

720S

41A720S

Revenue Cabinet



Kentucky S Corporation Income and License Tax Return

2003

Taxable Year Ending

See separate instructions.

Taxable period beginning, 2003, and ending, 200

Mo. / Yr.

Header section with fields for Federal Identification Number, Kentucky Account Number, Name of S Corporation, State and Date of Incorporation, Number and Street, Principal Business Activity in KY, City, State, ZIP Code, Telephone Number, Kentucky Business Code No., D Name of Common Parent, Kentucky Account Number, Federal Business Code Number.

E Check if applicable: LLC, Initial return, Final return/dissolution, Final return/withdrawal, Amended return, Short-period return, Change of name/address, No packet required for 2004

Main calculation grid with sections: PART I—ORDINARY INCOME (LOSS) COMPUTATION, PART II—INCOME TAX COMPUTATION, PART III—LICENSE TAX COMPUTATION. Includes rows for income, taxes, exemptions, and various credits.

Mail return with payment to: Kentucky Revenue Cabinet, Frankfort, Kentucky 40620.

TAX PAYMENT SUMMARY (Round to Nearest Dollar) Make check(s) payable to Kentucky State Treasurer or check here if EFT payment.

Tax payment summary box with fields for Income, License, Penalty, Interest, and TOTAL (Including Penalty and Interest).

41A720S0313

Federal Form 1120S, pages 1, 3 and 4, must be attached.

**SCHEDULE Q—KENTUCKY S CORPORATION QUESTIONNAIRE**

**IMPORTANT:** Questions 4—9 must be completed by all S corporations. If this is the S corporation's initial return or if the S corporation did not file a return under the same name and same federal I.D. number for the preceding year, questions 1, 2 and 3 must be answered. **Failure to do so may result in a request for a delinquent return.**

1. Indicate whether: (a)  new business; (b)  successor to previously existing business which was organized as: (1)  corporation; (2)  partnership; (3)  sole proprietorship; or (4)  other \_\_\_\_\_

\_\_\_\_\_

If successor to previously existing business, give name, address and federal I.D. number of the previous business organization.

\_\_\_\_\_

\_\_\_\_\_

2. List the following **Kentucky** account numbers. Enter N/A for any number not applicable.

Employer Withholding \_\_\_\_\_

Sales and Use Tax Permit \_\_\_\_\_

Consumer Use Tax \_\_\_\_\_

Unemployment Insurance \_\_\_\_\_

Coal Severance and/or \_\_\_\_\_

Processing Tax \_\_\_\_\_

3. If a foreign S corporation, enter the date qualified to do business in Kentucky. \_\_\_ / \_\_\_ / \_\_\_

4. The S corporation's books are in care of: (name and address)

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

5. Is the S corporation a partner in a partnership doing business in Kentucky?  Yes  No

If yes, list name and federal I.D. number of the partnership

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Did the S corporation have property or payroll in Kentucky, other than partnership property or payroll?  Yes  No

6. Was this return prepared on: (a)  cash basis, (b)  accrual basis, (c)  other \_\_\_\_\_

\_\_\_\_\_

7. Is the S corporation a public service corporation subject to taxation under KRS 136.120?  Yes  No

8. (a) Did the S corporation file a Kentucky intangible property tax return for January 1, 2004?  Yes  No

(b) Did the S corporation file a Kentucky tangible personal property tax return for January 1, 2004?  Yes  No

9. Is the S corporation currently under audit by the Internal Revenue Service?  Yes  No

If yes, enter years under audit \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

If the Internal Revenue Service has made final and unappealable adjustments to the S corporation's income which have not been reported to this Cabinet, check here , file an amended Form 720S, Kentucky S Corporation Income and License Tax Return, for each year adjusted and attach a copy of the final determination.

