INSTRUCTIONS

2004 KENTUCKY CORPORATION INCOME AND LICENSE TAX RETURN

NOTICE

CORPORATION LICENSE TAX CHANGE

Important Change to Corporation License Tax—Effective for tax returns due without regard to extension on or after April 15, 2005, only bank holding companies can take a corporation license tax deduction for investments in majority owned subsidiaries. Please refer to the instructions for bank holding companies on page 2 of these instructions to learn more about the benefit that applies exclusively to that type of corporate entity. All other holding companies will not be able to take a deduction or file a consolidated return under the provisions of KRS 136.071. Holding companies had been allowed to follow the provisions of House Bill 390, which was enacted by the 2003 General Assembly. The provisions of House Bill 390 do not apply to license tax returns due, without regard to extension on or after April 15, 2005.

NOTICE REGARDING ELECTION TO FILE CONSOLIDATED INCOME TAX RETURN

A consolidated income tax return election period that began with the return filed for the calendar year ended December 31, 1996, expired on December 31, 2003. Any affiliated group of corporations that elected to file a consolidated Kentucky corporation income tax return beginning with the calendar year ended December 31, 1996, **must file a new election** to file a consolidated return for the calendar year ending December 31, 2004, if the parent and affiliated corporations wish to continue to file a consolidated return. To elect to file a consolidated corporation income tax return for a new 96-month period, please check the consolidated box in Section A of the front page of Form 720. A new Form 722, Election to File Consolidated Kentucky Corporation Income Tax Return, **does not** have to be filed. Failure to elect to file a consolidated return for a new 96-month period means that a separate entity corporation income tax return must be filed by each member of the affiliated group that is subject to Kentucky corporation income tax. **Regulation 103 KAR 16:200 and KRS 141.040**

HOW TO OBTAIN ADDITIONAL FORMS

Forms and instructions are available at some libraries, post offices, courthouses, banks and all Kentucky Taxpayer Service Centers (see page 13). They may also be obtained by writing FORMS, Department of Revenue, Frankfort, KY 40620, or by calling (502) 564-3658. Forms can be downloaded from **www.revenue.ky.gov**. Forms are also available by fax through the Department of Revenue's fax-on-demand system, *TaxFax*, at (502) 564-4459. Refer to the instructions on scannable forms for information on the use of faxed copies.

KENTUCKY TAX LAW CHANGES

Income Tax Changes

Tobacco Quota Buydown Exemption—Exempts moneys that might be received from a tobacco quota buydown from the state income taxes imposed on individuals and corporations. **(KRS 141.010)**

Important Changes to Corporate License Tax

Tax Credit Program for Reinvesting in Existing Industry—Creates a tax credit program for existing companies classified under NAICS codes 336211 (motor vehicle body manufacturing), 336111 (automobile manufacturing), 336112 (light truck and utility vehicle manufacturing), and 336120 (heavy duty truck manufacturing) for reinvesting in those industries. Kentucky Economic Development Finance Authority (KEDFA) may give final approval after July 1, 2004. A project must have eligible costs of not less than $100 million to qualify for the inducements. Approved companies may recover up to 10 percent of the eligible costs against individual income, corporate income and corporate license taxes equal to the tax due from the reinvestment project. The approved company shall not be required to pay estimated income tax payments on income derived from the project. KEDFA may require the approved company to repay all or part of its inducements if the company terminates the agreement. The credits may be taken for a period of up to 10 years. **(HB 510)**

Bank Holding Companies—(Effective for tax periods beginning on or after January 1, 2003.) The 2004 Kentucky General Assembly enacted House Bill 292 on April 13, 2004. On April 22, 2004, Governor Fletcher signed the bill into law. This bill reinstates for bank holding companies, the corporation license tax benefits under KRS 136.071 that were eliminated by the ***Illinois Tool Works*** (***ITW***) decision. The reinstated benefits apply to license tax periods beginning on or after January 1, 2003. A bank holding company as defined in KRS 287.900 is allowed to deduct from its taxable capital, the book value of its investment in the stock or securities of subsidiaries that are subject to the bank franchise tax. The investment in subsidiaries subject to the bank franchise tax must be equal to or greater than 50 percent of the bank holding company's total assets. A bank holding company must own more than 50 percent of the outstanding stock of a bank subsidiary in order to claim the deduction for that subsidiary. A bank holding company that elects to file per KRS 136.071 must deduct the book value of its investment in subsidiaries that are subject to the bank franchise tax from the value of capital stock and reflect the result on Part III, Line 8 of the 2004 Corporation Income and License Tax Return, Form 720. (See instructions for Part III, Line 8.)

This legislation does not permit the filing of a consolidated corporation license tax return. More detail on this issue can be found at the Department of Revenue's Web site at **www.revenue.ky.gov**. **(HB 292)**

Economic Development Incentives—Increases the amount of tax credit available under the Kentucky Industrial Revitalization Act (KIRA) to 75 percent of approved costs. The KIRA corporation license tax credit language of KRS 136.0704 was changed to allow the credit to be for the license tax attributable to the entire location of the project. This bill also strengthens the state's authority to terminate economic development projects that do not meet the targeted employment amounts. **(HB 593)**

Economic Revitalization Projects—Increases the amount of tax credit available under KIRA to 75 percent of approved costs. KIRA corporation license tax credit language of KRS 136.0704 was changed to allow the credit to be for the license tax attributable to the entire location of the project. These provisions were also enacted by HB 593. **(SB 248)**

Kentucky Investment Fund Act—(Effective after July 1, 2004.) An investment fund approved by the Kentucky Economic Development Finance Authority (KEDFA) that qualifies for tax credits pursuant to the Kentucky Investment Fund Act may invest up to 100 percent of its committed cash contributions in a single knowledge-based entity. A city, county, other local government entity or any entity approved by KEDFA may invest in an investment fund created for the purpose of investing in a single knowledge-based entity and may transfer the approved tax credits to a private entity. **(HB 292)**

IMPORTANT

Corporations must create a Kentucky Form 4562 and Schedule D by converting federal forms.

2003 Federal Changes to Section 179 Election to Expense Deduction and Depreciation Not Adopted by Kentucky—The Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) which was signed by President Bush on May 28, 2003, has not been adopted for Kentucky income tax purposes. Thus, the provisions of the JGTRRA which allow a 50 percent special depreciation allowance and an increase in the Section 179 election to expense deduction from $25,000 to $102,000 do not apply for Kentucky.

2002 Federal Changes to Section 179 Election to Expense Deduction and Depreciation Still Not Adopted by Kentucky—The Job Creation and Worker Assistance Act of 2002 (JCWAA) which was signed by President Bush on March 9, 2002, still has not been adopted for Kentucky income tax purposes. Thus, the provisions of the JCWAA which allow a 30 percent special depreciation allowance and an additional Section 179 election to expense deduction for New York Liberty Zone property which are retroactive to September 10, 2001, still do not apply for Kentucky.

Depreciation, Section 179 Deduction and Gains/Losses From Disposition of Assets—For taxable years beginning before January 1, 2002, Kentucky depreciation and Section 179 deduction are determined in accordance with the Internal Revenue Code (IRC) in effect on December 31, 1999, and for taxable years beginning after December 31, 2001, Kentucky depreciation and Section 179 deduction are determined in accordance with the IRC in effect on December 31, 2001. For calendar year 2004 returns and fiscal year returns that begin in 2004, any corporation income taxpayer that elects any of the following will have a different depreciation or Section 179 expense deduction for Kentucky purposes than for federal purposes:

- 30 percent bonus depreciation allowance;
- 50 percent bonus depreciation allowance;
- additional Section 179 deduction for New York Liberty Zone Property; or
- increased Section 179 deduction from $25,000 to $102,000.

If any of the above federal/Kentucky differences exist, the differences will continue through the life of the assets. There will be recapture and basis differences between Kentucky and federal income tax purposes until the assets are sold or fully depreciated.

