



COMMONWEALTH OF KENTUCKY
DEPARTMENT OF REVENUE
FRANKFORT, KENTUCKY 40620

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2005 KENTUCKY SINGLE MEMBER LLC INDIVIDUALLY OWNED CORPORATION INCOME TAX RETURN FORMS AND INSTRUCTIONS

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Your Rights as a Kentucky Taxpayer

- Kentucky Single Member LLC Individually Owned Corporation Income Tax Return (Form 725)
 - Apportionment and Allocation (Schedule A)
 - Application for Filing Extension (Form 41A720SL)
 - Net Operating Loss Schedule (Schedule NOL)
- Kentucky Single Member LLC Individually Owned Composite Return Schedule (Schedule CP)
 - Kentucky Affiliations and Payment Schedule (Form 851-N)
 - Kentucky Nexus Consolidated Return Schedule (Schedule KCR)
 - Kentucky Nexus Consolidated Return Schedule—Continuation Sheet (Schedule KCR-C)

On March 18, 2005, Governor Ernie Fletcher signed into law House Bill 272, the most sweeping tax change in the history of the Commonwealth. Corporation income tax changes in the bill include a reduction in the top corporation income tax rate and entity level income taxation for all entities that have limited liability protection. Limited liability companies, including single member limited liability companies are now considered to be corporations subject to corporation income tax. A credit of the corporation income tax paid by a single member limited liability company is passed through to an individual member. The instructions on the following pages provide details of the corporation income tax law changes as they apply to single member limited liability companies. Please note that the corporation license tax has been repealed. The Department of Revenue looks forward to explaining the law changes to you. You can find additional information about House Bill 272 at our Web site at www.revenue.ky.gov. Please call us at (502) 564-8139 if you have any questions.

IMPORTANT

TAX PRACTITIONERS AND MEMBERS FILING THEIR OWN RETURN

If you wish to no longer receive this forms packet, check the box below and return this page by mail to Kentucky Department of Revenue, Station 52, Frankfort, Kentucky 40620. You may also fax your response to (502) 564-3392 or contact us by e-mail at krc.webresponsecorporationtax@ky.gov.

The Department of Revenue Web site at www.revenue.ky.gov has a printable version of all the forms in this packet.

We do not need to receive the Kentucky single member LLC income tax forms packet via mail since we obtain these forms from an alternative source.

Enter Kentucky Account Number _____

PURPOSE OF THE FORMS PACKET

This packet has been designed for a Kentucky single member LLC owned by an individual (taxed as a corporation), both domestic and foreign, which are required by law to file a Kentucky corporation income tax return (Form 725). It contains the forms and schedules needed by most Kentucky single member LLCs. An individual owning multiple Kentucky single member LLCs may file Schedule CP (Form 725) in order to minimize the number of forms to be filed. See Schedule CP—Specific Instructions on page 11 of these instructions.

Refer to the chart on page 3 to determine what corporation income tax form your business needs to file. Other schedules

are available from the Department of Revenue or Kentucky Taxpayer Service Centers (see page 12).

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 12). 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. Refer to the instructions on scannable forms for information on the use of faxed copies.

KENTUCKY TAX LAW CHANGES

CORPORATION LICENSE TAX

Repealed—(Effective for tax periods ending on or after December 31, 2005.) The corporation license tax is repealed. Returns and tax for prior periods remain due. **KRS 136.070**

A corporation license tax return due without regard to extension on or after April 15, 2004 for a corporation, other than a bank holding company, that holds directly or indirectly stock in other corporations equal to or greater than 50 percent of its total assets may compute its capital employed based upon: (1) a consolidated license tax return that includes the parent and all subsidiary corporations in which the parent owns more than 50 percent of the outstanding stock; or (2) a separate license tax return and deducting the book value of its investment in the stock and securities of any corporation in which it owns more than 50 percent of the outstanding stock. **KRS 136.071**

CORPORATION INCOME TAX

Rate Reduction—(Effective for tax periods beginning on or after January 1, 2005.) The top corporate rate is reduced and lower brackets expanded. The 4 percent bracket applies to the first \$50,000 of taxable net income and the 5 percent bracket applies to taxable net income between \$50,001 and \$100,000. For taxable years beginning on or after January 1, 2005, and prior to January 1, 2007, the top corporate rate will be 7 percent on all taxable net income over \$100,000. For tax years beginning on or after January 1, 2007, the top rate will be 6 percent on all taxable net income over \$100,000. **KRS 141.040**

Corporation Income Tax Base Expansion—(Effective for tax periods beginning on or after January 1, 2005.) The corporation income tax base is expanded to include corporations, LLPs, LLCs, including single member LLCs, limited partnerships, and S corporations. General partnerships and sole proprietorships will not be subject to the expanded corporation income tax. Publicly traded partnerships and their limited partnership and limited liability company affiliates will be taxed as general partnerships. A pass-through entity subject to corporation income tax does not pass through income, loss or credit to other entities subject to corporation income tax. Individual partners, members or shareholders of pass-through entities subject to corporation income tax will receive credit for tax paid at the entity level. **KRS 141.010**