**OFFICER INFORMATION (Failure to Provide Requested Information May Result in a Penalty)**

Has the officer information entered below changed from the last return filed?  Yes  No

President's Name: \_\_\_\_\_ Treasurer's Name: \_\_\_\_\_

President's Home Address: \_\_\_\_\_ Treasurer's Home Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

President's Social Security Number: \_\_\_\_\_ Treasurer's Social Security Number: \_\_\_\_\_

Vice President's Name: \_\_\_\_\_ Secretary's Name: \_\_\_\_\_

Vice President's Home Address: \_\_\_\_\_ Secretary's Home Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Vice President's Social Security Number: \_\_\_\_\_ Secretary's Social Security Number: \_\_\_\_\_

I, the undersigned, declare under the penalties of perjury, that I have examined these returns, including all accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct and complete.

41A720S0323



Signature of principal officer or chief accounting officer

Date

Name and Social Security or federal identification number of person or firm preparing return

**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
<b>Income (Loss) and Deductions</b>		
1.	Ordinary income (loss) from trade or business activities (page 1, Part I, line 7) .....	1
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.	Section 179 expense deduction (attach federal Form 4562 and Kentucky Form 4562 if applicable) .....	8
9.	Deductions related to portfolio income (loss) (attach schedule) .....	9
10.	Other deductions (attach schedule) .....	10
<b>Investment Interest</b>		
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)
<b>Credits</b>		
12.	Skills Training Investment Tax Credit .....	12
13.	Kentucky Unemployment Tax Credit (attach Schedule UTC) .....	13
14.	Recycling and Composting Equipment Tax Credit (attach <i>approved</i> Schedule RC) .....	14
15.	Kentucky Investment Fund Tax Credit .....	15
16.	Coal Incentive Tax Credit .....	16
17.	Qualified Research Facility Tax Credit .....	17
18.	GED Incentive Tax Credit .....	18
<b>Other Items</b>		
19.	(a) Type of Section 59(e)(2) expenditures ▶ .....	19(a)
	(b) Amount of Section 59(e)(2) expenditures .....	(b)
20.	Tax-exempt interest income .....	20
21.	Other tax-exempt income .....	21
22.	Nondeductible expenses .....	22
23.	Total property distributions (including cash) other than dividends reported on line 25 below .....	23
24.	Other items and amounts required to be reported separately to shareholders (attach schedule) .....	24
25.	Total dividend distributions paid from accumulated earnings and profits .....	25
<b>SECTION II—Computation of Nonresident Shareholders' Taxable Percentage</b>		
1.	S corporation's Kentucky gross receipts .....	1
2.	S corporation's total gross receipts .....	2
3.	Nonresident shareholders' taxable percentage (line 1 divided by line 2) .....	3

**SCHEDULE K INSTRUCTIONS**

**Important:** S corporations with economic development projects must use Schedule K for S Corporations with Economic Development Projects (Form 41A720-S31).

**General Instructions**—Complete all applicable lines entering the total pro rata share amount for each item listed. Federal instructions for Form 1120S and federal Schedule K provide additional information which will assist the S corporation in completing Schedule K, Form 720S.

**NOTE:** Banks and savings and loan associations see special instructions under Tax Treatment of S Corporation and Shareholder(s) on page 3 of the 720S packet.

**Section I—Specific Instructions**

**Line 1**—Enter ordinary income (loss) from trade or business activities reported on Form 720S, Part I, Line 7.

**Line 2**—Enter net income (loss) from rental real estate activities reported on federal Schedule K, Form 1120S, adjusted to reflect any differences in Kentucky and federal income tax laws.

**Line 3(a)**—Enter the gross income from other rental activities reported on federal Schedule K, Form 1120S.

41A720S0333

**Line 3(b)**—Enter the expenses from other rental activities reported on federal Schedule K, Form 1120S, adjusted to reflect any differences in Kentucky and federal income tax laws.

**Line 4(a)**—Enter interest income from federal Schedule K, Form 1120S, adjusted to exclude tax-exempt U.S. government interest, if any, and to include interest income from obligations of states other than Kentucky and their political subdivisions.