Important: If the corporation has not taken the 30 percent special depreciation allowance, the 50 percent special depreciation allowance, the additional Section 179 deduction for New York Liberty Zone Property, or the increased Section 179 deduction for federal income tax purposes on any assets for which a depreciation deduction is being claimed for the taxable year, then no adjustment will be needed for Kentucky income tax purposes. **If federal Form 4562 is required to be filed for federal income tax purposes, a copy must be submitted with Form 720 to verify that no adjustments are required.**

Determining and Reporting Depreciation and Section 179 Deduction Differences—Federal/Kentucky depreciation or Section 179 deduction differences shall be reported as follows:

1. The amount from Line 20 of the federal Form 1120 or 1120A must be included on Line 4, Part I of Form 720. **If federal Form 4562 is required to be filed for federal income tax purposes, a copy must be attached to Form 720.**
2. Convert federal Form 4562 to a Kentucky form by entering **Kentucky** at the top center of the form above Depreciation and Amortization. Compute Kentucky depreciation and Section 179 deduction in accordance with the IRC in effect on December 31, 2001, by ignoring the lines and instructions regarding the special depreciation allowance and the additional Section 179 deduction. **NOTE:** For Kentucky purposes, the maximum Section 179 deduction amount on Line 1 is $25,000 and the threshold cost of Section 179 property on Line 3 is $200,000. The $25,000 maximum allowable Section 179 deduction for Kentucky purposes is reduced dollar-for-dollar by the amount by which the cost of qualifying Section 179 property placed in service during the year exceeds $200,000. In determining the Section 179 deduction for Kentucky, the income limitation on Line 11 should be determined by using Kentucky net income before the Section 179 deduction instead of federal taxable income.
3. The corporation **must attach the Kentucky Form 4562** to Form 720, and the amount from Line 22 of the Kentucky Form 4562 must be included on Line 11, Part I of Form 720. A Kentucky Form 4562 must be filed for each year even though a federal Form 4562 may not be required.

Determining and Reporting Differences in Gain or Loss From Disposition of Assets—If during the year the corporation disposes of assets on which it has taken the special depreciation allowance or the additional Section 179 deduction for federal income tax purposes, the corporation will need to determine and report the difference in the amount of gain or loss on such assets as follows:

1. Include on Line 12, Part I of Form 720 the amount of capital gain net income reported on Line 8 of Form 1120. Convert **federal Schedule D** and other applicable federal forms to Kentucky forms by entering **Kentucky** at the top center of the form, and compute the Kentucky capital gain net income from the disposed assets using Kentucky basis. Include the amount from Line 14 of the Kentucky Schedule D on Line 6, Part I of Form 720. **Federal Schedule D (Form 1120) filed with the federal return and the Kentucky Schedule D must be attached to Form 720.**
2. If the amount reported on Line 9 of federal Form 1120, Net Gain or (Loss) Form 4797, is a gain, include this amount on Line 12, Part I of Form 720. If the amount reported on Line 9 of federal Form 1120, Net Gain or (Loss) Form 4797, is a loss, include this amount on Line 6, Part I of Form 720. Convert **federal Form 4797** and other applicable federal forms to Kentucky forms by entering **Kentucky** at the top center of the form, and compute the Kentucky gain or (loss) from the sale of business property using Kentucky basis. If the amount on Line 17 of Kentucky Form 4797 is a gain, include this amount on Line 6, Part I of Form 720. If the amount on Line 17 of Kentucky Form 4797 is a loss, include this amount on Line 12, Part I of Form 720. **Federal Form 4797 filed with the federal return and the Kentucky Form 4797 must be attached to Form 720.**

GENERAL INFORMATION

Internal Revenue Code Reference Date—Effective for taxable years beginning after December 31, 2001, Kentucky Revised Statute (KRS) 141.010(3) was amended to define "Internal Revenue Code" (IRC) for Kentucky income tax purposes to mean the IRC in effect on December 31, 2001, exclusive of any amendments which (1) provide for changes in accounting methods or (2) extend provisions in effect on December 31, 2001, that would otherwise terminate. The following federal law changes have not been adopted for Kentucky income tax purposes:

1. "Victims of Terrorism Tax Relief Act of 2001" signed by President Bush on January 23, 2002.
2. "Job Creation and Worker Assistance Act of 2002" signed by President Bush on March 9, 2002.
3. "Jobs and Growth Tax Relief Reconciliation Act of 2003" signed by President Bush on May 28, 2003.

Kentucky Tax Registration Application—Prior to doing business in Kentucky, each corporation should complete a Kentucky Tax Registration Application, Revenue Form 10A100. The application is available at Kentucky Taxpayer Service Centers (see page 13) or from the Department of Revenue, Taxpayer Registration Section, Frankfort, KY 40620. The application may be faxed to (502) 227-0772.

Who Must File—A Kentucky Corporation Income and License Tax Return, Form 720, must be filed by every corporation (a) organized under the laws of Kentucky, (b) having its commercial domicile in Kentucky, (c) owning or leasing property in Kentucky, (d) having one or more individuals employed or subject to unemployment insurance tax in Kentucky or (e) which is a partner in a partnership doing business in Kentucky. A limited liability company (LLC) is treated for Kentucky income tax purposes in the same manner as it is treated for federal income tax purposes. Therefore, an LLC filing a U.S. Corporation Income Tax Return, Form 1120, for federal income tax purposes must file Form 720. A single member LLC which is ignored for federal income tax purposes and treated as a division of its member corporation for federal income tax purposes must be treated in the same manner for Kentucky income tax purposes. **KRS 141.200, 141.208 and KRS 136.090**

Foreign Sales Corporations (FSCs) and interest-deferred or interest-charged Domestic International Sales Corporations (DISCs) are subject to Kentucky income and license tax to the same extent as other corporations.

Additionally, certain organizations which must file special returns for federal purposes, e.g., homeowners associations, political organizations, real estate investment trusts and regulated investment companies must file Form 720.

Corporations Not Required to File

Income Tax—Corporations which are exempt by law from Kentucky income tax include financial institutions as defined in KRS 136.500, insurance companies, savings and loan associations, corporations exempted by IRC Section 501 and religious, educational, charitable and like corporations not conducted for profit. **KRS 141.040**

License Tax—Corporations which are exempt by law from Kentucky income tax, except for corporations exempt from income tax in accordance with Public Law 86-272, are also exempt from Kentucky license tax. In addition, public service companies subject to ad valorem tax under **KRS 136.120**, certified alcohol production facilities and certified fluidized bed energy production facilities are exempt from Kentucky license tax. A corporation doing business in Kentucky solely as a partner in a partnership is not subject to the Kentucky license tax. A corporation which is not organized in Kentucky, does not have its commercial domicile in Kentucky, and does not own or lease property or have individuals receiving compensation in Kentucky, but is the owner of a single member LLC which has operations in Kentucky is not subject to the Kentucky license tax. **KRS 136.070**

Certain unincorporated entities may elect to be treated as corporations for federal income tax purposes and thus, would be treated as corporations for Kentucky income tax purposes. However, such entities are not subject to the corporation license tax. Examples of such entities are associations, joint stock companies, LLCs, partnerships and trusts.

Required Forms and Information—Each corporation must enter all applicable information on Form 720, attach a schedule for each line item or line item instruction which states "attach schedule," and the following forms or schedules, if applicable:

Kentucky Forms and Schedules

1. Form 722—Election to File Consolidated Kentucky Corporation Income Tax Return
2. Form 851-K—Kentucky Affiliations and Payment Schedule
3. Schedule A—Apportionment and Allocation
4. Form 41A720SL—Application for Six-Month Extension of Time to File

Required Federal Forms and Schedules

All corporations **must** provide a copy of the following federal forms submitted to the Internal Revenue Service:

1. Form 1120, Page 1—**If Form 1120 is not filed, attach a copy of the income statement of the federal form filed.**
2. Form 1120, Page 4, Schedule L, Balance Sheet—**If Form 1120 is not filed, attach a copy of the balance sheet portion of the federal form filed. If the corporation is not required to submit a balance sheet for federal income tax purposes, attach the balance sheet prepared on a consistent basis from the books and records of the corporation used to complete Form 720, Part III—License Tax Computation.**
3. Form 851—Affiliations Schedule
4. Form 4797—Sales of Business Property
5. Schedule D—Capital Gains and Losses
6. Form 5884—Work Opportunity Credit
7. Schedules for items on Form 1120, Schedule L, which state "attach schedule."

SCANNABLE FORMS

Application for Six-month Extension of Time to File, Form 41A720SL, and Kentucky Estimated Tax Voucher, Form 720ES, are scannable forms. There are boxes on these forms where scannable data is to be entered. Use **black ink** to enter data. Either handwritten data or machine print is acceptable. Numbers should be written like this:

When entering data in these boxes, the numbers should be right justified (blank spaces should be on the left). **No dollar signs, commas, decimals or other symbols should be used.** If there is no information to be entered in a box, leave it blank. All amounts should be rounded to the nearest dollar and no cents entered. For example, $11,949.50 or $11,950.49 would be entered:

Reference Mark—There is a reference mark and form number near the bottom corner of each scannable form. **Please do not write in this area.**

41A720SL0013

Important: Use only an **original printed** Form 41A720SL or Form 720ES or an **approved** computer-generated version of these forms since data must be placed in specific areas on the form to be read correctly. Use of photocopies or faxed copies may cause delays in the processing of these forms.

Substitute Forms—Any form to be used in lieu of an official Department of Revenue form must be submitted to the department for prior approval.