Reference to Internal Revenue Code (IRC)—(Effective for tax periods beginning on or after January 1, 2005, except where otherwise indicated.) The IRC reference date is updated to December 31, 2004, except that depreciation and Section 179 expenses are calculated based on the IRC in effect on December 31, 2001, and the federal NOL carryback provisions do not apply. By updating the reference date, Kentucky's tax laws conform more closely with federal laws, providing ease of filing for taxpayers and ease of administration for the Department of Revenue. **KRS 141.010**

Alternative Minimum (AMC)—(Effective for tax periods beginning on or after January 1, 2005.) Taxpayers must pay the

greater of the income tax, the alternative minimum (AMC) or \$175. Taxpayers must select between the lesser of the two methods to calculate the alternative minimum: 9.5 cents per \$100 of the corporation's gross receipts or 75 cents per \$100 of the corporation's Kentucky gross profits. Kentucky gross profits mean Kentucky gross receipts reduced by returns and allowances attributable to Kentucky gross receipts, less Kentucky cost of goods sold. Cost of goods sold includes direct labor and the cost of specialized transportation for gasoline and special fuels. **KRS 141.040**

Mandatory Nexus Consolidated Returns—(Effective for tax periods beginning on or after January 1, 2005, except as otherwise noted.) All corporations with nexus in Kentucky that are connected through an ownership interest of 80 percent or more must file a consolidated Kentucky return. This includes the expanded definition of corporation, with limited liability entities included in the affiliated group. **KRS 141.200**

Intangible Property, Management Fees and Other Related Party Expenses—Certain deductions relating to transactions with one or more related members of an affiliated group may be disallowed unless:

1. the corporation and the related member are included in the same consolidated Kentucky corporation income tax return for the relevant taxable year;
2. a disclosure is made and evidence provided to establish that the transaction was at arm's length, that the payment made to a related member was subject to income tax in another jurisdiction, and the related member has substantial business activities other than the management or ownership of intangible property;
3. a disclosure is made and evidence provided that the recipient regularly engages in transactions with one or more unrelated parties on terms identical to that of the subject transactions; or
4. the Department of Revenue and taxpayer agree in writing to an alternative method of apportionment. **KRS 141.205**

Doing Business Nexus Standard—(Effective for tax periods beginning on or after January 1, 2005.) The standard in Kentucky changes from a "physical presence" standard to a "doing business" standard. "Doing business" includes deriving income from or attributable to sources within this state. **KRS 141.010(25)**

Net Operating Losses (NOL)—(Effective for tax periods beginning on or after January 1, 2005.) Corporations may no longer carry NOLs back to previous years. **KRS 141.011**

Multiple Taxing Jurisdictions (Apportionment)—(Effective for tax periods beginning on or after January 1, 2005.) All limited liability entities, S corporations and limited partnerships subject to corporation income tax that do business within and without Kentucky and general partnerships that do business within and without Kentucky will be required to utilize a three-factor apportionment formula to apportion income to Kentucky. **KRS 141.120 and KRS 141.206**

Phase II Tobacco Payments—(Effective for tax periods beginning on or after January 1, 2005.) State funds that may be paid out as an addition to or a replacement of Phase II tobacco payments are exempt from corporation income tax. **KRS 141.010**

Pass-Through Entity Income—Exclude the distributive share income or loss received from a corporation subject to the tax imposed by KRS 141.040. **KRS 141.010**

Conversion—An ordinary corporation may convert to a nonprofit, nonstock corporation under KRS Chapter 273. **KRS 273.382**

Economic Development Incentives and Credits

New Limits on Kentucky Investment Fund Act (KIFA) Credits—(Effective July 1, 2005.) KIFA tax credits available to any single investment fund are limited to \$1.3 million for all investors and all taxable years. Total KIFA tax credits available for all investors in all investment funds shall not exceed \$5 million per fiscal year. **(2005 Acts of the General Assembly, Chapter 173)**

Voluntary Environmental Remediation (Brownfields) Credit—(Effective for tax periods beginning after December 31, 2004.) Taxpayers who agree to clean up or develop an existing abandoned brownfield area may qualify for a credit against corporation or individual income taxes in a maximum amount of \$150,000. **KRS 141.418**

Biodiesel Credit—(Effective for tax periods beginning on or after January 1, 2005.) Credits may be taken against corporation or individual income taxes for producing or blending biodiesel

fuels of up to \$1 per gallon produced or blended, limited to a maximum statewide credit of \$1.5 million. The credit may not be carried forward. **KRS 141.422 to 141.425**

