

# 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, 2001.* 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. Effective for taxable years ending after September 10, 2001, a fiduciary that for federal income tax purposes elects to use the 30 percent special depreciation allowance will have a different depreciation for Kentucky purposes. See Form 740 and Schedule M 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, 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.

If the same administration expenses that were claimed on the Kentucky Inheritance Tax Return, Form 92A200 or Form 92A205, are also claimed on the federal fiduciary income tax return, Form 1041, an adjustment must be made to add these expenses to the Kentucky adjusted total income on the Kentucky Form 741, Schedule M, Line 3.

### LINE-BY-LINE INSTRUCTIONS

**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 3**—Enter the portion of deductions that are allocated to the additional Kentucky income reported on line 2. These deductions are in addition to the deductions claimed on your federal Form 1041.

**Line 7**—Enter the portion of deductions on federal Form 1041 allocable to Kentucky tax-exempt income reported on Line 6. To compute unallowable deductions, divide the Kentucky tax-exempt income by the entire income of the fiduciary. Multiply total deductions by this percentage. Report the amount of unallowable deductions on Line 7.

**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 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**—Enter excludable amount of retirement income. Attach Schedule P if the pension income is more than \$38,775 and is from a retirement system of the federal government, Commonwealth of Kentucky or a Kentucky local government.

The fiduciary may claim a deduction for retirement income not distributed on Form 741, Line 10. Each beneficiary is entitled to combine the retirement income distributed on Line 10 with other pension income received and claim the pension income exclusion on his or her individual income tax return.

**Line 12, Federal Estate Tax Deduction**—Enter amount.

Refer to federal Form 1041 instructions 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 15, Nontaxable Income Attributable to Nonresident Beneficiaries**—Enter the amount of intangible income included in Line 14 that is attributable to the nonresident beneficiaries and was not deducted on Line 10 as an income distribution deduction.

Attach federal Schedules K-1 or a schedule that lists the name, address, Social Security number and the amount of income of each beneficiary.

**Line 17, 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

**Line 20(a)**—Enter on Line 20(a) all estimated tax payments, credit from the previous year's return and/or extension payments.

**Line 20(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 20(b) the amount of withholding.

**Line 20(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 amount on Line 20(c) and identify as "UTC or RC credit."

**Line 21**—Subtract Line 20(d) from Line 19.

Any tax due must be paid in full at time of filing. Attach check payable to the **Kentucky State Treasurer**.

## 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 21 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 M (FORM 741) INSTRUCTIONS

### Part I—Additions to Federal Adjusted Total Income

**Line 1**—Enter interest income from bonds issued by other states.

**Line 2**—Enter additions from Kentucky Schedule(s) K-1 received from partnerships, fiduciaries and S corporations.

**Line 3**—Enter other additions to income. Other additions may include:

- state income taxes deducted on federal Form 1041;
- 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;
- differences in gains (losses) from the sale of intangible assets amortized under the provisions of the Revenue Reconciliation Act of 1993;
- federal depreciation if you have elected to take the 30 percent special depreciation allowance for property placed in service after September 10, 2001.

**Line 4, Total Additions**—Add Lines 1 through 3. Enter on Schedule M, Line 4 and on page 1, Line 2.

### Part II—Subtractions from Federal Adjusted Total Income

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

**Line 6**—Enter subtractions from Kentucky Schedule(s) K-1 received from partnerships, fiduciaries and S corporations.

**Line 7**—Enter other subtractions from income. 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;
- **Nonresident trust or nonresident estate**—Subtract the amount of income reported on Form 741, Line 1 that is not taxable to Kentucky. **Note:** Deductions must also be adjusted to claim only that portion of deductions allocable to the Kentucky income;
- Kentucky depreciation computed in accordance with the Internal Revenue Code in effect on December 31, 2001, if you have elected to take the 30 percent special depreciation allowance for property placed in service after September 10, 2001.

**Line 8, Total Subtractions**—Add Lines 5 through 7. Enter on Schedule M, Line 8 and on page 1, Line 6.

## SCHEDULE K-1 INSTRUCTIONS

A Kentucky Schedule K-1 is required if you claim an income distribution deduction on Schedule B and have differences in income reported on Schedule M. Attach copies of federal Schedule(s) K-1 if there are no differences.

Schedule K-1 is used to report the portion of income distributed to beneficiaries that is subject to tax. All items of income subject to tax and all deductions are listed on Schedule K-1.

- Enter in column (b) amounts from federal Form 1041, Schedule K-1;
- enter in column (c) any difference between Kentucky and federal amounts (Schedule M); and
- enter in column (d) the Kentucky income and deduction amounts.

**Line 10, Resident Beneficiary Adjustment**—Complete Line 10 to determine the net difference between the federal Schedule K-1 and the Kentucky Schedule K-1. Combine from column (c), Lines 1 through 5, and portions of Lines 8 and 9. Do not include amounts from Lines 6, 7, 8(a), or other deductions that qualify as itemized deductions. These amounts are entered on the beneficiaries' Form 740, Schedule A, Itemized Deductions Schedule.

**Nonresident Beneficiaries (Form 740-NP Filers)**— Complete Schedule K-1 for nonresident beneficiaries. This Schedule K-1 should reflect **all** income that has been claimed as part of the income distribution deduction. However, nonresident beneficiaries are only subject to tax on the following types of 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.

## ADDITIONAL INFORMATION

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).