Accounting Procedures—Kentucky income tax law requires a corporation to report income on the same calendar or fiscal year and to use the same methods of accounting required for federal income tax purposes. Any federally approved change in accounting periods or methods must be reported to the Department of Revenue. Attach a copy of the federal approval to the return when filed. **KRS 141.140**

Mailing/Payment—Mail the return with payment to Kentucky Department of Revenue, Frankfort, KY 40620. Make the check payable to Kentucky State Treasurer.

Filing/Payment Date—A corporation return must be filed and payment must be made on or before the 15th day of the fourth month following the close of the taxable year. **KRS 141.160 and KRS 141.220**

If the filing/payment date falls on a Saturday, Sunday or a legal holiday, the filing/payment date is deemed to be on the next business day. **KRS 446.030(1)(a)**

Extensions—An extension of time to file a corporation income and license tax return may be obtained by either making a specific request to the Department of Revenue or attaching a copy of the federal extension to the return when filed. **A copy of the federal extension submitted after the return is filed does not constitute a valid extension, and late filing penalties will be assessed.** For further information, see the instructions for Form 41A720SL. **Regulation 103 KAR 15:050**

NOTE: An extension of time to file a return does not extend the date for payment of tax.

Estimated Tax Payments—Estimated tax payments must be made by each corporation whose income tax liability for the taxable year can reasonably be expected to exceed $5,000. In general, the first estimated tax payment must be made by the 15th day of the sixth month of the taxable year. To determine the amount of the first payment, subtract $5,000 from the estimated full-year tax liability, and divide the result by two. The remaining one-half is due in equal installments on the 15th day of the ninth and 12th month, respectively. The prior year's income tax liability is not a factor in determining whether estimated payments are required. **KRS 141.044**

Failure to pay estimated tax installments equal to the amount determined by subtracting $5,000 from 70 percent of the total income tax liability shown on the return for the taxable year will result in the assessment of an underpayment penalty. The amount of the penalty is 10 percent of the amount of the underpayment, but not less than $25. **KRS 131.180(3) and KRS 141.990(3)**

The **Corporation Estimated Income Tax Voucher, Form 720ES**, is used to submit estimated tax payments. If the corporation is required to make estimated tax payments but did not receive Form 720ES, contact the Department of Revenue at (502) 564-3658.

Amended Return—Form 720X, Amended Kentucky Corporation Income Tax and Corporation License Tax Return, is available for filing an amended return. **Form 720X must be used to make any corrections to Form 720**, including: net operating loss carrybacks, capital loss carrybacks and Internal Revenue Service audit adjustments. **Do not submit federal Form 1139 as a means to apply for a refund of Kentucky corporation income tax resulting from a net operating loss carryback or a capital loss carryback.** Failure to submit Form 720X will result in delays in processing refunds requested on amended returns.

Internal Revenue Service Audit Adjustments—A corporation which has received final adjustments resulting from Internal Revenue Service audits must submit a copy of the "final determination of the federal audit" within 30 days of the conclusion of the federal audit. **Use Form 720X for reporting federal audit adjustments** and computing additional tax due or refunds. Failure to submit Form 720X will result in delays in processing refunds requested on amended returns. Any refund claim resulting from a federal audit adjustment must be filed within the four years of the date the tax was paid or within six months of the conclusion of the federal audit, whichever is later. **KRS 141.210(2)(d) and KRS141.235(2)(b)**

Interest—Interest at the tax interest rate is applied to corporation income and license tax liabilities not paid by the date prescribed by law for filing the return (determined without regard to extensions thereof). The tax interest rate for 2005 is published in the January 2005 ***Kentucky Tax Alert***, or you may contact the Department of Revenue at (502) 564-8139 to obtain the tax interest rate.

Penalties

Failure to file an income and license tax return by the filing date including extensions—2 percent of the tax due for each 30 days or fraction thereof that the return is late (maximum 20 percent). The minimum penalty is $10. **KRS 131.180(1)**

Jeopardy Fee—A $100 minimum penalty on all nonfiled returns, when the taxpayer fails to file a return or provide information after being requested to do so by the Department of Revenue. **KRS 131.150(2)**

Failure to pay income or license tax by the payment date—2 percent of the tax due for each 30 days or fraction thereof that the payment is overdue (maximum 20 percent). The minimum penalty is $10. **KRS 131.180(2)**

Late payment or underpayment of estimated tax—10 percent of the late payment or underpayment. The minimum penalty is $25. **KRS 131.180(3)**

Failure or refusal to file an income and license tax return or furnish information requested in writing—5 percent of the tax assessed for each 30 days or fraction thereof that the return is not filed or the information is not submitted (maximum 50 percent). The minimum penalty is $100. **KRS 131.180(4)**

Negligence—10 percent of the tax assessed. **KRS 131.180(7)**

Fraud—50 percent of the tax assessed. **KRS 131.180(8)**

Cost of Collection Fees

(a) 25 percent on all taxes which become due and owing for any reporting period, regardless of when due. These collection fees are in addition to all other penalties provided by law. **KRS 131.440(1)(a)**

(b) 25 percent on all taxes assessed and collected by the Department of Revenue for taxable periods ending before December 1, 2001. **KRS 131.440(1)(b)**

(c) 50 percent of any tax deficiency assessed after the amnesty period for nonfiled returns eligible for amnesty. **KRS 131.440(1)(c)**

FORM 720—SPECIFIC INSTRUCTIONS

Period Covered

File the 2004 return for calendar year 2004 and fiscal years that begin in 2004. For a fiscal year, fill in the taxable period beginning and ending at the top of Form 720.

All corporations must enter the Taxable Year Ending at the top right of Form 720 and supporting forms and schedules to indicate the ending month and year for which the return is filed.

- A calendar year is a period from January 1 through December 31 each year. This would be entered as:

  1 2 / 0 4
  Mo. Yr.

- A fiscal year is 12 consecutive months ending on the last day of any month except December. A fiscal year ending January 31, 2005, would be entered as:

  0 1 / 0 5
  Mo. Yr.

- A 52/53-week year is a fiscal year that varies between 52 and 53 weeks. *Example:* A 52/53-week year ending the first week of January 2005, would be entered as:

  1 2 / 0 4
  Mo. Yr.

Failure to properly reflect the **Taxable Year Ending** may result in delinquency notices or billings for failure to file.

Item A—The applicable boxes must be checked to identify the corporation's filing status.

Income Tax Filing Status

Separate entity—Check this box if the income tax return is filed on a separate entity basis.

A corporation is required to file a separate entity income tax return unless for any part of the taxable year it is a member of an affiliated group electing to file a consolidated return. **KRS 141.200(2)**

Consolidated—Check this box if the corporation is the common parent of an affiliated group filing a consolidated income tax return.

KRS 141.200(3) allows an affiliated group to elect to file a consolidated Kentucky income tax return with the election being binding for eight years. **Form 722, Election to File Consolidated Kentucky Corporation Income Tax Return, must be submitted to the Department of Revenue with the return timely filed for the first taxable year for which the election is made.** The election must be made by the common parent corporation on behalf of all members of the affiliated group. **A copy of the original Form 722 must be submitted for all subsequent years for which the election is effective.** "Affiliated group" means affiliated group as defined in Section 1504(a) of the IRC and related regulations. If a consolidated return is filed, a copy of federal Form 851, Affiliations Schedule, and Kentucky Form 851-K, Kentucky Affiliations and Payment Schedule, must be attached. **Regulation 103 KAR 16:200**

If the eight-year election period has expired, see page 1 of these instructions.

KRS 141.200(7)(a) prohibits affiliated corporations from filing a combined Kentucky corporation income tax return using the unitary business concept.

An election to file a consolidated income tax return does not apply to license tax. A consolidated license tax return is no longer allowed. See page 2 of the instructions for bank holding companies.

Return not required—Check this box *and enter one of the following two-digit reason codes in the space provided* if the corporation is not required to file the income tax return.

Reason Code	Reason
11	This return contains only the license tax computation. This corporation is a member of an affiliated group which filed a consolidated income tax return. **Item D must be completed by entering the name and the Kentucky Account Number of the common parent.**
12	This return contains only the license tax computation. The corporation is exempt from income tax in accordance with Public Law 86-272.

License Tax Filing Status

The license tax return must be a separate entity return.

Return not required—Check this box *and enter one of the following two-digit reason codes in the space provided* if the corporation is not required to file the license tax return.

Reason Code	Reason
20	License tax is not due. This is the corporation's final return.
21	License tax is not due. This corporation is a public service company subject to taxation under KRS 136.120.
22	License tax is not due. The net income tax liability is computed on a short-period basis due to a change in ownership or a change to S corporation election without a change in accounting period (see **Item E** if a short-period return is filed).
23	This return contains only the income tax computation. This corporation is the common parent of an affiliated group which filed a consolidated income tax return, but is not organized in Kentucky, does not have its commercial domicile in Kentucky, and does not own or lease property or have individuals receiving compensation in Kentucky.
25	This return contains only the income tax computation. This corporation is not incorporated or domiciled in Kentucky and carries on business in Kentucky only as a partner in a partnership.
26	This return contains only the income tax computation. This entity is an LLC and is therefore not subject to license tax.
27	This return contains only the income tax computation. This is an unincorporated entity such as an association, a joint stock company, a partnership or a trust and is therefore not subject to license tax.
28	This return contains only the income tax computation. This corporation is not organized in Kentucky, does not have its commercial domicile in Kentucky, and does not own or lease property or have individuals receiving compensation in Kentucky, but is the owner of a single member LLC which has operations in Kentucky.

