

## INSTRUCTIONS FOR 2011 KENTUCKY FORM 740-NP NONRESIDENT OR PART-YEAR RESIDENT INCOME TAX RETURN

**WHO MUST FILE FORM 740-NP**—Form 740-NP must be used by full-year nonresidents who had income from Kentucky sources and by part-year residents who had income while a Kentucky resident or from Kentucky sources while a nonresident. These persons must file Form 740-NP if (1) they had **any gross income** from Kentucky sources **and gross income from all sources** in excess of modified gross income for their family size, or (2) Kentucky gross receipts from self-employment in excess of modified gross income for their family size. See Chart A on page 2.

Individuals who are residents of Kentucky for the entire tax year must use Form 740 or Form 740-EZ. Persons who maintain a permanent residence in Kentucky (i.e., are domiciled in Kentucky) are considered residents. Persons not domiciled in Kentucky but who live in Kentucky for more than 183 days during the tax year are also considered residents.

**Full-year nonresidents** must report all income from Kentucky sources (including distributive share income, Schedule K-1), from activities carried on in Kentucky or from the performance of services in Kentucky, and from property located in Kentucky.

**Persons moving into Kentucky** must report income received from Kentucky sources prior to becoming residents and income received from all sources after becoming Kentucky residents.

**Residents moving out of Kentucky** during the year must report income from all sources while a resident and from Kentucky sources while a nonresident.

**Reciprocal States**—Kentucky has reciprocal agreements with specific states. These agreements provide for taxpayers to be taxed by their state of residence, and not the state where income is earned. **Reciprocity does not apply to persons who live in Kentucky for more than 183 days during the tax year.** The states and types of exemptions are as follows:

**Illinois, West Virginia**—wages and salaries

**Indiana**—wages, salaries and commissions

**Michigan, Wisconsin**—income from personal services (including salaries and wages)

**Ohio**—wages and salaries. **Note:** Wages which an S corporation pays to a shareholder-employee if the shareholder-employee is a “twenty (20) percent or greater” direct or indirect equity investor in the S corporation shall not be exempt under the reciprocity agreement.

**Virginia**—commuting daily, salaries and wages

*Taxpayers who qualify for this exemption and have no other Kentucky taxable income should file Form 740-NP-R, Kentucky Income Tax Return, Nonresident-Reciprocal State, to obtain a refund. Also, nonresidents who qualify for the exemption should file Form 42A809, Certificate of Nonresidence, with their employer to exempt their future wages from Kentucky withholding.*

**Gambling income and distributive share income (Schedule K-1) are not exempt under reciprocal agreements. This income is fully taxable. A complete return must be filed if filing requirements are met.**

**Military Personnel**—Nonresident military personnel with civilian jobs in Kentucky are required to report this income on Form 740-NP except residents of reciprocal states (see reciprocal states above). Any income from nonmilitary Kentucky sources is also taxable.

**Military Pay Exclusion**—Effective for taxable years beginning on or after January 1, 2010, all military pay received by active duty members of the Armed Forces of the United States, members of reserve components of the Armed Forces of the United States, and members of the National Guard will be exempt from Kentucky income tax. (KRS 141.010(10)(u))

Soldiers will claim the exemption by excluding military pay when filing a Kentucky individual income tax return starting with the 2010 return. Provided the military member has no income other than military pay, he or she would not be required to file a Kentucky income tax return. The military pay exemption applies to all Kentucky military members regardless of where the member is stationed. Kentucky income tax should no longer be withheld from checks received for military pay, beginning January 1, 2010. If Kentucky income tax is incorrectly withheld from a soldier's military pay in 2010 and after, the Department of Revenue will refund the tax withheld.

**Military Spouse**—The Military Spouses Residency Relief Act (MSRRA) (Public Law 111-97) was signed into law on November 11, 2009. This new law is effective for taxable year 2009. The MSRRA allows the same residency benefits permitted to military personnel under the Servicemembers Civil Relief Act (SCRA) to also apply to a military spouse's nonmilitary service income, under certain circumstances.

The MSRRA prohibits a spouse's income from being considered income earned in a tax jurisdiction if the spouse is not a resident or domiciliary of such jurisdiction when the spouse is in that jurisdiction solely to be with a servicemember serving under military orders.

