

720S

41A720S

Department of Revenue

Kentucky S Corporation Income and License Tax Return

2004

Taxable Year Ending

See separate instructions.

Taxable period beginning, 2004, and ending, 200.

Mo. / Yr.

Form header section containing identification numbers (Federal, Kentucky), S Corporation name, address, and incorporation details.

Check if applicable: LLC, Initial return, Final return, Amended return, Short-period return, Change of name, Change of address.

Main tax computation sections: PART I—ORDINARY INCOME (LOSS) COMPUTATION, PART II—INCOME TAX COMPUTATION, PART III—LICENSE TAX COMPUTATION.

TAX PAYMENT SUMMARY (Round to Nearest Dollar) Make check(s) payable to Kentucky State Treasurer.

Tax payment summary table with fields for Income, License, Penalty, Interest, and TOTAL.

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

SCHEDULE Q—KENTUCKY S CORPORATION QUESTIONNAIRE

IMPORTANT: Questions 4—10 must be completed by all S corporations. If this is the S corporation's initial return or if the S corporation did not file a return under the same name and same federal I.D. number for the preceding year, questions 1, 2 and 3 must be answered. **Failure to do so may result in a request for a delinquent return.**

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

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

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

Employer Withholding _____

Sales and Use Tax Permit _____

Consumer Use Tax _____

Unemployment Insurance _____

Coal Severance and/or Processing Tax _____

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

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

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

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

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

6. Are disregarded entities included in this return? Yes No If yes, list name and federal I.D. number of the disregarded entity. _____

7. Was this return prepared on: (a) cash basis, (b) accrual basis, (c) other _____

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

9. (a) Did the S corporation file a Kentucky intangible property tax return for January 1, 2005? Yes No

(b) Did the S corporation file a Kentucky tangible personal property tax return for January 1, 2005? Yes No

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

If yes, enter years under audit _____

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

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

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

President's Name: _____ Treasurer's Name: _____

President's Home Address: _____ Treasurer's Home Address: _____


President's Social Security Number: _____ Treasurer's Social Security Number: _____

Vice President's Name: _____ Secretary's Name: _____

Vice President's Home Address: _____ Secretary's Home Address: _____

Vice President's Social Security Number: _____ Secretary's Social Security Number: _____

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

 _____ Date _____

Signature of principal officer or chief accounting officer

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

May the Department of Revenue discuss this return with the preparer?

Yes No

SCHEDULE K—SHAREHOLDERS' SHARES OF INCOME, CREDITS, DEDUCTIONS, ETC. (See Specific Instructions for Each Line Item)

SECTION I	(a) Pro Rata Share Items	(b) Total Amount
Income (Loss) and Deductions		
1.	Ordinary income (loss) from trade or business activities (page 1, Part I, line 7)	1
2.	Net income (loss) from rental real estate activities (attach federal Form 8825)	2
3.	(a) Gross income from other rental activities	3(a)
	(b) Less expenses from other rental activities (attach schedule)	(b)
	(c) Net income (loss) from other rental activities (line 3a less line 3b)	(c)
4.	Portfolio income (loss):	
	(a) Interest income	4(a)
	(b) Dividend income	(b)
	(c) Royalty income	(c)
	(d) Net short-term capital gain (loss) (attach federal Schedule D and Kentucky Schedule D if applicable) ..	(d)
	(e) Net long-term capital gain (loss) (attach federal Schedule D and Kentucky Schedule D if applicable) ...	(e)
	(f) Other portfolio income (loss) (attach schedule)	(f)
5.	Section 1231 net gain (loss) (other than due to casualty or theft) (attach federal and Kentucky Forms 4797) .	5
6.	Other income (loss) (attach schedule)	6
7.	Charitable contributions (attach schedule) and housing for homeless deduction (attach Schedule HH)	7
8.	Section 179 expense deduction (attach federal Form 4562 and Kentucky Form 4562 if applicable)	8
9.	Deductions related to portfolio income (loss) (attach schedule)	9
10.	Other deductions (attach schedule)	10
Investment Interest		
11.	(a) Interest expense on investment debts	11(a)
	(b) (1) Investment income included on lines 4(a), 4(b), 4(c) and 4(f) above	(b)(1)
	(2) Investment expenses included on line 9 above	(2)
Credits		
12.	Skills Training Investment Tax Credit	12
13.	Kentucky Unemployment Tax Credit (attach Schedule UTC)	13
14.	Recycling and Composting Equipment Tax Credit (attach <i>approved</i> Schedule RC)	14
15.	Kentucky Investment Fund Tax Credit	15
16.	Coal Incentive Tax Credit	16
17.	Qualified Research Facility Tax Credit (attach Schedule QR)	17
18.	GED Incentive Tax Credit	18
Other Items		
19.	(a) Type of Section 59(e)(2) expenditures ►	19(a)
	(b) Amount of Section 59(e)(2) expenditures	(b)
20.	Tax-exempt interest income	20
21.	Other tax-exempt income	21
22.	Nondeductible expenses	22
23.	Total property distributions (including cash) other than dividends reported on line 25 below	23
24.	Other items and amounts required to be reported separately to shareholders (attach schedule)	24
25.	Total dividend distributions paid from accumulated earnings and profits	25
SECTION II—Computation of Nonresident Shareholders' Taxable Percentage and Amount Withheld		
1.	S corporation's Kentucky gross receipts	1
2.	S corporation's total gross receipts	2
3.	Nonresident shareholders' taxable percentage (line 1 divided by line 2)	3
4.	Nonresident shareholders' net distributive share of taxable income	4
5.	Nonresident shareholders' net distributive share withheld. Report amount here and on Form 740NP-WH, line 9	5

SCHEDULE K INSTRUCTIONS (FORM 720S)

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

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

NOTE: Banks and savings and loan associations see special instructions under Tax Treatment of S Corporation and Shareholder(s) on page 4 of the 720S packet.