Recycling Tax Credits—(Effective for tax periods beginning after December 31, 2004.) Corporation and individual income tax recycling credits available are expanded for major recyclers who make a significant investment in plant and equipment and who meet certain employment standards. Credits are allowed for up to 50 percent of the cost of new and expanded recycling equipment, limited each taxable year to 50 percent of the total tax liability for the year the credit is claimed over the tax liability for the most recent taxable year ending prior to January 1, 2005 or \$2.5 million, whichever is less. This bill also provides for the recapture of the credit if the equipment is no longer used in a qualifying manner or is sold or disposed of within five years from the date it is purchased, based upon the useful life of the equipment and year of disposition. An exception to the recapture exists in the case of transfers due to death or change in business ownership or organization as long as the equipment remains qualifying equipment. **KRS 141.390**

Historic Preservation Restoration Credit—(Effective for tax periods ending on or after December 31, 2005.) This bill allows a credit against corporation or individual income taxes for a portion of the cost of restoring a qualified residential and commercial structure listed on the National Registry of Historic Places. The credit is equal to 30 percent of the rehabilitation expenses, in the case of owner-occupied residential property, and 20 percent of the rehabilitation expenses, in the case of all other property. The total credit available is capped at \$3 million annually, with each individual owner-occupied property receiving no more than \$60,000. **KRS 171.397**

Filing Form Guide	
Ownership Scenario	Form Required
1. C corporation	720
2. Disregarded single member LLC whose single member is a C corporation	720
3. Disregarded single member LLC whose single member is an S corporation	720S
4. Disregarded single member LLC whose single member is a partnership	765
5. Nexus consolidated group of affiliated corporations with a C corporation common parent and LLC affiliates	720
6. Nexus consolidated group of affiliated corporations with a multi-member LLC common parent and LLC affiliates	765 if common parent is taxed as a partnership for federal tax purposes 720 if LLC common parent elects to be taxed as a corporation for federal income tax purposes
7. Nexus consolidated group of affiliated corporations with a single member LLC common parent and LLC affiliates	725 if single member LLC common parent is owned by an individual 720 if single member LLC common parent is owned by a C corporation
8. S corporation	720S
9. Disregarded single member LLC whose single member is an individual	725
10. Limited liability partnership with 50/50 partners that are corporations	765
11. Limited partnership	765
12. Nexus consolidated group of affiliated corporations with an LLP common parent and LLC affiliates.	765
13. General partnership	765-GP
14. Public traded partnership	765-GP
15. Real estate investment trusts	720
16. Financial asset securitization investment trusts	720
17. Regulated investment companies	720
18. Real estate mortgage investment conduits	765

IMPORTANT

A Kentucky single member LLC 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 been adopted for Kentucky income tax purposes except for 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 \$105,000.

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, has been adopted for Kentucky income tax purposes except for 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.

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 2005 returns and fiscal year returns that begin in 2005, any Kentucky single member LLC 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 \$105,000.

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 LLC 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 725 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 depreciation deduction included on the federal Schedule C, E or F (Form 1040) or Form 4835 must be included on Part I, Line 7, Form 725. **If federal Form 4562 is required to be filed for federal income tax purposes, a copy must be attached to Form 725.**
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 a Kentucky Form 4562** for each Schedule C, E or F (Form 1040) or Form 4835 to Form 725. The amount from Line 22 of the Kentucky Form(s) 4562 must be included on Part I, Line 8, Form 725. 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 LLC 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. Convert Federal Schedule D (Form 1040) to a Kentucky form by entering **Kentucky** at the top center of the form, and compute the Kentucky capital gain net income (loss) from the disposed assets using Kentucky basis. Include Kentucky gain (enter zero if a loss) on schedule for Line 2, Part I, Form 725. A corporation may only use its capital losses to offset its capital gains (Code Sec. 1211(a)). See page 8, Line 2(c) (taxable income computation), Part I, Form 725 for rules regarding carryback and carryforward of capital losses. **Federal Schedule D (Form 1040) filed with the federal return and the Kentucky Schedule D must be attached to Form 725.**
2. Convert Federal Form 4797 (Form 1040) to a Kentucky form by entering **Kentucky** at the top center of the form, and compute the Kentucky gains and (losses) from the disposed assets using Kentucky basis. Include Kentucky gain or (loss) from line 17, Part II Form 4797 on Schedule for Line 2, Part I, Form 725. **Federal Form 4797 filed with the federal return and the Kentucky Form 4797 must be attached to Form 725.**

Tax Treatment of Kentucky Single Member LLC (Taxed as a Corporation) and Individual Taxpayer

For taxable years beginning on or after January 1, 2005, all limited liability companies are taxed as corporations and shall pay for each taxable year a tax to be computed by the taxpayer (Kentucky single member LLC) on taxable net income as defined in KRS 141.010(14) or the alternative minimum calculation computed under KRS 141.040. **KRS 141.208**

A single member LLC whose single member is an individual shall file Kentucky Single Member LLC Individually Owned Corporation Income Tax Return, Form 725. An individual who owns more than one single member LLC can file Schedule CP, Kentucky Single Member LLC Individually Owned Composite Return Schedule (Form 725) rather than filing multiple forms. See instructions on page 11 of this packet regarding Schedule CP.

