

SCHEDULE K-1

(Form 720S)

Department of Revenue

**KENTUCKY SHAREHOLDER'S SHARE
OF INCOME, CREDITS, DEDUCTIONS, ETC.**

2005

Taxable period beginning _____, 2005, ending _____, 200__

Shareholder's identifying number ►

S Corporation's identifying number ►

Shareholder's name, address and ZIP code

S Corporation's name, address and ZIP code

- A. Shareholder's percentage of stock ownership for tax year ► _____ %
- B. (1) Resident shareholder's taxable percentage of pro rata share items ► **100%**
- (2) Nonresident shareholder's taxable percentage of pro rata share items
 (see Schedule A, Section I, line 12) ► _____ %
- C. What type of entity is this shareholder? _____
- D. Check if applicable: (1) Final K-1 (2) Amended K-1

IMPORTANT: Refer to Shareholder's Instructions for Schedule K-1 before entering information from Schedule K-1 on your tax return.

		(a) Pro Rata Share Items	(b) Amount
Income (Loss)	1. Ordinary income (loss) from trade or business activities	1	
	2. Net income (loss) from rental real estate activities	2	
	3. Net income (loss) from other rental activities	3	
	4. Portfolio income (loss):		
	(a) Interest	4(a)	
	(b) Dividends	(b)	
	(c) Royalties	(c)	
(d) Net short-term capital gain (loss)	(d)		
(e) Net long-term capital gain (loss)	(e)		
(f) Other portfolio income (loss) (attach schedule)	(f)		
5. Net gain (loss) under Section 1231 (other than due to casualty or theft)	5		
6. Other income (loss) (attach schedule)	6		
Deductions	7. Charitable contributions (attach schedule) and housing for homeless deduction (attach Schedule HH)	7	
	8. IRC Section 179 expense deduction (attach Federal Form 4562 and Kentucky Revised Form 4562) ...	8	
	9. Deductions related to portfolio income (loss) (attach schedule)	9	
	10. Other deductions (attach schedule)	10	
Invest- ment 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 10 above	(2)	
Other Items	12. (a) Type of Section 59(e)(2) expenditures ►	12(a)	
	(b) Amount of Section 59(e)(2) expenditures	(b)	
	13. Tax-exempt interest income	13	
	14. Other tax-exempt income	14	
	15. Nondeductible expenses	15	
	16. Property distributions (including cash) other than dividend distributions reported to you on Form 1099-DIV	16	
	17. Supplemental information required to be reported to each shareholder (attach schedules)	17	
	18. Total dividend distributions paid from accumulated earnings and profits	18	
Credits	19. Individual shareholder's net distributable share of taxable income taxed under KRS 141.040	19	
	20. Nonrefundable Kentucky corporation income tax credit (KRS 141.420(3))	20	
	21. Refundable Kentucky corporation income tax credit (KRS 141.420(3)(c))	21	
Resident Shareholder Adjustment	22. Combination of Kentucky Schedule K-1, lines 1 through 5, 8 and portions of lines 6 and 10. Add income amounts and subtract (loss) and deduction amounts (see instructions)	22	
	23. Combination of federal Schedule K-1, lines 1 through 9, 11 and portions of lines 10 and 12. Add income amounts and subtract (loss) and deduction amounts (see instructions)	23	
	24. Enter the difference of lines 22 and 23 here and on appropriate line on Schedule M (see instructions)	24	

SHAREHOLDER'S INSTRUCTIONS FOR SCHEDULE K-1 (FORM 720S)

PURPOSE—Although the S corporation is subject to Kentucky corporation income tax, you, the shareholder, are liable for Kentucky income tax on your pro rata share of the S corporation's income, whether or not distributed, and you must include your share on your Kentucky income tax return for the year in which the tax year of the S corporation ends. The S corporation uses Schedule K-1 (Form 720S) to report to you your share of the S corporation's income (reduced by any federal tax the S corporation paid on the income), loss, credits, deductions, etc. Please keep it for your records.

