

**SCHEDULE A**  
**Form 720**

**APPORTIONMENT AND ALLOCATION**  
**(For corporations taxable both within and without Kentucky.)**

Taxable Year Ending

41A720A (10-04)  
Department of Revenue

See instructions on reverse.

\_\_\_ / \_\_\_  
Mo. Yr.

Name of Corporation	Federal Identification Number	Kentucky Account Number
	_____ - _____	_____

If apportionment method other than statutory formula is used:

- **Attach** a copy of letter requiring or granting permission to use other method or statement making election in accordance with KRS 141.120(9)(b)(1) or (2); and
- **Indicate** the method used:  separate accounting  other.

SECTION I. COMPUTATION OF APPORTIONMENT FRACTION			SECTION II. APPORTIONMENT AND ALLOCATION OF INCOME		
1. Kentucky sales .....			<b>(Not applicable to S corporations.)</b>		
2. Total sales .....			1. Net income (from Form 720, Part I, line 13) .....		
3. Line 1 divided by line 2 .....		%	2. Deduct nonbusiness income (if applicable):		
4. Sales factor (line 3 multiplied by 2) .....		%	(a) Interest .....		
5. Average value of Kentucky real/tangible property (Section III) ...			(b) Rents .....		
6. Average value of total real/tangible property (Section IV) .....			(c) Royalties .....		
7. Property factor (line 5 divided by line 6) .....		%	(d) Net gain or loss on sale or exchange of capital assets ....		
8. Kentucky payrolls .....			(e) Total (lines (a) through (d)) ...		
9. Total payrolls .....			(f) Less <b>related expenses</b> (attach schedule) .....	( )	
10. Payroll factor (line 8 divided by line 9) .....		%	3. Net nonbusiness income .....		
11. Total (lines 4, 7 and 10) .....		%	4. Business income (line 1 less line 3) .....		
12. Apportionment fraction—line 11 divided by 4 or number of factors present (sales representing 2 factors) .....		%	5. Business income apportioned to Kentucky (line 4 multiplied by line 12, Section I) .....		
			6. Add Kentucky nonbusiness income (if applicable):		
			(a) Interest .....		
			(b) Rents .....		
			(c) Royalties .....		
			(d) Net gain or loss on sale or exchange of capital assets ....		
			(e) Total (lines (a) through (d)) ...		
			(f) Less <b>Kentucky related expenses</b> (attach schedule) .....	( )	
			7. Kentucky net nonbusiness income .....		
			8. Taxable net income (line 5 plus line 7) (enter here and on Form 720, Part I, line 14) .....		

SECTION III. KENTUCKY REAL/TANGIBLE PROPERTY			SECTION IV. TOTAL REAL/TANGIBLE PROPERTY		
PROPERTY	A. Beginning of Year	B. End of Year	PROPERTY	A. Beginning of Year	B. End of Year
1. Inventories .....			1. Inventories .....		
2. Buildings .....			2. Buildings .....		
3. Machinery and equipment ...			3. Machinery and equipment .		
4. Land .....			4. Land .....		
5. Other tangible assets .....			5. Other tangible assets .....		
6. Total (lines 1 through 5) .....			6. Total (lines 1 through 5) .....		
7. Average value of real/tangible property owned in Kentucky, total of line 6, columns A and B divided by 2 .....			7. Average value of real/tangible property owned everywhere, total of line 6, columns A and B divided by 2 .....		
8. Leased property (Eight times the annual rental rate less subrentals) .....			8. Leased property (Eight times the annual rental rate less subrentals) .....		
9. Total (lines 7 and 8) (enter on line 5, Section I) .....			9. Total (lines 7 and 8) (enter on line 6, Section I) .....		

## Schedule A—Apportionment and Allocation Instructions

**General**—A corporation which has property and/or payroll both within and without Kentucky shall apportion and allocate net income to Kentucky in accordance with KRS 141.120. The three-factor apportionment formula of sales, property and payroll provided by KRS 141.120(8) is substantially the same as the Uniform Division of Income for Tax Purposes Act (UDITPA) written by the National Conference of Commissioners on Uniform State Law, except that for Kentucky purposes the sales factor is double weighted. Public service companies (defined in KRS 136.120) and financial organizations shall apportion and allocate net income in accordance with KRS 141.120(10) and Regulations 103 KAR 16:100 through 103 KAR 16:150.