Resident and nonresident individuals shall be entitled to a nonrefundable credit against tax imposed under KRS 141.020 (Kentucky individual income tax). The credit shall be the individual's share of the tax due from the corporation as determined under KRS 141.040, before the application of any credit identified in KRS 141.0205(4) and reduced by the required minimum imposed by KRS 141.040(6). **KRS 141.420(3)**

For taxable years beginning after December 31, 2004, and before January 1, 2007, the portion of the credit computed as provided above that exceeds the credit that would have been utilized if the corporation's income were taxed at the rates in KRS 141.020 shall be refundable. The refundable portion of the credit shall be the individual's share of the amount computed by multiplying the amount the corporation's income exceeds \$216,600 by 1 percent. **KRS 141.420(3)**

The nonrefundable credit determined above shall not operate to reduce the individual's tax due to an amount that is less than what would have been payable were the income attributable to doing business in this state by the corporation ignored.

GENERAL INFORMATION

Internal Revenue Code Reference Date—Effective for taxable years beginning after December 31, 2004, 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, 2004, exclusive of any amendments made subsequent to that date, other than amendments that extend provisions in effect on December 31, 2004, that would otherwise terminate and as modified by KRS 141.0101, except that for property placed in service after September 10, 2001, only the depreciation and expense deductions allowed under Sections 168 and 179 of the Internal Revenue Code in effect on December 31, 2001, exclusive of any amendments made subsequent to that date. **KRS 141.010(3)**

Kentucky Tax Registration Application—Prior to doing business in Kentucky, each single member LLC should complete a Kentucky Tax Registration Application, Revenue Form 10A100. The application is available at Kentucky Taxpayer Service Centers (see page 12) or from the Taxpayer Registration Section, Department of Revenue, Frankfort, KY 40620. The application may be faxed to (502) 227-0772.

Who Must File—A Kentucky Single Member LLC Individually Owned Corporation Income Tax Return, Form 725, must be filed by every individually owned single member LLC: (a) being organized under the laws of this state; (b) having a commercial domicile in this state; (c) owning or leasing property in this state; (d) having one or more individuals performing services in this state; (e) maintaining an interest in a general partnership doing business in this state; (f) deriving income from or attributable to sources within this state, including deriving

income directly or indirectly from a trust doing business in this state; or (g) directing activities at Kentucky customers for the purpose of selling them goods or services. **KRS 141.010(25)**

A single member limited liability company (LLC) owned by an individual is treated for Kentucky income tax purposes in the same manner as it is treated for federal income tax purposes. Therefore, an individual filing a U.S. Individual Income Tax Return, Form 1040, will include the income (loss), modified for statutory differences, from a disregarded entity (LLC) from Form 1040 on the Kentucky Individual Income Tax Return, Form 740. However, an individually owned single member LLC shall file a Kentucky corporation income tax return and determine the Kentucky income tax liability as provided in KRS 141.040 regardless of the tax treatment elected for federal income tax purposes. **KRS 141.208**

General Partnership—An individually owned single member LLC filing as a corporation and doing business in Kentucky solely as a partner in a general partnership will file Form 725 pursuant to the provisions of KRS 141.010, 141.120 and 141.206. (See Schedule A—Apportionment and Allocation Instructions, Sales Factor.)

Required Forms and Information—Each single member LLC must enter all applicable information on Form 725, 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. Schedule A—Apportionment and Allocation
2. Form 41A720SL—Application for Six-Month Extension of Time to File

Required Federal Forms and Schedules

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

1. Form 1040, page 1 and 2
2. Schedule C—Profit and Loss from Business
3. Schedule D—Capital Gains and Losses
4. Schedule E—Supplemental Income and Loss
5. Schedule F—Profit or Loss from Farming
6. Form 4562—Depreciation and Amortization (if required to be filed)
7. Form 4797—Sales of Business Property
8. Form 4835—Net Farm Rental Income or (Loss)

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:

0 1 2 3 4 5 6 7 8 9

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:

□ □ , □ □ □ 1 1 , 9 5 0

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

41A720SL0513



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 Kentucky individually owned single member LLC 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. Mail the return with payment to **Kentucky Department of Revenue, Frankfort, KY 40620. Make the check payable to Kentucky State Treasurer. 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 Kentucky individually owned single member LLC income tax return may be obtained by making a specific request to the Department of Revenue. 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 a declaration of estimated tax is 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 Kentucky individually owned single member LLC is required to make estimated tax payments but did not receive Form 720ES, contact the Department of Revenue at (502) 564-3658.

Amended Return—To correct Form 725 as originally filed, file an amended Form 725 and check the appropriate box on page 1.

Internal Revenue Service Audit Adjustments—A Kentucky individually owned single member LLC 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 725 for reporting federal audit adjustments and check the Amended Return box.

Interest—Interest at the tax interest rate is applied to corporation income tax liability not paid by the date prescribed by law for filing the return (determined without regard to extensions thereof). The tax interest rate for 2006 is published in the January 2006 **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 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 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 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 725—SPECIFIC INSTRUCTIONS

Period Covered

File the 2005 return for calendar year 2005 and fiscal years that begin in 2005. For a fiscal year, fill in the taxable period beginning and ending at the top of Form 725.