**Lines 4(b) and 4(c)**—Enter the amount of dividend and royalty income reported on federal Schedule K, Form 1120S.

**Line 4(d)**—See instructions on page 2 of the 2003 Form 720S packet regarding **differences in gain or loss from disposition of assets**, and if applicable, enter the amount from Line 6b of the Kentucky Schedule D that is portfolio income. Report any gain or loss that is not portfolio income on Line 6, Schedule K, Form 720S. **Kentucky Schedule D must be attached to Form 720S.** Otherwise, enter the amount from Line 6b of the federal Schedule D (Form 1120S) that is portfolio income.

**Line 4(e)**—See instructions on page 2 of the 2003 Form 720S packet regarding **differences in gain or loss from disposition of assets**, and if applicable, enter the amount from Line 14 of the Kentucky Schedule D that is portfolio income. Report any gain or loss that is not portfolio income on Line 6, Schedule K, Form 720S. **Kentucky Schedule D must be attached to Form 720S.** Otherwise, enter the amount from Line 14 of the federal Schedule D (Form 1120S) that is portfolio income.

**Line 4(f)**—Enter any other portfolio income not reported on Lines 4(a) through 4(e), Schedule K, Form 720S.

**Line 5**—See instructions on page 2 of the 2003 Form 720S packet regarding **differences in gain or loss from disposition of assets**. If applicable, enter the amount from line 7 of the Kentucky Form 4797, and **Kentucky Form 4797 must be attached to Form 720S.** Otherwise, enter net gain (loss) under Section 1231 from federal Form 4797. Do not include net gains (losses) from involuntary conversions due to casualties or thefts on this line. Instead, report them on Line 6.

**Line 6**—Enter all other items of income (loss) of the S corporation not included on Lines 1 through 5. See federal instructions for Schedule K, Form 1120S.

**Line 7**—Enter total contributions paid by the S corporation during its taxable year and attach a schedule showing separately the contributions subject to the 50 percent, 30 percent and 20 percent limitations. These percentage limitations must be applied to the Kentucky amounts rather than the federal amounts.

Also, enter amount of deduction allowable from Schedule HH for the value of leasehold interest of property donated for living quarters for a homeless family. The ordinary charitable contribution deduction must be reduced by any amount attributable to property on which this deduction is taken.

**Line 8**—See instructions on page 2 of the 2003 Form 720S packet regarding **depreciation and Section 179 deduction differences**, and if applicable, include the amount from Line 12 of the Kentucky Form 4562. *Kentucky Form 4562 must be attached.* Otherwise, enter Section 179 deduction from federal Form 4562.

**Line 9**—Enter the expenses related to portfolio income reported on federal Schedule K, Form 1120S, adjusted to exclude expenses related to tax-exempt interest income and other exempt income.

**Line 10**—Enter any other deductions of the S corporation not included on Lines 7, 8 and 9. See federal instructions for Schedule K, Form 1120S.

**Line 11(a)**—Enter the S corporation's deductible interest expense allocable to debt on property held for investment purposes. Property held for investment purposes includes property that produces investment income (interest, dividends, annuities, royalties, etc.). The total amount entered should equal the amount of interest expense reported on federal Schedule K, Form 1120S, adjusted to exclude any interest expense on debts incurred to purchase or carry investment property producing, or held for the production of, U.S. government interest income.

**Lines 11(b)(1) and (b)(2)**—Enter only the investment income included on Lines 4(a), 4(b), 4(c) and 4(f), Schedule K, Form 720S, and only the investment expenses related thereto included on Line 9, Schedule K, Form 720S. See federal instructions for Schedule K, Form 1120S.

**Line 12**—Enter the total amount of Skills Training Investment Tax Credit awarded the S corporation during the taxable year. **A copy of each final authorizing resolution received from the Bluegrass State Skills Corporation must be attached to the return.**

**Line 13**—Enter the amount from Schedule UTC, Unemployment Tax Credit, Line 31.

**Line 14**—Enter the amount from Schedule RC, Application for Income Tax Credit for Recycling and/or Composting Equipment, Part II, Line 2.