Section I—Specific Instructions

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

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

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

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

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

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

Line 4(d)—See instructions on page 3 of the 2004 Form 720S packet regarding **differences in gain or loss from disposition of assets**, and if applicable, enter the amount from Line 6 of the Kentucky Schedule D that is portfolio income. Report any gain or loss that is not portfolio income on Line 6, Schedule K, Form 720S. **Kentucky Schedule D must be attached to Form 720S.** Otherwise, enter the amount from Line 6 of the federal Schedule D (Form 1120S) that is portfolio income.

Line 4(e)—See instructions on page 3 of the 2004 Form 720S packet regarding **differences in gain or loss from disposition of assets**, and if applicable, enter the amount from Line 13 of the Kentucky Schedule D that is portfolio income. Report any gain or loss that is not portfolio income on Line 6, Schedule K, Form 720S. **Kentucky Schedule D must be attached to Form 720S.** Otherwise, enter the amount from Line 13 of the federal Schedule D (Form 1120S) that is portfolio income.

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

Line 5—See instructions on page 3 of the 2004 Form 720S packet regarding **differences in gain or loss from disposition of assets**. If applicable, enter the amount from Line 7 of the Kentucky Form 4797, and **Kentucky Form 4797 must be attached to Form 720S.** Otherwise, enter net gain (loss) under Section 1231 from federal Form 4797. Do not include net gains (losses) from involuntary conversions due to casualties or thefts on this line. Instead, report them on Line 6.

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

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

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

Line 8—See instructions on page 3 of the 2004 Form 720S packet regarding **depreciation and Section 179 deduction differences**, and if applicable, include the amount from Line 12 of the Kentucky Form 4562. **Kentucky Form 4562 must be attached.** Otherwise, enter Section 179 deduction from federal Form 4562.

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

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

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

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

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

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

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

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

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

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

Line 18—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.

Line 19(a)—Enter the information provided on federal Schedule K, Form 1120S, Line 12d(1).

Line 19(b)—Enter the amount reported on federal Schedule K, Form 1120S, Line 12d(2).

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

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

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

Line 23—Enter the amount reported on federal Schedule K, Form 1120S, Line 16d.

Line 24—Attach schedules to report the S corporation's total income, expenses and other information applicable to items not included on Lines 1 through 23 including, but not limited to, any recapture of Section 179 deduction, gross income and other information relating to oil and gas well properties enabling the shareholder to figure the allowable depletion deduction, and any other information the shareholders need to prepare their Kentucky income tax returns. See federal instructions for Schedule K, Form 1120S, Line 17d.

Line 25—Enter the amount reported on federal Schedule K, Form 1120S, Line 17c.

Section II

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

in Kentucky to its gross receipts from sales or services everywhere during the tax year and enter the percentage on each shareholder's Schedule K-1 (Form 720S), Item B(2).

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

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

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

Withholding

For taxable years ending on or after December 31, 2003, under the provisions of Regulation 103 KAR 18:070, every pass-through entity required to file Form 765, Kentucky Partnership Income Tax Return, or 720S, Kentucky S Corporation Income and License Tax Return, must withhold income tax at the rate of 6 percent on the net distributive share income of each Kentucky nonresident **individual** partner, shareholder, or member. However, for those Kentucky nonresident members whose net distributive share income is less than \$1,000 no withholding is required. The pass-through entity is liable for the payment of the tax required to be withheld less any credits passed through to the individual that are reasonably expected to be claimed in the current tax year.

The reporting of net distributive share income and payment of tax due by the pass-through entity shall satisfy the filing requirement of KRS 141.206 for a Kentucky nonresident individual member (Form 740-NP) whose only Kentucky source income is net distributive share income. The Kentucky nonresident individual member may file a return to take advantage of the graduated tax rates and apply the tax withheld against tax imposed for the taxable year in which the income is reported.

Section II, Line 4—Enter the total nonresident shareholders' net distributive share of taxable income determined from Lines 1 through 25 of the return and any supplemental income and expense items. Enter here and report this amount on Form 740NP-WH, Line 6.

Section II, Line 5—Enter the total amount withheld by the S corporation on the net distributive share of the Kentucky nonresident members by multiplying Line 4 of Section II by 6 percent less applicable credits available for the taxable period.

S corporations having Kentucky nonresident shareholders with net distributive share income of \$1,000 or more **shall** complete Form PTE-WH for each individual and mail Copy A with Form 740NP-WH, to the Kentucky Department of Revenue. The S corporation must furnish Copies B and C to the members by the 15th day of the fourth month following the close of the taxable year. Form PTE-WH is available on the Kentucky Department of Revenue's Web site at www.revenue.ky.gov.