarship and the lifetime learning credit is available. The credit applies only to undergraduate studies, phases out for higher incomes, applies to most higher education opportunities within Kentucky and may be carried forward for up to five years.

<p>8863-K 42A740-S24 Department of Revenue</p>	<p>KENTUCKY EDUCATION TUITION TAX CREDIT ▶ Attach to Form 740 or Form 740-NP.</p>	<p>2005</p>																																																
<p>Enter name(s) as shown on Form 740 or Form 740-NP, page 1.</p>		<p>Your Social Security Number</p>																																																
<p>PART I—Qualifications</p> <p>Answer the questions below to determine your eligibility for the Kentucky Education Tuition Tax Credit.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 80%;"></th> <th style="width: 10%; text-align: center;">Yes</th> <th style="width: 10%; text-align: center;">No</th> </tr> </thead> <tbody> <tr> <td>• Are any of the expenses claimed in Part I or Part II of federal Form 8863 from an eligible educational institution located within the Commonwealth of Kentucky (Kentucky institution)?</td> <td style="text-align: center;"><input type="checkbox"/></td> <td style="text-align: center;"><input type="checkbox"/></td> </tr> <tr> <td>• Are any of the expenses claimed on federal Form 8863 for undergraduate studies?</td> <td style="text-align: center;"><input type="checkbox"/></td> <td style="text-align: center;"><input type="checkbox"/></td> </tr> <tr> <td>• Is your Kentucky filing status single; married filing separately on a combined return; or married filing a joint return?</td> <td style="text-align: center;"><input type="checkbox"/></td> <td style="text-align: center;"><input type="checkbox"/></td> </tr> </tbody> </table> <p>If you answered "No" to any of the questions above, you do not qualify for this credit. If you answered "Yes" to all questions above, go to Part II.</p>				Yes	No	• Are any of the expenses claimed in Part I or Part II of federal Form 8863 from an eligible educational institution located within the Commonwealth of Kentucky (Kentucky institution)?	<input type="checkbox"/>	<input type="checkbox"/>	• Are any of the expenses claimed on federal Form 8863 for undergraduate studies?	<input type="checkbox"/>	<input type="checkbox"/>	• Is your Kentucky filing status single; married filing separately on a combined return; or married filing a joint return?	<input type="checkbox"/>	<input type="checkbox"/>																																				
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Chapter Four – KY Individual Income Tax Forms & Publications

New For 2005

Increase in the Kentucky Standard Deduction

KRS 141.081 provides for annually indexing the standard deduction based upon the Consumer Price Index (CPI). For tax year 2005, the standard deduction is \$1,910.

Increase in the Retirement Income Exclusion

For 2005, the retirement income exclusion is \$41,110 – Schedule M, Line 10.

***TIP:** You do not have to be retired to take advantage of the exclusion. Early distributions that are subject to the federal penalty may qualify for the exclusion.*

General Information – Forms 740EZ, 740 & 740NP

The Kentucky Individual Income Tax Forms for 2005 reflect several changes. The new forms reflect the tax law changes enacted by the 2005 General Assembly. A brief overview of each form follows.

Form 740EZ—This form has minimal changes. The Family Size Tax Credit replaces the Low Income Credit, and the personal tax credit of \$20 is preprinted on the form. Breast Cancer Research and Education Trust Fund is now an available option for taxpayers to make contributions.

Form 740—There have been many changes to this form. Cosmetic changes include replacing boxes with lines for names, addresses and Social Security numbers. There is also space for 2-D Barcode information to be printed. The signature space is now on the front of the return.

In addition to the Family Size Tax Credit mentioned above an Education Tuition Tax Credit is available to qualifying Kentucky taxpayers. Both of these credits are reported on page 1. Section A – Business Incentive and Other Tax Credits includes the tax credits formerly reported on Schedule TC and new credits such as the historic preservation restoration credit, biodiesel credit, etc. Schedule TC has been discontinued. Because the tax table no longer reflects personal tax credits, Section B has been added to the form. In addition, Section C is available to report additional qualifying children for the Family Size Tax Credit. The refundable Kentucky corporation tax credit is reported in the Refund/Tax Payment Summary Section. The

Breast Cancer Research and Education Trust Fund is also available as an option for taxpayers to make contributions on this form as well.

Form 740NP—The most obvious change to this form is that now it is a three page form instead of two. Pages 1 and 2 reflect the same changes found on the 740 as listed above. Page 3 includes Sections D and E. Section D reflects income and adjustments to income. This closely resembles last years' page 2 of the 740NP. Section E has been added to assist in computing Modified Gross Income for the Family Size Tax Credit. As with the 740, the signature area is found on page 1.

Kentucky Adjusted Gross Income

The starting point for the Kentucky Form 740 is federal adjusted gross income. Individuals use Schedule M – Kentucky Federal Adjusted Gross Income Modifications to make additions and subtractions from federal adjusted gross income to arrive at Kentucky adjusted gross income. Attach sufficient documentation to the return to support the adjustments.

Alternative Tax Return Preparer Identification Number

PTINs are not mandatory and preparers can continue to use their SSNs; however, use of the SSN is required until the PTIN is received. The PTIN does not substitute for the EIN of a firm preparing tax returns. Kentucky will accept the PTIN or the SSN on returns filed.

Wage and Tax Statements

Wage and Tax Statements should be attached to Forms 740-EZ, 740 or 740-NP where noted on Page 1 of the tax return. Staple to top page only with two staples. Care should be taken to avoid tearing the tax forms and there should not be any markings on the return outside of the fields allowed for writing. Wage statements that are faxed or copied are not allowable statements.

***TIP:** Be careful to attach the W-2's that reflect the amount of Kentucky tax withheld.*

Year 2006 Income Tax Booklet

Page 2 of the Form 740 contains a check box to choose whether one wants to receive an income tax packet next year for filing the year 2006 return. Please check the box on page 2 just above and to the right of the signature line to indicate your preference for the year 2006.

Copy of Federal Return

A copy of pages 1 and 2 of the federal return and any other supporting federal schedules must be attached to the Kentucky return if certain criteria have been met. If the taxpayer is not required to attach a copy of the return, **it is necessary** to check the box on the bottom portion of Form 740, page 2.

A complete copy of the federal return must be attached if an individual received:

- ▣ Farm, Business or Rental Income or Loss.

***TIP:** It is suggested that the federal return also be attached if you are reporting anything out of the ordinary.*

Address Labels

Each year as part of our cost savings and paper work reductions efforts the Department revises the number of packets mailed based upon the type of return filed. For 2005, individuals who filed electronically or used an approved computer generated software package that printed a 2-D bar code will not receive a packet.

The Kentucky income tax return packet still contains two labels to use in filing the 2005 return. These labels contain the individual's name and address. The label also includes Social Security number(s) converted to UPC bar-code format. Scanners read the bar code to supply receipt information for the Department of Revenue's (DOR's) ARTIS telephone system. Attach the label marked for the return in the appropriate space on the form filed with the Department of Revenue (DOR) and attach the other label to the return address portion of the envelope. Print **Social Security Numbers** in the appropriate information blocks even if using the label.

Correction to Label

If the address is incorrect, draw a line through the incorrect information and print the correct address. If the name or names have changed from last year, discard the labels and print the requested information in the blocks provided. Be sure to print the Social Security numbers of yourself and your spouse in the boxes at the top of the form.

TAX TIPS:

- *If you are married filing a joint return or separately on a combined return, make sure that you enter the names and SSNs in the same order each year.*
- *If you do not utilize the preprinted label or did not receive one, when filling out the name and SSN boxes for the first person (yours) listed on the return, use SSN boxes labeled B to enter your SSN. For the second person (spouses) listed on the return, use SSN boxes labeled A to enter you spouse's SSN.*
- *The incomes in columns A and B in the body of the income tax return should coincide with the SSNs entered in the SSN boxes labeled A & B. The income related to the Spouse labeled A will be entered in the appropriate dollars and cents boxes for Column A and the same applies for Column B.*

Envelopes

- Use the yellow envelope for pay returns.
- Use the blue envelope for refund returns and for other returns without payments.
- Fold the return in half. This reduces the thickness of the envelope and increases the efficiency of the DOR's mail opening equipment.
- Blue and yellow envelopes are available in two sizes, packet size and 10 X 13, and may be purchased using Kentucky Income Tax Forms Requisition – Form 40A727. Practitioners may pick-up reasonable quantities – AT NO CHARGE- at Taxpayer Service Centers around the state.

Where To Get Forms

Forms and instructions are available at some libraries, post offices, courthouses, banks and all Kentucky Taxpayer Service Centers. They may also be obtained by writing FORMS, Kentucky Department of Revenue, Frankfort, Kentucky 40620, or by calling (502) 564-3658.

The DOR is providing most forms at no charge again this year. Use Kentucky Income Tax Forms Requisition – Form 40A727, for ordering forms in bulk quantities. This form may be requested by contacting a Kentucky Taxpayer Service Center, or writing FORMS, Kentucky Department of Revenue, Frankfort, Kentucky 40620.

Forms on the Internet—You may download forms at www.revenue.ky.gov; the Department of Revenue's website on the Internet.

TaxFax—Tax Fax has been discontinued. Usage has declined to the point that is no longer a viable option.

Computer Generated Returns—Many computer-generated forms are acceptable for filing your Kentucky individual income tax return. Check to be sure your software generates an acceptable form. A list of approved vendors is posted on the Kentucky Department of Revenue's web page.

Electronic Filing Options

Kentucky continues to see increases in electronic filing methods. Through October 4, 2005, 858,902 or 50.5% of Kentucky taxpayers filed electronically or by telephone. In 2005, the Department received approximately 147,171 returns filed on-line. This is approximately a 15% increase over the previous year. 40,929 taxpayers chose to file using TeleFile. Kentucky also processed 226,255 scannable 2-D Barcode returns. With the methods listed, approximately 65% of the individual tax returns are filed in some electronic format. This results in faster refunds for the taxpayers, reduces data entry errors and saves valuable time during the processing season.

TeleFile has been discontinued by the IRS and is no longer available.

Online Filing—Prepare and submit the Kentucky return at the same time as the federal return. Approved software developers and providers of online filing will be listed on the DOR's web page.

2-D Barcode—Computer-generated Forms 740 and 740-EZ will have a computer-generated two-dimensional (2-D) bar code. Barcode returns account for approximately 15% of the total returns filed. If the taxpayer has their return prepared for them or purchases off the shelf software and chooses not to electronically file their return, the Department of Revenue processes the return using the barcode information. This greatly reduces the amount of time it takes to process the return, usually 2-4 weeks and reduces data entry errors for the DOR.

TAX TIPS:

- Do not mark through or cover the barcode.
- Enter last minute changes into the program and print the return again so that the barcode contains the correct information.
- The Department of Revenue (DOR) is encountering many 2-D Barcode returns in which all pertinent information is not being supplied. This results in letters for additional information being sent to taxpayers in order to complete processing. Examples include copies of other states' tax returns to verify credit for tax paid to another state, Form 2210-K to determine if the non-estimating penalty applies, etc.

Average Processing Time for Individual Income Tax Returns	
Paper Return without a 2-D barcode:	6 to 12 weeks depending on time of year.
Paper Return with a 2-D barcode:	2 to 4 weeks any time of year.
Electronic Filing Return:	7 to 14 working days any time of year.

740-EZ

42A740-EZ

Department of Revenue



KENTUCKY INDIVIDUAL INCOME TAX RETURN

For Single Persons With No Dependents

www.revenue.ky.gov

2005

Your Social Security Number

Grid for Social Security Number

Name—Last, First, Middle Initial

Grid for Name

Mailing Address (Number and Street or P.O. Box)

Apartment Number

Grid for Mailing Address

City, Town or Post Office

State

ZIP Code

Grid for City, Town or Post Office

Grid for State

Grid for ZIP Code

FAMILY SIZE

1

POLITICAL PARTY FUND

Designating \$2 will not change your refund or tax due. Mark an X in

Box 1 for Democratic, Box 2 for Republican, or Box 3 for No Designation.

1 2 3 boxes

INCOME

1. Enter federal Adjusted Gross Income from Form 1040EZ, line 4. This is your Kentucky Modified Gross Income (if \$12,720 or less, see Family Size Tax Credit in instructions.)

Dollars Cents

Grid for line 1

2. Standard deduction

Grid for line 2

3. Subtract line 2 from line 1. This is your Taxable Income

Grid for line 3

TAX

4. Enter tax from Tax Table or Tax Computation for amount on line 3

Grid for line 4

5. Personal tax credit

Grid for line 5

6. Subtract line 5 from line 4. If line 5 is larger than line 4, enter zero

Grid for line 6

7. Multiply line 6 by the family size tax credit decimal amount (--- %)

Grid for line 7

8. Subtract line 7 from line 6. This is your Income Tax Liability

Grid for line 8

9. Enter Kentucky Use Tax

Grid for line 9

10. Add lines 8 and 9. This is your Total Tax Liability

Grid for line 10

11. Enter Kentucky Income Tax withheld as shown on attached 2005 Form W-2, Wage and Tax Statement(s)

Grid for line 11

12. If line 11 is larger than line 10, enter AMOUNT OVERPAID (see instructions)

Grid for line 12

See instructions for a detailed description of funds.

13. a Nature and Wildlife Fund Contribution (Enter amount checked)

\$2 \$5 \$10 Other

Grid for line 13a

b Child Victims' Trust Fund Contribution (Enter amount checked)

\$2 \$4 Other

Grid for line 13b

c Veterans' Program Trust Fund Contribution

Grid for line 13c

d Breast Cancer Research and Education Trust Fund Contribution

Grid for line 13d

14. Add amounts contributed on lines 13a, 13b, 13c and 13d

Grid for line 14

15. Subtract line 14 from line 12. Amount to be refunded to you

Grid for line 15

16. If line 10 is larger than line 11, enter amount you owe. Enclose check payable to Kentucky State Treasurer. Write your Social Security number and "KY Income Tax—2005" on the check

Grid for line 16

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

Your Signature Telephone Number (daytime) Date Signed

Typed or Printed Name of Preparer: Other Than Taxpayer I.D. Number of Preparer Date

Mail to: REFUNDS Kentucky Department of Revenue, Frankfort, KY 40618-0006.

PAYMENTS Kentucky Department of Revenue, Frankfort, KY 40619-0008.

Official Use Only

NT P B F R

Attach Form W-2, Wage and Tax Statement(s) and Payment Here

INSTRUCTIONS—FORM 740-EZ

Who May Use Form 740-EZ—You may use Form 740-EZ if all five of the following apply:

- ✓ you were a Kentucky resident for the entire year;
- ✓ you are filing federal Form 1040EZ;
- ✓ your filing status is single;
- ✓ you do not claim additional credits for being age 65 or over, blind, or a member of the Kentucky National Guard at the end of 2005; and
- ✓ you had only wages, salaries, tips, unemployment compensation, taxable scholarship or fellowship grants, and your taxable interest was \$1,500 or less.

If you do not meet all five of the above requirements, see Form 740 instructions.

When to File—The 2005 Form 740-EZ must be postmarked no later than April 17, 2006, to avoid penalties and interest.

COMPLETING FORM 740-EZ—For more information, see the General Instructions. You may also contact the Department of Revenue in Frankfort at (502) 564-4581 or a Kentucky Taxpayer Service Center.

Please print your numbers inside the boxes with black ink. Do not use dollar signs.

Enter your Social Security number on your return. To protect your privacy, your Social Security number is not printed on the peel-off label that came in the mail.

Political Party Fund Designation—You may designate \$2 of your taxes to either the Democratic or Republican party if you have a tax liability of at least \$2.

LINE-BY-LINE INSTRUCTIONS

Line 1—Enter federal adjusted gross income from Form 1040EZ, Line 4. **(Do not confuse federal adjusted gross income with federal taxable income shown on the federal return.)** If \$12,728 or less, see instructions for Line 7 and enter the decimal amount on Line 7.

If you are not required to file a federal income tax return, enter the total income from sources within and without Kentucky.

Line 2—The standard deduction of \$1,910 has been preprinted. If your itemized deductions exceed \$1,910, it will benefit you to file Form 740 and itemize your deductions on Schedule A.

Line 4—Compute your tax using the following tax rate schedule.

<i>If taxable income is:</i>	<i>Tax before credit is:</i>
\$ 0 — \$3,000	2% of taxable income
\$3,001 — \$4,000	3% of taxable income minus \$30
\$4,001 — \$5,000	4% of taxable income minus \$70
\$5,001 — \$8,000	5% of taxable income minus \$120
\$8,001 — \$75,000	5.8% of taxable income minus \$184
\$75,001 and up	6% of taxable income minus \$334

Example: (Taxable income) \$8,500 x 5.8% - \$184 = \$309

Note: An optional tax table is available online at www.revenue.ky.gov or by calling the Department of Revenue, (502) 564-4581.

Line 7, Family Size Tax Credit—For single persons eligible to file Form 740-EZ, Kentucky family size is one and Kentucky modified gross income is equal to federal adjusted gross income. A family size tax credit is allowed for single persons whose **Kentucky modified gross income** is not over \$12,728. If over \$12,728, you do not qualify for this tax credit. Skip Line 7.

Enter in the space provided the decimal amount from the following table.

Family Size One		Percent of Tax as Family Size Tax Credit	
If the Kentucky modified gross income (Line 1) is:		Enter decimal amount on Line 7	
over	but not over		
\$ 0	\$ 9,570	1.00	(100%)
\$ 9,570	\$ 9,953	0.90	(90%)
\$ 9,953	\$10,336	0.80	(80%)
\$10,336	\$10,718	0.70	(70%)
\$10,718	\$11,101	0.60	(60%)
\$11,101	\$11,484	0.50	(50%)
\$11,484	\$11,867	0.40	(40%)
\$11,867	\$12,154	0.30	(30%)
\$12,154	\$12,441	0.20	(20%)
\$12,441	\$12,728	0.10	(10%)

Multiply amount on Line 6 by decimal amount. Enter result on Line 7. This is your Family Size Tax Credit.

Line 9, Kentucky Use Tax—Enter 6 percent of out-of-state purchases for use in Kentucky on which sales tax was not charged. Include Internet and catalog purchases, subscriptions, furniture, carpet, boats, etc.

Line 11, Kentucky Tax Withheld—Enter the amount of Kentucky income tax withheld as shown on your 2005 wage and tax statements. These statements must be attached to your return. Make sure you file the copy designated to be filed with your state return. Do not include amounts withheld by your employer for other states. Amounts withheld in other states cannot be credited to your Kentucky income tax. Local government occupational, license or income taxes must not be included on Line 11.

Line 12—If the amount on Line 11 (Kentucky Tax Withheld) is more than the amount on Line 10 (Total Tax Liability), you have an overpayment and are due a refund. Subtract Line 10 from Line 11, and enter the difference on Line 12 as an overpayment. However, if your Total Tax Liability on Line 10 is larger than Line 11, you owe additional tax. Subtract Line 11 from Line 10 and enter on Line 16.

Line 13—If you show an overpayment on Line 12, you may contribute to: (a) the **Nature and Wildlife Fund**, (b) the **Child Victims' Trust Fund**, (c) the **Veterans' Program Trust Fund** and/or (d) the **Breast Cancer Research and Education Trust Fund**. *Donations are voluntary and amounts donated will be deducted from your refund.*

Enter the amount(s) you wish to contribute on Lines 13(a), 13(b), 13(c) and/or 13(d). The total of these amounts cannot exceed the amount of the overpayment.

Line 16—You must pay any tax due shown on Line 16. Make check payable to **Kentucky State Treasurer**, and attach it to your return. On the face of the check please write "KY Income Tax-2005" and your Social Security number.

Underpayment of Estimated Tax—If the amount owed is more than 30 percent of the income tax liability on Line 8, you may be subject to a penalty of 10 percent of the underpayment of estimated tax. The minimum penalty is \$25. The amount of the penalty may be calculated on Form 2210-K, which may be obtained from the Department of Revenue.