**Line 15**—Enter the total amount of Kentucky Investment Fund Act credit granted during the taxable year. **A copy of the notification from KEDFA reflecting the amount of credit granted and the year in which the credit may first be claimed must be attached to the return.**

**Line 16**—Enter the amount of credit from the certificate issued for coal purchases made during the calendar year that ended during the taxable year for which this return is being filed, and attach a copy of the certificate.

**Line 17—Qualified Research Facility Tax Credit.** An S corporation is entitled to a credit of 5 percent of the qualified costs of construction, remodeling, expanding and equipping facilities in Kentucky for "qualified research." The credit is passed through pro rata to each shareholder. Schedule QRFTC, Qualified Research Facility Tax Credit, must be attached to the S corporation's return and the total amount of the credit should be entered on Schedule K prepared for the year during which the credit is earned. Each shareholder's distributive share of the credit should be reflected on the Schedule K-1 provided to them for the taxable year during which the credit is earned. See instructions for Schedule QRFTC for more information regarding this credit.

**Line 18**—Attach the GED-Incentive Program Final Report, Form DAEL-31, for each employee which completed a learning contract during the tax year. The credit reflected on this line must equal the sum of the credits reflected on the attached GED-Incentive Program Final Reports.

**Line 19(a)**—Enter the information provided on federal Schedule K, Form 1120S, Line 16(a).

**Line 19(b)**—Enter the amount reported on federal Schedule K, Form 1120S, Line 16(b).

**Line 20**—Enter the total amount of interest income of the S corporation from U.S. government bonds and securities and obligations of Kentucky and its political subdivisions.

**Line 21**—Enter the total amount of any other type of income of the S corporation on which the shareholder is exempt from Kentucky income tax.

**Line 22**—Enter the total amount of nondeductible expenses paid or incurred by the S corporation including, but not limited to, state taxes measured by gross/net income, expenses related to tax-exempt income, etc. Do not include a deduction reported elsewhere on Schedule K, Form 720S, capital expenditures or items the deductions for which are deferred to a later year.

**Line 23**—Enter the amount reported on federal Schedule K, Form 1120S, Line 20.

**Line 24**—Attach schedules to report the S corporation's total income, expenses and other information applicable to items not included on Lines 1 through 23 including, but not limited to, any recapture of Section 179 deduction, gross income and other information relating to oil and gas well properties enabling the shareholder to figure the allowable depletion deduction, and any other information the shareholders need to prepare their Kentucky income tax returns. See federal instructions for Schedule K, Form 1120S, Line 21.

**Line 25**—Enter the amount reported on federal Schedule K, Form 1120S, Line 22.

## Section II

**An S corporation which has all of its property and payroll within Kentucky does not make the computation in Section II and must enter 100 percent on each shareholder's Schedule K-1 (Form 720S), Item B(2).** An S corporation which has property or payroll both within and without Kentucky must compute the percentage of its gross receipts from sales or services in Kentucky to its gross receipts from sales or services everywhere during the tax year and enter the percentage on each shareholder's Schedule K-1 (Form 720S), Item B(2).

The terms "sales" or "services" mean all gross receipts derived from transactions or activities in the ordinary and regular course of the S corporation's trade or business and which are includible in its gross income. Interest, dividends, royalties and gains or losses on the disposition of property acquired, held, owned or used in the **ordinary or regular course of the S corporation's business** are gross receipts used to determine the business ratio. Gross receipts of this kind are included in the Kentucky receipts portion (numerator) of the business ratio if the S corporation is domiciled in Kentucky or the source of such income is in Kentucky. If the S corporation is domiciled outside of Kentucky but the source of such income is in Kentucky, the gross receipts are in the numerator of the business ratio. The denominator of the business ratio is the total gross receipts in the ordinary or regular course of the S corporation's trade or business.

Gross receipts, for determining the business ratio, do not include in either the numerator or the denominator interest, dividends, royalties and gains or losses on the disposition of property held for **other than trade or business purposes.**

**NOTE: The receipts reported on Lines 1 and 2 may not be the same as reported by an S corporation on Schedule A.**