

INSTRUCTIONS—FORM 741

KENTUCKY FIDUCIARY INCOME TAX RETURN

WHO MUST FILE

Every fiduciary must file a return for the following even though all income may be distributed or distributable: (1) every estate with gross income for the taxable year of \$1,200 or over; (2) every trust with gross income for the taxable year of \$100 or over.

WHEN AND WHERE TO FILE

Taxpayers must file within three months and 15 days after the close of their taxable year.

Mail the return to the Kentucky Revenue Cabinet, Frankfort, KY 40618-0006.

FIDUCIARY INCOME

Kentucky income tax law is based on the federal income tax law in effect on December 31, 1997. The Revenue Cabinet generally follows the administrative regulations and rulings of the Internal Revenue Service in those areas where no specific Kentucky law exists. Kentucky law requires taxpayers to report income on the same calendar or fiscal year and to use the same methods of accounting as required for federal income tax purposes. See Form 740 instructions or contact the Revenue Cabinet for more information.

ADMINISTRATION EXPENSES (KRS 140.090(h))

In the case of a decedent's estate, if the election was made not to deduct costs of administration, including attorney's fees actually allowed and paid, on a Kentucky inheritance tax return (92A101, 92A120, 92A120-S, 92A120-X), these expenses may be deducted on Form 741. A statement waiving the right to deduct these expenses for inheritance tax purposes must also be filed with Form 741.

LINE-BY-LINE INSTRUCTIONS

All taxable income received by the fiduciary must be reported on Lines 1 through 8, page 1.

Line 1—Enter the amount shown as federal adjusted total income from federal Form 1041, Line 17. **Attach a complete copy of the federal return.**

Line 2—Enter interest income from bonds issued by other states.

Line 3—Enter additions to income. Additions may include:

- additions from partnerships and/or S corporations;
- the portion of a lump-sum distribution on which you have elected the 20 percent capital gains rate for federal income tax purposes (Schedule P and Form 4972-K required);
- the federal net operating loss deduction;
- the passive activity loss adjustment (see Form 8582-K and instructions);
- differences in pension (3-year recovery rule) and IRA bases; and
- differences in gains (losses) from the sale of intangible assets amortized under the provisions of the Revenue Reconciliation Act of 1993.

Line 4—Enter the additional deductions related to the additional Kentucky income reported on Lines 2 and 3. These deductions are in addition to the deductions claimed on your federal Form 1041.

Line 5—Enter interest income from U.S. government bonds and securities (attach schedule).

Line 6—Enter excludable amount of retirement income. Attach Schedule P if more than \$35,700.

Pension Income Exclusion—The amount of the pension income exclusion has been increased to \$35,700 for 1999. You may exclude the amount of pension income or \$35,700, whichever is less. Reduce the amount of pension or retirement income reported on Line 3 by the exclusion amount. Refer to Schedule P for additional information if the pension income is more than \$35,700 and is from a retirement system of the federal government, Commonwealth of Kentucky or a Kentucky local government.

Line 7—Enter other subtractions from the federal adjusted total income not listed above. Other subtractions may include:

- Kentucky net operating loss deduction;
- passive activity loss adjustment (see Form 8582-K and instructions);
- differences in the gains (losses) from the sale of intangible assets amortized under the provisions of the Revenue Reconciliation Act of 1993; etc.

Line 8—Enter the portion of deductions allocable to the Kentucky tax-exempt income reported on Lines 5, 6 and 7. These deductions have been reported on your federal Form 1041 and are limited to the amount allocated to Kentucky income.

Line 9—Total income. Combine Lines 1 through 8. This is your total income (loss).

Line 10, Beneficiaries' Shares of Income and Deductions—Income distribution deduction. Enter amount.

Each beneficiary's share of income, deductions, credits, etc., must be reported on a separate Schedule K-1 (Form 741) and filed with Form 741. A copy must be given to the beneficiary and a copy retained by the fiduciary.

The income distributed or distributable to beneficiaries is the amount on page 1, Line 10. Each beneficiary is required to include the distributed or distributable share of income, as shown on Schedule K-1, on the individual income tax return. The name and identification number of each beneficiary should be entered as it appears on the individual return.

Generally, federal rules and regulations apply but amounts reported may be different due to differences in Kentucky and federal laws, i.e., statutorily exempt income, U.S. government bonds, municipal interest, etc.

Line 11, Federal Estate Tax Deduction—Federal estate deduction. Enter amount.

Refer to federal Form 1041 for the definition of the federal estate tax deduction.