Interest and Penalties—File your return and pay any additional tax due by April 17, 2006, to avoid interest and penalties. See the General Instructions or contact the Department of Revenue for additional information.

Note: Penalties but not interest may be reduced or waived if reasonable cause for reduction or waiver can be shown.

Signature—Each return must be properly signed by the taxpayer.

A. Spouse's Social Security Number		B. Your Social Security Number	
Name—Last, First, Middle Initial (Joint or combined return, give both names and initials.)			
Mailing Address (Number and Street, or P.O. Box)		Apartment Number	
City, Town or Post Office		State	ZIP Code

DRAFT
9-29-05

FILING STATUS (see instructions)

1 Single
 2 Married, filing separately on this combined return. (If both had income.)
 3 Married, filing joint return.
 4 Married, filing separate returns. Enter spouse's Social Security number above and full name here.

POLITICAL PARTY FUND
Designating \$2 will not change your refund or tax due.

	A. Spouse	B. Yourself
Democratic	(1) <input type="checkbox"/>	(4) <input type="checkbox"/>
Republican	(2) <input type="checkbox"/>	(5) <input type="checkbox"/>
No Designation	(3) <input type="checkbox"/>	(6) <input type="checkbox"/>

INCOME/TAX		A. Spouse (Use if Filing Status 2 is checked.)	B. Yourself (or Joint)
5	Enter amount from federal Form 1040, line 37; 1040A, line 21 or 1040EZ, line 4. (If total of Columns A and B is \$25,736 or less, you may qualify for the Family Size Tax Credit. See instructions.)	00	00
6	Additions from Schedule M, line 6	00	00
7	Add lines 5 and 6	00	00
8	Subtractions from Schedule M, line 16	00	00
9	Subtract line 8 from line 7. This is your Kentucky Adjusted Gross Income	00	00
10	Itemizers: Enter itemized deductions from Kentucky Schedule A. Nonitemizers: Enter \$1,910 in Columns A and/or B	00	00
11	Subtract line 10 from line 9. This is your Taxable Income	00	00
12	Enter tax from Tax Table, Computation or Schedule J. Check if from Schedule J <input type="checkbox"/>	00	00
13	Enter tax from Form 4972-K <input type="checkbox"/> ; Schedule RC-R <input type="checkbox"/>	00	00
14	Add lines 12 and 13 and enter total here	00	00
15	Enter amounts from page 2, Section A, lines 13A and 13B	00	00
16	Subtract line 15 from line 14. If line 15 is larger than line 14, enter zero	00	00
17	Enter amounts from page 2, Section B, lines 4A and 4B	00	00
18	Subtract line 17 from line 16. If line 17 is larger than line 16, enter zero	00	00
19	Add tax amount(s) in Columns A and B, line 18 and enter here	00	00
20	Check the box that represents your total family size (see instructions before completing lines 20 and 21)	1 <input type="checkbox"/>	2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/>
21	Multiply line 19 by Family Size Tax Credit decimal amount (____%) and enter here	00	00
22	Subtract line 21 from line 19	00	00
23	Enter the Education Tuition Tax Credit from Form 8863-K, line 12	00	00
24	Subtract line 23 from line 22	00	00
25	Enter Child and Dependent Care Credit from federal Form 2441, line 9 \times 20% (.20)	00	00
26	Income Tax Liability. Subtract line 25 from line 24. If line 25 is larger than line 24, enter zero	00	00
27	Enter KENTUCKY USE TAX from worksheet in the instructions	00	00
28	Add lines 26 and 27. Enter here and on page 2, line 29. This is your Total Tax Liability	00	00

Attach a complete copy of federal Form 1040 if you received farm, business, or rental income or loss. If not required, check here. Do you wish to receive a packet next year? (check one) 1 Yes 2 No

I, the undersigned, declare under 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. I also understand and agree that our election to file a combined return under the provisions of Regulation 103 KAR 17:020 will result in refunds being made payable to us jointly and in each of us being jointly and severally liable for all taxes accruing under this return.

Attach Form W-2(s), Other Supporting Statement(s) and Payment Here—Staple to Top Page Only

Your Signature (If joint or combined return, both must sign)	Spouse's Signature	Date Signed	Telephone Number (daytime)
Typed or Printed Name of Preparer Other than Taxpayer		I.D. Number of Preparer	Date

REFUND/TAX PAYMENT SUMMARY

29 Enter total tax liability from page 1, line 28 29 00

30 (a) Enter Kentucky income tax withheld as shown on attached
 2005 Form W-2(s) and other supporting statements 30(a) 00
 (b) Enter 2005 Kentucky estimated tax payments 30(b) 00
 (c) Enter refundable Kentucky corporation tax credit (KRS 141.420(3)(c)) 30(c) 00

31 Add lines 30(a) through 30(c) 31 00

32 If line 31 is larger than line 29, enter AMOUNT OVERPAID (see instructions) 32 00

See instructions for a detailed description of funds. > (Enter amount(s) checked)

33 Nature and Wildlife Fund Contribution \$2 \$5 \$10 Other 33 00

34 Child Victims' Trust Fund Contribution \$2 \$4 Other 34 00

35 Veterans' Program Trust Fund Contribution 35 00

36 Breast Cancer Research and Education Trust Fund Contribution 36 00

37 Add lines 33 through 36 37 00

38 Amount of line 32 to be CREDITED TO YOUR 2006 ESTIMATED TAX 38 00

39 Subtract lines 37 and 38 from line 32. Amount to be REFUNDED TO YOU **REFUND** 39 00

40 If line 29 is larger than line 31, enter ADDITIONAL TAX DUE 40 00

41 (a) Estimated tax penalty (c) Late payment penalty
 Check if Form 2210-K attached (d) Late filing penalty
 (b) Interest (e) Add lines 41(a) through 41(d). Enter here 41(e) 00

42 Add lines 40 and 41(e) and enter here. This is the AMOUNT YOU OWE **OWE** 42 00

Make check payable to Kentucky State Treasurer. Write your Social Security number and "KY Income Tax—2005" on the check.
 Staple check on top of attached wage and tax statements on page 1.

SECTION A—BUSINESS INCENTIVE AND OTHER TAX CREDITS

	A. Spouse	B. Yourself
1 Enter nonrefundable Kentucky corporation tax credit (KRS 141.420(3))	00	00
2 Enter skills training investment credit (attach copy(ies) of certification)	00	00
3 Enter historic preservation restoration credit	00	00
4 Enter credit for tax paid to another state (attach copy of return(s) filed with other state)	00	00
5 Enter unemployment credit (attach Schedule UTC)	00	00
6 Enter recycling and/or composting equipment credit (attach Schedule RC)	00	00
7 Enter Kentucky Investment Fund credit (attach copy(ies) of certification)	00	00
8 Enter credit for purchases of Kentucky coal used for generating electricity	00	00
9 Enter qualified research facility credit (attach Schedule QR)	00	00
10 Enter GED incentive credit (attach Form DAEL-31)	00	00
11 Enter voluntary environmental remediation credit (Brownfields)	00	00
12 Enter biodiesel credit	00	00
13 Add lines 1 through 12, Columns A and B. Enter here and on page 1, line 15	00	00

SECTION B—PERSONAL TAX CREDITS

1 (a) Credits for yourself: Regular both if 65 or over both if blind

(b) Credits for spouse: Regular both if 65 or over both if blind

2 Dependents:

First name	Last name	Dependent's Social Security number	Dependent's relationship to you	Check if qualifying child for family size tax credit
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>

3 Add total number of credits claimed on lines 1 and 2. If married filing separately on a combined return (Filing Status 2), each taxpayer must claim his or her own credits from line 1, divide the credits on line 2, and enter the totals in Boxes 3A and 3B. All other filers enter the amount from line 3 in Box 3B

• 3A	• 3B
x \$20	x \$20
4A	4B

4 Multiply credits on line 3A by \$20 and enter on line 4A. Multiply credits on line 3B by \$20 and enter on line 4B. Enter here and on page 1, line 17, Columns A and B

SECTION C—FAMILY SIZE TAX CREDIT (List the name and Social Security number of qualifying children that are not claimed as dependents in Section B.)

First name	Last name	Social Security number	First name	Last name	Social Security number

REFUNDS Mail to: Kentucky Department of Revenue, Frankfort, KY 40618-0006.
 PAYMENTS Mail to: Kentucky Department of Revenue, Frankfort, KY 40619-0008.

Official Use Only						
EST	CF	NT	P	B	F	R
						1 2

SCHEDULE M

Form 740
42A740-M

Department of Revenue

**KENTUCKY
FEDERAL ADJUSTED GROSS INCOME
MODIFICATIONS**

Attach to Form 740.

2005

Enter name(s) as shown on tax return.

Your Social Security Number

**DRAFT
6-23-05**

**PART I ADDITIONS TO FEDERAL
ADJUSTED GROSS INCOME**

A. Spouse (Use if Filing Status 2 is checked.)

B. Yourself (or Joint)

	Dollars	Cents	Dollars	Cents
1 Enter interest income from bonds issued by other states and their political subdivisions 1	□ □ □ □ □ □	. 00	□ □ □ □ □ □	. 00
2 Enter self-employed health insurance deduction from federal Form 1040, line 29 2	□ □ □ □ □ □	. 00	□ □ □ □ □ □	. 00
3 Enter resident adjustment from partnerships, fiduciaries and S corporations, Schedule K-1 3	□ □ □ □ □ □	. 00	□ □ □ □ □ □	. 00
4 Enter federal depreciation from Form 4562 4	□ □ □ □ □ □	. 00	□ □ □ □ □ □	. 00
5 Other additions (list and enter total):				
(a) _____				
(b) _____				
(c) _____				
6 Total Additions. Enter here and on Form 740, page 1, line 6 6	□ □ □ □ □ □	. 00	□ □ □ □ □ □	. 00

**PART II SUBTRACTIONS FROM FEDERAL
ADJUSTED GROSS INCOME**

7 Enter state income tax refund or credit reported as income on federal Form 1040 7	□ □ □ □ □ □	. 00	□ □ □ □ □ □	. 00
8 Enter interest income from U.S. government bonds and securities 8	□ □ □ □ □ □	. 00	□ □ □ □ □ □	. 00
9 Enter excludable amount of retirement income (attach Schedule P if more than \$41,110) 9	□ □ □ □ □ □	. 00	□ □ □ □ □ □	. 00
10 Enter taxable amount of Social Security and Railroad Retirement Board benefits from federal Form 1040, line 20(b) (1040A, line 14(b)) 10	□ □ □ □ □ □	. 00	□ □ □ □ □ □	. 00
11 Enter long-term care insurance premiums 11	□ □ □ □ □ □	. 00	□ □ □ □ □ □	. 00
12 Enter health insurance premiums not previously deducted from income. Do not include premiums paid with pretax dollars (cafeteria plan) 12	□ □ □ □ □ □	. 00	□ □ □ □ □ □	. 00
13 Enter resident adjustment from partnerships, fiduciaries and S corporations, Schedule K-1 13	□ □ □ □ □ □	. 00	□ □ □ □ □ □	. 00
14 Enter Kentucky depreciation from revised Form 4562 14	□ □ □ □ □ □	. 00	□ □ □ □ □ □	. 00
15 Other subtractions (list and enter total):				
(a) _____				
(b) _____				
(c) _____				
16 Total Subtractions. Enter here and on Form 740, page 1, line 8 16	□ □ □ □ □ □	. 00	□ □ □ □ □ □	. 00

BLANK

SCHEDULE A
Form 740
 Department of Revenue

KENTUCKY ITEMIZED DEDUCTIONS
 Attach to Form 740. See instructions.

2005

Enter name(s) as shown on Form 740, page 1.

Your Social Security Number

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Dollars Cents

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Medical and Dental Expenses	Do not include expenses reimbursed or paid by others.	
	1. Medical and dental expenses	1
	2. Enter 7.5% (.075) of the amount from Form 740, line 9	2
	3. Total medical and dental. Subtract line 2 from line 1. If zero or less, enter -0- .	3
Taxes	4. Local income taxes (do not include state income tax) .	4
	5. Real estate taxes	5
	6. Personal property taxes	6
	7. Other taxes (list)	7
	8. Total taxes. Add lines 4 through 7. Enter here	8
Interest Expense	9. Home mortgage interest and points reported to you on federal Form 1098	9
	10. Home mortgage interest not reported to you on federal Form 1098 (if paid to an individual, show that person's name, identifying number and address)	10
	11. Points not reported to you on federal Form 1098 (see instructions for special rules)	11
	12. Investment interest (attach federal Form 4952 if required)	12
	13. Total interest. Add lines 9 through 12. Enter here	13
Contributions	14. Contributions by cash or check	14
	15. Other than cash or check (attach federal Form 8283 if over \$500)	15
	16. Artistic charitable contributions deduction (attach copy of appraisal)	16
	17. Carryover from prior year	17
	18. Total contributions. Add lines 14 through 17. Enter here	18
Casualty and Theft Losses	19. Enter amount from attached federal Form 4684, Section A, line 16	19
	20. Enter 10% (.10) of the amount from Form 740, line 9	20
	21. Total casualty or theft loss(es). Subtract line 20 from line 19. If zero or less, enter -0-	21
Job Expenses and Most Other Miscellaneous Deductions	22. Unreimbursed employee expenses—job travel, union dues, job education, etc. (attach Form 2106 or 2106-EZ if applicable) list	22
	23. Tax preparation fees	23
	24. Other (investment, safe deposit box, etc.) list	24
	25. Add the amounts on lines 22, 23 and 24. Enter here ..	25
	26. Enter 2% (.02) of the amount from Form 740, line 9	26
	27. Total. Subtract line 26 from line 25. If zero or less, enter -0-	27
Other Miscellaneous Deductions	28. Other (see instructions) list	28
Total Itemized Deductions	29. Add lines 3, 8, 13, 18, 21, 27 and 28. Enter here	29

DRAFT
6-16-05

★ If single or married filing jointly and your income for Form 740, Column B does not exceed \$145,950, enter total itemized deductions on Form 740, line 10, Column B.
 ★ All others go to page 2.



If the amount on Form 740, line 9, exceeds \$145,950 (\$72,975 if married filing separately on a combined return or separate returns), skip Part I and complete Part II.

PART I—DIVIDING DEDUCTIONS BETWEEN SPOUSES

Use this schedule if married filing separately on a combined return.

1. Total itemized deductions from page 1, line 29 _____
2. Percent of income (Form 740, line 9, Column A) to total income (Form 740, total of line 9, Columns A and B) _____ %
3. Percent of income (Form 740, line 9, Column B) to total income (Form 740, total of line 9, Columns A and B) _____ %
4. Percent on line 2 times total deductions entered on line 1 (enter here and on Form 740, line 10, Column A) _____
5. Percent on line 3 times total deductions entered on line 1 (enter here and on Form 740, line 10, Column B) _____

PART II—ITEMIZED DEDUCTIONS LIMITATION SCHEDULE

Use this schedule if the adjusted gross income on Form 740, line 9, exceeds \$145,950 (\$72,975 if married filing separately on a combined return or separate returns).

	A. Spouse	B. Yourself (or Joint)
<p>* If married filing separately on a combined return, enter in Column A the percent of income (Form 740, line 9, Column A) to total income (Form 740, total of line 9, Columns A and B); enter in Column B the percent of income (Form 740, line 9, Column B) to total income (Form 740, total of line 9, Columns A and B).</p> <p>* If single, married filing a joint return or married filing separate returns, enter 100% in Column B.</p>	_____ %	_____ %
1. Multiply the amount on Schedule A, line 29, by the percent of income shown in Columns A and/or B	1. _____	1. _____
2. Add the amounts on Schedule A, lines 3, 12 and 21, plus any gambling losses included on line 28 and multiply by the percent of income shown in Columns A and/or B	2. _____	2. _____
<i>Note: Be sure your total gambling losses are clearly identified on line 28.</i>		
3. Subtract the amount on line 2 from the amount on line 1. (If the result is zero, STOP HERE; enter the amount from line 1 above on Form 740, line 10.)	3. _____	3. _____
4. Multiply the amount on line 3 above by 80% (.80) ...	4. _____	4. _____
5. Enter the amount from Form 740, line 9	5. _____	5. _____
6. Enter \$145,950 (\$72,975 if married filing separately on a combined return or separate returns)	6. _____	6. _____
7. Subtract the amount on line 6 from the amount on line 5. (If the result is zero or less, STOP HERE; enter the amount from line 1 above on Form 740, line 10.)	7. _____	7. _____
8. Multiply the amount on line 7 above by 3% (.03)	8. _____	8. _____
9. Compare the amounts on lines 4 and 8 above. Enter the smaller of the two amounts here	9. _____	9. _____
10. Total itemized deductions. Subtract the amount on line 9 from the amount on line 1. Enter the result here and on Form 740, line 10	10. _____	10. _____

740-NP

KENTUCKY INDIVIDUAL INCOME TAX RETURN
Nonresident or Part-Year Resident

42A740-NP



Check if [] Amended Return [] Composite Return

Department of Revenue

For calendar year or other taxable year beginning _____, 2005, and ending _____, 2005.

2005

Form section for personal information including Spouse's Social Security Number, Your Social Security Number, Name, Mailing Address, and City/Town/Post Office.

DRAFT 9-26-05

FILING STATUS and RESIDENCY STATUS sections with checkboxes for Single, Married, Full-year nonresident, etc.

Table with 5 columns for 'OFFICIAL USE ONLY' and rows for INCOME/TAX calculations from line 7 to 28.

A copy of pages 1 and 2 of your federal income tax return and all supporting schedules must be attached to Kentucky Form 740-NP.

I, the undersigned, declare under 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 and Date lines for Taxpayer, Spouse, and Preparer.

Attach Form W-2(s), Other Supporting Statement(s) and Payment Here—Sample to Top Page Only

REFUND/TAX PAYMENT SUMMARY

29 Enter total tax liability from page 1, line 28 29 00

30 (a) Enter Kentucky income tax withheld as shown on attached
 2005 Form W-2(s) and other supporting statements 30(a) 00
 (b) Enter 2005 Kentucky estimated tax payments 30(b) 00
 (c) Enter refundable Kentucky corporation tax credit (KRS 141.420(3)(c)) 30(c) 00

31 Add lines 30(a) through 30(c) 31 00

32 If line 31 is larger than line 29, enter AMOUNT OVERPAID (see instructions) 32 00

See instructions for a detailed description of funds. > (Enter amount(s) checked)

33 Nature and Wildlife Fund Contribution \$2 \$5 \$10 Other 33 00
 34 Child Victims' Trust Fund Contribution \$2 \$4 Other 34 00
 35 Veterans' Program Trust Fund Contribution 35 00
 36 Breast Cancer Research and Education Trust Fund Contribution 36 00

37 Add lines 33 through 36 37 00

38 Amount of line 32 to be CREDITED TO YOUR 2006 ESTIMATED TAX 38 00

39 Subtract lines 37 and 38 from line 32. Amount to be REFUNDED TO YOU **REFUND** 39 00

40 If line 29 is larger than line 31, enter ADDITIONAL TAX DUE 40 00

41 (a) Estimated tax penalty (c) Late payment penalty
 Check if Form 2210-K attached (d) Late filing penalty
 (b) Interest (e) Add lines 41(a) through 41(d). Enter here 41(e) 00

42 Add lines 40 and 41(e) and enter here. This is the AMOUNT YOU OWE **OWE** 42 00

Make check payable to Kentucky State Treasurer. Write your Social Security number and "KY Income Tax—2005" on the check.
 Staple check on top of attached wage and tax statements on page 1.