GENERAL INSTRUCTIONS—Schedule K-1 (Form 720S) will help when preparing your Kentucky income tax return. Where "(attach schedule)" appears next to a line on Schedule K-1, it means the S corporation will have attached a statement to Schedule K-1 to show information for the line item, if applicable. If you believe the S corporation has made an error on your Schedule K-1 (Form 720S), notify the S corporation and ask for a corrected schedule. Do not change any item on your copy.

Schedule K-1 (Form 720S) does not show the amount of actual dividend distributions the S corporation paid to you. The S corporation must report such amounts to you on Form 1099-DIV. You report actual dividend distributions on federal Schedule B (Form 1040). Refer to the shareholder instructions you received for federal Schedule K-1 (Form 1120S) for information concerning your basis in corporate stock, elections to be made by you separately on your income tax return and not by the S corporation, etc.

Every individual, including estates and trusts, who is a resident of Kentucky and is a shareholder in an S corporation is required to report 100 percent of his or her share of income (loss), credits, deductions, etc., for Kentucky individual income tax purposes. **A nonresident shareholder must report the portion of his or her share of income attributable to the S corporation's business in Kentucky.** A resident is an individual domiciled within Kentucky or an individual who is not domiciled in Kentucky but maintains a place of abode in Kentucky and spends in the aggregate more than 183 days of the taxable year in Kentucky. A nonresident is any individual not a resident of Kentucky.

At-Risk Limitations—Generally, if you have a loss from any activity carried on as a trade or business or for the production of income by the S corporation and you, the shareholder, have amounts invested in that activity for which you are not at risk, you will be required to complete federal Form 6198, At-Risk Limitations, to figure the allowable loss to report on your Kentucky income tax return. Your deductible loss from each activity for the tax year generally is limited to the amount you could actually lose in the activity. To help you complete Form 6198, if required, the S corporation has provided a schedule showing your share of income, expenses, etc., for each at-risk activity.

Passive Activity Limitations—The passive activity limitations in IRC Section 469 are figured at the shareholder level and may apply to any loss reported on Lines 1, 2 or 3 and any other related items of income, loss and deductions reported on Schedule K-1 (Form 720S). Refer to the federal Shareholder's Instructions for Schedule K-1 (Form 1120S) to determine if the passive activity limitations apply to your share of loss(es) reported on Schedule K-1 (Form 720S), and if you must file Form 8582-K, Kentucky Passive Activity Loss Limitations. When applicable, the passive activity limitations on losses are applied after the limitations on losses for a shareholder's at-risk amount.

SPECIFIC INSTRUCTIONS—Kentucky Resident Shareholders (Form 740 Filers)—You, as the shareholder, will need to determine the net difference between your federal Schedule K-1 amounts and your Kentucky Schedule K-1 amounts. This will adjust the items of income, loss and deductions used to compute your federal adjusted gross income to the Kentucky amounts shown in Column (b), Schedule K-1. To determine this difference, complete Lines 22 through 24.

Line 22—Include on this line, the Kentucky Schedule K-1 amounts from Lines 1 through 5 and 8. Also include the amounts from Lines 6 and 10 that do not pass through to Schedule A as itemized deductions.

Line 23—Include on this line, the federal Schedule K-1 amounts from Lines 1 through 9 and 11. Also include the amounts from Lines 10 and 12 that do not pass through to Schedule A as itemized deductions.

NOTE: If Form 8582-K is required, adjust the amounts entered on Lines 22, 23 and 24 to exclude any income, loss, deduction or expense related to a passive activity. Complete the passive activities adjustment worksheet (Form 8582-K, page 2) to determine additions to or subtractions from federal adjusted gross income. **See Form 740 instructions for Schedule M, Line 3 and/or Line 13.**

If amounts on Lines 4(d) and 4(e) are subject to the capital loss limitations, do not include on Lines 22 and 23. Complete federal Schedule D using Kentucky amounts to determine additions to or subtractions from federal adjusted gross income.