Name and Address—Print or type the corporation's name as set forth in the charter. For the address, include the suite, room or other unit number after the street address. If the U.S. Postal Service does not deliver mail to the street address and the corporation has a P.O. box, show the box number instead of the street address (see **Item E** if a change in name or address has occurred).

Telephone Number—Enter the business telephone number of the principal officer or chief accounting officer signing this return.

Kentucky Business Code Number—Enter the principal business activity code number listed in the federal Form 1120 instructions that best describes the principal business activity in Kentucky. Enter a brief description of the Kentucky activity in the appropriate box.

Federal Business Code Number—Enter the corporation's federal principal business activity number from the instructions to Form 1120.

NOTE: The Kentucky and federal business code numbers entered on Form 720 may be different if the principal business in Kentucky varies from the principal business outside Kentucky.

Item B—Enter the corporation's Federal Identification Number. See federal Publication 583 if the corporation has not obtained this number.

Item C—Enter the six-digit **Kentucky Corporation Income and License Account Number** in the appropriate box at the top of each form and schedule and on all checks and correspondence. This number is located in correspondence received from the Department of Revenue as a result of registration.

If the account number is not known, telephone (502) 564-8139.

Item D—See Reason Code 11 under Item A.

Item E—Check the applicable boxes:

(a) *LLC*—This return is for a limited liability company.

(b) *Initial Return*—This return is the corporation's initial return. Complete questions 1, 2 and 3 on Form 720, page 2, Schedule Q, Kentucky Corporation Questionnaire.

(c) *Final Return*—This is the corporation's final return. The corporation has dissolved or withdrawn. **Submit an explanation.**

(d) *Short-period Return*—This return is a short-period return. **Submit an explanation for the short-period return.**

(e) *Change of Name/Address*—A change in name or address has occurred. **Submit a copy of the amendment of the articles of incorporation for a name change.**

PART I—TAXABLE INCOME COMPUTATION

Line 1—Enter the amount of federal taxable income in accordance with the following instructions:

(a) **Separate Entity Kentucky Return/Separate Entity Federal Return**—If this is a separate entity income tax return and the corporation filed a separate entity federal income tax return for the taxable year, enter the amount from Line 28 of Form 1120, or Line 24 of Form 1120A. **Attach a copy of Form 1120, page 1, or Form 1120A, page 1.**

(b) **Separate Entity Kentucky Return/Consolidated Federal Return**—If this is a separate entity income tax return and the corporation participated in a consolidated federal income tax return for the taxable year, enter the amount from Line 28 of the pro forma Form 1120 prepared on a separate entity basis. **Attach a copy of the pro forma Form 1120, page 1.**

(c) **Consolidated Kentucky Return/Consolidated Federal Return**—Attach schedules of gross income and deductions for each member of the affiliated group prepared in columnar form. If this is a consolidated income tax return and the corporations participated in a consolidated federal income tax return for the taxable year, enter the amount from Line 28 of the consolidated Form 1120. If the consolidated federal return includes a corporation which is exempt from Kentucky income tax, an adjustment to exclude the income or loss of the corporation must be made on Line 6 or 12. See instructions for Lines 6 and 12. **Attach a copy of Form 1120, page 1.**

(d) **Consolidated Kentucky Return/Separate Entity Federal Return**—Attach schedules of gross income and deductions for each member of the affiliated group prepared in columnar form. If this is a consolidated income tax return and no member of the affiliated group participated in a consolidated federal income tax return for the taxable year, enter the amount from Line 28 of the pro forma Form 1120 prepared on a consolidated basis including all members of the affiliated group as defined in Section 1504(a) of the IRC and related regulations except any corporation exempt from Kentucky income tax. **Attach a copy of the pro forma Form 1120, page 1.**

Special Returns—If the corporation is an organization which filed a special return for federal purposes (e.g., 1120H, 1120POL), enter the amount from the line on the special return which is comparable to Line 28 (Form 1120), federal taxable income. **Attach pages of form comparable to pages 1 and 4 of Form 1120.**

REIT Returns—Enter the amount from Line 22, Form 1120-REIT adjusted to add back any net operating loss deduction reflected on Line 21a, Form 1120-REIT.

Corporations Doing Business in Kentucky Solely as a Partner in a Partnership, skip Lines 1 through 13 and follow the instructions under Line 14 for "Corporations Doing Business in Kentucky Solely as a Partner in a Partnership." KRS 141.206

Additions to Federal Taxable Income—Lines 2 through 6 itemize items of additional taxable income or unallowed deductions which are differences between federal taxable income and Kentucky taxable net income.

Line 2—Enter interest income from obligations of states other than Kentucky and the political subdivisions of states other than Kentucky. **KRS 141.010(12)(c)**

Line 3—Enter state taxes measured in whole or in part by gross or net income. "State" means any state of the United States, the District of Columbia, the commonwealth of Puerto Rico, any territory or possession of the United States or any foreign country or political subdivision thereof. Attach a schedule itemizing the total taxes deducted on Form 1120. **KRS 141.010(13)(a)**

Line 4—See instructions on page 3 regarding **depreciation and Section 179 deduction differences**, and if applicable, include the amount from Line 20 of federal Form 1120 or 1120A. ***If federal Form 4562 is required to be filed for federal income tax purposes, a copy must be attached.***

Line 5—Enter deductions attributable to income which is exempt from taxation. Any expense related directly or indirectly to the acquisition, management or disposition of assets, the income from which is exempt, is not deductible. The related expense adjustment is required regardless of whether any income was actually received or accrued during the taxable year. Attach a schedule. **KRS 141.010(13)(d)**

Line 6—Enter the total amount of other differences which result in additions to federal taxable income in computing Kentucky taxable net income. A **schedule must be attached** reflecting an itemization of the amount reflected on this line. Also any Kentucky or federal form or schedule from which an amount is entered on this line **must be attached**:

(a) See instructions on page 3 regarding **differences in gain or loss from disposition of assets**, and if applicable, include the amount from Line 14 of the Kentucky Schedule D. **Kentucky Schedule D must be attached to Form 720.**

(b) See instructions on page 3 regarding **differences in gain or loss from disposition of assets**. If applicable, include the amount of loss reported on Line 9 of federal Form 1120 and the amount of gain from Line 17 of Kentucky Form 4797. **Federal Form 4797 filed with the federal return and the Kentucky Form 4797 must be attached.**

(c) Enter safe harbor lease adjustments. Attach a schedule. **KRS 141.010(12)(h) and (13)(e)**

(d) Corporations that carried on transactions with stockholders of affiliated corporations directly or indirectly shall increase the net income of the corporation to an amount that would result if the transactions were carried on at arm's length. **KRS 141.205**

(e) To determine the allowable depletion or contribution deductions for Kentucky purposes, the percentage limitations provided by the IRC must be applied to Kentucky gross/net income rather than federal gross/net income. **KRS 141.050**

(f) Ignore the provisions of IRC Section 281, Terminal Railroad Corporations and Their Shareholders. **KRS 141.010(12)(g)**

(g) The passive activity loss limitation rules of IRC Section 469 as they apply to personal service corporations and closely held C corporations are applicable for Kentucky income tax purposes. However, because of the differences listed above, the amounts of income and deductions used to determine passive activity losses for Kentucky may differ from the amounts used for federal income tax purposes. Therefore, corporations subject to the passive activity loss limitations must file federal Form 8810, Corporate Passive Activity Loss and Credit Limitations, using Part I and appropriate worksheets, reflecting the allowable passive activity loss(es) for Kentucky purposes. See instructions for federal Form 8810.

(h) Any difference in the gain (loss) upon disposition of intangible assets resulting from a difference between the accumulated federal amortization deduction and the accumulated Kentucky amortization deduction. **Regulation 103 KAR 15:090**

(i) If this return is a consolidated return and Line 28 of the consolidated Form 1120 includes the federal taxable loss of a corporation which is exempt from Kentucky income tax (exempt corporation), include the federal taxable loss of the exempt corporation on this line. If the consolidated Form 1120 includes more than one exempt corporation, combine the federal taxable income (loss) of all exempt corporations (attach schedule). If the result is a net loss, include the amount on this line. If the result is a net income, see Item (j) of Line 12 instructions. **KRS 141.200, Regulation 103 KAR 16:200**

(j) Include one-twelfth of the transition amount if: (1) the transition amount (income) exceeded $5,000,000; (2) included Section 338 property; and (3) the corporation elected the provisions of KRS 141.0101(14)(a). Attach a copy of the 1994 Form 762TS. **KRS 141.0101(14)(a)**

Line 7—Enter the total of Lines 1 through 6.