SECTION A—BUSINESS INCENTIVE AND OTHER CREDITS

1 Enter nonrefundable Kentucky corporation tax credit (KRS 141.420(3)) 1 00
 2 Enter skills training investment credit (attach copy(ies) of certification) 2 00
 3 Enter historic preservation restoration credit 3 00
 4 Enter credit for tax paid to another state (attach copy of return(s) filed with other state) 4 00
 5 Enter unemployment credit (attach Schedule UTC) 5 00
 6 Enter recycling and/or composting equipment credit (attach Schedule RC) 6 00
 7 Enter Kentucky Investment Fund credit (attach copy(ies) of certification) 7 00
 8 Enter credit for purchases of Kentucky coal used for generating electricity 8 00
 9 Enter qualified research facility credit (attach Schedule QR) 9 00
 10 Enter GED incentive credit (attach Form DAEL-31) 10 00
 11 Enter voluntary environmental remediation credit (Brownfields) 11 00
 12 Enter biodiesel credit 12 00
 13 Add lines 1 through 12. Enter here and on page 1, line 15 13 00

SECTION B—PERSONAL TAX CREDITS

Check Regular Check both if 65 or over Check both if blind

1 (a) Credits for yourself:
 (b) Credits for spouse:

2 Dependents:

First name	Last name	Dependent's Social Security number	Dependent's relationship to you	Check if qualifying child for family size tax credit
				<input type="checkbox"/>

1 Enter number of boxes checked on line 1
 2 Enter number of dependents who:
 • lived with you
 • did not live with you (see instructions)
 • other dependents

3 Add lines 1 and 2 and enter total here 3 *
 x \$20
 4 Multiply credits on line 3 by \$20. Enter here and on page 1, line 17 4

SECTION C—FAMILY SIZE TAX CREDIT(List the name and Social Security number of qualifying children that are not claimed as dependents in Section B.)

First name	Last name	Social Security number	First name	Last name	Social Security number

REFUNDS Mail to: Kentucky Department of Revenue, Frankfort, KY 40618-0006.
PAYMENTS Mail to: Kentucky Department of Revenue, Frankfort, KY 40619-0008.

Official Use Only						
EST	CF	NT	P	B	F	R

SECTION D		A. Total from Attached Federal Return		B. Kentucky	
INCOME					
1	Enter all wages, salaries, tips, etc. (attach wage and tax statements) Do not include moving expense reimbursements	1	00		00
2	Moving expense reimbursement (attach Schedule ME)	2	00		00
3	Interest	3	00		00
4	Dividends	4	00		00
5	Taxable refunds, credits or offsets of state and local income taxes	5	00		00
6	Alimony received	6	00		00
7	Business income or loss (attach federal Schedule C or C-EZ)	7	00		00
8	Capital gain or loss (attach federal Schedule D)	8	00		00
9	Other gains or losses (attach federal Form 4797)	9	00		00
10	(a) Federally taxable IRA distributions, pensions and annuities	10(a)	00		00
	(b) Pension income exclusion (attach Schedule P if more than \$41,110)	10(b)		(00
11	Rents, royalties, partnerships, estates, trusts, etc. (attach federal Schedule E)	11	00		00
12	Farm income or loss (attach federal Schedule F)	12	00		00
13	Unemployment compensation	13	00		00
14	Taxable Social Security benefits	14	00		00
15	Gambling winnings	15	00		00
16	Other income (list type and amount)	16	00		00
17	Combine lines 1 through 16. This is your Total Income	17	00		00
ADJUSTMENTS TO INCOME					
18	Educator expenses	18	00		00
19	Certain business expenses of reservists, performing artists and fee-basis government officials (attach federal Form 2106 or 2106-EZ)	19	00		00
20	Health savings account deduction (attach federal Form 8889)	20	00		00
21	Moving expenses (attach Schedule ME)	21	00		00
22	Deduction for one-half of self-employment tax	22	00		00
23	Self-employed SEP, SIMPLE, and qualified plans deduction	23	00		00
24	Self-employed health insurance deduction	24	00		00
25	Penalty on early withdrawal of savings	25	00		00
26	Alimony paid (enter recipient's name and Social Security number)	26	00		00
27	IRA deduction	27	00		00
28	Student loan interest deduction	28	00		00
29	Tuition and fees deduction	29	00		00
30	Domestic production activities deduction	30	00		00
31	Long-term care insurance premiums (see instructions)	31			00
32	Health insurance premiums (see instructions)	32			00
33	Add lines 18 through 32. Total adjustments to income	33	00		00
34	Subtract line 33 from line 17. This is your Adjusted Gross Income	34	00		00
35	Divide line 34, Column B, by line 34, Column A. If amount is equal to or greater than 100%, enter 100%. This is your Percentage of Kentucky Adjusted Gross Income to Federal Adjusted Gross Income	35			%

SECTION E—COMPUTATION OF MODIFIED GROSS INCOME FOR FAMILY SIZE TAX CREDIT					
<i>If federal adjusted gross income is \$25,736 or less, you may qualify for the Family Size Tax Credit. See instructions.</i>					
(a)	Enter your federal adjusted gross income from line 34, Column A, but not less than zero	(a)			00
(b)	Enter your spouse's federal adjusted gross income if married filing separate returns and living in the same household, but not less than zero	(b)			00
(c)	Enter tax-exempt interest from municipal bonds (non-Kentucky)	(c)			00
(d)	Enter amount of lump-sum distributions not included in federal adjusted gross income (federal Form 4972)	(d)			00
(e)	Enter total of lines (a), (b), (c) and (d). This is your Modified Gross Income. Use this amount to determine if you qualify for the Family Size Tax Credit	(e)			00

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Schedule P – Kentucky Pension Income Exclusion

General Overview

KRS 141.010 (10)(i) provides for the exclusion of pension income distributions. The exclusion amount is determined by KRS 141.0105. The limit is adjusted on an annual basis for inflation based on the change in the Consumer Price Index (CPI-U). Accordingly, the limit for 2005 is set at \$41,110.

TIP: HB 272 has eliminated the annual adjustment and the exclusion will remain for future years at the 2005 amount of \$41,110.

The pension income exclusion applies to each taxpayer separately; therefore, a husband and wife may each claim the appropriate exclusion, regardless of filing status however any unused amounts may not be shared with his/her spouse. The amount of pension income that can be excluded is subject to an upper limit or “cap”.

In accordance with KRS 141.010(10)(i) the exclusion extends to the applicable amount of total distributions. Any distribution from a qualifying plan is eligible regardless of the reason for the distribution and is applicable regardless of age. For example, early distributions qualify for the pension income exclusion.

- **“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 IRC Section 402; any distribution from an individual retirement account as defined in Section 408 of the Internal Revenue Code; and any disability pension; KRS 141.010(10)(i)(3)a;
- **“Annuity Contract”** has the same meaning as set forth in IRC Section 1035; KRS 141.010(10)(i)(3)b; and,
- **“Pension plans, profit-sharing plans, retirement plans or employee savings plans”** mean 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. KRS 141.010(10)(i)(3)c.

As a general rule, pension income is reported on the federal income tax return as IRA income or as pension or annuity income (2005 federal Form 1040 lines 15b and/or 16b, and federal Form 1040A lines 11b and/or 12b). Income from disability pensions, annuities or deferred compensation plans may also be reflected on line 7

of the federal Form 1040 or 1040A (Wages, Salaries, Tips, etc.), because the income is reported on the W-2 Wage and Tax Statement. Disability pensions, annuities, and deferred compensation distributions are eligible for the pension income exclusion. A death benefit paid under a retirement plan is eligible for the pension income exclusion allowed under KRS 141.010(10).

Lump-Sum Distribution

Taxpayers must add back to federal adjusted gross income that portion of a lump-sum distribution on which taxpayers have elected the 20 percent capital gains rate for federal income tax purposes.

Pension income from a lump-sum distribution that is reported for income averaging on federal Form 4972 is eligible for the pension income exclusion. Kentucky Form 4972-K - Kentucky Tax on Lump-Sum Distributions and Schedule P – Pension Income Exclusion must be completed.

Pension Income from the Federal Government and Kentucky and Kentucky Local Governments

Income from plans established for public employees by the federal government and Kentucky and its political subdivisions (includes Kentucky Teachers' Retirement System, Kentucky State Employees' Retirement System, County Employees' Retirement System (Ky.), Kentucky State Police Retirement System, Kentucky Judicial Retirement Plan, Kentucky Legislators' Retirement Plan, Kentucky State - Supported Institutions of Higher Education Retirement Plans (institution-sponsored), Kentucky Local Government Retirement Systems, Federal and Military Retirement Systems, and any other plans authorized by the Kentucky Revised Statutes) **for work performed prior to 1998** is exempt and excluded from taxable income. Pension income **for work performed after 1997** is subject to tax but eligible for the pension exclusion. See the 2004 Schedule P - Pension Income Exclusion for specific instructions. The exempt pension income does not utilize any of the pension income exclusion.

A death benefit paid by a federal, Kentucky state or Kentucky local retirement system after December 31, 1997, must be included in Kentucky gross income at the rate that other retirement benefits are included. If the deceased were retired before January 1, 1998, his/her benefits including the death benefit would remain fully tax exempt, because the numerator of the fraction under KRS 141.0215 would remain zero.

Retirement Benefits that are Exempt Without Reducing the Pension Exclusion

The following types of retirement benefits are exempt and may be deducted from federal adjusted gross income without reducing the pension exclusion.

- ▣ **Social Security and U.S. Railroad Retirement Board Benefits**
- ▣ **Supplemental Annuities from the U.S. Railroad Retirement Board**
- ▣ **Commonwealth of Kentucky Retirement Systems**—All benefits if retired before January 1, 1998, and benefits accruing for service before January 1, 1998, if retired after December 31, 1997.
- ▣ **Kentucky Local Government Retirement and Federal and U.S. Military Retirement Systems**—All benefits if retired before January 1, 1998, and benefits accruing for service before January 1, 1998, if retired after December 31, 1997.

Completion of Schedule P – Kentucky Pension Income Exclusion

Complete Schedule P if:

1. Your taxable pension and retirement income from all sources is greater than \$41,110; and,
 - (a) you are retired from the federal government, the Commonwealth of Kentucky or a Kentucky local government; or,
 - (b) you receive supplemental U.S. Railroad Retirement Board benefits.
2. You file Form 4972-K – Tax on Lump-Sum Distributions.

Complete the Worksheet for Federal, Kentucky State and Kentucky Local Government Retirees Who Retired After 12/31/97, **in the year of retirement** to determine what percentage of the pension is exempt or earned before 1/1/98. This percentage, determined in the year of retirement, will never change and is reflected in Part I – Exempt Retirement Income, Line 1b.

Schedule P – Illustrated

State Employee John Doe retired August 1, 2001 with 25-years of service credit and 5-years of purchased service credit under IRC 415(n). His pension for 2005 is \$40,000. His exempt percentage was computed in 2001 to be 88.06%. The percentage computed in 2001 is transferred to the Schedule P for 2005 and the exempt portion of the pension is \$35,224. The remainder is added to other pension benefits to determine the amount that is taxable but eligible for the exclusion. See worksheet below and 2005 Schedule P, pages 1 and 2.

TIP: It is not necessary to prepare this worksheet each year to support the exempt percentage.

Year of Retirement (2001)

Worksheet for Federal, Kentucky State and Kentucky Local Government Retirees Who Retired After 12/31/97	
<p>Complete this worksheet to determine what percentage of your pension is exempt. If your retirement system has computed the exempt amount (earned before January 1, 1998), enter the amount on page 1, line 1(b), column A or B. If your retirement system has computed the exempt percentage, enter the exempt percentage on page 1, line 1(b) in the exempt percentage column. Use a separate worksheet for each governmental pension. Retain this worksheet with your tax records. Use the percentage on line 4 to compute the exempt portion of your pension in subsequent years.</p>	
1. Enter total months of service credit including purchased service	360
2. Enter months of service credit earned after 12/31/97. Include sick leave credited at date of retirement, and service credit from purchase of military and other service earned after 12/31/97. Do not include purchased service credit under IRC 415(n)	43
3. Subtract line 2 from line 1. Total months of service before January 1, 1998	317
4. Divide line 3 by line 1. Enter here and on page 1, line 1(b), in the exempt percentage column <i>Use this percentage to determine the amount of pension attributable to service earned before 1/1/98.</i>	88.06%

Line 1	25 years x 12 =	300
	Purchased Service Credit Under IRC 415(n)	
	5 years x 12 =	60
		360
Line 2	1998	12
	1999	12
	2000	12
	1/1/01 – 7/31/01	<u>7</u>
		43

SCHEDULE P

Form 740
42A740-P

Department of Revenue

KENTUCKY
PENSION INCOME EXCLUSION

➤ Attach to Form 740, 740-NP or 741.

Use this form to calculate excludable retirement income.

2005

Enter name(s) as shown on tax return.

Your Social Security Number

Complete this schedule and file with Form 740 if:

- 1. your taxable pension and retirement income from all sources is **greater than \$41,110**; and
 - (a) you are retired from the federal government, the Commonwealth of Kentucky or a Kentucky local government; or
 - (b) you receive supplemental U.S. Railroad Retirement Board benefits.
- 2. you file Form 4972-K, Tax on Lump-Sum Distributions.

All others, **STOP**, you do not need to complete Schedule P. See instructions for Schedule M, line 9.

PART I—EXEMPT RETIREMENT INCOME (Do Not Include Income From Deferred Compensation Plans)

- 1. Enter on line (a) or (b) the amount of federal, Kentucky state and Kentucky local government pension income attributable to service credit earned before January 1, 1998, and supplemental U.S. Railroad Retirement Board benefits included on federal Form 1040, line 16(b) (Form 1040A, line 12(b)). Also include federal or Kentucky disability retirement income attributable to service credit earned before January 1, 1998.

(a) If date of retirement is **before January 1, 1998**, enter here.

Names of Payers	Date of Retirement	Spouse		Yourself	
		A.	B.	A.	B.
Total ➤					

(b) If date of retirement is **after December 31, 1997**, see the instructions.

Names of Payers	Date of Retirement	Taxable Pension	Exempt Percentage	Spouse		Yourself	
				A.	B.	A.	B.
Total ➤							

(c) Add lines 1(a) and 1(b) (c)

PART II—OTHER RETIREMENT INCOME (Not Included in Line 1(c))

- 2. Enter the total of taxable retirement income not included in line 1(c) above as reported on federal Form 1040, line 15(b) or 16(b) (Form 1040A, line 11(b) or 12(b)). Also report other disability retirement income or deferred compensation included on federal Form 1040, line 7 (Form 1040A, line 7) 2

PART III—TOTAL TO BE EXCLUDED THIS YEAR

- 3. Enter the lesser of line 2 or \$41,110 3
- 4. Add lines 1(c) and 3. Enter here and on Schedule M, line 9 (Form 740-NP, page 3, line 10(b) or Form 741, line 11) 4

Joint filers—Combine lines 4(a) and 4(b) and enter on appropriate form.

STOP Stop here unless you have a lump-sum distribution reported on Form 4972-K.

Form 4972-K Filers—If line 3 is less than \$41,110, enter the amount on Form 4972-K, Part II, line 2.

INSTRUCTIONS—SCHEDULE P

New in 2005—The pension exclusion is 100 percent or \$41,110, whichever is less. Retirees of previously exempt retirement systems of the federal government, Commonwealth of Kentucky, or any Kentucky local government must compute the amount of pension income attributable to service credit earned after December 31, 1997. This amount will be included with other nonexempt pension sources in Part II.

Types of Income Subject to Exclusion—All pension and retirement income paid under a written retirement plan is eligible for exclusion. This includes pensions, annuities, IRA accounts, 401(k) and similar deferred compensation plans, death benefits, and other similar accounts or plans. As a general rule, if the income is reported on the federal income tax return, Form 1040, line 15(b) or 16(b); Form 1040A, line 11(b) or 12(b); Form 4972; or is a disability retirement benefit or deferred compensation distribution reported on Form 1040, line 7 or 1040A, line 7, then it qualifies for the exclusion.

Form 740-NP filers report only pension income received while a resident of Kentucky.

LINE-BY-LINE INSTRUCTIONS

Column A, Column B—This exclusion is for each taxpayer. A husband and wife must compute and claim their own exclusion, regardless of filing status.

PART I—Exempt Retirement Income—Enter the federally taxable portion of pension income paid by the federal government, by the Commonwealth of Kentucky, or by any Kentucky local government. Also include supplemental U.S. Railroad Retirement Board benefits reported on Form 1040, line 16(b) (Form 1040A, line 12(b)) and federal or Kentucky disability retirement income included on federal Form 1040, line 7 (Form 1040A, line 7). Do not include income from deferred compensation plans in Part I.

Use Line 1(a) if retired before January 1, 1998, to report fully exempt pension benefits.

Use Line 1(b) if retired after December 31, 1997, to compute the amount of pension income attributable to service credits earned before January 1, 1998. Multiply the taxable pension by the exempt percentage, enter the result (exempt amount) in Column A or Column B. **Use the worksheet below to compute the exempt percentage in the year of retirement.**

Note: Subtract the exempt amount from the taxable pension amount and include the difference with other retirement income in Part II.

PART II—Other Retirement Income, Line 2—Enter the amount reported on federal Form 1040 or 1040A of non-lump-sum pension and retirement income not reported on line 1(c). Also include amounts from Schedule M, line 5 (Form 740-NP, page 3, line 16) that reflect pension and IRA bases differences.

PART III—Total to Be Excluded This Year, Line 3—Enter the lesser of the amount on line 2 or \$41,110.

Line 4—Enter the total of lines 1(c) and 3. This is your pension income exclusion. Enter on line 4 and as follows: Schedule M, line 9; Form 740-NP, page 3, line 10(b); or Form 741, page 1, line 11.

DEFINITIONS—For use with Schedule P and the worksheet below.

Service Credit—Number of months (years) used by your retirement system to determine retirement benefits.

Purchased Service Credit—Voluntary purchases of service credit as allowed by your retirement system (i.e., military service or prior service with the same or similar system).

Note: Purchased time is credited based on the dates of service.

Purchased Service Credit (Air-time)—Certain retirement plans allow for the purchase of up to five years of service credit unrelated to prior work history. These purchases are commonly known as air-time. Air-time is not included in total service earned after December 31, 1997, regardless of when purchased.

**Worksheet for Federal, Kentucky State and Kentucky Local Government Retirees
Who Retired After 12/31/97**

 Complete this worksheet only if you retired in 2005 or have not computed your exempt percentage in prior years. Keep this worksheet in your records. The percentage will be used this year and in future years to determine the amount of exempt retirement income.

Complete this worksheet to determine what percentage of your pension income is exempt. This percentage must be calculated for each pension.

If your retirement system has computed the exempt amount (earned before January 1, 1998), enter the amount on page 1, line 1(b), column A or B. If your retirement system has computed the exempt percentage, **enter the exempt percentage on page 1, line 1(b) in the exempt percentage column.** Use a separate worksheet for each governmental pension. Retain this worksheet with your tax records. **Use the percentage on line 4 to compute the exempt portion of your pension in future years.**

1. Enter total months of service credit including purchased service _____
2. Enter months of service credit earned after 12/31/97. Include sick leave credited at date of retirement, and service credit from purchase of military and other service earned after 12/31/97. Do not include purchased credit unrelated to prior work history (air-time) _____
3. Subtract line 2 from line 1. Total months of service before January 1, 1998 _____
4. Divide line 3 by line 1. Enter here and on page 1, line 1(b), in the exempt percentage column _____
Use this percentage to determine the amount of pension attributable to service earned before 1/1/98.

Kentucky Net Operating Loss Application for Income Tax Refund

Tips for Computing the Kentucky Net Operating Loss Deduction

For taxable years beginning after December 31, 2004, a Kentucky Net Operating Loss Deduction (NOLD) may be carried forward 20 years.

Use Kentucky adjusted gross income, itemized deductions, business and non-business income and losses to compute a Kentucky NOLD.

Federal & Kentucky NOLDs are seldom the same. The additions and subtractions to federal adjusted gross income on Schedule M must be incorporated to compute a Kentucky NOLD. For example, state tax refunds & pension income exclusions that are a subtraction on Schedule M cannot be included as nonbusiness income for Kentucky purposes. Kentucky itemized deductions must also be used.