Line 24—Enter difference of Lines 22 and 23. If Line 22 is greater than Line 23, enter the difference as an addition to federal adjusted gross income on Schedule M, Line 3. If Line 23 is greater than Line 22, enter the difference as a subtraction on Schedule M, Line 13.

Caution: If the amount on Line 22 is a (loss) and Line 23 is a (loss), the smaller dollar amount of (loss) is the greater amount, and to determine the difference subtract the smaller dollar amount from the larger dollar amount. If the amount on Line 22 is a (loss) and Line 23 is an income amount, or the amount on Line 22 is an income amount and Line 23 is a (loss), the income amount is the greater amount, and to determine the difference add the two amounts.

Nonresident Shareholders (Form 740-NP Filers)—If you are a nonresident individual shareholder needing to file Form 740-NP, in order to take advantage of the graduated withholding rates on income withheld by the S corporation, follow the directions below. The nonresident individual may also need to file Form 740-NP to take advantage of capital loss, net operating loss and credit carryforwards.

If the percentage shown in Item B(2) is "100%," you must enter on the appropriate lines of Form 740-NP and related schedules the amounts shown on Lines 1 through 5 and 8, portions of Lines 6, 10 and 11(a), and the portion of Line 12(b) actually deducted for the current year.

If the percentage shown in Item B(2) is less than 100 percent, the amounts on Lines 1 through 5 and 8, the portions of Lines 6, 10 and 11(a) which do not pass through to Schedule A, and the portion of Line 12(b) actually deducted for the current year must be multiplied by this percentage and entered on the appropriate lines of the Nonresident or Part-Year Resident Income Tax Return, Form 740-NP, and related schedules. Lines 7 and 9, and the portions of Lines 6, 10 and 11(a) which pass through to Schedule A should not be multiplied by the percentage in Item B(2) since they will be prorated by the percentage on Form 740-NP, page 3, Line 35.

Refer to specific instructions below and federal Shareholder's Instructions for Schedule K-1 (Form 1120S).

Lines 1 through 3—Enter on federal Schedule E using Kentucky amounts or on Form 8582-K, if applicable.

Line 4(a)—Enter on Form 740-NP, Section D, Line 3.

Line 4(b)—Enter on Form 740-NP, Section D, Line 4.

Line 4(c)—Enter on federal Schedule E using Kentucky amounts.

Lines 4(d) and (e)—Enter on federal Schedule D using Kentucky amounts or Form 8582-K, if applicable.

Line 4(f)—Enter on applicable lines of your return (see federal Shareholder's Instructions for Schedule K-1 (Form 1120S)).

Line 5—Enter on federal Form 4797.

Line 6—Enter on applicable lines of your return (see federal Shareholder's Instructions for Schedule K-1 (Form 1120S)).

Line 7—Enter on Schedule A, Form 740-NP.

Line 8—Enter on federal Schedule E using Kentucky amounts.

Line 9—Enter on Schedule A, Form 740-NP.

Line 10—Enter on Schedule A, Form 740-NP.

For All Shareholders

Lines 11 and 12 through 18—See federal Shareholder's Instructions for Lines 12, 16 and 17, Schedule K-1 (Form 1120S).

Line 19—Enter on Line 2 of the Kentucky Corporation Tax Credit Worksheet located in the Form 740, Form 740-NP or Form 741 instructions under Business Incentive Credits.

Line 20—Enter on Line 7 of the Kentucky Corporation Tax Credit Worksheet located in the Form 740, Form 740-NP or Form 741 instructions under Business Incentive Credits.

Line 21—Enter on Form 740, Form 741 or Form 740-NP, Line 30(c).

Estates and Trusts (Form 741 Filers)—Estates or trusts report the amounts shown in Column (b) on Form 741, Kentucky Fiduciary Income Tax Return, and related schedules. See federal Shareholder's Instructions for Schedule K-1 (Form 1120S).