Subtractions from Federal Taxable Income—Lines 8 through 12 itemize items of income which are excluded or additional deductions allowed which are differences between federal taxable income and Kentucky taxable net income.

Line 8—Enter the amount of interest income from U. S. government bonds or from securities issued by a federal agency or other income exempt from state taxation by the Kentucky Constitution, the United States Constitution or the United States Code. Securities which are merely guaranteed by the U.S. government are not tax-exempt. Attach a schedule listing the type of obligation and the amount of tax-exempt interest. **KRS 141.010(12)(a)**

Line 9—Enter the amount of dividend income from Form 1120. **KRS 141.010(12)(b)**

Line 10—Enter the amount of the work opportunity credit reflected on federal Form 5884. For Kentucky purposes, the corporation may deduct the total amount of salaries and wages paid or incurred for the taxable year. **This adjustment does not apply for other federal tax credits.**

Line 11—See instructions on page 3 regarding **depreciation and Section 179 deduction differences**, and if applicable, include the amount from Line 22 of the Kentucky Form 4562. ***Kentucky Form 4562 must be attached***.

Line 12—Enter the total amount of other differences which result in subtractions from federal taxable income in computing Kentucky taxable net income. A **schedule must be attached** reflecting an itemization of the amount reflected on this line. Also any Kentucky or federal form or schedule from which an amount is entered on this line **must be attached**:

(a) See instructions on page 3 regarding **differences in gain or loss from disposition of assets**, and if applicable, include the amount reported on Line 8, Form 1120. ***Federal Schedule D must be attached*.**

(b) See instructions on page 3 regarding **differences in gain or loss from disposition of assets**. If applicable, include the amount of gain reported on Line 9 of federal Form 1120 and the amount of loss from Line 17 of Kentucky Form 4797. ***Federal Form 4797 filed with the federal return and the Kentucky Form 4797 must be attached*.**

(c) Enter safe harbor lease adjustments. Attach a schedule. **KRS 141.010(12)(h) and (13)(e)**

(d) 50 percent of the gross royalty income derived from any disposal of coal with a retained economic interest defined by IRC Section 631(c) and all IRC Section 272 expenses if the corporation elects not to use percentage depletion. A deduction is allowed for cost depletion and other expenses not classified as IRC Section 272 expenses for federal income tax purposes. **KRS 141.010(12)(d)**

(e) The value of leasehold interest of property donated to a charitable organization which is to be used to provide living quarters for a homeless family. This deduction is a special deduction allowed for Kentucky in addition to the ordinary charitable contribution deduction allowed by Chapter 1 of the IRC. However, in accordance with KRS 141.010(13)(d), the same item may not be deducted more than once. **KRS 141.0202**

(f) Any difference in the gain (loss) upon disposition of intangible assets resulting from a difference between the accumulated federal amortization deduction and the accumulated Kentucky amortization deduction. **Regulation 103 KAR 15:090**

(g) Ignore the provisions of IRC Section 281, Terminal Railroad Corporations and Their Shareholders. **KRS 141.010(12)(g)**

(h) The passive activity loss limitation rules of IRC Section 469 as they apply to personal service corporations and closely held C corporations are applicable for Kentucky income tax purposes. However, because of the differences listed above, the amounts of income and deductions used to determine passive activity losses for Kentucky may differ from the amounts used for federal income tax purposes. Therefore, corporations subject to the passive activity loss limitations must file federal Form 8810, Corporate Passive Activity Loss and Credit Limitations, using Part I and appropriate worksheets, reflecting the allowable passive activity loss(es) for Kentucky purposes. See instructions for federal Form 8810.

(i) To determine the allowable depletion or contribution deductions for Kentucky purposes, the percentage limitations provided by the IRC must be applied to Kentucky gross/net income rather than federal gross/net income. **KRS 141.050**

(j) If this return is a consolidated return and Line 28 of the consolidated Form 1120 includes the federal taxable income of a corporation which is exempt from Kentucky income tax (exempt corporation), include the federal taxable income of the exempt corporation on this line. If the consolidated Form 1120 includes more than one exempt corporation, combine the federal taxable income (loss) of all exempt corporations (attach a schedule). If the result is a net income, include the amount on this line. If the result is a net loss, see Item (i) of Line 6 instructions. **KRS 141.200, Regulation 103 KAR 16:200**

(k) Any amounts received from the Tobacco Master Settlement Agreement signed on November 22, 1998, the Phase II Settlement Fund or the Tobacco Loss Assistance Program which were included in federal taxable income. **KRS 141.010(12)(i), (j) and (k)**

(l) Any amounts received from tobacco buyouts. **KRS 141.010**

Line 13—Subtract Lines 8 through 12 from Line 7.

Line 14—Enter the amount from Line 13 or the amount on Schedule A, Section II, Line 8, if applicable. A corporation having property or payroll both within and without Kentucky must allocate and apportion income to Kentucky on Schedule A (Form 720), Apportionment and Allocation. See Schedule A Instructions for information on the apportionment fraction. **KRS 141.010(14) and KRS 141.120**

Corporations Doing Business in Kentucky Solely as a Partner in a Partnership—If during the taxable period the corporation was not organized under the laws of Kentucky, was not commercially domiciled in Kentucky and neither owned or leased tangible property nor had employees in Kentucky but was a partner in a partnership doing business in Kentucky, determine taxable net income as follows:

(a) Combine the corporation's distributive share of net income, gain, loss and deductions from Schedule K-1, Form 765, Partner's Share of Income, Credits, Deductions, Etc., to determine the net amount.

(b) Multiply the net amount by the percentage shown in Item D on Schedule K-1, Form 765.

Attach Schedule K-1, Form 765.

Kentucky Net Operating Loss Deduction—The amount of net operating loss to be carried back or forward and deducted for Kentucky income tax purposes is the amount of loss determined under KRS Chapter 141. In accordance with IRC Section 172, losses incurred for tax years beginning after August 5, 1997, must first be carried back to the earliest of the two preceding years and then carried forward 20 years unless the corporation elects to relinquish the carryback period.

NOTE: The special five-year NOL carryback rule provided by the Job Creation and Worker Assistance Act of 2002 does not apply for Kentucky income tax purposes.

To elect in accordance with IRC Section 172(b)(3) to relinquish the carryback period and carry the entire loss forward, check the box in question 5 of Schedule Q, Kentucky Corporation Questionnaire, included with the Kentucky return filed for the loss year. This election is irrevocable. An election for federal purposes does not constitute an election for Kentucky purposes.

Line 15—For Kentucky purposes, the same carryback-carryforward provisions allowed by IRC Section 172 are applicable for losses incurred in taxable years beginning after December 31, 1979, except that no loss may be carried to a taxable year beginning before January 1, 1980. The amount to be carried back or forward is the amount of loss determined by KRS Chapter 141 and, in the case of multistate corporations, it is the amount determined after apportionment and allocation. Attach a schedule showing the computation of the net operating loss deduction but do not enter more than the corporation's taxable income. For additional details on carryback and carryover rules, see federal Publication 536, Net Operating Losses. **KRS 141.050**

Line 16—Subtract Line 15 from Line 14.

PART II—INCOME TAX COMPUTATION

Line 1—To compute the liability, apply the following rates:

(a) 4 percent of the first $25,000 of taxable net income;

(b) 5 percent of the amount of taxable net income in excess of $25,000, but not in excess of $50,000;

(c) 6 percent of the amount of taxable net income in excess of $50,000, but not in excess of $100,000;

(d) 7 percent of the amount of taxable net income in excess of $100,000, but not in excess of $250,000; and

(e) 8.25 percent of the amount of taxable net income in excess of $250,000.

Short-period Computation of Income Tax—A corporation filing an income tax return for a period of less than 12 months is required to annualize taxable net income. To annualize, multiply taxable net income computed for the short period by 365 and divide by the number of days in the short period. The income tax liability shall be the tax computed on the annualized income multiplied by the number of days in the short period and divided by 365. **Annualization is not permitted if the return is for the initial or final period of operations. KRS 141.140**

Line 2—Economic Development Tax Credits. This line should be completed only if the corporation has been approved for one or more of the credits authorized by the Kentucky Rural Economic Development Act (KREDA), the Kentucky Jobs Development Act (KJDA), the Kentucky Industrial Revitalization Act (KIRA), the Kentucky Industrial Development Act (KIDA), the Kentucky Economic Opportunity Zone (KEOZ), the Skills Training Investment Credit Act (STICA) or the Kentucky Reinvestment Act (KRA). **If an amount is entered on this line, the return and applicable schedules *must* be mailed to Economic Tax Credits, Tax Credits Section, Department of Revenue, P.O. Box 181, Frankfort, KY 40602-0181.**

To qualify for the KREDA, KJDA, KIRA, KIDA, KEOZ or KRA credits, the corporation must be approved by the Kentucky Economic Development Finance Authority (KEDFA) and have executed and activated the appropriate agreement with KEDFA. Form(s) and instructions for the computation of the credit(s) will be mailed to the approved corporation. To claim any of these credits, the applicable tax credit schedule must be attached.