All Kentucky individually owned single member LLCs must enter Taxable Year Ending at the top right of Form 725 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:

$$\frac{12}{\text{Mo.}} / \frac{05}{\text{Yr.}}$$

- A fiscal year is 12 consecutive months ending on the last day of any month except December. A fiscal year ending January 31, 2006, would be entered as:

$$\frac{01}{\text{Mo.}} / \frac{06}{\text{Yr.}}$$

- 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 2006, would be entered as:

$$\frac{12}{\text{Mo.}} / \frac{05}{\text{Yr.}}$$

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

Item A—Check applicable boxes to indicate whether filing a composite return, nexus consolidation return or single return.

Name and Address—Use the label on the packet mailed to the **individually owned single member LLC**. Using the label will accelerate the processing of the return, ensure the proper processing of payments, and eliminate a request for a delinquent return. Cross out any errors and print the correct information on the label. **If the individually owned single member LLC does not have a label or the name or address is incorrect, print or type the individually owned single member LLC's name as set forth in the Articles of Organization.** 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 partnership has a P.O. Box, show the box number instead of the street address (see **Item D** if a change in name or address has occurred).

Telephone Number—Enter the business telephone number of the member/owner signing this return.

North American Industrial Classification System (NAICS) Code Number—Enter the NAICS code number that best describes the principal business activity in Kentucky. Enter a brief description of the Kentucky activity in the appropriate box.

Item B—Enter the Kentucky individually owned single member LLC's Federal Identification Number and the LLC's name, address and telephone number in the applicable blocks. If a composite return is being filed, enter the individual's Social Security number. Enter the name of owner, address and telephone in the applicable blocks.

Item C—Enter the six-digit **Kentucky Corporation 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 the upper right portion of the address label on the packet or in correspondence received from the Department of Revenue as a result of registration. If a composite return is being filed, leave this blank.

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

Item D—Check the applicable boxes:

- Initial Return*—This return is the Kentucky individually owned single member LLC's initial return.
- Final Return*—This is the Kentucky individually owned single member LLC's final return. The individually owned single member LLC has dissolved or withdrawn. Submit an explanation.
- Amended Return*—Submit an explanation for the amended return.
- Short-period Return*—This return is a short-period return. Submit an explanation for the short-period return.
- Change of Name/Address*—A change in name or address has occurred. Submit a copy of the amendment of the Articles of Organization for a name change.

Nonresident Withholding (Form 740NP-WH)

For taxable years ending on or after December 31, 2003, under the provisions of Regulations 103 KAR 18:070, every general partnership required to file Form 765-GP, Kentucky General Partnership Income Return, must withhold income tax at the rate of 6 percent on the net distributive share income not taxed at the corporate level of each nonresident **individual** partner. However, for those Kentucky nonresident general partners whose net distributive income not taxed at the corporate level is less than \$1,000, no withholding is required. All general partnerships are liable for the payment of the tax required to be withheld less any credits passed through to the individual partner that are reasonably expected to be claimed in the current year.

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

For taxable years beginning January 1, 2005, there is no withholding at the entity level on net distributive share of income not taxed at the corporate level of a nonresident individual partner/member of a partnership (LLC, LLP and LP taxed as a corporation) or nonresident shareholder of an S corporation. However, distributive share dividend income to a nonresident individual partner/member or shareholder and guaranteed payments paid to a nonresident individual partner are subject to Kentucky individual income tax and a Form 740-NP must be filed if the nonresident individual shareholder/partner has gross income from Kentucky sources and a total gross income exceeding the threshold amount determined under KRS 141.066. KRS 141.180(2)(c)

General partnerships having Kentucky individual nonresident partners with net distributive share income of \$1,000 or more shall complete Form 740NP-WH and Form PTE-WH for each individual nonresident partner and mail Form 740NP-WH and Copy A of PTE-WH to the Kentucky Department of Revenue with payment. The general partnership must furnish Copies B and C of Form PTE-WH to the general partners 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.

PART I – TAXABLE INCOME COMPUTATION

The following line items are necessary in order to compute corporation taxable income:

Line 1—Enter from Form 1040 or Form 1041, Schedule C or Schedule F the ordinary income (loss) from trade or business activities of the single member limited liability company (disregarded entity). Attach federal Schedule C or F. If federal Schedule C or F contains activity that is individually owned and not activity of the single member limited liability company, a federal Schedule C or F shall be prepared which contain only the activity of the single member limited liability company. A separate return must be filed for each single member limited liability company owned by an individual, estate, or trust or a composite return can be filed by a owner having multiple single member liability companies (see instructions).

