



KENTUCKY

DOMESTIC PRODUCTION ACTIVITIES DEDUCTION

▶ Attach to your tax return. ▶ See separate instructions.

Enter name(s) as shown on return.

Kentucky Corporation/LLET
Account Number

1. Domestic production gross receipts	1		
2. Allocable cost of goods sold	2		
3. Directly allocable deductions, expenses or losses	3		
4. Indirectly allocable deductions, expenses or losses	4		
5. Add lines 2 through 4	5		
6. Subtract line 5 from line 1	6		
7. Qualified production activities income from pass-through entities: <i>If you are a— (a) Partner or Member</i>	7	<i>Enter the total qualified production activities income from— Form 765, or 765-GP</i>	
8. Qualified production activities income. Add lines 6 and 7. If zero or less, enter -0- here, skip lines 9 through 17, and enter -0- on line 18	8		
9. Apportionment factor	9		
10. Apportioned qualified production activities income (line 8 multiplied by line 9)	10		
11. Income limitation (see instructions): • Enter your Kentucky taxable income after Kentucky NOLD figured without the domestic production activities deduction	11		
12. Enter the smaller of line 10 or line 11. If zero or less, enter -0- here, skip lines 13 through 17, and enter -0- on line 18	12		
13. Enter 6% of line 12	13		
14. Form W-2 wages (see instructions)	14		
15. Form W-2 wages from pass-through entities	15		
16. Add lines 14 and 15	16		
17. Form W-2 wage limitation. Enter 50% of line 16	17		
18. Enter the smaller of line 13 or line 17	18		
19. Domestic production activities deduction from cooperatives. Enter deduction from Form 1099-PATR, box 6 multiplied by cooperative's apportionment factor	19		
20. Expanded affiliated group allocation (see instructions)	20		
21. Domestic production activities deduction. Combine lines 18 through 20. Enter here and on Form 720, Part II, line 22	21		

A cooperative must reduce the amount it enters on its return by the total deduction passed through to its patrons.

INSTRUCTIONS FOR FORM 8903-K

Purpose of Form—This form is to be used only by a corporation filing a Form 720, Kentucky Corporation Income Tax and LLET Return, to calculate the Kentucky domestic production activities deduction (KDPAD).

Your KDPAD may be different from your federal domestic production activities deduction (DPAD) because of differences in taxable net income and qualified production activity income resulting from differences in Kentucky and federal depreciation and expense deductions allowed under Sections 168 and 179 of the Internal Revenue Code (IRC) and other Kentucky adjustments provided in KRS 141.010.

KDPAD is limited by your Kentucky apportioned taxable net income before the KDPAD and after the Kentucky net operating loss deduction (KNOLD).

KDPAD is only computed for corporations as defined in KRS 141.010(24). General partnerships (Form 765-GP), partnerships with limited liability (Form 765) and S corporations (Form 720S) shall provide for each partner, member, or shareholder: (1) If the partnership or S corporation is not using the small business simplified overall method to allocate and apportion cost of goods sold and deductions between Kentucky domestic production gross receipts and other receipts, the following: (a) Federal domestic production gross receipts (DPGR) (b) The Kentucky domestic production gross receipts (KDPGR), (c) Cost of goods sold allocated to DPGR, adjusted to reflect any differences in Kentucky and federal income tax law, (d) Total deductions, expenses, and losses directly allocable DPGR, adjusted to reflect any differences in Kentucky and federal income tax law, (e) Other deductions, expenses, and losses not directly allocable DPGR or another class of income, adjusted to reflect any differences in Kentucky and federal income tax law, and (f) Kentucky W-2 wages allocable to DPGR; and (2) If the partnership or S corporation elected to use the small business simplified overall method to allocate and apportion cost of goods sold and deductions between Kentucky domestic production gross receipts and other receipts, the following: (a) DPGR, (b) KDPGR, (c) The qualified production activities income, adjusted to reflect any differences in Kentucky and federal income tax law and (d) Kentucky W-2 wages allocable to DPGR.

For individual taxpayers: (1) a full-year resident individual is allowed the federal deduction for the KDPAD; and (2) a part-year resident or full-year nonresident individual shall prorate the allowable federal DPAD based upon the percentage of KDPGR to federal DPGR, not to exceed 50 percent of the Kentucky W-2 wages allocable to the DPGR. Enter the KDPAD amount computed for a nonresident or part-year resident individual on Form 740-NP, page 4, Column B, Line 30.

When calculating your KDPAD in accordance with Section 199 of the Internal Revenue Code, follow the guidance provided in Internal Revenue Regulations §1.199-0 through §1.199-9 and Kentucky Regulation 103 KAR 16:310.

Pass-through Entities—Following federal instructions and using Kentucky amounts, attach a statement with each Kentucky Schedule K-1 necessary to enable each corporate partner or member to compute the KDPAD in accordance with Section 199 of the Internal Revenue Code. If the pass-through entity is not using the small business simplified overall method to allocate and apportion cost of goods sold and deductions between Kentucky domestic production gross receipts and other receipts, attach the following: (a) DPGR, (b) KDPGR, (c) Cost of goods sold allocated to DPGR, adjusted to reflect any differences in Kentucky and federal income tax law, (d) Total deductions, expenses, and losses directly allocable

to DPGR, adjusted to reflect any differences in Kentucky and federal income tax law, (e) Other deductions, expenses, and losses not directly allocable to DPGR or another class of income, adjusted to reflect any differences in Kentucky and federal income tax law, and (f) Kentucky W-2 wages allocable to DPGR; and (2) If the partnership elected to use the small business simplified overall method to allocate and apportion cost of goods sold and deductions between Kentucky domestic production gross receipts and other receipts, attach the following: (a) DPGR, (b) KDPGR, (c) The qualified production activities income, adjusted to reflect any differences in Kentucky and federal income tax law, and (d) Kentucky W-2 wages allocable to DPGR.

SPECIFIC LINE INSTRUCTIONS

Lines 1 through 6

Enter Kentucky amounts using the federal instructions.

Line 7

Only applies to corporations filing Form 720, that are partners or members of a pass-through entity. The qualified production activities income from the pass-through entity shall be computed by the partner or member using information provided by the pass-through entity attached to the Kentucky Schedule K-1; or the qualified production activities income will be provided by the pass-through entity if the pass-through entity uses the small business simplified overall method.

Line 9

Enter 100% or the apportionment factor from Schedule A, Section I, Line 12.

Line 11

Enter the taxable income from Form 720, Part II, Line 21.

Line 14

Form W-2 wages are computed pursuant to KRS 141.120(8)(b) and Regulation 103 KAR 16:090, and include only wages properly allocable to DPGR. Do not include Form W-2 wages reported on Line 15. IRC Section 199 was amended to define W-2 wages to mean wages incurred in the domestic production activity. Kentucky has adopted this change for tax years beginning on or after January 1, 2007.

Line 15

Enter the Kentucky wages allocable to DPGR provided by the pass-through entity attached to the Kentucky Schedule K-1.

Line 19

Enter the amount from box 6 of Form 1099-PATR, or if applicable, multiply box 6 of Form 1099-PATR by the cooperative's Kentucky apportionment factor from Schedule A, Section I, Line 12.

Line 20

The Expanded Affiliated Group (EAG) means entities included in the Kentucky expanded affiliated group. This only includes Kentucky corporations as defined in KRS 141.010(24) and doing business in Kentucky as defined in KRS 141.010(25) and Regulation 103 KAR 16:240E. The KDPAD for the EAG is based upon Kentucky amounts following federal rules.