To claim the STICA credit, a copy of the final authorizing resolution received from the Bluegrass State Skills Corporation reflecting the amount of credit awarded must be attached. The credit shall be claimed on the income tax return filed for the taxable year during which the final authorizing resolution is adopted by the Bluegrass State Skills Corporation. If the amount of the credit exceeds the income tax liability for the taxable year during which the final authorizing resolution is adopted by the Bluegrass State Skills Corporation, the excess may be carried forward for three successive years. If the credit claimed is being carried forward from a prior year, a schedule reflecting the computation of the amount of credit available to be carried forward should be attached in addition to the final authorizing resolution from the Bluegrass State Skills Corporation.

Information regarding the approval process for these credits may be obtained from the Cabinet for Economic Development, Department of Financial Incentives at (502) 564-7670.

Line 3—Unemployment Tax Credit. If a corporation has hired a Kentucky resident classified as unemployed for at least 60 days and the resident remains in the employ of the corporation for 180 consecutive days during the tax year (a qualified person), the corporation may be entitled to the unemployment tax credit. For each qualified person, a one-time nonrefundable credit of $100 may be claimed. The period of unemployment must be certified by the Education Cabinet, Department of Workforce

Investment, Office of Employment and Training, Frankfort, KY, and a copy of the certification must be maintained by the corporation. To claim this credit, Schedule UTC must be attached. **KRS 141.065**

Line 4—Recycling/Composting Tax Credit. A corporation, which purchases recycling and/or composting equipment to be used exclusively in Kentucky for recycling or composting post-consumer waste materials, may be entitled to a nonrefundable credit against the income tax imposed on the corporation by KRS Chapter 141 in an amount equal to 50 percent of the installed cost of the equipment. Application for this credit must be made on Schedule RC, and a copy of the schedule reflecting the amount of credit approved by the Department of Revenue must be attached to the corporation's return on which the credit is claimed. The amount of this credit claimed for the tax year may not exceed 25 percent of the income tax liability. **KRS 141.390**

Line 5—Coal Conversion Tax Credit. A corporation which converts boilers from other fuels to the use of Kentucky coal or which substitutes Kentucky coal for other fuels in a boiler capable of burning coal and other fuels to produce energy for specific purposes may be entitled to a credit against corporation income tax equal to 4.5 percent of expenditures for Kentucky coal (less transportation costs). Unused portions of this credit may not be carried forward or back. To claim this credit, Schedule CC must be attached. **KRS 141.041**

Corporation Enterprise Zone Credit Update—Effective December 31, 2003, the Louisville and Hickman enterprise zones expired. For corporate tax purposes, qualified businesses in the Louisville and Hickman enterprise zones will no longer be able to claim a credit for tax year ended 2004. However, previous year carryforwards will be allowed. A schedule of this carryforward will be required.

Line 6—Enterprise Zone Tax Credit. Except for the companies located within the former Louisville and Hickman enterprise zones, for employees hired on or after July 14, 1992, a corporation certified by the Kentucky Enterprise Zone Authority as a qualified business may be entitled to a nonrefundable credit against Kentucky corporation income tax equal to 10 percent of wages paid to each employee who has been certified by the Education Cabinet, Department of Workforce Investment, Office of Employment and Training, as having been unemployed for at least 90 days or having received public assistance benefits, based on need and intended to alleviate poverty, for at least 90 days prior to employment with the qualified business. The credit is limited to $1,500 per employee, and any unused credit may be carried forward for up to five years. To claim the credit, Schedule EZC must be filed. **KRS 154.45-090**

Line 7—Kentucky Investment Fund Tax Credit. A corporation which makes a cash contribution to an investment fund approved by KEDFA in accordance with KRS 154.20-250 to 154.20-284 is entitled to a nonrefundable credit equal to 40 percent of the investor's proportional ownership share of all qualified investments made by its investment fund and verified by the authority. The credit may be applied against corporation income tax and corporation license tax. **To claim the credit 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.**

The tax credit amount that may be claimed by an investor in any tax year shall not exceed 50 percent of the initial aggregate credit amount approved by the authority for the investment fund which would be proportionally available to the investor. ***Example:*** *An investor with a 10 percent investment in a fund which has been approved for a total credit to all investors of $400,000 would be limited to $20,000 maximum credit in any given year.*
($400,000 x 10% x 50%)

If the amount of credit that may be claimed in any tax year exceeds the corporation's combined income and license tax liability the excess credit may be carried forward, but the carryforward of any excess tax credit shall not increase the limitation that may be claimed in any tax year. Any credit not used in 15 years, including the year in which the credit may first be claimed, shall be lost.

Information regarding the approval process for these credits may be obtained from the Cabinet for Economic Development, Department of Financial Incentives at (502) 564-7670.

Line 8—Coal Incentive Tax Credit. Effective for tax returns filed after July 15, 2001, an electric power company or a company that owns and operates a coal-fired electric generating plant may be entitled to a coal incentive tax credit. Application for this credit is made on Schedule CI, Application for Coal Incentive Tax Credit, and a copy of the credit certificate issued by the Kentucky Department of Revenue must be attached to the corporation's return on which the credit is claimed. **KRS 141.0405**

Line 9—Qualified Research Facility Tax Credit. A corporation is entitled to a credit against corporation income tax of 5 percent of the qualified costs of construction, remodeling, expanding and equipping facilities in Kentucky for "qualified research." Any unused credit may be carried forward 10 years. Schedule QR, Qualified Research Facility Tax Credit, must be attached to the corporation's return on which this credit is claimed. Federal Form 6765, Credit for Increasing Research Activities, must also be attached if applicable. See instructions for Schedule QR for more information regarding this credit. **KRS 141.395**

Line 10—**GED Incentive Tax Credit.** To claim this credit attach the GED-Incentive Program Final Report (Form DAEL-31) for each employee that 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. This credit may be claimed only in the year during which the learning contract was completed and unused portions of the credit may not be carried forward or back. For information regarding the program, contact the Education Cabinet, Kentucky Adult Education, Council on Postsecondary Education. **KRS 151B.127**

Line 11—Subtract Lines 2 through 10 from Line 1. **The credits on Lines 2 through 10 are nonrefundable credits. Therefore, the total of these credits cannot exceed the income tax liability on Line 1.**

Line 12—Enter the total of estimated tax payments made for the taxable year. Do not include the amount credited from prior year. This amount is to be reported on Line 14.

Line 13—Enter the amount of income tax paid with Form 41A720SL, Application for Six-Month Extension of Time to File Kentucky Corporation Income and License Tax Return.

Line 14—Enter the amount credited to 2004 from Part II, Line 19 or Part III, Line 23 of the 2003 return.

Line 15—Enter the license tax overpayment credited to the 2004 income tax liability from Part III, Line 24.

Line 16—If Line 11 is greater than the total of Lines 12 through 15, enter the difference on this line and submit payment.

Line 17—If Line 11 is less than the total of Lines 12 through 15, enter the difference.

Line 18—Enter the portion of Line 17 credited to the 2004 license tax liability in Part III, Line 21.

Line 19—Enter the portion of Line 17 to be credited to 2005.

Line 20—Enter the portion of Line 17 (Line 17 less Lines 18 and 19) to be refunded.

PART III—LICENSE TAX COMPUTATION

NOTE: If a Final Return box in Item E has been checked, no license tax is due. Complete only Lines 21 through 26, where applicable.

Single Member of LLC—A corporation which is the owner of a single member LLC must use a balance sheet which does not include the assets, liabilities and surplus items of the LLC to determine its capital employed. However, the corporation's balance sheet would include its investment in the LLC as though the LLC is a separate entity. Likewise, the sales, property and payroll of the LLC must be disregarded in computing the corporation's Kentucky apportionment factor, if applicable.

Capital Defined—Capital is defined by KRS 136.070(2) and is not dependent upon the various technical definitions of capital prescribed for accounting, economics or other governmental purposes. Capital includes capital stock, surplus, advances by affiliated companies, intercompany accounts and borrowed moneys. **KRS 136.070(2) and Regulation 103 KAR 20:020**

Balance Sheet—KRS 136.070(2)(a) provides that the accounts comprising capital shall be reported at the value shown on the financial statement prepared for book purposes. Regulation 103 KAR 20:020 defines "financial statement prepared for book purpose" to mean:

(a) the balance sheet prepared on a consistent basis from the corporation's books and records as of the last day of the taxable year; and

(b) if the balance sheet presentation of an account is questioned, a financial statement prepared as required by generally accepted accounting principles.