On Schedule KNOL - Computation of Kentucky Net Operating Loss, lines 1 (Kentucky Adjusted Gross Income) & 2 (Itemized/Standard Deduction) are combined. Line 3 should equal taxable income reported on the return. One common error on this form is not adding the two negatives. Itemized deductions must be subtracted from positive income and added to negative (loss) income.

PRIOR YEARS—Use the 2004 Form 1045-K instead of Form 740-X for faster refunds. Kentucky will accept this form beyond the one-year filing period allowed by the Internal Revenue Service. Attach copies of federal Form 1040X to Kentucky Form 1045-K. Additionally, when submitting Form 1045-K and supporting documentation make sure that the Form 1045-K is on top. This expedites processing.

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SCHEDULE KNOL

KENTUCKY NET OPERATING LOSS SCHEDULE

2005

42A740-KNOL

Attach to Form 740, Form 740-NP or Form 741.

Department of Revenue

Effective 2005, net operating losses will be available for carryforward only.

1. Enter amount from Form 740, line 9 (Form 740-NP, line 9) (estates and trusts, skip lines 1 and 2).....	1	
2. Enter deductions from Form 740, line 10 (Form 740-NP, line 10 or 12).....	2	()
3. Combine lines 1 and 2 (estates and trusts, enter taxable income).....	3	
<i>Note: If line 3 is zero or more, do not complete rest of schedule. You do not have a net operating loss.</i>		
Adjustments		
4. Enter your nonbusiness capital losses (enter as a positive number) .	4	
5. Enter your nonbusiness capital gains (see federal 1045 instructions) .	5	
6. If line 4 is more than line 5, enter difference; otherwise, enter zero	6	
7. If line 5 is more than line 4, enter difference; otherwise, enter zero	7	
8. Nonbusiness deductions	8	
9. Nonbusiness income (other than capital gains)	9	
10. Add lines 7 and 9	10	
11. If line 8 is more than line 10, enter difference; otherwise, enter zero	11	
12. If line 10 is more than line 8, enter difference (but do not enter more than line 7); otherwise, enter zero	12	
13. Enter your business capital losses (enter as a positive number) .	13	
14. Enter your business capital gains.....	14	
15. Add lines 12 and 14	15	
16. If line 13 is more than line 15, enter difference; otherwise, enter zero	16	
17. Add lines 6 and 16	17	
18. Enter the loss, if any, from federal Form 1040, Schedule D, line 16. (Estates and trusts, enter the loss, if any, from Form 741, Schedule D, line 17, column 3.) Enter as a positive number. If you do not have a loss on that line (and do not have a Section 1202 exclusion), skip lines 18 through 23 and enter on line 24 the amount from line 17	18	
19. Enter Section 1202 exclusion. Enter as a positive number	19	
20. Subtract line 19 from line 18	20	
21. Enter the loss from federal Form 1040, Schedule D, line 21. (Estates and trusts, enter the loss from Form 741, Schedule D, line 18.) Enter as a positive number	21	
22. If line 20 is more than line 21, enter the difference; otherwise, enter -0-	22	
23. If line 21 is more than line 20, enter the difference; otherwise, enter -0-	23	
24. Subtract line 22 from line 17	24	
25. Net operating losses from other years (enter as a positive number)	25	
26. Add lines 11, 19, 23, 24 and 25	26	
27. Combine lines 3 and 26. This is your net operating loss to be claimed in subsequent years	27	

DRAFT 10-10-05

INSTRUCTIONS FOR SCHEDULE KNOL—Computation of Net Operating Loss

Purpose of Schedule—Schedule KNOL is to be used by an individual, estate or trust to compute a Kentucky net operating loss (KNOL) deduction.

Net Operating Losses—For 2005 and future years, the carryback of net operating losses to prior years will no longer be allowed. Net operating losses may be carried forward for up to 20 years. Documentation to substantiate any loss must be available to the Department of Revenue upon request.

Line 8—Nonbusiness deductions are those not connected with a trade or business.

The standard deduction from line 2 above is allowed as a nonbusiness deduction if you do not itemize deductions. Itemized deductions are usually nonbusiness except for casualty loss deductions and any employee expenses. See federal Form 1045 for further instructions.

Line 9—Nonbusiness income (other than capital gains)—Include income that is not from trade or business. Examples are dividends, annuities and interest on investments. See federal Form 1045 for further instructions.

Lines 18 and 19—Adjust this amount by the appropriate addition or subtraction entered on Schedule M. For more information, see federal regulation Section 1.172-3 and federal Publication 536, Net Operating Losses.

TIP: Line 3 should equal taxable income on the Kentucky return.

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Extensions

Kentucky individual and corporation income tax returns for the 2005 calendar year must be filed with the Department of Revenue on or before April 17, 2006, unless an extension is obtained.

Form 40A102 (10-04) - Application for Extension of Time to File Individual, Partnership and Fiduciary Income Tax Returns for Kentucky follows on page 51. Because the Department of Revenue accepts the federal extension, only a few circumstances will require a separate Kentucky extension. Form 40A102 is NOT an automatic extension. The request must state a reasonable cause for the inability to timely file. Even though it is not an automatic extension, you will only be notified if the extension request is denied. Form 40A102, if utilized, must be filed by April 17, 2006. You must attach a copy of Form 40A102 to the return, if a Kentucky extension is used.

Federal Extension

Kentucky accepts the automatic six-month extension available from the IRS. Individuals who receive a federal extension are not required to request a separate Kentucky extension. Such persons can meet the requirements by attaching a copy of the application for an automatic federal extension to the Kentucky return.

Payments

An extension of time to file a return does not extend the due date for payment of tax. Interest and penalty charges can be avoided on payments sent by the due date. To make a payment with the extension request, write "KY Income Tax - 2005" and your Social Security number(s) on the face of the check. Mail payment with:

- Completed Section II, Kentucky Extension Payment Voucher, of Form 40A102 (10-04) – Application for Extension of Time to File Individual, Partnership and Fiduciary Income Tax Returns for Kentucky, or
- A copy of the lower portion of federal Form 4868 - Application for Automatic Extension of Time to File U.S. Individual Income Tax Return.

Military Personnel Eligible for Combat Zone Extension and Other Tax Relief Items

Extension to File and Related Issues – Federal—Internal Revenue Code Sections 112 and 7508 provide for an automatic extension of 180 days following service for the filing and paying federal income taxes and claiming refunds for an individual who is serving in the Armed Forces in a combat zone or qualified hazardous duty area or who has qualifying service outside of a combat zone or qualified hazardous duty area.

Specifically, members of the military are allowed an extension of time to file and pay federal income taxes, request a refund, bring a legal suit, make an IRA contribution, and so forth while they are deployed in a combat zone. For the most part, the extension runs for at least 180 days from the day when the taxpayer leaves the combat zone.

In addition, all federal audit and collection activities are ceased while the taxpayer is in the combat area and for 180 days afterward.

Certain personnel who are deployed from their permanent assignments to a position that supports a hazardous duty area – even if the individual is not within the hazardous duty area – receive a similar extension for filing and payment and are not subject to collection activities.

Also, civilian employees of the Department of Defense and accredited correspondents are eligible for the extensions of time to file and delay of collection activities provided they are within the designated combat zone.

Extension to File and Related Issues – Kentucky—When the President signs an executive order designating certain areas as combat zones, provisions of Kentucky law (KRS 141.215 & KRS 141.175) are automatically activated. The law provides for deferred filing of the individual income tax return and payment of income taxes. Under Kentucky law, a one-year extension of the filing date is in effect for those persons serving in the combat zone on January 1, 2006, to April 17, 2006, i.e., members of the Army, Navy, Marines, Air Force or Public Health Service of the United States government as well as members of the National Guard or any branch of the Reserves. The one-year period begins when service in the combat zone ends. No penalty or interest will accrue on tax payments made during the one-year deferment period.

On March 10, 2003, Executive Order 2003-221 became effective, providing an extension of time for obtaining or renewing any licenses, filing any return, report or other document, paying any taxes, fees or other charges, which would fall due or expire during the period for Kentuckians who have been mobilized or deployed in support of the war. The extension expires 90 days following demobilization from

active duty or ninety days following deployment to Kentucky for persons remaining on active duty.

The Department of Revenue does follow the 180 day IRS extension for filing returns, making payments or taking any other action related to income tax for an individual who is serving in the Armed Forces deployed overseas away from their permanent duty station in support of operations in a qualified hazardous duty area but outside the qualified hazardous duty area.

Taxpayers who receive a Notice of Tax Due should return the notice with "Combat Zone" and the date of deployment written across the top. All actions on the bill will be suspended until the expiration of the extension. Taxpayers who are filing a return using the extended deadline should write "Combat Zone" across the top of the return and the date that service in the combat zone ended.

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Application for Extension of Time to File
Individual, General Partnership and Fiduciary
Income Tax Returns for Kentucky

2005



- COMPLETE ONLY IF NOT FILING FEDERAL EXTENSION
- SEE INSTRUCTIONS FOR PAYMENT REQUIREMENTS

INSTRUCTIONS: Taxpayers who request a federal extension are not required to file a separate Kentucky extension. The requirements may be met by attaching federal Form 4868 (automatic extension) to the Kentucky return.

Interest at the "tax interest rate" applies to any income tax paid after the original due date of the return. If the amount of tax paid by the original due date is less than 75 percent of the tax due, a late payment penalty may be assessed (minimum penalty is \$10). Interest and late payment penalty charges can be avoided by remitting payment with the Extension Payment Voucher below by the due date.

Use this form if you (1) are requesting a Kentucky extension of time to file (complete Section I); (2) are requesting a Kentucky extension and desire to make a payment prior to the due date (complete Sections I and II); or (3) have a federal extension and desire only to make a Kentucky payment prior to the due date (complete and submit Section II only).

You will be notified only if the application for extension is denied. To avoid the late filing penalty, a copy of this form must be attached to your return when filed. Keep a copy for yourself.

SECTION I (Please print or type name and address in block below.)

Check type of return:

- Individual (740 or 740-NP)
- General Partnership (765-GP)
- Fiduciary (741)

Soc. Sec. No. or Employer ID No. _____

A six-month extension is requested for filing the income tax return of the above-named taxpayer(s) for the taxable year ended _____.

REASON FOR REQUEST (A reason must be given before any request can be considered. Inability to pay tax liability is not a valid reason.)

DRAFT
8-30-05

Signature of taxpayer _____ Date _____ Preparer other than taxpayer _____ Date _____

➤ Mail to: Kentucky Department of Revenue, P.O. Box 1190, Frankfort, KY 40602-1190 ◀

DENIED: Late (postmarked after return due date) Other:

You will be notified only if the application for extension is denied. To avoid the late filing penalty, a copy of this form must be attached to your return when filed. Keep a copy for yourself.

COMPLETE ONLY IF MAKING PAYMENT



KENTUCKY
EXTENSION PAYMENT VOUCHER

2005

Last name _____ First name (joint or combined return, give both names and initials) _____ Your Social Security number _____

Mailing address (number and street or P.O. box) _____ Apartment number _____ Spouse's Social Security number _____

City, town or post office _____ State _____ ZIP code _____

Make check payable to: Kentucky State Treasurer Enter payment amount here ➤ \$ _____

Mail to: Kentucky Department of Revenue
P.O. Box 1190
Frankfort, KY 40602-1190

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Department of Revenue Concerns for Practitioners

- Fill-in-the-blank forms will be available on the internet for most of the individual income tax forms.
- Tax Practitioners should advise e-filers not to send a copy of the return with the payment. Mail payments with Form 740-V to ensure processing to the proper return. The check should include the SSN(s) and the tax year. Numerous individual income tax return copies (the second return mailed with the payment) are processed as original returns. This results in the original return being billed for non-payment.
- Attach forms together with one staple in the upper left hand corner to Forms 740 or 740 NP in the following order:
 - Pages 1 & 2 of the form;
 - Any extension to file;
 - Kentucky schedules, alphabetically;
 - Other tax forms in numerical order, smallest first;
 - Copies of the federal return, if required.
- Kentucky copies of wage and tax statements must be attached to the return. Failure to attach the wage statement verifying Kentucky withholding will delay the processing of the return.
- Wage and Tax Statements should be attached to Forms 740-EZ, 740 or 740-NP on Page 1 of the tax return. Staple to top page only with two staples. Care should be taken to avoid tearing the tax forms and there should not be any markings on the return outside of the fields allowed for writing. Wage statements that are faxed or copied are not allowable statements.
- Envelopes:
 - Use the yellow envelope for pay returns.
 - Use the blue envelope for refund returns and for other returns without payments.
 - Fold the return in half. This reduces the thickness of the envelope and increases the efficiency of the Department's mail opening equipment.
- Provide all of your clients with copies of the taxpayer's income tax return including copies of all applicable schedules and wage and tax statements.
- The social security numbers are **not** on the pre-printed labels. The social security numbers should be printed in the appropriate boxes on the returns.

- Use the pre-printed labels, if correct, as it speeds up processing and helps with accuracy.
- Changes in filing status may render the pre-printed label unusable. For example, if the filing status for the prior year was married filing jointly and the current filing status is single.
- When applicable, use Form 2210-K – Underpayment of Estimate Tax By Individuals to calculate any underestimated tax penalties or to claim a waiver of penalty. Check appropriate box on Forms 740 when Form 2210-K is attached.
- If a pay agreement is needed, attach Kentucky Individual Income Tax Installment Agreement Request (or statement) to front of return.
- Attach copies of returns for other states when credit is claimed for taxes paid to another state. A supplemental statement signed by the tax manager of an s-corporation or partnership is also accepted. Without a copy of the other state's return, DOR employees must request these copies, which delay the processing of the taxpayers returns.
- Attach a copy of the letter sent to the taxpayer from DOR when responding for a client. This ensures the correspondence will be matched to the return and completion of the return's processing will be resumed promptly.
- When filing amended income tax returns attach all schedules that are affected by changes.

Attach wage statements to 2-D barcode returns. We have received numerous 2004 2-D barcode returns that did not have wage statements attached. Although the information is in the barcode, the wage statements need to be attached for verification of withholding.

Chapter Five – 2005 Session of the KY General Assembly

Tax Law Changes Enacted by the 2005 General Assembly – General Overview

The 2005 Kentucky General Assembly created, amended or repealed numerous statutes. A total of 743 bills and 308 resolutions were introduced. In the end, 172 became law, an enactment rate of 23.15 percent. The governor vetoed one bill and 13 items in the budget bill. Eighteen bills had substantive tax implications, with some affecting more than one tax. This review describes the tax portion of each bill. Effective dates are shown when specifically stated in the legislation. Otherwise, changes are effective June 20, 2005.

Administrative

Department of Revenue Reorganization—The Revenue Cabinet is abolished and the Department of Revenue (DOR) within the Finance and Administration Cabinet is created. The bill also establishes major divisions within the DOR. **(SB 49)**

Electronic Records—DOR auditors may request taxpayer records in an electronic format when taxpayers already have them in such a format. **(HB 497)**

Fraud—The definition of *fraud* is clarified to mean not only a taxpayer's failure to file required information, but also a taxpayer's intentional filing of false information. **(HB 497)**

Utility Gross Receipts License Tax—The utility gross receipts license tax, which the department begins administering for local school districts in July 2005, is required to be filed and paid electronically. A taxpayer may request a waiver of this requirement. The bill also permits the DOR to share utility gross receipts license tax information with the school districts on a confidential basis. **(HB 497)**

Refund Claims—This bill amends various statutes to clarify that a taxpayer must file an individual refund claim setting forth the specific grounds upon which the refund claim is based. Tax refund claims may not be obtained by a class action lawsuit and the filing of a class action lawsuit does not constitute the timely filing of a refund claim for each member of the alleged class. **(HB 498)**

Corporation Income Tax

Corporation Income Tax Base Expansion—(Effective for tax periods beginning on or after Jan. 1, 2005.) The corporation income tax base is expanded to include all limited liability entities (corporations, LLPs, LLCs, including single member LLCs, limited partnerships, and S corporations).

General partnerships and sole proprietorships will not be subject to the expanded corporation income tax. Publicly traded partnerships and their limited partnership and limited liability company affiliates will be taxed as general partnerships. There is no pass-through of income, loss or credit to nonindividual owners of pass-through entities subject to corporation income tax. Individual partners, members or shareholders of pass-through entities subject to corporation income tax will receive credit for tax paid at the entity level. **(HB 272)**

Rate Reduction—(Effective for tax periods beginning on or after Jan. 1, 2005.) The top corporate rate is reduced and lower brackets expanded. The 4 percent bracket applies to taxable net income up to \$50,000 and the 5 percent bracket applies to taxable net income between \$50,000 and \$100,000. For taxable years beginning on or after Jan. 1, 2005, and prior to Jan. 1, 2007, the top corporate rate will be 7 percent on all taxable net income over \$100,000. For tax years beginning on or after Jan. 1, 2007, the top rate will be 6 percent on all taxable net income over \$100,000. **(HB 272)**

Reference to Internal Revenue Code (IRC)—(Effective for tax periods beginning on or after Jan. 1, 2005, except where otherwise indicated.) The IRC reference date is updated to Dec. 31, 2004, except that depreciation and Section 179 expenses are calculated based on the IRC in effect on Dec. 31, 2001. By updating the reference date, Kentucky's tax laws conform more closely with federal laws, providing ease of filing for taxpayers and ease of administration for the DOR. **(HB 272)**

Alternative Minimum—(Effective for tax periods beginning on or after Jan. 1, 2005.) Taxpayers must pay the greater of the income tax, the alternative minimum tax or \$175. Taxpayers may choose between two methods to calculate the alternative minimum: 9.5 cents per \$100 of the corporation's gross receipts or 75 cents per \$100 of the corporation's Kentucky gross profits. Kentucky gross profits mean Kentucky gross receipts reduced by returns and allowances attributable to Kentucky gross receipts, less Kentucky cost of goods sold. Cost of goods sold includes direct labor and the cost of specialized transportation for gasoline and special fuels. **(HB 272)**

Mandatory Nexus Consolidated Returns—(Effective for tax periods beginning on or after Jan. 1, 2005, except as otherwise noted.) All corporations with nexus in Kentucky that are connected through an ownership interest of 80 percent or more must file a consolidated Kentucky return. This includes the expanded definition of corporation, with limited liability entities included in the affiliated group. **(HB 272)**

Intangible Property, Management Fees and Other Related Party Expenses—Certain deductions relating to transactions with one or more related members of an affiliated group may be disallowed unless:

1. The corporation and the related member are included in the same consolidated Kentucky corporation income tax return for the relevant taxable year;
2. A disclosure is made and evidence provided to establish that the transaction was at arm's length, that the payment made to a related member was subject to income tax in another jurisdiction, and the related member has substantial business activities other than the management or ownership of intangible property; or,
3. The DOR and taxpayer agree in writing to an alternative method of apportionment. **(HB 272)**

Doing Business Nexus Standard—(Effective for tax periods beginning on or after Jan. 1, 2005.) The nexus standard in Kentucky is changed from a physical presence standard to a *doing business* standard. **(HB 272)**

Net Operating Losses (NOL)—(Effective for tax periods beginning on or after Jan. 1, 2005.) Corporations may no longer carry NOLs back to previous years. **(HB 272)**

Multiple Taxing Jurisdictions (Apportionment)—(Effective for tax periods beginning on or after Jan. 1, 2005.) All limited liability entities subject to corporation income tax that do business within and without Kentucky and general partnerships that do business within and without Kentucky will be required to utilize a three-factor apportionment formula to apportion income to Kentucky. **(HB 272)**

Phase II Tobacco Payments—(Effective for tax periods beginning on or after Jan. 1, 2005.) State funds that may be paid out as an addition to or a replacement of Phase II tobacco payments are exempt from corporation income tax. **(HB 272)**

Conversion—An ordinary corporation may convert to a nonprofit, nonstock corporation under KRS Chapter 273. **(SB 142)**

Corporation License Tax

Repeal—(Effective for tax periods ending on or after Dec. 31, 2005.) The corporation license tax is repealed. Returns and tax for prior periods remain due. The anticipated increases resulting from the *Illinois Tool Works* court decision, 00-CI-623, will not apply for any year. **(HB 272)**

