

SCHEDULE K-1

(Form 720S)

Revenue Cabinet

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

Taxable period beginning _____, 2001, ending _____, 200__.

2001

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

A. Shareholder's percentage of stock ownership for tax year > %
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 K, Form 720S, Section II) > %
C. 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
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. Section 179 expense deduction 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 9 above (2)
Credits
12. Skills Training Investment Tax Credit 12
13. Kentucky Unemployment Tax Credit 13
14. Recycling and Composting Equipment Tax Credit (attach Schedule RC (K-1)) 14
15. Kentucky Investment Fund Tax Credit 15
16. Coal Incentive Tax Credit 16
17. GED Incentive Tax Credit 17
Other Items
18. (a) Type of Section 59(e)(2) expenditures > 18(a)
(b) Amount of Section 59(e)(2) expenditures (b)
19. Tax-exempt interest income 19
20. Other tax-exempt income 20
21. Nondeductible expenses 21
22. Property distributions (including cash) other than dividend distributions reported to you on Form 1099-DIV 22
23. Amount of loan repayments for "Loans from Shareholders" 23
24. Supplemental information required to be reported to each shareholder (attach schedules) 24
Resident Shareholder Adjustment
25. 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) 25
26. Combination of federal 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) 26
27. Enter difference of lines 25 and 26 here and on appropriate line on Schedule M (see instructions) 27

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SHAREHOLDER'S INSTRUCTIONS FOR SCHEDULE K-1 (FORM 720S)

PURPOSE

Although the S corporation is subject to a Kentucky capital gains tax, you, the shareholder, are liable for Kentucky income tax on your pro rata share of the S corporation's income, whether or not distributed, and you must include your share on your Kentucky income tax return for the year in which the tax year of the S corporation ends. The S corporation uses Schedule K-1 (Form 720S) to report to you your share of the S corporation's income (reduced by any federal tax the S corporation paid on the income), loss, credits, deductions, etc. Please keep it for your records.

GENERAL INSTRUCTIONS

Schedule K-1 (Form 720S) will help when preparing your Kentucky income tax return. Where "(attach schedule)" appears next to a line on Schedule K-1, it means the S corporation will have attached a statement to Schedule K-1 to show information for the line item, if applicable. If you believe the S corporation has made an error on your Schedule K-1 (Form 720S), notify the S corporation and ask for a corrected schedule. Do not change any item on your copy.

Schedule K-1 (Form 720S) does not show the amount of actual dividend distributions the S corporation paid to you. The S corporation must report such amounts to you on Form 1099-DIV. You report actual dividend distributions on federal Schedule B (Form 1040). Refer to the shareholder instructions you received for federal Schedule K-1 (Form 1120S) for information concerning your basis in corporate stock, elections to be made by you separately on your income tax return and not by the S corporation, etc.

Every individual, including estates and trusts, who is a resident of Kentucky and is a shareholder in an S corporation is required to report 100 percent of his or her share of income (loss), credits, deductions, etc., for Kentucky individual income tax purposes. **A nonresident shareholder must report the portion of his or her share of income attributable to the S corporation's business in Kentucky.** A **resident** is an individual domiciled within Kentucky or an individual who is not domiciled in Kentucky but maintains a place of abode in Kentucky and spends in the aggregate more than 183 days of the taxable year in Kentucky. A **nonresident** is any individual not a resident of Kentucky.

At-Risk Limitations—Generally, if you have a loss from any activity carried on as a trade or business or for the production of income by the S corporation and you, the shareholder, have amounts invested in that activity for which you are not at risk, you will be required to complete federal Form 6198, At-Risk Limitations, to figure the allowable loss to report on your Kentucky income tax return. Your deductible loss from each activity for the tax year generally is limited to the amount you could actually lose in the activity. To help you complete Form 6198, if required, the S corporation has provided a schedule showing your share of income, expenses, etc., for each at-risk activity.

Passive Activity Limitations—The passive activity limitations in IRC Section 469 are figured at the shareholder level and may apply to any loss reported on lines 1, 2 or 3 and any other related items of income, loss and deductions reported on Schedule K-1 (Form 720S). Refer to the federal Shareholder's Instructions for Schedule K-1 (Form 1120S) to determine if the passive activity limitations apply to your share of loss(es) reported on Schedule K-1 (Form 720S), and if you must file Form 8582-K, Kentucky Passive Activity Loss Limitations. When applicable, the passive activity limitations on losses are applied after the limitations on losses for a shareholder's at-risk amount.

SPECIFIC INSTRUCTIONS

Kentucky Resident Shareholders (Form 740 Filers)—You, as the shareholder, will need to determine the net difference between your federal Schedule K-1 amounts and your Kentucky Schedule K-1 amounts. This will adjust the items of income, loss and deductions used to compute your federal adjusted gross income to the Kentucky amounts shown in Column (b), Schedule K-1. To determine this difference, complete Lines 25, 26 and 27.

