

Commonwealth of Kentucky
DEPARTMENT OF REVENUE

Purpose of Form—This form is used by a corporation as defined in KRS 141.010(24) filing Form 720, Kentucky Corporation Income Tax and LLET Return, to calculate its domestic production activities deduction (DPAD) for Kentucky corporation income tax purposes. The Kentucky DPAD may be different from the federal DPAD because of the differences in qualified production activities income or taxable income resulting from differences in Kentucky and federal tax laws as provided by KRS 141.010. In addition, for taxable years beginning on or after January 1, 2010, the Kentucky rate to be applied to the lesser of the qualified production activities income or taxable income shall be six percent (6%) in lieu of the rate provided by IRC §199(a). **KRS 141.010(13)**

KDPAD is limited by Kentucky apportioned taxable net income before the KDPAD and after the Kentucky net operating loss deduction (KNOLD).

Other definitions used in these instructions are as follows:

- (1) "DPGR" means the federal domestic productions gross receipts reported on line 1 of the federal Form 8903;
- (2) "KDPGR" means the portion of the DPGR that is derived from qualifying production activities as defined by Section 199(c)(4) of the Internal Revenue Code which are manufactured, produced, grown, or extracted in whole or in a significant part within the Commonwealth of Kentucky; and,
- (3) "QPAI" means qualified production activities income as defined by Section 199(c) of the Internal Revenue Code.

Individuals—When computing Kentucky net income, a full-year resident individual is allowed the federal DPAD adjusted using a six percent (6%) rate in lieu of the rate provided by IRC §199(a). A part-year resident or full-year nonresident individual is allowed a portion of the federal DPAD, determined by multiplying the federal DPAD, adjusted using a six percent (6%) rate in lieu of the rate provided by IRC §199(a), by a fraction, the numerator of which is the KDPGR and the denominator of which is the DPGR. The DPAD for a part-year resident or full-year nonresident individual cannot exceed 50% of the Kentucky W-2 wages allocable to DPGR. **KRS 141.010(11)**

Pass-Through Entities—A pass-through entity does not complete Form 8903-K but reports information on each shareholder's, partner's or member's Kentucky Schedule K-1 that will be needed to compute their DPAD. A pass-through entity shall attach the following information to each Kentucky Schedule K-1 to be used by the shareholder, partner or member to compute their DPAD for Kentucky income tax purposes:

If the shareholder, partner or member is an individual (includes estates and trusts), include the following: (i) DPGR; (ii) KDPGR; and (iii) Kentucky W-2 wages allocable to DPGR.

If the partner or member is a corporation or pass-through entity and the partnership filing Form 765 or Form 765-GP was eligible and chose to figure QPAI at the entity level, include the following: (i) QPAI and (ii) Kentucky W-2 wages allocable to DPGR.

If the partner or member is a corporation or pass-through entity and the partnership filing Form 765 or Form 765-GP was not

eligible or chose not to figure QPAI at the entity level, include the following: (i) DPGR; (ii) Cost of goods sold allocable to DPGR; (iii) Expenses allocable to DPGR; and (iv) Kentucky W-2 wages allocable to DPGR.

SPECIFIC LINE INSTRUCTIONS

Lines 1 through 6—Using the federal instructions for Form 8903, Lines 1 through 6, enter the federal amounts adjusted to reflect the differences in Kentucky and federal income tax law.

Line 7—Enter the QPAI amount from the information attached to Kentucky Schedule K-1 (Form 765 or Form 765-GP). This line applies only to a corporation filing Form 720 that is a partner or member of a partnership filing Kentucky Form 765 or Form 765-GP that was eligible and chose to figure QPAI at the entity level and allocated QPAI to its partners or members.

Line 8—If the corporation filing the return is a member of an expanded affiliated group (EAG), skip Lines 1 through 6. Enter the member's respective amount of Kentucky QPAI. Kentucky QPAI is computed in the same manner as federal QPAI except for the differences in QPAI resulting from differences in Kentucky and federal depreciation and expense deductions allowed under Sections 168 and 179 of the Internal Revenue Code and other Kentucky adjustments provided by KRS 141.010. Attach the following supporting information:

- (1) Federal Form 8903 of the EAG reporting member, federal QPAI computation schedule of the EAG and federal QPAI computation schedule of the member.
- (2) Kentucky QPAI computation schedule of the EAG. The Kentucky QPAI computation schedule of the EAG shall begin with federal QPAI and show all adjustment to arrive at Kentucky QPAI.
- (3) Member's Kentucky QPAI computation schedule. The Kentucky QPAI computation schedule of the member shall begin with federal QPAI and show all adjustments to arrive at Kentucky QPAI.

Line 10—Enter 100% or the apportionment factor from Schedule A, Section I, Line 12.

Line 12—Enter the taxable income from Form 720, Part III, Line 23.

Line 15—Form W-2 wages are computed pursuant to KRS 141.120(8)(b) and regulation 103 KAR 16:090 and include only Kentucky wages properly allocable to DPGR. Do not include wages reported on Line 16.

Line 16—Enter the Kentucky wages allocable to DPGR provided by a pass-through entity as an attachment to the Kentucky Schedule K-1.

Line 20—Enter the amount from box 6 of Form 1099-PATR, or if applicable, multiply box 6 of Form 1099-PATR by the cooperative's Kentucky apportionment factor from Schedule A, Section I, Line 12.