A corporation must use the statutory formula unless the corporation has been required or granted approval in writing by the Department of Revenue to use a method other than the formula provided by KRS 141.120(9)(a) or the corporation qualifies for and elects an alternative apportionment method provided by KRS 141.120(9)(b). A copy of the letter from the Department of Revenue requiring or granting approval to use a method other than the statutory formula or a statement electing an alternative apportionment method in accordance with KRS 141.120(9)(b)(1) or (2) must be attached to the return when filed.

**Consolidated Return**—An affiliated group electing to file a consolidated return is treated as a single corporation. All transactions between members of the affiliated group shall be eliminated in determining the sales, property and payroll factors. **Attach a columnar spreadsheet to Schedule A reflecting the computation of the consolidated factors.**

### COMPUTATION OF APPORTIONMENT FRACTION

The business apportionment factors shall be computed as follows:

**Sales**—Total sales include all gross receipts other than non-business receipts. Sales of real or tangible personal property are assigned to Kentucky if the property is located in Kentucky or is shipped or delivered to a purchaser in Kentucky. Sales of tangible personal property to the U.S. government are assigned to Kentucky if the property is shipped from Kentucky.

KRS 141.120(8)(c)(3) provides that sales other than sales of tangible personal property are assigned to Kentucky if the income-producing activity is performed entirely within Kentucky or if the income-producing activity is performed both within and without Kentucky and a greater portion of the income-producing activity is performed in Kentucky than in any other state based on cost of performance. The following are general guidelines for assigning these receipts to Kentucky but should not be considered all inclusive:

- A. Receipts from intangibles are assigned to Kentucky if the corporation's commercial domicile is in Kentucky or the intangible has acquired a Kentucky business situs. Examples of receipts from intangibles which are deemed to have acquired a Kentucky business situs are franchise fees from a franchisee located in Kentucky and a corporation's Kentucky distributive share of net income from a partnership doing business in Kentucky.
- B. Rents or royalties from real or tangible personal property are assigned to Kentucky if the property is located

in Kentucky or in the case of mobile property the rent is assigned to Kentucky if the lessee's base of operations for the property is in Kentucky.

- C. Receipts from the performance of services are assigned to Kentucky if the services are performed entirely in Kentucky or the services are performed both within and without Kentucky but a greater portion is performed in Kentucky than in any other state based on cost of performance.

**Property**—Total property includes all real and tangible personal property owned or rented and used during the taxable year. Property owned is valued at original cost. Leased property is valued at eight times the annual rental rate less any nonbusiness subrentals. Real and tangible personal properties are assigned to Kentucky if owned or rented and used in Kentucky. Exclude (a) construction in progress and (b) property which has been certified by Kentucky as a pollution control facility and is owned or leased by the corporation. Safe harbor lease property must be included in the factor of the seller/lessee at cost and excluded from the property factor of the purchaser/lessor.

**Payroll**—Total payroll includes all payroll reported on federal Form 940 before adjustments or exclusions. Kentucky payroll is total payroll subject to Kentucky unemployment insurance tax (before adjustments or exclusions to determine payroll actually taxed for unemployment insurance). A fiscal year taxpayer must adjust the unemployment insurance payroll from a calendar year basis to a fiscal year basis.

**Apportionment Fraction**—To compute the apportionment fraction, the sales factor must be multiplied by two and the property and payroll factors must each be multiplied by one and the total divided by four. A corporation which does not have sales, property or payroll must average only the factors which are present to determine the weighted apportionment fraction.

### APPORTIONMENT AND ALLOCATION OF INCOME

Business income arises from transactions and activities in the regular course of the corporation's trade or business, and includes income from tangible and intangible property if the acquisition, management or disposition of the property constitutes integral parts of the corporation's trade or business.

Classifying income by categories (such as interest, rents, royalties and capital gains) does not determine whether income is business or nonbusiness. For example, gain or loss recognized on the sale of property may be business income or nonbusiness income depending upon its relationship to the corporation's trade or business.

Nonbusiness income includes all income not properly classified as business income less all direct or indirect expenses attributable to the production of this income. Nonbusiness income is allocated to Kentucky if (a) the corporation's commercial domicile (the principal place from which the trade or business is managed) is located in Kentucky, or (b) property creating the nonbusiness income is utilized in Kentucky. Generally, tangible personal property is utilized in Kentucky if it is physically located in Kentucky; intangible property, such as patents and copyrights, is utilized in Kentucky if it is actually used in Kentucky.