Economic Development Incentives and Credits

New Limits on Kentucky Investment Fund Act (KIFA) Credits—(Effective July 1, 2005.) KIFA tax credits available to any single investment fund are limited to \$1.3 million for all investors and all taxable years. Total KIFA tax credits available for all investors in all investment funds shall not exceed \$5 million per fiscal year. **(HB 267)**

Clean Coal Incentive Credit—(Effective for tax periods ending on or after Dec. 31, 2006.) A potential credit is available to an electricity generation facility certified as using clean coal equipment and technology and burning coal subject to Kentucky's severance tax. The credit may be taken against corporation income, individual income, corporation license and public service property taxes at the rate of \$2 per ton of qualifying coal burned. The credit applies to electricity generation facilities with an investment of more than \$150 million that meet Natural Resources and Environmental Protection Cabinet standards. **(HB 272)**

Environmental Remediation (Brownfields) Credit—(Effective for tax periods beginning after Dec. 31, 2004.) Taxpayers who agree to clean up or develop an existing abandoned brownfield area may qualify for a credit against corporation or individual income taxes in a maximum amount of \$150,000. **(HB 272)**

Environmental Stewardship Credit—(Effective for tax years ending on or after Jan. 31, 2007.) A credit is available against the corporation and individual income taxes for a corporation or individual that undertakes an environmental stewardship project with a minimum investment of at least \$5 million. The Cabinet for Economic Development must approve these projects. The taxpayer must meet certain wage requirements in order to qualify. The credit will cover 100 percent of eligible skills upgrade training costs and up to 25 percent of eligible equipment costs. The project must produce an environmental stewardship product, which is defined to mean a new manufactured product or substantially improved existing manufactured product that has a lesser or reduced adverse effect on human health and the environment. It may also be used for improvement to human health and the environment when compared with existing products or competing products that serve the same purpose. The maximum amount of credit claimed for any single fiscal year may not exceed 25 percent of the total authorized inducement. **(HB 272)**

Biodiesel Credit—(Effective for tax periods beginning on or after Jan. 1, 2005.) Credits may be taken against corporation or individual income taxes for producing or blending biodiesel fuels of up to \$1 per gallon produced or blended, limited to a maximum statewide credit of \$1.5 million. The credit may not be carried forward. **(HB 272)**

Recycling Tax Credits—(Effective for tax periods beginning after Dec. 31, 2004.) Corporation and individual income tax recycling credits available are expanded for major recyclers who make a significant investment in plant and equipment and who meet certain employment standards. Credits are allowed for up to 50 percent of the cost of new and expanded recycling equipment, limited each taxable year to 50 percent of the total tax liability for the year the credit is claimed over the tax liability for the most recent taxable year ending prior to Jan. 1, 2005 or \$2.5 million, whichever is less. This bill also provides for the recapture of the credit if the equipment is no longer used in a qualifying manner or is sold or disposed of within five years from the date it is purchased, based upon the useful life of the equipment and year of disposition. An exception to the recapture exists in the case of transfers due to death or change in business ownership or organization as long as the equipment remains qualifying equipment. **(HB 272)**

Historic Preservation Credit—(Effective for tax periods ending on or after Dec. 31, 2005.) This bill allows a credit against corporation or individual income taxes for a portion of the cost of restoring a qualified residential and commercial structure listed on the National Registry of Historic Places. The credit is equal to 30 percent of the rehabilitation expenses, in the case of owner-occupied residential property, and 20 percent of the rehabilitation expenses, in the case of all other property. The total credit available is capped at \$3 million annually, with each individual owner-occupied property receiving no more than \$60,000. **(HB 272)**

Enterprise Initiatives

Enterprise Initiative Act—(Effective Jan. 1, 2006.) A new statewide tax incentive program replaces the Enterprise Zone program. It extends to eligible companies the opportunity to receive refunds of sales and use tax paid on the purchase of building materials and research and development materials. The bill limits eligible expenditures to tourist attractions, services, technology, manufacturing and company headquarters in any industry. The plan gives preference to companies in existing enterprise zones; the minimum investment is \$100,000 for companies within enterprise zone boundaries; \$500,000 elsewhere. It also creates a statewide cap in each year of \$20 million for building materials and \$5 million for research and development on all approved projects. **(HB 272)**

Individual Income Tax

Reference to IRC—(Effective for tax periods beginning on or after Jan. 1, 2005, except where otherwise indicated.) This bill updates the IRC reference date to Dec. 31, 2004, with three exceptions, as the basis for Kentucky income taxes. The exceptions are: (1) for property placed in service after Sept. 10, 2001, only the depreciation and expense deductions allowed under Sections 168 and 179 of the IRC in effect on Dec. 31, 2001, exclusive of any amendments made subsequent to that date, shall be allowed; (2) the provisions of the Military Family Tax Relief Act of 2003, Pub. L. No. 108-121, are effective on the dates specified in that act; and (3) Kentucky will not allow the deduction for sales and use taxes in lieu of state income taxes. By updating the reference date, Kentucky's tax laws conform more closely with federal laws, providing ease of filing for taxpayers and ease of administration for the DOR. **(HB 272)**

Family Size Tax Credit—(Effective for tax periods beginning on or after Jan. 1, 2005.) Low-income taxpayers will have increased relief. The current low income tax credit is repealed for taxable years beginning on or after Jan. 1, 2005. The new Family Size Tax Credit is based on modified gross income (MGI) and size of the family household up to four members. Single and married taxpayers whose MGI is at or below federal poverty level for the family size will receive 100 percent tax credit. For 2005, MGI levels that qualify for the 100 percent tax credit are as follows:

<u>Size of Family Unit</u>	<u>Amount</u>
1	\$ 9,570
2	\$12,830
3	\$16,090
4	\$19,350

The Family Size Tax Credit provides benefit to individuals and families at incomes up to 133 percent of the federal poverty level, through a phasedown of the credit. **(HB 272)**

Rate Reduction—(For taxable years beginning after Dec. 31, 2004.) The tax rate for taxable income between \$8,000 and \$75,000 drops to 5.8 percent with taxable income over \$75,000 continuing to be taxed at 6 percent. **(HB 272)**

Net Operating Losses (NOL)—(Effective for tax periods beginning on or after Jan. 1, 2005.) Individuals may no longer carry NOLs back to previous years. **(HB 272)**

Phase II Tobacco Payments—(Effective for tax periods beginning on or after Jan. 1, 2005.) State funds that may be paid out as an addition to or a replacement of Phase II tobacco payments are exempt from individual income tax. **(HB 272)**

Pensions— (Effective Jan. 1, 2005.) The pension exclusion is capped at \$41,110, the 2005 amount, and KRS 141.105, which provided for the cost of living adjustment, is repealed. **(HB 272)**

Education Tuition Tax Credit—(Effective for tax periods beginning on or after Dec. 31, 2004.) A credit equal to 25 percent of the amount of the federal Hope Scholarship and the lifetime learning credit is available. The credit applies only to undergraduate studies, phases out for higher incomes and applies to most higher education opportunities within Kentucky. **(HB 272)**

Health Savings Accounts—(Effective for tax periods beginning on or after Jan. 1, 2005.) As a part of the IRC update, Kentucky allows the same tax advantages currently available at the federal level for health savings accounts. Benefits include permitting pretax treatment of contributions to health savings accounts and more potential uses of funds than are allowed with flexible spending accounts. **(HB 272)**

Refund Designation—Taxpayers may now contribute all or a portion of their individual refund to the Breast Cancer Research and Education Trust Fund. The fund replaces the Bluegrass State Games and U. S. Olympic Committee Fund on the Kentucky individual income tax returns. **(HB 7)**

Property Tax Changes

Property Owned by Another State—(Effective July 1, 2005.) All real and personal property owned by another state and used exclusively for public purposes is exempt from taxation if that state comparably exempts the commonwealth's property. **(HB 267)**

Local School Districts—(Effective July 1, 2005.) Local school districts that are deemed *hold harmless* pursuant to Fiscal Year 2005-2006 Support Education Excellence in Kentucky (SEEK) tentative calculation shall not be required to levy a property tax rate lower in Fiscal Year 2005-2006 than the previous year's rate. **(HB 267)**

Intangible Property Tax Repealed—(Effective Jan.1, 2006.) Most intangible property taxes are repealed, other than some of the intangible taxes paid by financial institutions and other businesses. **(HB 272)**

State Real Property Tax Rate—(Effective for tax years beginning on or after Jan. 1, 2005.) Revenue and assessment growth resulting from new property is excluded from the 4 percent growth limit established by HB 44. **(HB 272)**

School Funding—(Effective for assessments on or after Jan. 1, 2006.) A district board of education may levy a general tax rate that produces revenue from real property, exclusive of revenue from new property, that is 4 percent over the amount of revenue produced by the compensating rate as defined in KRS 132.010. **(HB 272)**

Biotechnology Products—(Effective Jan. 1, 2002.) Biotechnology products are exempted from assessments for local property taxes and provides a definition of biotechnology products. **(HB 308)**

Barge Lines—(Effective Jan. 1, 2001 to Jan. 1, 2006.) This bill simplifies the ad valorem reporting and payment requirements of affected commercial watercraft companies. **(HB 350)**

School Tax Recall—(Applies to orders, ordinances, resolutions or motions passed after July 15, 2005.) A school tax recall petition in a district in a consolidated local government must include 5 percent of registered and qualified voters voting in the last presidential election. Each sheet must include names of voters from one precinct and an invalid signature shall not disqualify the entire page but result in striking the invalid signature only. **(SB 13)**

Airport Authorities—KRS 382.135 now exempts deeds conveying real property to airport authorities from certain filing requirements. **(SB 111)**

Environmental Remediation (Brownfields) Incentive—(Applies to tax years beginning on or after Jan. 1, 2005.) This bill reduces the real property tax rate to .015 cents per \$100 of value for approved properties for three years. **(HB 272)**

Chapter Six – Other Changes to Individual Income Tax

Rate Reduction—(For taxable years beginning after Dec. 31, 2004.) The tax rate for taxable income between \$8,000 and \$75,000 drops to 5.8 percent with taxable income over \$75,000 continuing to be taxed at 6 percent.

Tax Rate Schedule

If taxable income is:	Tax is:
\$3,000 or less	2% of taxable amount
Over \$3,000, but not over \$4,000	\$60 plus 3% of amount over \$3,000
Over \$4,000, but not over \$5,000	\$90 plus 4% of amount over \$4,000
Over \$5,000, but not over \$8,000	\$130 plus 5% of amount over \$5,000
Over \$8,000, but not over \$75,000	\$280 plus 5.8% of amount over \$8,000
Over \$75,000	\$4,166 plus 6% of amount over \$75,000

Net Operating Losses (NOL)—(Effective for tax periods beginning on or after Jan. 1, 2005.) Individuals may no longer carry NOLs back to previous years.

TIP: Kentucky Schedule KNOL, Kentucky Net Operating Loss Schedule, will be used for calculating the net operating loss deduction for carry forward purposes. The 1045-K will no longer be utilized; however, the 2004 1045-K may be used for years ending before January 1, 2005.

Pensions—(Effective Jan. 1, 2005.) The pension exclusion is capped at \$41,110, the 2005 amount, and KRS 141.105, which provided for the cost of living adjustment, is repealed.

Complete Schedule P if:

- 1. Total pension distributions for 2005 are greater than \$41,110; and,*
- 2. You have retirement income from the federal, the Commonwealth of Kentucky or a Kentucky local government; or have supplemental U. S. Railroad Retirement Board Benefits.*

You may also want to complete Schedule P to establish the exempt percentage to be used in future years.

Multiple Taxing Jurisdictions (Apportionment)—(Effective for tax periods beginning on or after Jan. 1, 2005.) All limited liability entities subject to corporation income tax that do business within and without Kentucky and General Partnerships that do business within and without Kentucky will be required to utilize a three-factor apportionment formula to apportion income to Kentucky.

Deduction for Foreign Taxes Paid—In the 2005 budget bill, HB 267, KRS 141.010(11) was amended to eliminate the deduction effective for taxable years beginning after Dec. 31, 2004. This provision is permanent, subject to future actions by the General Assembly.

Deduction Available In Prior Years

Individual taxpayers may claim allowable foreign income taxes as an itemized deduction on returns filed for periods ending after June 30, 2004, which began before January 1, 2005.

The following list is included to show the range of taxable years in which the deduction is allowable:

- Years ending on or before Dec. 31, 2002;
- Fiscal years beginning Aug. 1, 2003—ending July 31, 2004;
- Calendar years beginning Jan. 1, 2004—ending Dec. 31, 2004; and,
- Fiscal years beginning Dec. 1, 2004—ending Nov. 30, 2005.

Health Savings Accounts—(Effective for tax periods beginning on or after Jan. 1, 2005.) As a part of the IRC update, Kentucky allows the same tax advantages currently available at the federal level for health savings accounts. Benefits include permitting pretax treatment of contributions to health savings accounts and more potential uses of funds than are allowed with flexible spending accounts.

Refund Designation—Taxpayers may now contribute all or a portion of their individual refund to the Breast Cancer Research and Education Trust Fund. The fund replaces the Bluegrass State Games and U. S. Olympic Committee Fund on the Kentucky individual income tax returns.

Phase II Tobacco Payments—(Effective for tax periods beginning on or after Jan. 1, 2005.) State funds that may be paid out as an addition to or a replacement of Phase II tobacco payments are exempt from individual income tax.

Subtract the payments from adjusted gross income on Schedule M, Line 15.

Tobacco Quota Buydown Exemption

Exempts amounts received from a tobacco quota buydown from the state income taxes imposed on individuals and corporations. (HB 97 codified as KRS 141.010(10)(r) and 141.010(12)(l)) enacted in 2004.

KRS 141.010(10)(r)

- (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:
- (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;

KRS 141.010(12)(l)

- (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:
- (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;

Question: Can a client deduct the remaining cost of a purchased tobacco base and exclude the tobacco buyout proceeds? In other words, can any bases used to compute gain or loss be deducted as a loss for Kentucky income tax purposes, because of the “exclude any amount received” language?

Answer: KRS 141.010 (10) & (12) define starting points for the Kentucky return as adjusted gross income for individuals and gross income for corporations. IRC Section 61(a) (3) includes Gains derived from dealing in property; and Section 62 (a) (3) included Losses from sale or exchange of property. KRS 141.010 (10) & (12) each state that the starting point is “adjusted as follows.” The exclusion refers to income included in federal gross income, which would be after any gain, or loss is determined; the basis in the quota would be utilized in determining the gain or loss at the federal level; and only the net gain or loss would be excludable.

General Partnerships – KRS 141.206

Composite Return for General Partnerships – KRS 141.206(13)—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 in KRS 141.020 on the partners’ pro rata or distributive shares of income from sources within this state. The partners’ pro rata or distributive shares 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. Accordingly, health insurance premiums and pension plan contributions may be deducted on the composite return. Partnerships are not required to withhold on nonresident individual partners included in the composite return.

- A nonresident individual partner whose only source of income within this state is from one or more General Partnerships may elect to be included in a composite return filed pursuant to this section.
- 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.
- 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.

File with the Department of Revenue Form 740-NP, Kentucky Nonresident Tax Return, attaching a schedule reporting the name, address, social security number, net distributive share income, and the tax paid for each electing nonresident individual partner. Check the box labeled Composite Return on Form 740-NP.

New Apportionment Fraction for General Partnerships and Roll-Up of Apportionment Factors—General Partnerships doing business within and without Kentucky will complete Schedule A, Apportionment and Allocation to determine the apportionment fraction. If the General Partnership has a partner that is a partnership, it must provide to its partner the partner's pro-rata share of sales, property, and payroll. If the General Partnership is a partner in a General Partnership, it must include in its apportionment calculation its pro-rata share of sales, property, and payroll of the partnership.

KRS 141.206(9)(a) 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).

(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.

Pass-Through of Income, Loss and Credit from a Pass-through entity (PTE) to a General Partnership, Estate or Trust—General Partnerships and Estates or Trusts that are partners or members in a PTE subject to corporation income tax shall include the income received from the entity in its return and distribute income, loss and pass-through credits to its individual partners or beneficiaries.

The General Partnership shall provide adequate information to its individual and corporate partners that will allow the individual to compute the limitation for claiming the credit and the corporation to adjust its income for income or losses that has already been taxed. Form 765-GP, Schedule K-1, Lines 19-21 shall be completed for only one corporation. If multi-entities are involved, use a separate schedule to provide the information.

The fiduciary shall also provide adequate information to its individual beneficiaries that will allow the individual to compute the limitation for claiming the credit. Use Form 741, Schedule K-1, lines 12 a-c to report for only one corporation. If multi-entities are involved, use a separate schedule to provide the information.

***TIP:** An estate or a trust that is an S Corporation shareholder shall be treated as an individual for the purpose of distributing income, loss and the pass-through credits.*

Nonresident Withholding—Administrative regulation 103 KAR 18:070, effective November 25, 2003, includes the requirement for a pass through entity to withhold income tax at the rate of 6% on the net distributive share income of each nonresident individual partner, shareholder or member. The requirement to withhold is effective for taxable years ending on or after December 31, 2003. House Bill 272 expanded the corporation income tax base to include Limited Liability Partnerships (LLP), Limited Liability Companies (including single member LLCs), Limited Partnerships (LP), and S corporations. General Partnerships and sole proprietorships are not subject to the expanded corporation income tax.

Question: Have the withholding requirements for General Partnerships changed?

Answer: Yes, the withholding requirement **is waived** for any individual included in a composite return. For 2005 and future years, as amended in HB 272, KRS 141.206(13)(a) allows a General Partnership to file a composite return reporting and paying income tax at the highest marginal rate provided in this chapter on behalf of its electing nonresident individual partners. Prior approval is not required. Composite filing for the tax year 2004 was not allowed; the DOR revoked all previous approvals.

In addition, a General Partnership that is a partner or member of an LLC, LLP, or LP taxed as a corporation shall subtract from income subject to withholding the amount of distributive share income taxed under KRS 141.040.

Question: Are S corporations, partnerships or LLCs that are subject to corporation income tax still required to withhold?

Answer: No, for taxable years beginning January 1, 2005, there is no withholding requirement for a LLC, LLP, LP, or an S corporation. However, a nonresident individual partner, member or shareholder who receives dividend income or guaranteed payments must file a Form 740-NP if the nonresident individual has any gross income from Kentucky sources and a total gross income exceeding the threshold amount determined under KRS 141.066. KRS 141.180(2)(c)

Dividend income is not taxed on the corporation return but remains a distributive share item of income passed through to the shareholder, partner, or member taxable at the individual level. Corporate taxable income is subject to the statutory adjustments included in KRS 141.010 (12) (13). One of the exclusions in KRS 141.010(12) is dividend income received after December 31, 1969.

Guaranteed payments are not included in the corporation's taxable income but remain a distributive share item of income passed through to the partner or member to be taxed at the individual level.

Qualified Investment Partnerships—Qualified Investment Partnerships (QIP) were defined by a statute change to KRS 141.206 in 2002. The exemption was enacted as a part of the New Economy initiatives to encourage investment in Kentucky. Only partnerships are eligible for the exemption. Only nonresident individuals receive the exemption. This is not a change but has been the position of the department since enactment. The changes included in HB 272 were necessary to exclude QIPs from the corporation income tax imposed on pass-through entities.

QIP is defined in KRS 141.206 (12), which states "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.**" The changes enacted by HB 272 are bolded for ease of identification.

Form 741

KENTUCKY FIDUCIARY INCOME TAX RETURN

42A741

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

2005

Department of Revenue

Check applicable box:

- Decedent's estate
Simple trust
Complex trust
Grantor trust
Bankruptcy estate
Pooled income fund

Name of Estate or Trust Federal Employer Identification Number

Name and Title of Fiduciary Date Entity Created

Address of Fiduciary (Number and Street or P.O. Box) Room or Suite Number

Check applicable boxes:

- Initial return
Amended return
Final return

City, State and ZIP Code Telephone Number

Number of Schedules K-1 attached. (Copies Must Be Attached)

Attach a copy of the federal return including all schedules and statements.