The balance sheet presented for federal income tax purposes (Form 1120, Schedule L) is the balance sheet that generally meets this definition. If you have elected to file a consolidated income tax return, a balance sheet for each member of the affiliated group must be submitted in columnar form. If you are filing a consolidated federal income tax return and a separate entity Kentucky income tax return, the balance sheet submitted must be a separate entity balance sheet. A pro forma Form 1120 Schedule L meets this requirement. **KRS 136.070(2)(a), Regulation 103 KAR 20:020 and Regulation 103 KAR 16:200**

Line 1—Enter the value of capital stock computed as follows:

(a) The sum of:

1. the par value of all issued and outstanding shares of stock having a par value; and
2. the amount of consideration received by the corporation for shares of stock issued and outstanding without a par value.

(b) Less treasury stock. **Regulation 103 KAR 20:020, Section 1 (6)**

Line 2(a)—Enter the value of total assets of the corporation computed as follows:

(a) The sum of:

1. the original cost of the entire property of the corporation excluding deferred tax benefits; and
2. equity in affiliated corporations if the corporation records the equity on its financial statements prepared for book purposes.

(b) Less applicable contra-asset accounts.

A schedule reflecting a computation of total assets ***must be attached***. **Regulation 103 KAR 20:020, Section 1(17) and Section 3**

Line 2(b)—Enter the total debt of the corporation including trade payables or accrued operating expense accounts. Debt does not include contingent or estimated liabilities. A schedule reflecting a computation of total debt ***must be attached***. **Regulation 103 KAR 20:020, Section 1(8)**

Line 2(c)—Subtract Line 2(b) from Line 2(a) and enter the result here. **Regulation 103 KAR 20:020, Section 1(14)**

Line 2(d)—Enter the amount of capital stock from Line 1. **Regulation 103 KAR 20:020, Section 1(6)**

Line 3—Subtract Line 2(d) from Line 2(c) and enter the result here. **Regulation 103 KAR 20:020, Section 1(16)**

Line 4—Enter the excess if any of the advances by or from affiliated companies over the total advances to affiliated companies. Advances by affiliated companies include liability accounts representing a transfer of cash resulting from a cash management plan. Advances to affiliated companies include asset accounts representing a transfer of cash resulting from a cash management plan. *If advances to affiliated companies exceed advances by affiliated companies, enter zero on this line.* **Regulation 103 KAR 20:020, Section 4**

Line 5—Enter the net of intercompany payable and receivable accounts. Intercompany accounts do not include loans of money, asset or liability accounts between affiliated companies representing transfers of cash resulting from a cash management plan or advances by or to an affiliated company. *If intercompany receivables exceed intercompany payables, enter the amount on this line as a negative.* **Regulation 103 KAR 20:020, Section 5**

Line 6—Enter the year-end balance of all loans including loans from stockholders and bank overdrafts. Borrowed moneys do not include trade accounts or notes payable arising through trade transactions including salaries payable, taxes payable, or accounts representing various types of liabilities incurred for supplies, repairs, or other accounts if the seller allows the purchaser to pay within 30 to 90 days. **Regulation 103 KAR 20:020, Section 5**

Line 7—Enter moneys borrowed to purchase inventory if the corporation can show by evidence submitted with the return that the moneys were used to purchase inventory. A schedule reflecting a computation of this amount ***must be attached***. The exclusion cannot exceed the purchased material cost of ending inventory. If a loan, including a line of credit, is used, the Department of Revenue will accept the following types of evidence to establish that all or a portion of the borrowed money has been used directly to purchase inventory:

1. A copy of the loan agreement, or other document executed at the time the loan is established, stating that the sole purpose of the loan is for purchasing inventory. If such a document is submitted to the Department of Revenue, the lesser of the loan balance at the end of the year, the total cost of the inventory purchased for the year or the purchased material cost of ending inventory will be excluded from the calculation of capital under KRS 136.070.
2. If the corporation cannot produce documentation that the loan is to be used solely for the purchase of inventory, the Department of Revenue will allow a pro rata portion of the loan balance to be excluded from capital by using a formula to determine the amount of the loan attributed to the purchase of inventory. A copy of the loan agreement or other document executed at the time the loan is established must be submitted.

    (a) The amount of moneys borrowed to finance inventory will be determined by multiplying the loan balance at the end of the taxable year by a fraction, the numerator of which is cash outlays for inventory during the taxable year and the denominator of which is total cash outlays during the taxable year.

(b) Any other formula sufficient to document that all or a portion of the borrowed moneys are attributable to the purchase of inventory will be considered by the Department of Revenue upon submission.

Line 8—If you are a bank holding company, this deduction is available **only** if you own stocks or securities in banks subject to the bank franchise tax equal to or greater than 50 percent of the bank holding company's total assets (investment ratio). The deduction amount shall include only the investment in subsidiary banks in which the bank holding company owns more than 50 percent of the subsidiary bank's outstanding stock. Attach a schedule showing the following:

1. the actual value of the bank holding company's capital stock;
2. a schedule showing the computation of the investment ratio;
3. the name of each subsidiary bank that was included in the deduction amount;
4. the percentage of stock owned in each subsidiary bank that was included in the deduction amount; and
5. the amount of the investment in each subsidiary that was included in computing the deduction.

Line 9—Combine Line 1 and Lines 3 through 8.

Line 10—Enter "100" or the apportionment fraction from Schedule A, Section I, Line 12, if applicable.

Line 11—Multiply the amount on Line 9 by the percentage on Line 10.

Line 12—Multiply the amount on Line 11 by .0021. Enter the result or $30, whichever is greater. The license tax rate is $2.10 on each $1,000 of capital employed in the business in Kentucky or a minimum of $30. **KRS 136.070(1) and (5)**

Line 13—A corporation with gross income of $500,000 or less is allowed a credit of $1.40 per $1,000 of the first $350,000 of capital employed (maximum credit $490) against the license tax. For the purpose of this credit, gross income means total taxable and nontaxable receipts before reduction for cost of goods sold, cost of assets sold or other deductions. Do not include prior year credit on this line. **KRS 136.070(a) and Regulation 103 KAR 20:010**

Line 14—Subtract Line 13 from Line 12 and enter the result or $30, whichever is greater.

Short-period Computation of License Tax—A corporation filing a short-period license tax return resulting from a **change in accounting period** is required to annualize its license tax liability. To annualize, subtract Line 13 from Line 12, multiply by the number of months in the short period, divide by 12, and enter the result or $30, whichever is greater. The license tax liability is not annualized on an initial return. **KRS 136.100**

NOTE: No license tax return is required for short periods due to a change in ownership or the termination of the election of S corporation treatment ***unless*** there is a change in accounting period.

Line 15—Kentucky Investment Fund Tax Credit. See instructions for Part II, Line 7.

Line 16—**KIRA Tax Credit.** Enter the appropriate amount from Schedule KIRA-L. *This credit is applicable only for those corporations which have been approved by the Kentucky Economic Development Finance Authority (KEDFA) for a Kentucky Industrial Revitalization (KIRA) Project and have executed a Revitalization Agreement with KEDFA.* **KRS154.26-090 and KRS 136.0704**

Line 17—**Coal Incentive Tax Credit.** See instructions for Part II, Line 8.

Line 18—**Reinvestment in Existing Industry Tax Credit.** Enter the appropriate amount from Schedule KRA. *This credit is applicable only for those corporations which have been approved by the Kentucky Economic Development Finance Authority (KEDFA) for a Kentucky Reinvestment (KRA) Project and have executed a Reinvestment Agreement with KEDFA.* **KRS 154.34 and KRS 141.416**

Line 19—Net License Tax Liability. Subtract Lines 15, 16, 17 and 18 from Line 14. **The credits on Lines 15, 16, 17 and 18 are nonrefundable credits. Therefore, the total of these credits cannot exceed the license tax liability on Line 14.**

Line 20—Enter the amount of license tax paid with the application for Six-month Extension of Time to File Kentucky Corporation Income and License Tax Return, Form 41A720SL.

Line 21—Enter the income tax overpayment credited to the 2004 license tax liability from Part II, Line 18 and any amount credited to 2004 from Line 23 of the 2003 return.

Line 22—If line 19 is greater than the total of Lines 20 and 21, enter the difference and submit payment.

Line 23—If Line 19 is less than the total of Lines 20 and 21, enter the difference.

Line 24—Enter the portion of Line 23 credited to the 2004 income tax liability in Part II, Line 15.