Line 2—Enter the total of the following (attach schedule):

- (a) From Form 1040 or Form 1041 the amounts from Schedule E, Part I, net income (loss) from rental real estate activities or royalty income; Part II, net income (loss) from general partnerships doing business in Kentucky (use the amount from the Kentucky K-1); and Part IV, the farm rental net income (loss) from federal Form 4835 of the single member limited liability company. Attach federal Schedule E, federal Form 4835, and Kentucky K-1 from the general partnership. If federal Schedule E or Form 4835 contain activity that is individually owned and not activity of the single member limited liability company a federal Schedule E or Form 4835 shall be prepared which contains only the activity of the single member limited liability company.
- (b) From Form 1040 or Form 1041 the interest income of the single member limited liability company, 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. Do not include any interest income that is individually owned.
- (c) From Form 1040 or Form 1041, Schedule D, the net short-term and long-term capital gain (if loss, enter zero) of the single member limited liability company, if the Kentucky gain or loss from disposition of assets is different from federal, attached Kentucky Schedule D and use the Kentucky gain. If Schedule D contains activity that is individually owned and not activity of the single member limited liability company a federal or Kentucky Schedule D shall be prepared which contains only the activity of the single member limited liability company.

A corporation may only use its capital losses to offset its capital gains (Code Sec. 1211(a)). A corporation may carry back a capital loss to each of the three tax years preceding the loss year. Any excess may be carried forward for five years following the loss year. However, the amount carried back is limited to an amount that does not cause or increase a net operating loss in the carryback year (Code Sec. 1212(a)(1)). For a corporation, whose first tax year begins during 2005, capital losses shall be carried forward.

- (d) From Form 1040 or Form 1041, Form 4797, Part II, Line 17, the gain or (loss) of the single member limited liability company, if the Kentucky gain or (loss) is different from federal, attach Kentucky Form 4797 and use the Kentucky gain or (loss). If the Form 4797 contains activity that is individually owned and not activity of the single member limited liability company, a federal or Kentucky Form 4797 shall be prepared which contains only the activity of the single member limited liability company.
- (e) From Form 1040 or Form 1041 all other income (loss) of the single member limited liability company not included on Line 2, (a) through (d).

Line 3—Enter total of Lines 1 and 2.

Line 4—Enter charitable contributions made by the single member limited liability company, adjusted if applicable, as follows:

Limitation on Deduction: The total amount of charitable contributions claimed cannot be more than 10 percent of net income on Line 10 computed without regard to the deduction for contributions. **KRS 141.050**

Carryover: Charitable contributions over the 10 percent limitation cannot be deducted for the tax year but can be carried over to the next five years.

Special rules apply if the corporation uses a net operating loss deduction (NOLD). In figuring the charitable contribution deduction for the tax year, the 10 percent limit is applied using the taxable income before taking into account any deduction for the NOLD.

Line 5—Enter the total of any other allowable deductions for corporation income tax purposes. Include items and amounts reported separately to self-employed individuals, such as pension expenses and one-half of self-employment tax paid on behalf of the self-employed. Medical insurance expenses paid on behalf of the self-employed are deductible if not previously deducted as guaranteed payments from ordinary income.

Line 6—Enter Line 3 less Lines 4 and 5.

Line 7—Enter total federal depreciation (if required to be filed, attach all federal Forms 4562). If a federal Form 4562 contains assets that are not owned by the single member limited liability company, a federal Form 4562 shall be prepared which contains only the assets of the single member limited liability company.

Line 8—Enter total Kentucky depreciation (attach all Kentucky Forms 4562). The Kentucky Form 4562 shall contain only the assets of the single member limited liability company.

Line 9—Enter KRS 141.010(12) and KRS 141.010(13) adjustments.

Line 10—Enter the total of Lines 6, 7, and 9 less Line 8.

Line 11—Enter the amount from Schedule NOL (Form 725 or Form 765), Part I, Line 5. Schedule NOL (Form 725 or Form 765) must be completed by a Kentucky single member LLC filing a nexus consolidated return. Includible corporations that have incurred a net operating loss shall not deduct an amount that exceeds, in the aggregate, 50 percent of the income realized by the remaining includible corporations that did not realize a net operating loss. The portion of any net operating loss limited by the application of this provision shall be available for carryforward. **KRS 141.200(11)(b)**

Line 12—Enter the total of Lines 10 and 11.

Line 13—Enter the amount from Schedule A, Section I, Line 12 or the amount from Line 8 of Schedule A, Section II, if applicable. A corporation "doing business in this state" must allocate and apportion its income to Kentucky by using a three factor (payroll, property, and sales) apportionment formula with a double weighted sales factor. "Doing business in this state" includes, but is not limited to: (a) being organized under the laws of this state; (b) having a commercial domicile in this state; (c) owning or leasing property in this state; (d) having one or more individuals performing services in this state; (e) maintaining an interest in a general partnership doing business in this state; (f) deriving income from or attributable to sources within this state, including deriving income directly or indirectly from a trust doing business in this state; or (g) directing activities at Kentucky customers for the purpose of selling them goods or services. **KRS 141.120 and KRS 141.010(25)**

PART II—ALTERNATIVE MINIMUM (AMC)

Line 1—Enter Kentucky gross receipts less Kentucky returns and allowances. For purposes of this paragraph, “gross receipts” means the numerator of the sales factor under the provisions of KRS 141.120(8)(c).