Table with 14 rows for tax calculations: Federal adjusted total income, additions, deductions, subtractions, and total income of fiduciary.

INTANGIBLE INCOME ATTRIBUTABLE TO NONRESIDENTS INCLUDED IN LINE 14

Table with 2 rows: 15. Trusts or estates with income attributable to nonresident beneficiaries; 16. Taxable income of fiduciary.

TAX COMPUTATION

Table with 7 rows for tax computation: 17. Tax; 18. Nonrefundable credit(s); 19. Tax Credit; 20. Total Tax; 21. Estimated tax payments; 22. Subtract line 21(d) from line 20.

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 Fiduciary or Agent PTIN or Identification Number of Fiduciary or Agent Date

Typed or Printed Name of Preparer Other Than Fiduciary or Agent Identification Number of Preparer Date

Refunds Mail to: Kentucky Department of Revenue, Frankfort, KY 40618-0006.
Payments Mail to: Kentucky Department of Revenue, Frankfort, KY 40619-0008.

Make check payable to: Kentucky State Treasurer.

SCHEDULE K-1
FORM 741

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

2005

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

Department of Revenue

For calendar year or fiscal year

beginning _____, 2005, and ending _____, 2006.

Name of estate or trust >

- Amended K-1
- Final K-1

Beneficiary's identifying number >

Estate or trust's federal
employer identification number >

Beneficiary's name, address and ZIP code

Fiduciary's name, address and ZIP code

DRAFT
10-7-05

(a) Allocable Share Item	(b) Federal Amount	(c) Difference	(d) Kentucky Amount
1. Interest			
2. Dividends			
3. Net short-term capital gain			
4. Net long-term capital gain			
5. a Annuities, royalties and other nonpassive income before directly apportioned deductions (see federal instructions)			
b Depreciation			
c Depletion			
d Amortization			
6. a Trade or business, rental real estate and other rental income before directly apportioned deductions (see federal instructions)			
b Depreciation			
c Depletion			
d Amortization			
7. Federal estate tax deduction (attach computation)			
8. Foreign taxes (attach schedule)			
9. Deductions in the final year of estate or trust:			
a Excess deductions on termination (attach computation)			
b Short-term capital loss carryover			
c Long-term capital loss carryover			
d Net operating loss (NOL) carryover			
e			
f			
10. Other: (itemize)			
a			
b			
c			

Resident Adjustment

11. Add lines 1 through 6 and portions of lines 9 and 10 in column (c). Add income amounts and subtract (loss) and deduction amounts (see instructions). Enter on Form 740, Schedule M, line 3, if difference is positive, or line 13, if difference is negative (see instructions)

--	--

PASS-THROUGH CREDIT

12. a Individual share of net distributable income previously taxed under KRS 141.140	12a
b Nonrefundable Kentucky corporation income tax credit (KRS 141.420(3))	12b
c Refundable Kentucky corporation income tax credit (KRS 141.420(3)(c))	12c

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KY Tax Modernization

Sales & Excise Taxes

Chapter 1 - Excise Taxes

Chapter 2 - Sales & Use Tax

Forms Appendix

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.

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 or regulatory authority.

EXCISE TAXES

- *TELECOMMUNICATIONS*

Effective January 1, 2006, new sections of Kentucky Revised Statute Chapter 136 were established to levy a 3 percent excise tax on multi-channel video programming services, a 2.4 percent gross revenues tax on multi-channel video programming services, and a 1.3 percent gross revenues tax on telecommunications services. The bill also provides that local franchise fees imposed on these providers are repealed effective January 1, 2006. The taxes imposed will be collected on one return to simplify and streamline the reporting process for affected providers. Also, receipts will be distributed to local political subdivisions, school districts, special districts and sheriffs in a timelier manner. Providers of multi-channel video programming services will need to register with the Department of Revenue beginning on December 1, 2005. The statutory provisions for the telecommunications tax can be found at KRS 136.600 through KRS 136.660.

The 3 percent excise tax will be imposed on the retail purchase of multi-channel video programming services billed on or after January 1, 2006. The tax shall be collected from the purchaser and remitted to the Department of Revenue by the service provider. The services shall be sourced to the end user's place of primary use. The following types of transactions are excluded from the tax provided documentation to verify the deductions are maintained on file:

- 1) Purchases of multi-channel video programming which are prohibited from taxation under the Constitution or laws of the United States.
- 2) Purchases made by government agencies as defined in KRS 65.005 solely for use in the governmental function.
- 3) Purchases made by education, charitable and religious institutions which have qualified for exemption from income taxation under Section 501(c)(3) solely for use in the educational, charitable, or religious function of the institution.
- 4) Bad debts.

Compensation will also be provided for the cost of collecting and remitting the tax, similar to vendor's compensation for sales tax returns, capped at \$1500 per return. The first return will be due February 20, 2006.

The 2.4 percent gross revenues tax on multi-channel video programming services and the 1.3 percent gross revenues tax on telecommunication services is also effective on services billed on or after January 1, 2006. The provider is prohibited from collecting the tax directly from the purchaser. The first return will be due on February 20, 2006.

Both the excise and gross revenues tax are to be reported on the same return (see attached). The gross revenues portion of the tax must be allocated on the return to the county where the service is sourced. Both taxes are also subject to officer and member liability, which means the officers or partners of the Corporation, Limited Liability Company or Limited Liability Partnership, can be held personally liable for the tax liability. Any savings experienced by the providers in the first year of tax collections shall be returned proportionately to all residential and business customers of the provider.

The bill guarantees local governments a fixed amount to replace the locally assessed franchise fees and the franchise portion of the operating property taxes that they will no longer be collecting. "Hold harmless" and "growth" funds are established to require the distribution of funds to multiple local jurisdictions. Payments from the hold harmless fund are based on assessments and receipts that local entities receive from the franchise portion of the property tax and the franchise fees collected from telecommunications and cable companies. Each jurisdiction will receive a percentage of the hold harmless fund based upon the ratio of its historic collections to the total collections reported by all local jurisdictions. The hold harmless fund is capped by statute at \$36.4 million annually.

Receipts attributable to the franchise portion of the property tax will be calculated by the Department of Revenue based upon assessment values and local tax rates for fiscal year 2005. Because of this calculation, local jurisdictions will not have to report their actual collections from the franchise valuation of telecommunications and cable property. However, cities and counties will need to report receipts from telephone and cable franchise fees. (See Form 75A001 attached).

To participate in the growth fund, cities and counties must also provide the Department of Revenue information regarding total tax receipts. Total tax receipts will be used to calculate each political subdivision's portion of the county's growth fund. The amount of money deposited into each county's growth fund allotment each month will be based upon the proportion of receipts received from the monthly gross revenues tax in that county. Entities must complete the Authorization for Electronic Deposit of Vendor Payment in order to receive monthly distributions from the hold harmless and growth funds. Both forms can be accessed at <http://revenue.ky.gov/TaxModernization/telecomtm.htm> and must be submitted by December 1, 2005 for the first year. The applicable forms have already been mailed to all counties, cities, special districts, and sheriffs. In subsequent years, the information regarding total tax receipts will be due to the Department of Revenue by January 31.

- *UTILITY GROSS RECEIPTS LICENSE TAX*

The legislation also added direct broadcast satellite (DBS) to the base for the utility gross receipts license (UGRLT) tax for school districts that have the tax on cable unless a school district opts out. If a school district opts out, it must also remove the UGRLT tax on cable. The deadline for districts to exercise the option to exclude DBS from their UGRLT base is May 1, 2005. As of July 1, 2005, any school district that imposes the utility gross receipts license tax on cable services will also impose the tax on direct broadcast satellite services. In addition, the UGRLT is required to be reported electronically pursuant to KRS 160.6145.

- *TRANSIENT ROOMS*

Effective June, 1, 2005, a new section of KRS Chapter 142 created a transient room tax (lodging tax) at the rate of 1 percent of the rent on every occupancy of any suite, room, rooms, or cabins charged by all persons, companies, corporations, groups, or organizations doing business as motor courts, motels, hotels, inns, tourist camps or like or similar accommodations businesses, but not campground sites. The tax shall also apply to charges for accommodations provided through houseboats permanently docked or through structures built on a dock.

Tax receipts from this tax will be deposited into the Tourism, Meeting and Convention Marketing Fund administered by the Commerce Cabinet, which shall use this fund solely for marketing and promoting tourism in the Commonwealth including expenditures to market and promote events and venues related to meetings, conventions, trade shows, cultural activities, historical sites, recreation, entertainment, natural phenomena, areas of scenic beauty, craft marketing, and any other economic activity that brings tourists and visitors to the Commonwealth.

The transient room tax is in addition to the current 6 percent sales tax, and any locally assessed transient room tax, and will be reported separately each month on Form 73A850, Transient Room Tax Monthly Return. For the purposes of state sales tax calculations, the 1 percent transient room tax should be reported as part of taxable receipts just as any locally assessed transient room tax is currently reported.

- **CIGARETTES**

- **CIGARETTE TAXES**

The overall tax rate on packs of 20 cigarettes has been increased from 3 cents to 30 cents (proportionate rate for packs of 25), effective June 1, 2005. The 30 cents is comprised of the originally imposed 3 cents excise tax and 27 cents surtax. A portion of this tax increase (1 cent) has been earmarked for the Cancer Research Fund and will be split between the University of Kentucky and the University of Louisville. Vendor compensation will remain based on the previous, rather than the increased, amount except that an additional allowance for six months will follow the imposition of the surtax.

The Cigarette Tax Stamp Order Form is available online at <http://revenue.ky.gov>.

- **CIGARETTE INVENTORY TAX**

In conjunction with the increased cigarette tax, new sections of KRS 138.130 to 138.205 require that every retailer or cigarette licensee with cigarette inventories take a physical inventory of all cigarette packages bearing Kentucky tax stamps, and all unaffixed cigarette tax stamps they possessed or controlled at 11:59 p.m. on May 31, 2005, and pay a one-time inventory floor tax at the rate of 27 cents per pack of 20 cigarettes (proportionate rate for packs of 25).

Vendors may establish the inventory of cigarettes in vending machines by (1) taking an actual physical inventory, (2) estimating the cigarettes in vending machines by reporting one-half of the normal fill capacity of the machines as reflected in individual inventory records maintained for vending machines, or (3) using a combination of these methods.

The Cigarette Inventory Floor Tax Form, also available online, was due by June 10, 2005. Taxpayers could choose to remit payment in three equal monthly installments which were due June 10, 2005, July 10, 2005, and August 10, 2005, or to pay the tax in a one-time payment which was due on or before June 10.

- **VENDOR COMPENSATION**

Effective June 1, 2005, to November 30, 2005, the department will allow additional compensation, for a limited time, equal to 12 cents face value for each \$3 of tax evidence purchased at face value on or after June 1, 2005, and before December 1, 2005. The additional compensation shall sunset at midnight November 30, 2005. The qualifying compensation is limited to 150 percent of the amount of stamps purchased for the period of December 1, 2004, and ending before May 31, 2005.

- ***OTHER TOBACCO PRODUCTS***

Other tobacco products (OTP), as of August 1, 2005, are taxed at the wholesale level at the rate of 7.5 percent of gross receipts. "Other tobacco products" means cigars, cheroots, stogies, periques, granulated, plug cut, crimp cut, ready rubbed, and other smoking tobacco, cavendish, plug and twist tobacco, fine-cut, and other chewing tobacco, shorts, refuse scraps, clippings, cuttings and sweepings of tobacco, and other kinds and forms of tobacco prepared in a manner to be suitable for chewing or smoking in a pipe or otherwise, or both for chewing or smoking but does not include cigarettes or snuff.

Effective Aug 1, 2005, snuff is taxed at the wholesale level at the rate of 9.5 cents per unit (1.5 ounces). The term "snuff" means any finely cut, ground, or powdered tobacco that is not intended to be smoked. "Snuff" includes "moist snuff" sometimes referred to as "roll snuff" including the long cut and fine-cut varieties. Any smokeless tobacco product similar in composition and makeup to snuff shall be taxed at the rates applicable to snuff.

Any container which contains 1.5 ounces and less of snuff is taxed at 9.5 cents per unit/container rate. However, if several units are packaged together, the tax is calculated by multiplying the number of cans by 9.5 cents. Tax is also due on containers of snuff provided free of charge, because the tax is based upon the unit, not the sale or the selling price of the product.

A manufacturer who acts in a wholesale capacity, (sells to a retailer and bypasses the wholesale level), is responsible for paying the tax. The Department of Revenue is in the process of obtaining a directory from the Retail Tobacco Dealers of America (RTDA) to obtain the names and addresses of all OTP and snuff manufacturers. They will be sent letters to determine how they do business and if qualified will be assigned an account number to file and pay.

Other tobacco products and snuff will be reported on Monthly Report of Other Tobacco Products and Snuff - Form 73A422, available at <http://revenue.ky.gov> . This return is due the 20th day of the month following the month in which the transactions occur. The first report was due September 20th.

- *ALCOHOL*

The Tax Modernization bill amended KRS 243.884 to increase the wholesale sales tax on alcoholic beverages.

The tax on the privilege of making "wholesale sales" or "sales at wholesale" of beer, wine or distilled spirits increased from 9 percent of gross receipts to 11 percent of gross receipts effective on all sales beginning June 1, 2005.

The due date for filing and paying the wholesale sales tax will remain the 20th of the month following the report period. Taxpayers should have received newly revised forms prior to the June period, and the first report reflecting the increase was due July 20, 2005.

SALES AND USE TAX

- *VENDOR'S COMPENSATION*

Effective July 1, 2005, the vendor's compensation for sales and use tax is capped at \$1,500 per return. The sales and use tax returns, forms 51A102, 51A102E, 51A103, 51A103E, 51A113, and 51A113(O), have been amended accordingly. The compensation rate of 1.75% of the first \$1,000 of tax and 1% of the tax above \$1,000 remains in effect but the total compensation allowed per return shall not exceed \$1,500.

- *TELEPHONES/PAYPHONES/COMMUNICATIONS SERVICES*

Effective January 1, 2006, KRS 139.195 is amended to exclude switch access and pay phone receipts from communications services subject to sales tax. All other communications services as outlined in KRS 139.200 remain subject to sales tax unless specifically exempted. (Also See Telecommunications Services). Pay phone receipts will remain subject to sales tax until January 1, 2006.

- *NATURAL GAS TRANSMISSION SERVICES*

Effective June 1, 2005, KRS 139.200 is amended to extend sales tax to the distribution, transmission or transportation services for natural gas that is for storage, use or other consumption in this state, excluding those services furnished for natural gas that are classified as residential use as provided in KRS 139.470(8), or to a seller or reseller of natural gas. KRS 139.480(3) is also amended to include charges for related distribution, transmission, and transportation for energy that are billed to the user as energy when calculating the energy exemption.

- *KENTUCKY ENTERPRISE INITIATIVE ACT*

Effective January 1, 2006, a new statewide tax incentive program replaces the Enterprise Zone Program. House Bill 272, the Tax Modernization bill, created a new section of KRS 154 that allows eligible companies to receive refunds of sales and use tax paid on the purchase of building materials and research and development equipment for an approved project.

Only businesses primarily engaged in manufacturing, service or technology, or developing a tourism attraction are eligible to apply for the tax incentives. Companies seeking to participate in the incentive program must apply for eligibility through the Kentucky Economic Development Finance Authority (KEDFA). Applications may be submitted on or after October 1, 2005; however, no approvals will be effective before January 1, 2006.

The plan gives preference to companies in one of the ten original enterprise zones, requiring them to invest a minimum of \$100,000. All other areas require a minimum investment of \$500,000. A yearly statewide cap of \$20 million for building materials and \$5 million for research and development equipment exists on all approved projects. In addition, the existing enterprise zones and accompanying exemptions will continue until their normal expiration.

To apply for this refund a company must first make application to KEDFA. There is a non-refundable application fee of one-tenth of one percent based upon the investment amount not to exceed \$500 payable upon submission of the KEIA application. KEDFA designates the applicant as a preliminarily approved company, approves the project, and enters into a memorandum of agreement with the company setting forth the maximum refund available under the Kentucky Enterprise Initiative Act (KEIA). The company completes its project and provides KEDFA with documentation in connection with the project's KEIA eligible investment costs as required by the Affidavit of Company as to Project Investment (attached). The company provides the Department of Revenue with documentation as required by Form 51A200 (attached).

The Department of Revenue's refund application (Form 51A200) must be filed within 60 days of completion of the project or the expiration of the life of the project, whichever occurs first. A twelve-month extension may be granted by KEDFA. A refund can only be requested for Kentucky sales and use tax paid. No refund for sales tax paid to other states or localities will be refunded. The following must be submitted with this refund application: A copy of the approved Application for Kentucky Enterprise Initiative Act (KEIA) Tax Refund Program submitted to the Kentucky Economic Development Finance Authority (KEDFA), a copy of the Affidavit of Company as to Project Investment, a copy of the affidavit must be presented to KEDFA prior to this refund request, and copies of the information-sharing agreements with contractors, vendors or other related parties to verify construction

material and building fixture costs and equipment used in research and development for the approved project.

The Department of Revenue will issue a refund check not to exceed the amount authorized to the approved company following verification of the sales and use tax paid. If applicable, the amount of refund requested will be reduced by the amount of compensation taken when the sales or use tax was paid or by the amount of any tax liability due the Commonwealth of Kentucky by the applicant. Interest shall not be allowed or paid on any refund.

- *EQUINE BREEDERS INCENTIVE FUND AND NON-RESIDENT EXEMPTION*

Sales and use tax generated on the fees paid for breeding a stallion to a mare in Kentucky will go into a fund administered by the Kentucky Horse Racing Authority, beginning with tax periods due on or after June 1, 2005.

KRS 139.531 now requires the sales tax collected on the fees for the breeding of a stallion to a mare to be divided into three different funds to be administered by the Kentucky Horse Racing Authority. A Kentucky thoroughbred breeders incentive fund will receive 80 percent, a Kentucky standard bred breeders incentive fund will receive 13 percent, and a Kentucky horse breeders incentive fund will receive 7 percent. The Kentucky Horse Racing Authority will set forth the conditions and criteria for distribution of the money from these funds.

There is also a provision to allow for additional state appropriations, gifts, grants and federal funds to be received. All interest earned on the money deposited will also be credited to these funds and administered by the Kentucky Racing Authority. Any horse breeder that is not currently registered to collect sales and use tax should complete a registration application at <http://revenue.ky.gov/business/register.htm> .

Breeders will continue to file and pay the sales and use tax due each period on their Sales and Use Tax Returns. They should also file the new Form 51A132, Kentucky Sales and Use Tax Equine Breeders Supplementary Schedule. On this form, they will report only the amount of fees collected for the breeding of a stallion to a mare in Kentucky and the amount of tax collected on these sales. Form 51A132 will allow the Department of Revenue to set aside these amounts for transfer to the Kentucky Horse Racing Authority. This form, which is available at revenue.ky.gov, should be mailed directly to the Division of Sales and Use Tax, P.O. Box 181, Frankfort, KY 40602-0181, or faxed to (502) 564-2041. Failure to report this information will affect the transfer of the appropriate amount of funds to the Kentucky Horse Racing Authority. Questions regarding the funds and the distribution of the

money collected should be addressed to the Kentucky Horse Racing Authority at (859) 246-2040.

Also effective June 1, 2005, House Bill 272 amended KRS 139.531 to expand the exemption on horses younger than two years old sold to nonresidents by eliminating the requirement that the horse be transported out of state. For this exemption, nonresident means a person defined in KRS 141.010(15) who is not a resident in this state under KRS 141.010(17) or who is not commercially domiciled in this state under KRS 141.120(1) (b).