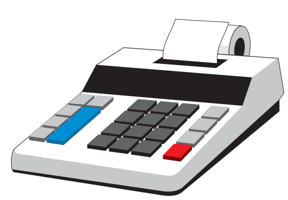
Line 25—Enter the portion of Line 23 to be credited to 2005.

Line 26—Enter the portion of Line 23 (Line 23 less Lines 24 and 25) to be refunded.

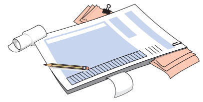
Tax Payment Summary—The payment submitted with Form 720 must be itemized. Enter the amount of income tax payment on the Income line (Part II, Line 16), the amount of license tax payment on the License line (Part III, Line 22), the amount of interest payment on the Interest line, the amount of penalty payment on the Penalty line, and the total payment on the TOTAL line.

No Packet Required—The corporation does not require a forms packet in future years since the forms will be obtained from an alternative source, e.g., software.

Signature—Form 720 must be signed by an authorized corporate officer. **Failure by corporate officers to sign the return, to complete all applicable lines on any required Kentucky form, to attach all applicable schedules including copies of federal forms, or to complete all information on the questionnaire will delay the processing of tax returns and may result in the assessment of penalties.**



TAXPAYER ASSISTANCE



Forms:

Operations and Support Services Branch
200 Fair Oaks Lane
Frankfort, KY 40620
(502) 564-3658
(502) 564-4459 (Forms by Fax)
www.revenue.ky.gov (Internet)

Information:

Corporation Income and License Tax Branch
Department of Revenue
P.O. Box 1302
Frankfort, KY 40602-1302

Department of Revenue
200 Fair Oaks Lane
Frankfort, KY 40620
(502) 564-4581
(502) 564-3058 (Telecommunication Device for the Deaf)

KENTUCKY TAXPAYER SERVICE CENTERS

Information and forms are available from Kentucky Taxpayer Service Centers in the following cities.

Ashland, 134 Sixteenth Street, 41101-7670
(606) 920-2037

Bowling Green, 201 West Professional Park Court, 42104-3278
(270) 746-7470

Central Kentucky, 200 Fair Oaks Lane, Frankfort, 40620
(502) 564-4581 *(Taxpayer Assistance)*

Corbin, 15100 North US 25E, Suite 2, 40701-6188
(606) 528-3322

Hopkinsville, 181 Hammond Drive, 42240-7926
(270) 889-6521

Louisville, 620 South Third Street
Suite 102, 40202-2446
(502) 595-4512

Northern Kentucky, Turfway Ridge Office Park
7310 Turfway Road, Suite 190
Florence, 41042-4871
(859) 371-9049

Owensboro, Corporate Center, Suite 201C
401 Frederica Street, 42301-6295
(270) 687-7301

Paducah, Clark Business Complex, Suite G
2928 Park Avenue, 42001-4024
(270) 575-7148

Pikeville, Uniplex Center, 126 Trivette Drive,
Suite 203, 41501-1275
(606) 433-7675

INTANGIBLE PROPERTY TAXES—The listing period for intangible property is January 1 through May 15 of each year. Each taxpayer is responsible for reporting intangible property subject to ad valorem taxation. The Intangible Property Tax Return, Revenue Form 62A376, and instructions can be obtained from your local county property valuation administrator's office or the Office of Property Valuation.

TANGIBLE PERSONAL PROPERTY TAXES—The listing period for tangible personal property is January 1 through May 15 of each year. Each taxpayer is responsible for reporting his tangible personalty subject to ad valorem taxation. The Tangible Personal Property Tax Return, Revenue Form 62A500, and instructions can be obtained from your local county property valuation administrator's office or the Office of Property Valuation. You may also go to **www.revenue.ky.gov** to download these forms. A separate form must be filed for each location in Kentucky where you have tangible personal property.

Kentucky Department of Revenue
Mission Statement

The mission of the Kentucky Department of Revenue is to . . .

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

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

Printing costs paid from state funds.

YOUR RIGHTS AS A KENTUCKY TAXPAYER

The mission of the Kentucky Department of Revenue (DOR) is to provide courteous, accurate and efficient services for the benefit of the Commonwealth and administer Kentucky tax laws in a fair and impartial manner.

As a Kentucky taxpayer, you have the right to expect the DOR to honor its mission and uphold your rights every time you contact or are contacted by the DOR.

RIGHTS OF TAXPAYER

Privacy—You have the right to privacy of information provided to the DOR.

Assistance—You have the right to advice and assistance from the DOR in complying with state tax laws.

Explanation—You have the right to a clear and concise explanation of:

- basis of assessment of additional taxes, interest and penalties, or the denial or reduction of any refund or credit claim;
- procedure for protest and appeal of a determination of the DOR; and
- tax laws and changes in tax laws so that you can comply with the law.

Protest and Appeal—You have the right to protest and appeal a determination of the DOR if you disagree with an assessment of tax or penalty, reduction or a denial of a refund, a revocation of a license or permit, or other determination made by the DOR.

Conference—You have the right to a conference to discuss a tax matter.

Representation—You have the right to representation by your authorized agent (attorney, accountant or other person) in any hearing or conference with the DOR. You have the right to be informed of this right prior to the conference or hearing. If you intend for your representative to attend the conference or hearing in your place, you may be required to give your representative a power of attorney before the DOR can discuss tax matters with your authorized agent.

Recordings—You have the right to make an audio recording of any meeting, conference or hearing with the DOR, or to be notified in advance if the DOR plans to record the proceedings and to receive a copy of any recording.

Consideration—You have the right to consideration of:

- waiver of penalties or collection fees if "reasonable cause" for reduction or waiver is given ("reasonable cause" is defined in KRS 131.010(9) as: "an event, happening, or circumstance entirely beyond the knowledge or control of a taxpayer who has exercised due care and prudence in the filing of a return or report or the payment of monies due the department pursuant to law or administrative regulation");
- installment payments of delinquent taxes, interest and penalties;
- waiver of interest and penalties, but not taxes, resulting from incorrect written advice from the DOR if all facts were given and the law did not change or the courts did not issue a ruling to the contrary;
- extension of time for filing reports or returns; and
- payment of charges incurred resulting from an erroneous filing of a lien or levy by the DOR.

Guarantee—You have the right to a guarantee that DOR employees are not paid, evaluated or promoted based on taxes assessed or collected, or a tax assessment or collection quota or goal imposed or suggested.

Damages—You have the right to file a claim for actual and direct monetary damages with the Kentucky Board of Claims if a DOR employee willfully, recklessly and intentionally disregards your rights as a Kentucky taxpayer.

Interest—You have the right to receive interest on an overpayment of tax, except delinquent property tax, payable at the same rate you would pay if you underpaid your tax.

DEPARTMENT OF REVENUE RESPONSIBILITIES

The DOR has the responsibility to:

- perform audits, conduct conferences and hearings with you at reasonable times and places;
- authorize, require or conduct an investigation or surveillance of you only if it relates to a tax matter;
- make a written request for payment of delinquent taxes which are due and payable at least 30 days prior to seizure and sale of your assets;
- conduct educational and informational programs to help you understand and comply with the laws;
- publish clear and simple statements to explain tax procedures, remedies, your rights and obligations, and the rights and obligations of the DOR;
- notify you in writing when an erroneous lien or levy is released and, if requested, notify major credit reporting companies in counties where lien was filed;
- advise you of procedures, remedies and your rights and obligations with an original notice of audit or when an original notice of tax due is issued, a refund or credit is denied or reduced, or whenever a license or permit is denied, revoked or canceled;
- notify you in writing prior to termination or modification of a payment agreement;
- furnish copies of the agent's audit workpapers and a written narrative explaining the reason(s) for the assessment;
- resolve tax controversies on a fair and equitable basis at the administrative level whenever possible; and
- notify you in writing at your last known address at least 60 days prior to publishing your name on a list of delinquent taxpayers for which a tax or judgment lien has been filed.

The DOR has a Taxpayer Ombudsman's Office which consists of the Ombudsman and a staff whose job is to serve as an advocate for taxpayers' rights. One of the main functions of the office is to ensure that your rights as a Kentucky taxpayer are protected by the DOR.

The Taxpayer Ombudsman's Office may be contacted by telephone at (502) 564-7822 (between 8:00 a.m. and 4:30 p.m. weekdays). From a Telecommunication Device for the Deaf (TDD), call (502) 564-3058. The mailing address is: Office of Taxpayer Ombudsman, P.O. Box 930, Frankfort, Kentucky 40602-0930.

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This information merely summarizes your rights as a Kentucky taxpayer and the responsibilities of the Department of Revenue. The Kentucky Taxpayers' Bill of Rights may be found in the Kentucky Revised Statutes (KRS) at Chapter 131.041—131.081. Additional rights and responsibilities are provided for in KRS 131.020, 131.110, 131.170, 131.183, 131.500, 133.120, 133.130, 134.580 and 134.590.