Lines 25 and 26—Include on these lines, the Kentucky Schedule K-1 and federal Schedule K-1 amounts from Lines 1 through 5 and 8. Also include the amounts from Lines 6 and 10 that do not pass

through to Schedule A as itemized deductions (see Shareholder's Instructions for Schedule K-1 (Form 1120S)).

NOTE: If Form 8582-K is required, adjust the amounts entered on Lines 25 and 26 to exclude any income, loss, deduction or expense related to a passive activity. Complete the passive activities adjustment worksheet (Form 8582-K, page 2) to determine additions to or subtractions from federal adjusted gross income. **See Form 740 instructions for Schedule M, Line 4 and/or Line 13.**

If amounts on Lines 4(d) and 4(e) are subject to the capital loss limitations, do not include on Lines 25 and 26. Complete federal Schedule D using Kentucky amounts to determine additions to or subtractions from federal adjusted gross income.

Line 27—Enter difference of Lines 25 and 26. If Line 25 is greater than Line 26, enter the difference as an addition to federal adjusted gross income on Schedule M, Line 3. If Line 26 is greater than Line 25, enter the difference as a subtraction on Schedule M, Line 12.

Caution: If the amounts on both Lines 25 and 26 are (loss) amounts the smaller dollar amount of (loss) is the greater amount, and to determine the difference subtract the smaller dollar amount from the larger dollar amount. If the amount on either Line 25 or 26 is an income amount and the amount on the other line is a (loss) amount the income amount is the greater amount, and to determine the difference add the two amounts.

Nonresident Shareholders (Form 740-NP Filers)—If the percentage shown in Item B(2) is "100%," you must enter on the appropriate lines of Form 740-NP and related schedules the amounts shown on Lines 1 through 5 and 8, portions of Lines 6, 10 and 11(a) and the portion of Line 18(a) actually deducted for the current year.

If the percentage shown in Item B(2) is less than 100 percent, the amounts on Lines 1 through 5 and 8, the portions of Lines 6, 10 and 11(a) which do not pass through to Schedule A and the portion of Line 18(a) actually deducted for the current year must be multiplied by this percentage and entered on the appropriate lines of the Nonresident or Part-Year Resident Income Tax Return, Form 740-NP, and related schedules. Lines 7 and 9, and the portions of Lines 6, 10 and 11(a) which pass through to Schedule A should not be multiplied by the percentage in Item B(2) since they will be prorated by the percentage on Line 60 of Form 740-NP. Also, the credits on Lines 12 through 17 should not be multiplied by the percentage in Item B(2).

Refer to specific instructions below and federal Shareholder's Instructions for Schedule K-1 (Form 1120S).

Lines 1 through 3—Enter on federal Schedule E using Kentucky amounts or on Form 8582-K, if applicable.

Lines 4(a) and (b)—Enter on Line 38, Column B, Form 740-NP.

Line 4(c)—Enter on federal Schedule E using Kentucky amounts.

Lines 4(d) and (e)—Enter on federal Schedule D using Kentucky amounts or Form 8582-K, if applicable.

Line 4(f)—Enter on applicable lines of your return (see federal Shareholder's Instructions for Schedule K-1 (Form 1120S)).

Line 5—Enter on federal Form 4797.

Line 6—Enter on applicable lines of your return (see federal Shareholder's Instructions for Schedule K-1 (Form 1120S)).

Line 7—Enter on Schedule A, Form 740-NP.

Line 8—Enter on federal Schedule E using Kentucky amounts.

Line 9—Enter on Schedule A, Form 740-NP.

Line 10—Enter on applicable form or schedule (see federal Shareholder's Instructions for Schedule K-1 (Form 1120S)).

For All Shareholders

Line 11—See federal Shareholder's Instructions for Schedule K-1 (Form 1120S).

Line 12—Enter on Schedule TC, Form 740.

Line 13—Enter credit on Schedule UTC.

Line 14—See Schedule RC (K-1) instructions.

Line 15—See Schedule KIFA instructions.

Line 16—Enter on Schedule TC, Form 740.

Line 17—Enter on Schedule TC, Form 740.

Lines 18(a) through 24—See federal Shareholder's Instructions for Lines 16(a) through 21 and 23, Schedule K-1 (Form 1120S).

Estates and Trusts (Form 741 Filers)—Estates or trusts report the amounts shown in Column (b) on Form 741, Kentucky Fiduciary Income Tax Return, and related schedules. See federal Shareholder's Instructions for Schedule K-1 (Form 1120S).