- *NEXUS*

A broadened nexus standard in KRS 139.340, effective August 1, 2005, applies to remote sellers who use a representative in Kentucky, either full time or part time, to facilitate remote sales. For example, remote sellers who allow merchandise to be received and exchanged at an affiliated store or any location within Kentucky qualify as retailers engaged in business in this state that must register to collect Kentucky use tax.

- *INTERNET TAX FREEDOM ACT*

Another sales tax topic requires mention which is not a part of the 2005 legislative changes but is effective 11/01/05. The topic relates to the impact of the Internet Tax Freedom Act, also known as the Internet Tax Nondiscrimination Act. According to the most recent legislative revision by Congress in December 2004, the Act expands the definition of internet access to include telecommunications services to the extent such services are purchased, used, or sold by a provider of Internet access to provide Internet access.

A grandfather provision within the bill allowed states such as Kentucky to continue imposing the tax on communications services used to provide internet access that were in force as of 11/01/03. This provision expires on 11/01/05 so that communications services purchased, used, or sold by ISPs (Internet Service Providers) to provide Internet access are no longer subject to sales tax as of this date. Another example of communications services affected are digital subscriber line services (DSL). The Department of Revenue has historically treated DSL as a form of communications service because these transport services transmit both voice and data through existing copper lines. However, DSL services fall within the new definition of internet access, so these charges are removed from the sales tax base as of 11/01/05.

One further point to consider is that the provisions of ITFA do not change the current imposition of Kentucky sales tax on charges for VOIP (Voice over Internet Protocol).

- ***STREAMLINED SALES TAX CHANGES***

In accordance with the Streamlined Sales Tax Agreement, the uniform medical equipment definitions were added in an amendment to KRS 139.472. As part of Kentucky's legislative efforts to conform to the multi-state Streamlined Sales and Use Tax Project (SSTP), the 2005 General Assembly amended the statute to maintain the long-standing exemption for hospital beds. The new exemption language reads "hospital beds purchased for private noncommercial use." This provision preserves the previous exemption by creating a use-based exemption in conformity with SSTP. Vendors need to maintain the normal payment and customer records to document this exemption. No special exemption certificate is required. The Department assumes private, noncommercial use by the customer if the vendor records indicate that a non-commercial entity made the purchase.

Effective Oct 1, 2005, the Streamlined Sales Tax Agreement became operational on a multi-state level with the creation of the SST Governing Board. The Governing Board is comprised of 13 full-member states, including Kentucky, that have enacted sales tax laws and regulations in substantial compliance with each of the provisions of the Streamlined Agreement (Indiana, Iowa, Kansas, Kentucky, Michigan, Minnesota, Nebraska, New Jersey, North Carolina, North Dakota, Oklahoma, South Dakota, and West Virginia). Ohio, Tennessee, and Utah are associate member states that will become full members when certain amendments to their sales tax law approved by the legislature become effective. Arkansas, Wyoming, and Nevada were also approved as associate member states and may petition for full membership following the passage of certain amendments to their conforming legislation.

The SST Governing Board is part a nationwide effort by 43 states, various local governments, and members of the business community to develop measures to design, test, and implement a system that radically simplifies sales and use tax collection and administration by retailers and states. The activation of the Governing Board triggers a Web-based centralized registration system for interested vendors to automatically register in full-member states with the option to register in associate member states as well. The simplified system reduces the number of sales tax rates, brings uniformity to definitions of items in the sales tax base, significantly reduces the paperwork burden on retailers, and incorporates new technology to modernize many administrative procedures.

The website for registration is www.sstregister.org/sellers/Entry.aspx. An additional incentive for remote vendors to voluntarily participate in this project is the relief from back sales tax periods granted under the terms of the Agreement. KRS 139.794, effective June 20, 2005, specifies the conditions for exemption from back period liability. Sellers will be eligible for this treatment regardless of "nexus" if a) a seller was not registered in Kentucky for sales and use tax in the 12 month period preceding the effective date of Kentucky's participation in the Agreement and b) a seller registers through the Streamlined Sales Tax Registration System (SSTR) within 12 months of the effective date of Kentucky's participation in the Agreement. This provision does not apply to sales and use taxes already paid or remitted to a state or to taxes already collected by a seller. In addition, the waiver of back liability does not apply to sales or use taxes due from a seller in its capacity as a purchaser.

For more information on the Streamlined Sales Tax Project, please refer to the Agreement website at www.streamlinedsalestax.org. The Kentucky Department of Revenue website will also be updated regularly as progress continues with this important national initiative.

Forms Appendix

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75A002 (10-05)

TELECOMMUNICATIONS PROVIDER TAX RETURN



Commonwealth of Kentucky
DEPARTMENT OF REVENUE

Check if Amended Reason _____

Name and Address DRAFT 10-10-2005	Period Beginning <input type="text"/>	FOR OFFICIAL USE ONLY
	Period Ending <input type="text"/> Return Due <input type="text"/> Account No. <input type="text"/>	

Part I—Excise Tax (Consumers skip to line 8)

1. Gross Receipts (from retail sale of multichannel video programming service provided to a person whose place of primary use is in Kentucky)
 2. Deductions
 - a. Sales to governmental agencies or units
 - b. Sales to resident nonprofit educational, charitable and religious institutions
 - c. Services resold
 - d. Amount from line 1 subject to sales tax (if communication services subject to sales and use tax are sold with multichannel video programming service as a single package for one price, the tax required to be collected by the providers should be sales and use tax per KRS Chapter 139)
 - e. Bad debt
 - f. Other (describe—required if any amount is entered)
 3. Total Deductions (add lines 2a through 2e)
 4. Net Receipts subject to 3% excise tax (subtract line 1 from line 3)
 5. Excise Tax Due (multiply line 4 by .03)
 6. Compensation (deduct 1.75% of the first \$1,000 of line 5 and 1.00% of the amount in excess of \$1,000—limited to \$1,500. Deduct compensation only if return and payment are timely)
 7. Total Excise Tax Due (subtract line 6 from line 5)
- Skip to Part II*
8. CONSUMERS: Enter the amount of purchases of multichannel video programming
 9. Excise Tax Due (multiply line 8 by .03)

Skip to Part IV

Part II—Gross Revenues Tax

10. Gross Revenues (from retail sale of multichannel video programming services)
11. Gross Revenues (from sale of communication services)

Allocate lines 10 and 11 in Part IV

Part III—Allocation Schedule (use continuation page if necessary)

County Code	County Name	Gross revenues from MVP	Gross revenues tax from MVP (column 3 *2.4%)	Gross revenues from communication services	Gross revenues tax from communication services (column 5 *1.3%)
		\$	\$	\$	\$
Totals—Gross Revenue must equal lines 10 and 11, Part II		\$	\$	\$	\$

12. Total Gross Revenue Tax Due (column 4 plus column 6)

Part IV—Payment

13. Total Tax Amount Due (add lines 7 and 12)
- CONSUMERS (enter line 9)
14. Interest (see instructions)
15. Penalties (see instructions)
16. Total Amount Due (add lines 13, 14 and 15)

► **IMPORTANT:** Return must be postmarked by the 20th of the month following the taxable month to avoid the assessment of penalty and interest. Remit total amount due. Make check payable to **Kentucky State Treasurer. Mail to Department of Revenue, Frankfort, KY 40619.**

I declare under the penalties of perjury, that this return has been examined by me and to the best of my knowledge and belief it is a true, correct and complete return.

Print Name of Tax Return Preparer and Title _____

Print Name, Title of President or _____

Other Principal Officer, Partner or Proprietor

Signature of Tax Return Preparer _____ Date _____

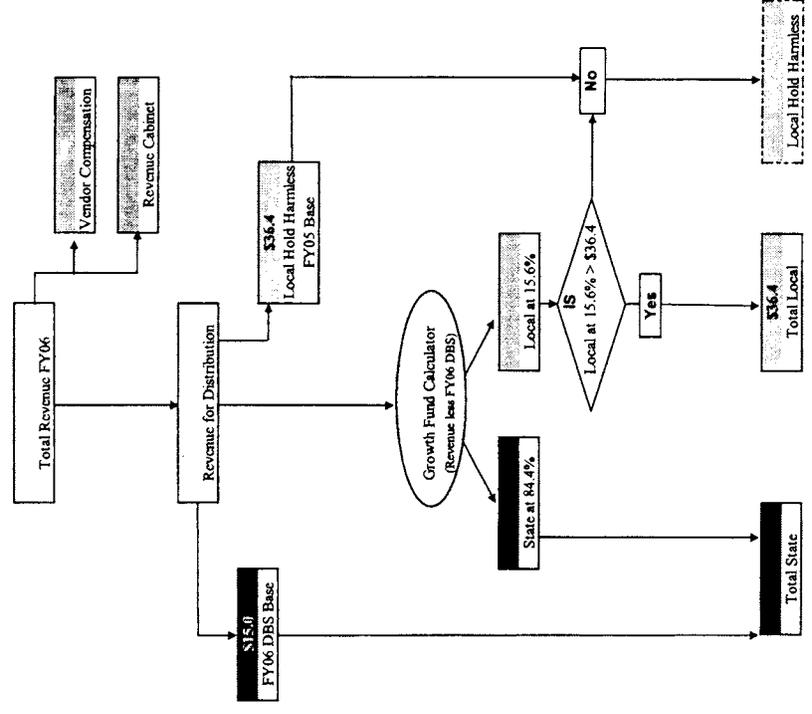
Signature of President or _____ Date _____

Other Principal Officer, Partner or Proprietor

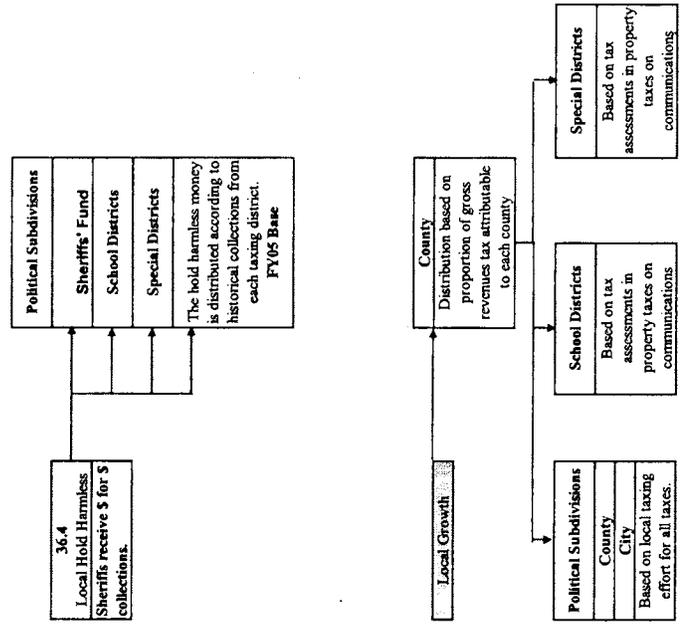
Preparer's Telephone Number () _____

For additional information, contact the Division of Sales and Use Tax, (502) 564-5170.

Distribution Display
(millions of dollars)



Local Government Distribution: FY06



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Print Form

Submit by Email

75A001
Commonwealth of Kentucky
Department of Revenue
www.revenue.ky.gov

Telecommunications Tax Receipts Certification Form

Name: _____

County: _____

ID Number: _____

Federal Identification Number (FEIN): _____

Receipts for Fiscal Year Ending 6/30/2005

1. Real Estate Tax(including delinquent taxes)
2. Tangible Personal Property Tax(including delinquent taxes).....
3. Franchise Fees or Taxes on Utilities(other than Video & Telecommunications).....
4. Occupational Fees/Taxes
5. Business License Fees/Taxes.....
6. Insurance Premium Taxes.....
7. Net Profits Taxes.....
8. Gross Receipts Taxes.....
9. Payroll Taxes
10. Transient Room Taxes
11. Restaurant Taxes.....
12. Bank Deposits Taxes.....
13. Telephone Emergency Fee(911 User Fees).....
14. Payment in Lieu of Taxes**
15. Local Franchise Fees(communications & multichannel video programming service) - See Page 2.....
16. Other Fees(i.e. PEG).....



Telecommunications Tax Receipts Certification

1. Local Franchise Fees (communications & multichannel video programming service). Breakdown by provider type and provider:

Telecommunications/Telephone	Tax Amount
------------------------------	------------

Multichannel Video Programming/Cable	Tax Amount
--------------------------------------	------------

*Total Carried over to page 1

2. Does the sheriff receive compensation for collecting your taxes? Yes | No

3. If yes, what is the rate? %

4. Do you have an interlocal agreement? Yes No

5. **If applicable, please explain payment in lieu of taxes.

Contact Name:

Phone Number:

Contact Email:

Mail completed form to:

Or

Division of Sales & Use Tax, Station 67
P.O. Box 181
Frankfort, KY 40601-0181

Fax completed form to: (502) 564-2041



**APPLICATION
 FOR KENTUCKY ENTERPRISE INITIATIVE ACT
 (KEIA) TAX CREDIT PROGRAM**



Name	Enter Name as it Appeared on the KEIA Application	Telephone Number
Permanent Location	Number and Street	City or Town
	State	ZIP Code
Mailing Address (if different)	Number and Street	City or Town
	State	ZIP Code

1. A claim for refund must be filed within 60 days of completion of the project or the expiration of the life of the project, whichever occurs first. A 12-month extension may be granted by the Kentucky Economic Development Finance Authority (KEDFA). Only one refund request per approved project is required.
 2. A refund can only be requested for Kentucky sales and use tax paid. No refund for sales tax paid to other states or localities will be refunded.
 3. If applicable, the amount of refund requested will be reduced by the amount of compensation taken when the sales or use tax was paid or by the amount of any tax liability due the Commonwealth of Kentucky by the applicant.
 4. Interest shall not be allowed or paid on any refund.
 5. Attach a copy of the approval letter from the KEDFA.
 6. Attach a copy of the Affidavit of Company as to Project Investment. A copy of the affidavit must be presented to KEDFA prior to this refund request.
 7. Attach copies of the information-sharing agreements with contractors, vendors or other related parties to verify construction material and building fixture costs and equipment used in research and development for the approved project.
 8. Attach the final expenditure report to the refund application. The Department of Revenue may request copies of specific or all invoices relating to the project. Copies must be retained for four years.
 9. Mail completed application and supporting documentation to the Kentucky Department of Revenue, Sales and Use Tax Division, P O Box 1274, Frankfort, Kentucky 40602-1274.
- Any questions can be directed to the Sales and Use Tax Division at (502) 564-5170.

I, the undersigned, do declare under penalties of perjury that I have examined this application (including any accompanying statements or schedules and reports), and to the best of my knowledge and belief, the information and statements regarding the refundable credit for sales and use tax paid on purchases of building and construction materials purchased and used in the construction of the project and/or purchases of equipment used for research and development contained herein are true, complete and correct, and that I am duly authorized to sign this application. The undersigned certifies that no tax liability of any kind is due the Commonwealth of Kentucky by this applicant.

Signed _____ Title _____

Date _____

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**INFORMATION SHARING AND ASSIGNMENT AGREEMENT FOR
KENTUCKY ENTERPRISE INITIATIVE REFUND CLAIMS**

This information-sharing agreement and assignment agreement is hereby entered into between the Department of Revenue and the following parties:

Approved Company
Kentucky Sales/Use Acct. # _____

Contact Person _____
Address _____

Vendor
Kentucky Sales/Use Acct. # _____

Contact Person _____
Address _____

Contractor
Kentucky Sales/Use Acct. # _____

Contact Person _____
Address _____

Purpose

The purpose of this agreement is to facilitate the payment of inducements allowed an Approved Company under the Kentucky Enterprise Initiative Act (KRS 154.20-200 to 154.20-216) ("the Act"). These inducements consist of sales and use tax refunds allowed an Approved Company for approved expenses, upon which applicable Kentucky sales and use tax has been paid. According to the provisions of KRS 154.20-106, an approved company may receive a tax refund of sales and use tax paid on its economic development project for the cost of building and construction materials that are permanently incorporated as an improvement to real property and equipment used in research and development.

In order for the Approved Company's sales and use tax refund inducements to be properly verified and allowed or paid, it is necessary that information be shared by and among the Department and the Approved Company, its vendors, contractors and other related parties. To enable the verification and proper and accurate allowance of sales and use tax refund inducements without any violation of the taxpayer confidentiality laws (KRS 131.190; 131.081(15); 131.990), the Approved Company and other parties listed above hereby enter into this information-sharing agreement pursuant to KRS 154.20-206.

Terms of Agreement

1. The Department agrees to consider the Approved Company's application for sales and use tax refund inducements under the Act and if it determines after appropriate verification of this application that it is valid, to remit payment of the refund inducements to the Approved Company. The Approved Company understands and agrees that the Department may reduce the amount of refund inducements so allowed by the amount of compensation paid the Vendor/Contractor listed above and by any outstanding debts or liabilities owed to the Commonwealth or to any person for whom the Commonwealth has an obligation to collect debts or liabilities of the Approved Company.
2. The Approved Company and the Vendor and Contractor listed above agree that the Department may disclose the status and final disposition of the Approved Company's application for sales and use tax refund inducements under the Act to the Vendor and Contractor as well as the Approved Company. The parties to this Agreement further agree that these disclosures by the Department will not constitute a violation of the taxpayer confidentiality laws.
3. The Vendor or Contractor listed above agrees that it is the person who paid to the Department sales and use tax on purchases that are the subject of the Approved Company's application for sales and use tax refund inducements under the Act. The Vendor or Contractor listed above agrees to provide the Department with whatever records, documents and other information the Department may need to verify the Approved Company's application for sales and use tax refund inducements under the Act for approved expenses. The Contractor agrees that the Department may disclose to the Approved Company records, documents and other information furnished by the Contractor to the Department under this paragraph and that such disclosure by the Department shall not constitute a violation of the taxpayer confidentiality laws. The Contractor further agrees that the Approved Company is the proper party to receive the sales and use tax refund inducements for the approved expenses, as defined and provided in KRS 154.20-200(4) and 154.20-206 and other provisions of the Act.
4. The parties of this Agreement understand and agree that this agreement shall relate only to the Approved Company's application for sales and use tax refund inducements for approved expenses under the Act. The Vendor and Contractor remain responsible for timely protesting assessments or seeking refunds of sales and use taxes paid on other transactions that are not the subject of the Approved Company's application.
5. This Agreement shall be governed by the laws of the Commonwealth of Kentucky and any legal proceeding for the enforcement of this Agreement or for the resolution of any dispute over its meaning or effect may be brought only in the Circuit Court of Franklin County, Kentucky.
6. The persons signing this Agreement below represent and warrant that they are duly authorized to execute this agreement on behalf of the parties for whom they sign.

This Agreement shall be effective upon its execution below by all applicable parties.

Approved Company (please print)

(print name)

Title

Date

By _____
(signature)

Subscribed and sworn to before me this
the ___ day of _____, 20__.

Notary Public
State at Large
My Commission Expires: _____.

Vendor (please print)

(print name)

Title

Date

By _____
(signature)

Subscribed and sworn to before me this
the ___ day of _____, 20__.

Notary Public
State at Large
My Commission Expires: _____.

Contractor (please print)

(print name)

Title

Date

By _____
(signature)

Subscribed and sworn to before me this
the ___ day of _____, 20__.

Notary Public
State at Large
My Commission Expires: _____.

Department of Revenue

(print name)

Title

Date

By _____
(signature)

Subscribed and sworn to before me this
the ___ day of _____, 20__.

Notary Public
State at Large
My Commission Expires: _____.

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**KENTUCKY ECONOMIC DEVELOPMENT
FINANCE AUTHORITY (KEDFA)
APPLICATION
FOR
KENTUCKY ENTERPRISE INITIATIVE ACT (KEIA)
TAX CREDIT PROGRAM – KRS 154.20**

Oct. 2005

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Instruction Sheet

All applicants should familiarize themselves with the information regarding the KEIA program contained on this page as well as other applicable program statutory requirements. The items/attachments identified below are required as a part of the application.