The federal estate tax deduction **does not include** fiduciary income tax paid on federal Form 1041. A copy of the computation for the deduction **must** be attached to Form 741.

Line 12—Subtract Lines 10 and 11 from Line 9.

Line 13, Nonresident Beneficiaries—Subtract the amount of income from intangibles attributable to nonresident beneficiaries. **Attach a schedule that lists the name, address, Social Security number and amount of income of each beneficiary.**

A nonresident beneficiary is subject to tax only on income received from real or tangible personal property located in Kentucky. If the income is distributed or distributable to a nonresident beneficiary, complete Schedule K-1 (Form 741).

Line 14—Subtract Line 13 from Line 12. This is your taxable income.

Line 15, Tax Computation—Compute your tax using the following tax rate schedule.

| <i>If taxable income is:</i> | <i>Tax before credit is:</i> |
|------------------------------|----------------------------------|
| \$ 0 — \$2,999 | 2% of taxable income |
| \$3,000 — \$3,999 | 3% of taxable income minus \$30 |
| \$4,000 — \$4,999 | 4% of taxable income minus \$70 |
| \$5,000 — \$7,999 | 5% of taxable income minus \$120 |
| \$8,000 and up | 6% of taxable income minus \$200 |

Any tax shown to be due in the computation of tax on page 1 of the return must be paid in full at time of filing. Attach check payable to the **Kentucky State Treasurer**.

Line 18(a)—Enter on Line 18(a) all estimated tax payments, credit from the previous year's return and/or extension payments.

Line 18(b)—If Kentucky income tax was erroneously withheld on income in respect of a decedent, attach a copy of the wage and tax statement of the deceased to Form 741. Enter on Line 18(b) the amount of withholding.

Line 18(c)—To claim credit(s) from Schedule UTC, Unemployment Tax Credit, and/or Schedule RC, Application for Income Tax Credit for Recycling and/or Composting Equipment, enter the credit to the amount on Line 18(c) and identify as "UTC or RC credit."

Line 18(d)—Add Lines 18(a), (b) and (c).

Line 19—Subtract Line 18(d) from Line 17.

PENALTY AND INTEREST

Late Filing Penalty—If a return is not filed by the due date or the extended due date, a penalty of 2 percent of the total tax due for each 30 days or fraction thereof that a return is not filed may be assessed, not to exceed 20 percent. The minimum penalty is \$10.

Late Payment Penalty—If the amount of tax due as shown on Line 17 is not paid by the original due date of the return, a penalty of 2 percent of the tax computed due may be assessed for each 30 days or fraction thereof that the tax is past due, not to exceed 20 percent. The minimum penalty is \$10. However, if the amount timely paid is 75 percent of the tax determined due by the Revenue Cabinet, no late payment penalty will be assessed.

Interest—Interest will be assessed at the "tax interest rate" from the original due date of the return until the date of payment.

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

SIGNATURE

To be valid, this return must be signed by the fiduciary or agent. If prepared by a person other than fiduciary or agent, type or print name of person preparing the return.

SCHEDULE K-1 INSTRUCTIONS

Enter the federal amounts in column (b), any difference between Kentucky and federal amounts in column (c) and the Kentucky amounts in column (d).

Line 10—Add income amounts and subtract (loss) and deduction amounts in column (c).

Kentucky Resident Beneficiaries (Form 740 Filers)—Complete Schedule K-1 for resident beneficiaries if you have made entries on page 1, Lines 2, 3, 5, 6 or 7.

Nonresident Beneficiaries (Form 740-NP Filers)—Complete Schedule K-1 for nonresident beneficiaries if the estates or trust received income:

- from Kentucky sources;
- from activities carried on in Kentucky;
- from the performance of services in Kentucky;
- from real or tangible property located in Kentucky; and
- from a partnership or S corporation doing business in Kentucky.

Attach copies of federal K-1s if Kentucky K-1s are not provided.

ADDITIONAL INFORMATION

For further information, refer to KRS 141.190, KRS 141.010, Kentucky Administrative Regulation 103 KAR 19:010 and instructions for federal Form 1041.

If you need further assistance, contact a local Kentucky Taxpayer Service Center or the Revenue Cabinet, Frankfort, Kentucky 40620, (502) 564-4581 or (502) 564-3058 (Telecommunication Device for the Deaf).

**Kentucky Revenue Cabinet
Mission Statement**

To provide courteous, accurate and efficient services for the benefit of Kentucky and its citizens, and administer the tax laws of the Commonwealth in a fair and impartial manner.

The Kentucky Revenue Cabinet does not discriminate on the basis of race, color, national origin, sex, religion, age or disability in employment or the provision of services.