

8903-K

41A720-S9 (10-08)
Commonwealth of Kentucky
DEPARTMENT OF REVENUE



2008

KENTUCKY

DOMESTIC PRODUCTION ACTIVITIES DEDUCTION

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

Enter name of Corporation	Kentucky Corporation/LLET Account Number
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Expanded Affiliated Group (EAG) Member—Skip lines 1 through 6					
1. Domestic production gross receipts (DPGR).....			1		00
2. Allocable cost of goods sold	2			00	
3. Deductions and losses allocable to DPGR (see instructions)	3			00	
4. Cost of goods sold and other deductions or losses ratably apportioned to DPGR (see instructions)	4			00	
5. Add lines 2 through 4.....			5		00
6. Subtract line 5 from line 1			6		00
7. Qualified production activities income from partnerships filed on Form 765 or 765-GP			7		00
8. EAG: Member's Kentucky QPAI (see instructions)			8		00
9. Qualified production activities income. Add lines 6 through 8. If zero or less, enter -0- here, skip lines 10 through 18 and enter -0- on line 19			9		00
10. Apportionment factor.....			10		%
11. Apportioned qualified production activities income (line 9 multiplied by line 10)			11		00
12. Income limitation (see instructions): • Enter your Kentucky taxable income after Kentucky NOLD figured without the domestic production activities deduction.....			12		00
13. Enter the smaller of line 11 or line 12. If zero or less, enter -0- here, skip lines 14 through 18, and enter -0- on line 19			13		00
14. Enter 6% of line 13.....			14		00
15. Form W-2 wages (see instructions)			15		00
16. Form W-2 wages from pass-through entities			16		00
17. Add lines 15 and 16.....			17		00
18. Form W-2 wage limitation. Enter 50% of line 17			18		00
19. Enter the smaller of line 14 or line 18			19		00
20. Domestic production activities deduction from cooperatives. Enter deduction from Form 1099-PATR, box 6 multiplied by cooperative's apportionment factor			20		00
21. Domestic production activities deduction. Combine lines 19 and 20. Enter here and on Form 720, Part II, line 22.....			21		00

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

Purpose of Form—This form is to be used only by a corporation as defined in KRS 141.010(24) filing Form 720, Kentucky Corporation Income Tax and LLET Return, to calculate its Kentucky domestic production activities deduction (KDPAD). The KDPAD may be different from your federal domestic production activities deduction (DPAD) because of the 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 and other Kentucky adjustments provided by 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).

Other definitions used in these instructions are as follows:

- (1) "DPGR" means the federal domestic productions gross receipts reported on line 1 of the federal Form 8903;
- (2) "KDPGR" means the portion of the DPGR that is derived from qualifying production activities as defined by Section 199(c)(4) of the Internal Revenue Code, which are manufactured, produced, grown, or extracted in whole or in a significant part within the Commonwealth of Kentucky; and
- (3) "QPAI" means qualified production activities income as defined by Section 199(c) of the Internal Revenue Code.

Individuals—A full-year resident individual is allowed the federal DPAD for purposes of computing Kentucky taxable income. A part-year resident or full-year nonresident individual is allowed a portion of the federal DPAD for purposes of computing Kentucky taxable income, determined by multiplying the federal DPAD by a fraction, the numerator of which is the KDPGR and the denominator of which is the DPGR. The DPAD for a part-year resident or full-year nonresident individual cannot exceed 50% of the Kentucky W-2 wages allocable to DPGR.

Pass-Through Entities—A statement showing the distributive share of: (1) DPGR; (2) KDPGR; and (3) Kentucky W-2 wages allocable to DPGR must be attached to each individual shareholder, partner or member's Kentucky Schedule K-1 to be used to compute the DPAD deduction on the individual's income tax return. For each corporate or pass-through entity member or partner, following federal instructions and using Kentucky amounts, include in a statement attached to each Kentucky Schedule K-1 the following additional information which is necessary to compute the KDPAD in accordance with Section 199 of the Internal Revenue Code: (1) If a pass-through entity does not qualify or elects not to use the small business simplified overall method, simplified deduction method or Section 861 method to compute its QPAI at the entity level, attach the following: (a) DPGR, (b) Cost of goods sold allocable to DPGR, adjusted to reflect differences in Kentucky and federal income tax law, (c) Expenses allocable to DPGR, adjusted to reflect differences in Kentucky and federal income tax law, and (d) Kentucky W-2 wages allocable to DPGR; or (2) If a pass-through entity qualifies and elects to use the small business simplified overall method, simplified deduction method or Section 861 method to compute its QPAI at the entity level, attach the following: (a) DPGR, (b) QPAI, adjusted to reflect differences in Kentucky and federal

income tax law, and (c) Kentucky W-2 wages allocable to DPGR.

SPECIFIC LINE INSTRUCTIONS

Lines 1 through 6

Using the federal instructions for Form 8903, Lines 1 through 6, enter the federal amounts adjusted to reflect the differences in Kentucky and federal income tax law.

Line 7

Only applies to a corporation filing Form 720 that is a partner or member of a pass-through entity that elects to compute QPAI at the entity level using the small business simplified overall method, simplified deduction method or Section 861 method.

Line 8

If the corporation filing the return is a member of an expanded affiliated group (EAG), skip Lines 1 through 6. Enter the member's respective amount of Kentucky QPAI. Kentucky QPAI is computed in the same manner as federal QPAI except for the differences in QPAI resulting from differences in Kentucky and federal depreciation and expense deductions allowed under Sections 168 and 179 of the Internal Revenue Code and other Kentucky adjustments provided by KRS 141.010. Attach the following supporting information:

- (1) Federal Form 8903 of the EAG reporting member, federal QPAI computation schedule of the EAG and federal QPAI computation schedule of the member.
- (2) Kentucky QPAI computation schedule of the EAG. The Kentucky QPAI computation schedule of the EAG shall begin with federal QPAI and show all adjustment to arrive at Kentucky QPAI.
- (3) Member's Kentucky QPAI computation schedule. The Kentucky QPAI computation schedule of the member shall begin with federal QPAI and show all adjustments to arrive at Kentucky QPAI.

Line 10

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

Line 12

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

Line 15

Form W-2 wages are computed pursuant to KRS 141.120(8) (b) and regulation 103 KAR 16:090, and include only Kentucky wages properly allocable to DPGR. Do not include wages reported on Line 16.

Line 16

Enter the Kentucky wages allocable to DPGR provided by a pass-through entity as an attachment to the Kentucky Schedule K-1.

Line 20

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.