Important Notes: If you are expanding an EXISTING business, you must notify the appropriate regional office within the Department for Existing Business Development of your intent to file this application. A project manager will be assigned to assist you in any matters concerning the Kentucky Cabinet for Economic Development. No existing business application will receive consideration without the signature of an agent of the Cabinet from the appropriate office.

Central Kentucky Office
500 Mero Street
Frankfort, KY 40601
(502) 564-5891
(800) 847-4251

East Kentucky Office
P. O. Box 49
Prestonsburg, KY 41653
(606) 889-1767
(800) 928-0169

West Kentucky Office
145 East Center Street
Madisonville, KY 42431
(270) 824-7053
(800) 928-9200

If you are a NEW business locating in Kentucky, you must notify the Department for New Business Development. A project manager will be assigned to assist you in any matters concerning the Kentucky Cabinet for Economic Development. No new business application will receive consideration without the signature of an agent of the Cabinet from the appropriate office.

Department for New Business Development
Old Capital Annex
300 West Broadway
Frankfort, Kentucky 40601
(502) 564-7140

1. KEDFA does not provide direct funding for project financing with its KEIA program. The program allows participants to receive a tax refund of sales and use tax paid on approved expenses for the cost of research and development equipment and building and construction materials related to the specific, discrete project contained in its application.
2. The KEIA application, on original forms obtained from the assigned agent, must be returned to the appropriate office identified under "Important Notes" prior to the last Friday of the month to be considered at the following month's KEDFA meeting.
3. To qualify under the KEIA program, the applicant's project must involve a minimum investment of \$100,000 if located in a preference zone (enterprise zone) and \$500,000 if located outside the preference zone.
4. All applicants need to be aware that a non-refundable application fee of one tenth of one percent (0.01%) based upon the investment amount, not to exceed \$500 per application, will be incurred as a result of the KEIA application.

The following items/attachments must be submitted in addition to the completed application:

1. A non-refundable application fee of one-tenth of one percent (0.01%) of the investment amount, not to exceed \$500, payable to the Kentucky Economic Development Finance Authority ("KEDFA").
2. A brief history of the business and description of the project.
3. A financial statement for the most recent fiscal year end.
4. A completed Attachment "A" - Cabinet for Economic Development Incentive Disclosure Statement.
5. The application, all attachments and the application fee must be submitted to the appropriate office listed in "Important Notes".
6. A letter endorsing the project from the appropriate local elected official.

**APPLICATION FOR KENTUCKY ENTERPRISE INITIATIVE ACT (KEIA)
TAX REFUND PROGRAM**

For Office Use Only

_____ Department for New Business Development
 _____ Department for Existing Business Development
 _____ Tourism Project
 _____ Preference Zone

_____ Date of Application

1. Applicant Information (entity applying for tax refund):

Company Name				
Street or P. O. Box	City	County	State	Zip Code
Federal Employer ID Number	Kentucky Employer ID Number	NAICS Code		
Contact Person	Telephone	Fax		
E Mail Address		Company Web Address		

2. Is this project an expansion of an existing facility or a new location? Expansion New Location

3. Project Location, if different from above:

Street	City	County	State	Zip Code
Contact Person	Telephone	Fax	E Mail Address	

4. Company Organization:

- | | | |
|--|---|---|
| <input type="checkbox"/> Subchapter S Corporation | <input type="checkbox"/> Subchapter C-Corporation | <input type="checkbox"/> Partnership |
| <input type="checkbox"/> Limited Liability Partnership | <input type="checkbox"/> Limited Liability Company | <input type="checkbox"/> Proprietorship |
| <input type="checkbox"/> For Profit Corporation | <input type="checkbox"/> Not for Profit Corporation | |

Date Business Established: _____ Company's Fiscal Year End: _____

State of Incorporation or Organization: _____ Date Incorporated or Organized: _____

Registered Agent Name / Address: _____

If publicly traded, identify: Exchange: _____ Symbol: _____

5. **Applicant Ownership:** *Please identify the major owners of the applicant. Include all owners with 20% or more interest in the company. For subsidiaries/affiliates, identify the parent company.*

Individual or Parent Company	Address	Phone	Social Security Number/FEIN	Percent (%) of Ownership

6. Have any of the parties listed in Items 1 or 4 ever been convicted of any criminal offenses, been in receivership or adjudicated a bankruptcy, been denied a business related license or had it suspended or revoked by any administrative, governmental or regulatory agency? Y N
If yes, please list violation and explain:

7. **Person to Review Legal Documents:**

Applicant Attorney		Contact Person	
Street or P. O. Box		City	State Zip Code
Telephone	Fax	E Mail Address	

8. **General Contractor:**

Applicant Contractor		Contact Person	
Street or P. O. Box		City	State Zip Code
Telephone	Fax	E Mail Address	

9. Has the applicant previously participated in other Kentucky incentive programs? Y N
If yes, please indicate program, location, amount and approximate date:

10. Does applicant (or parent company) have any other operations in Kentucky? Y N
If yes, please list name and location of other operations:

11. New Location Project Information:
(Complete this section if the project constitutes a new location for the applicant)

Project Site Acreage	
Building Square Footage	

Is the property to be acquired through:

- Title to property
 Lease

Is the building:

- New construction
 Acquisition of an existing facility

12. Expansion Project Information:

(Complete this section only if the project involves the expansion of an existing Kentucky facility.)

Does the project involve a relocation from an existing Kentucky facility? Y N
If yes, is real estate available at or adjacent to the existing facility? Y N
Does the project involve additions or renovations to existing buildings? Y N

Present Acreage	
Increased New Acreage	
Total Acreage	

Present Square Footage	
Increased Square Footage	
Total Square Footage	

If you own the site, indicate: Date of Purchase _____ Purchase Price _____

13. Minimum Investment Information

Estimated Investment Costs

A. Acquisition of Real Property

\$

B. Building/Construction Materials* and Building Fixtures**
(permanently incorporated as an improvement to real property)

\$

C. Costs associated with the construction, installation and
rehabilitation of fixtures and facilities (i.e., tools/equipment rental/
consumable supplies)

\$

D. Research & Development Equipment *** (Attach a separate sheet
describing the equipment to be purchased and its purpose)

\$

* all of the tangible personal property, other than fixtures, which enters into and becomes a permanent part of a structure. Examples of materials are: bricks, builders hardware, cement, gravel, sand, macadam, asphalt, lumber, electrical wiring, wall board and coping, roofing, guttering, aluminum siding, storm doors and windows, and cabinets.

** things which are accessory to a building and do not lose their identity as accessories but which do become a permanent part of the realty. Examples of fixtures are: lighting fixtures, plumbing fixtures, hot water heaters, furnaces, boilers, central heating units, elevators, hoists, burglar and fire alarm fixtures, central air conditioning and built-in refrigeration units, built-in oven-ranges and dishwashers, and cabinets.

*** "Equipment" means assets used in the operation of a business which are subject to depreciation under Sections 167 and 168 of the Internal Revenue Code, including assets which are expensed under Section 179 of the Internal Revenue Code. The term "equipment" shall not include any tangible personal property used to maintain, restore, mend, or repair machinery or equipment, consumable operating supplies, office supplies, or maintenance supplies; and "Research and development" means experimental or laboratory activity that has as its ultimate goals the development of new products, the improvement of existing products, the development of new uses for existing products, or the development or improvement of methods for producing products. "Research and development" does not include testing or inspection of materials or products for quality control purposes, efficiency surveys, management studies, consumer surveys, or other market research, advertising or promotional activities, or research in connection with literary, historical or similar projects.

E. Sum of A, B, C & D (minimum \$100,000 preference zone
and \$500,000 if outside the preference zone)

\$

Estimated Other Costs

F. Equipment (non Research & Development)

\$

G. Estimated Labor Cost (direct and indirect cost)

\$

H. Other (describe, i.e., permit fees)

\$

I. Total Cost (Sum of E, F, G & H)

\$

Anticipated Kentucky sales and use tax to be paid on
Building/Construction Materials & Building Fixtures

\$ _____
6% of line 13B above

Anticipated Kentucky sales and use tax to be paid on
Research & Development Equipment:

\$ _____
6% of line 13D above

Anticipated start date for project construction: _____

Anticipated completion date of project construction: _____

Anticipated purchase date of Research & Development Equipment: _____

14. Employment & Wage Information:

	Full-Time Employees*
Current number of employees at project location	
Number of new jobs to be created **	

* Full time employees are defined as persons employed at least 35 hours per week

** No minimum number of new jobs required

Lowest hourly wage paid \$ _____ Number of employees at lowest wage: _____

Average hourly wage paid \$ _____

Indicate employee benefits the applicant will contribute to:

___ Life Insurance/Accidental Death & Dismemberment ___ 401 K
___ Health Insurance ___ Other Retirement
___ Vision Insurance ___ Cafeteria Plan
___ Dental Insurance ___ Other (Please Explain) _____

15. Certification of Application

I, the undersigned on behalf of the applicant, hereby represent and certify that the foregoing application information, including all attachments, to the best of my knowledge, is (a) true, complete and accurate with respect to the information concerning the proposed project for which a sales & use tax refund is sought; and (b) does not contain any information for which any entity competing with the applicant may claim a proprietary interest. I further certify that the life of the project is anticipated to be completed within eighteen months from approval granted by KEDFA.

The undersigned, on behalf of the applicant, acknowledges that information contained within the application and its attachments may be subject to public disclosure to the extent required by law pursuant to any request made under the Kentucky Open Records Act contained in Chapter 61 of the Kentucky Revised Statutes. Notwithstanding the above, except as otherwise agreed to by the applicant in writing, no confidential or proprietary information shall be disclosed if properly excluded for disclosure under KRS 61.878 (as determined by the Authority, the Kentucky Attorney General or court of competent jurisdiction).

Signature

Print Name

Title

Date

SAMPLE

**ATTACHMENT A
CABINET FOR ECONOMIC DEVELOPMENT
ECONOMIC INCENTIVE DISCLOSURE STATEMENT**

INSTRUCTIONS: This Economic Incentive Disclosure Statement is required in order to process your economic incentive package with the Kentucky Cabinet for Economic Development. In accordance with the Executive Branch Code of Ethics, Chapter 11A of the Kentucky Revised Statutes ("KRS"), before any board or authority within or attached to the Cabinet for Economic Development takes final action on any contract or agreement by which a bond, grant, lease, loan, assessment, incentive, inducement, or tax credit is awarded, the beneficiary of such contract or agreement must file with the approving board or authority a disclosure statement stating (i) the identity of the beneficiary of the economic incentive package, (ii) the identity of any person employed to act on behalf of the beneficiary with respect to the economic incentive package, (iii) the details of any financial transaction, as defined in KRS 11A.201(5)(a), between the beneficiary (or any other person listed as an employee or agent of the beneficiary) and any agent or public servant of the Cabinet for Economic Development, any member of any board or authority within or attached to that Cabinet, or any other public servant involved in the negotiation of the economic incentive package.

NOTE: For purposes of KRS 11A.201(5)(a), "financial transaction" means a transaction or activity that is conducted or undertaken for profit and arises from the joint ownership, or the ownership, or part ownership in common, of any real or personal property or any commercial or business enterprise of whatever form or to the general public on the same terms.

NOTE: Final action on economic incentive packages will not be taken without receipt of this Economic Incentive Disclosure Statement. Upon final approval of the economic incentive package by the applicable board or authority, this Economic Incentive Disclosure Statement will be filed with the Executive Branch Ethics Commission and the Kentucky Economic Development Partnership. Beneficiaries of economic incentive packages are encouraged to consult with their legal counsel with respect to this Economic Incentive Disclosure Statement.

Beneficiary's Legal Name: _____

Type(s) of Economic Incentive Package(s): _____

Please identify all employees or agents of the Beneficiary which have acted on behalf of the Beneficiary in its dealings with the Cabinet for Economic Development or any Board or Authority within or attached to the Cabinet for Economic Development (please attach separate sheet if additional room is needed):

Name & Title: _____	Organization: _____
Name & Title: _____	Organization: _____
Name & Title: _____	Organization: _____
Name & Title: _____	Organization: _____
Name & Title: _____	Organization: _____
Name & Title: _____	Organization: _____
Name & Title: _____	Organization: _____

Please detail any "financial transactions" between the Beneficiary (or any other person listed as an employee or agent of the Beneficiary) and (i) any agent or public servant of the Cabinet for Economic Development, (ii) any member of any board or authority within or attached to that Cabinet, or (iii) any other public servant involved in the negotiation of the economic incentive package (please attach separate sheet if additional room is needed):

1. Name of Agent or Employee of Beneficiary: _____

Name of Agent or Public Servant of Cabinet: _____

Description of Financial Transaction: _____

2. Name of Agent or Employee of Beneficiary: _____

Name of Agent or Public Servant of Cabinet: _____

Description of Financial Transaction: _____

3. Name of Agent or Employee of Beneficiary: _____

Name of Agent or Public Servant of Cabinet: _____

Description of Financial Transaction: _____

The undersigned, a duly authorized representative of the Beneficiary listed above, hereby certifies that the information set forth in this Economic Incentive Disclosure Statement has been reviewed, and is true and correct to the best of the knowledge of the undersigned.

Signature: _____

Date: _____

Rev. 7/01/2002

KENTUCKY SALES AND USE TAX
EQUINE BREEDERS
SUPPLEMENTARY SCHEDULE



Horse Farm/Breeder _____ Sales Tax Account No. _____
Address _____ Report for:

Period Beginning _____
Period Ending _____
Name of Breeder _____

INSTRUCTIONS: To ensure the tax collected from the sale of horse breeding, provide the following information as requested below. Complete the information for each period for which the business files a sales and use tax return within 20 days following the period ending indicated above. Mail the completed schedule to the address below.

Kentucky Department of Revenue
Division of Sales and Use Tax
P.O. Box 181, Station 66
Frankfort, Kentucky 40602-0181

1. Amount of taxable receipts included on line 22 of the sales tax return from the equine breeding fees \$ _____
2. Gross Kentucky sales and use tax applicable to taxable horse breeding receipts (line 1 x .06) \$ _____
3. Claimed compensation (line 2) (Deduct 1.75% of the first \$1,000 and 1% of the amount in excess of \$1,000. Total compensation may not exceed \$1,500.) \$ _____
4. Net Kentucky sales and use tax applicable to equine breeding fees (line 2 minus line 3)..... \$ _____

I declare, under penalties of perjury, that this schedule has been examined by me and, to the best of my knowledge and belief, it is true, correct and complete.

Signature Title Date

- ▶ This document is a supplementary schedule to be filed separately from and in addition to the company's regular Kentucky sales and use tax return.
- ▶ The Kentucky Horse Racing Authority has advised that failure to complete the supplementary schedule may result in loss of current and future funding.

KRS 139.472

139.472 Exemption for certain medical items.

- (1) Notwithstanding any other provisions of this chapter, the taxes imposed by this chapter shall not apply to the sale or purchase of:
 - (a) A drug purchased for the treatment of a human being for which a prescription is required by state or federal law, whether the drug is dispensed by a licensed pharmacist, administered by a physician or other health care provider, or distributed as a free sample to or from a physician's office;
 - (b) Medical oxygen, including high pressure cylinders, cryogenic tanks, or oxygen concentrators, tubes, masks, and similar items required for the delivery of oxygen to the patient when purchased by an individual for private use;
 - (c) Insulin and diabetic supplies, including hypodermic syringes, needles, and sugar (urine and blood) testing materials purchased by an individual for private use;
 - (d) Colostomy, urostomy, or ileostomy supplies purchased by an individual for private use;
 - (e) Prosthetic devices purchased by any health care provider for use in the treatment of a specific individual or purchased by an individual as prescribed by a person authorized under the laws of the Commonwealth to issue prescriptions;
 - (f) Prosthetic devices that are individually designed or created for an individual regardless of the purchaser;
 - (g) Mobility enhancing equipment for which a prescription is issued; and
 - (h) Hospital beds purchased for private, noncommercial use.
- (2) Except as specifically provided in subsection (1) of this section, supplies or equipment used to deliver a drug to a patient are taxable.
- (3) As used in this section:
 - (a) "Drug" means a compound, substance, or preparation and any component of a compound, substance, or preparation, other than food and food ingredients, dietary supplements, or alcoholic beverages as defined in KRS 139.485, that is recognized in the official United States Pharmacopoeia, official Homeopathic Pharmacopoeia of the United States, or official National Formulary, or a supplement to any of them, or is:
 1. Intended for use in the diagnosis, cure, mitigation, treatment, or prevention of disease in humans; or
 2. Intended to affect the structure or any function of the human body.
 - (b) "Prescription" means an order, formula, or recipe issued in any form of oral, written, electronic, or other means of transmission by a person authorized under the laws of the Commonwealth to prescribe a drug.
 - (c) 1. "Prosthetic device" means a replacement, corrective, or supportive device, including repair and replacement parts for the device, worn on or in the body to:

KRS 139.472, continued

- a. Artificially replace a missing portion of the body;
 - b. Prevent or correct a physical deformity or malfunction; or
 - c. Support a weak or deformed portion of the body.
2. "Prosthetic device" shall not include any of the following:
- a. Corrective eyeglasses;
 - b. Contact lenses; or
 - c. Dental prosthesis.

(d) "Mobility enhancing equipment" means equipment including repair and replacements part for same, which:

1. Is primarily and customarily used to provide or increase the ability to move from one place to another and which is appropriate for use either in a home or a motor vehicle;
2. Is not generally used by persons with normal mobility; and
3. Does not include any motor vehicle or equipment on a motor vehicle normally provided by a motor vehicle manufacturer.

"Mobility enhancing equipment" shall not include durable medical equipment.

(e) "Durable medical equipment" means equipment including repair and replacement parts for same, which:

1. Can withstand repeated use;
2. Is primarily and customarily used to serve a medical purpose;
3. Generally is not useful to a person in the absence of illness or injury; and
4. Is not worn in or on the body.

"Durable medical equipment" shall not include mobility enhancing equipment.

Effective: June 20, 2005

History: Amended 2005 Ky. Acts ch. 154, sec. 2, effective June 20, 2005. -- Amended 2003 Ky. Acts ch. 124, sec. 21, effective July 1, 2004. -- Amended 2001 Ky. Acts ch. 9, sec. 1, effective June 21, 2001. -- Amended 2000 Ky. Acts ch. 209, sec. 1, effective July 14, 2000. -- Amended 1986 Ky. Acts ch. 471, sec. 1, effective July 15, 1986. -- Created 1970 Ky. Acts ch. 12, sec. 1, effective January 1, 1971.

KRS 139.794

139.794 Conditions for exemption from assessment for uncollected or unpaid sales or use tax.

- (1) According to the provisions of the agreement, a seller who registers under the terms of the agreement to pay or to collect and remit applicable sales and use tax on sales made in Kentucky shall be exempt from assessment for uncollected or unpaid sales or use tax together with penalty and interest for sales made during the period the seller was not registered in Kentucky if:
 - (a) The seller was not registered in Kentucky in the twelve (12) month period preceding the effective date of Kentucky's participation in the agreement; and
 - (b) The seller registers in Kentucky within twelve (12) months of the effective date of Kentucky's participation in the agreement.
- (2) The exemption is not available to a seller with respect to any matter or matters for which the seller received notice of the commencement of an audit and which audit is not yet finally resolved, including any related administrative and judicial processes.
- (3) The exemption is not available for sales or use taxes already paid or remitted to the state or to taxes collected by the seller.
- (4) The exemption is fully effective, absent the seller's fraud or intentional misrepresentation of a material fact, if the seller remains registered and continues payment or collection and remittance of applicable sales or use taxes for a period of at least thirty-six (36) months. During this thirty-six (36) month period, the statute of limitations shall be suspended for the seller remaining in compliance with registration and payment requirements. Failure to meet these terms will result in a revocation of the exemption.
- (5) This exemption shall apply to sales or use taxes due from a seller in its capacity as a seller and shall not apply to sales and use taxes due from a seller in its capacity as a buyer.

Effective: June 20, 2005

History: Created 2005 Ky. Acts ch. 154, sec. 4, effective June 20, 2005.