Line 2—Enter the amount of Line 1 multiplied by .00095. For alternative minimum (AMC) purposes Kentucky gross receipts are taxed at 9.5 cents (\$.095) per \$100.

Line 3—Enter the amount of Kentucky gross receipts before Kentucky returns and allowances.

Line 3(a)—Enter the Kentucky returns and allowances applicable to Kentucky gross receipts on Line 3.

Line 3(b)—Enter the Kentucky cost of goods sold applicable to Kentucky gross receipts on Line 3.

Line 4—Subtract Lines 3(a) and 3(b) from Line 3. For purposes of this paragraph, “Kentucky gross profit” means Kentucky gross receipts reduced by returns and allowance attributable to Kentucky gross receipts, less the cost of goods sold attributable to Kentucky gross receipts (KRS 141.010(27)). Gross profit attributable to Kentucky is determined either by separate accounting by the taxpayer or, if separate accounting is not maintained, by the ratio of Kentucky gross receipts to total gross receipts as provided by KRS 141.120(8)(c).

Line 5—Enter the amount of Line 4 multiplied by .0075. For alternative minimum (AMC) purposes Kentucky gross profit is taxed at 75 cents (\$.75) per \$100.

PART III—TAX COMPARISSON

Line 1—Enter the regular income tax. The following rates are applied to the taxable net income on Part I, Line 13:

- (a) 4 percent of the first \$50,000 of taxable net income;
- (b) 5 percent of taxable net income in excess of \$50,000, but not in excess of \$100,000; and
- (c) 7 percent of taxable net income in excess of \$100,000.

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 taxable net income, multiply taxable net income computed for the short period by 365 divided 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. **KRS 141.140**

Line 2—Enter the lesser of Line 2 or Line 5 from Part II.

PART IV—TAX COMPUTATION

Special Note for Election to Pay Corporation Tax by Individual Shareholder, Partner or Member in Accordance with KRS 141.040(9)(a)

Should a shareholder, partner or member of a pass-through entity taxed as a corporation for Kentucky purposes elect to pay the tax on behalf of the corporation, a form will be designed by the Kentucky Department of Revenue and posted to the Department of Revenue’s Web site at www.revenue.ky.gov no later than January 1, 2006.

Line 1—Enter the amount from Part III, greater of Line 1, Line 2 or \$175 minimum.

Line 2—Enter the recycling/composting equipment tax credit recapture. If the recycling/composting equipment tax credit recapture is for equipment placed in service and approved by

the Department of Revenue before January 1, 2005, the corporation may elect to recapture the tax credit at the corporate level (attach Schedule RC-R). If the election is not made, attach Schedule RC-R and a Schedule RC-R (K-1) for each owner/member. **KRS 141.390**

Line 3—Enter the total of Lines 1 and 2.

Line 4—Enter the total tax credits from Part V, Line 3.

Line 5—Subtract Line 4 from Line 3 and enter result or \$175, whichever is greater. A minimum of \$175 shall be due, regardless of the application of any credits provided under any provisions of the Kentucky Revised Statutes for which the business entity may qualify. **KRS 141.040(6)**

Line 6—Enter the total of estimated tax payments made for the taxable year. Do not include the amount credited from prior year.

Line 7—Enter the amount of income tax paid with Form 41A720SL, Application for Six-Month Extension of Time to File Kentucky Corporation Income Tax Return.

Line 8—This line does not apply to the 2005 Kentucky single member LLC income tax return.

Line 9—If Line 5 is greater than the total of Lines 6 through 8, enter the difference on this line and submit payment.

Line 10—If Line 5 is less than the total of Lines 6 through 8, enter the difference.

Line 11—Enter the portion of Line 10 to be credited to 2006.

Line 12—Enter the portion of Line 10 to be refunded (Line 10 less Line 11).

PART V—SCHEDULE OF TAX CREDITS

Line 1—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, attach a schedule reflecting the computation of the amount of credit available to be carried forward 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 2—Enter total other credits as follows (attach schedule).

Historic Preservation Restoration Tax Credit. This should be completed only if the corporation has been approved for the credit by the Kentucky Heritage Council. Credit allowed against taxes imposed by KRS 141.020 and KRS 141.040 for qualified rehabilitation expenses on certified historic structures. For more information regarding this credit visit the Council's Web site at www.heritage.ky.gov.

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. For certification questions, call (502) 564-7456. To claim this credit, Schedule UTC must be attached. **KRS 141.065**

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 and cannot exceed 10 percent of the credit approved in the first year of eligibility.

For taxable years beginning after December 31, 2004, a corporation which purchases recycling and/or composting equipment to be used exclusively in Kentucky for recycling or composting post-consumer waste material that qualifies as a Major Recycling Project is entitled to a nonrefundable credit against the income tax imposed on the corporation by KRS Chapter 141. The credit is an amount equal to 50 percent of the installed cost of the recycling or composting equipment limited to: 50 percent of the excess of the total of each tax liability over the baseline tax liability of the taxpayer or \$2,500,000. To qualify, the taxpayer must: (1) invest more than \$10,000,000 in recycling or composting equipment to be used exclusively in this state; (2) have more than 750 full-time employees with an average hourly wage of more than 300 percent of the federal minimum wage; and (3) have plant and equipment with a total cost of more than \$500,000,000. 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 credit is limited to a period of 10 years commencing with the approval of the recycling credit application.

A taxpayer is entitled to claim the recycling credits in KRS 141.390(a) and (b) but cannot claim both for the same recycling and/or composting equipment.

Enter the amount of additional recycling credit allowed from Schedule RC-R, Disposition of Recycling or Composting Equipment, Line 10. **Schedule RC-R must be attached. KRS 141.390**

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 Update—Effective December 31, 2004, the Ashland and Covington enterprise zones expired. To date, Ashland, Covington, Hickman and Louisville enterprise zones have expired. For corporate tax purposes, qualified businesses in these enterprise zones will no longer be able to claim a credit for tax year ended 2005. However, previous year carryforwards will be allowed. A schedule of this carryforward is required.

Enterprise Zone Tax Credit. Except for companies located within the former Ashland, Covington, Hickman and Louisville 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. For certification questions, call (502) 564-3906. 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 attached. **KRS 154.45-090**

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. **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 income 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.

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**

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**

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**

Voluntary Environmental Remediation Tax Credit (Brownfields). This is completed only if the corporations has an agreed order with the Environmental and Public Protection Cabinet under the provisions of KRS 224.01-518 and has been approved for the credit by the Department of Revenue. Maximum credit allowed to be claimed per taxable year is 25 percent of approved credit. For more information regarding credit for voluntary environmental remediation property, contact the Environmental and Public Protection Cabinet at (502) 564-3350. To claim this credit, Schedule VERB must be attached. **KRS 141.418**

Biodiesel Tax Credit. Producers and blenders of biodiesel are entitled to tax credit against taxes imposed by KRS 141.020 and KRS 141.040. The taxpayer must file a claim for biodiesel credit with the Department of Revenue by January 15 each year for biodiesel produced or blended in the previous calendar year. The department shall issue a credit certification to taxpayer by April 15. The credit certification must be attached to the tax return on which credit is being claimed. **KRS 141.424**

Line 3—Enter total credits from Line 1 and 2.

PART VI—CORPORATION INCOME TAX CREDIT

Special Note for Multiple-Tier Pass-Through Entities

If your organizational structure is composed of multiple tiers of pass-through entities with an individual or individuals as the ultimate owners, you may qualify to pass through income, loss and credit through the multiple tiers to the individual owners. To learn more about this filing situation, please look for specific guidance at the Department of Revenue's Web site at www.revenue.ky.gov. Guidance on this issue will be posted on our Web site no later than January 1, 2006.

Line 1—Enter amount from Part IV, Line 1.

Line 2—\$175 minimum imposed by KRS 141.040(6).

Line 3—Line 1 less Line 2 (individual shareholder corporation income tax credit to be distributed).

Lines 4 and 5—If taxable net income (Part I, Line 13) is greater than \$216,600, multiply the excess by 1 percent and enter this amount on Line 5. Subtract the amount entered on Line 5 from the amount entered on Line 3 and enter the result on Line 4.

SCHEDULE CP (FORM 725) SPECIFIC INSTRUCTIONS

In the first column heading of Schedule CP, enter the owner's name and Social Security number.

In columns two through five headings, enter the name, federal identification number, if applicable, and Kentucky account number for each Kentucky single member LLC included in this return. Attach additional copies of Schedule CP (Form 725) as needed.

For each Kentucky single member LLC listed in Part I through Part VI, complete the line items using the instructions for Part I through Part VI on pages 7 through 11 of these instructions. Indicate for each Kentucky single member LLC, at the bottom of page 2, Schedule CP (Form 725) whether a nexus consolidation or a single return is being filed.


If a nexus consolidated return is being filed, attach Form 851-N, Schedule KCR (Form 725), and if needed, Schedule KCR-C (Form 725).

Tax Payment Summary

Tax—Check the applicable box that denotes the method used to calculate the tax paid: Income, AMC Gross Receipts, AMC Gross Profits or Minimum \$175.

The payment submitted with Form 725-CP must be itemized for each included entity. Enter the amount of tax payment from Part IV, Line 9, on the Tax line, 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. Check the applicable box for the method of tax calculation used for each entity included on the Form 725-CP.

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

 **Signature**—Form 725 must be signed by an owner (member). **Failure by an owner (member) 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
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) 564-8139
(502) 564-3058 (Telecommunication Device for the Deaf)



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 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, 311 West Second Street, 42301-0734
(270) 687-7301

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

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

**Kentucky Department of Revenue
Mission Statement**

The mission of the Kentucky Department of Revenue is to administer tax laws, collect revenue, and provide services in a fair, courteous, and efficient manner for the benefit of the Commonwealth and its citizens..

* * * * *

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.

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