Those military spouses who fall under this law should file Form 740-NP Kentucky Individual Income Tax Nonresident or Part-Year Resident Return to request a refund of the Kentucky income tax withheld from his or her pay. The income would not be reported as taxable on the Kentucky income tax return. To assist the department in identifying those returns, please write across the top of the return **MILITARY SPOUSE**. Please address any further questions to the Taxpayer Assistance Section at (502) 564-4581.

**Military Personnel Eligible for Combat Zone Extension**—Members of the Army, Navy, Marines, Air Force, or Public Health Service of the United States government who serve in an area designated as a combat zone by presidential proclamation shall not be required to file an income tax return and pay the taxes, which would otherwise become due during the period of service, until 12 months after the service is completed. Members of the National Guard or any branch of the Reserves called to active duty to serve in a combat zone are granted the same extension.

### **MODIFIED GROSS INCOME AND FAMILY SIZE (Use With Chart A)**

**Family Size**—Consists of yourself, your spouse if married and living in the same household and qualifying children. Family size is limited to four.

**Qualifying Dependent Child**—Means a qualifying child as defined in Internal Revenue Code Section 152(c), and includes a child who lives in the household but cannot be claimed as a dependent if the provisions of Internal Revenue Code Section 152(e)(2) and 152(e)(4) apply. In general, to be a taxpayer's qualifying child, a person must satisfy four tests:

- **Relationship**—The taxpayer's child or stepchild (whether by blood or adoption), foster child, sibling or stepsibling, or a descendant of one of these.
- **Residence**—Has the same principal residence as the taxpayer for more than half the tax year. A qualifying child is determined without regard to the exception for children of divorced or separated parents. Other federal exceptions apply.
- **Age**—Must be under the age of 19 at the end of the tax year, or under the age of 24 if a full-time student for at least five months of the year, or be permanently and totally disabled at any time during the year.
- **Support**—Did not provide more than one-half of his/her own support for the year.

**Modified Gross Income**—Modified gross income is the greater of federal adjusted gross income adjusted to include interest income derived from municipal bonds (non-Kentucky) and lump-sum pension distributions not included in federal adjusted gross income; **or** Kentucky adjusted gross income adjusted to include lump-sum pension distributions not included in federal adjusted gross income.

<b>Chart A</b>	
If Your <b>Family Size</b> is:	Your <b>Modified Gross Income</b> is greater than:
One.....	<b>and</b> ..... \$ 10,890
Two .....	<b>and</b> ..... \$ 14,710
Three.....	<b>and</b> ..... \$18,530
Four or More .....	<b>and</b> ..... \$22,350

**WHEN TO FILE**—April 17, 2012, is the filing deadline for persons reporting income for calendar year 2011. To avoid penalties and interest, returns must be postmarked no later than April 17, 2012.

**AMENDED RETURNS**—If you discover that you omitted deductions or otherwise improperly prepared your return, you may obtain a refund by filing an amended return within four years of the due date of the original return. You are required to file an amended return to report omitted income.

**When filing an amended return, check the box on Form 740-NP and attach a detailed explanation of the changes to income, deductions and tax. Submit a completed Kentucky return and corrected federal schedules, if applicable. If you do not attach the required information, processing of your amended return may be delayed.**

**COMPOSITE RETURNS**—Beginning with tax year 2009, the filing of a composite return on Form 740-NP is no longer allowed. You must use Form 740NP-WH, Kentucky Nonresident Income Tax Withholding on Net Distributive Share Income Transmittal Report and Composite Income Tax Return.

**CONFIDENTIALITY**—Kentucky Revised Statute 131.190 requires the Department of Revenue to maintain strict confidentiality of all taxpayer records. No employee of the Department of Revenue may divulge any information regarding the tax returns, schedules or reports required to be filed. However, the Department of Revenue is not prohibited from providing evidence to or testifying in any court of law concerning official tax records.

The department may provide official information on a confidential basis to the Internal Revenue Service or to any other governmental agency with which it has an exchange of information agreement whereby the department receives similar or useful information in return.

**REPORTING PERIODS AND ACCOUNTING PROCEDURES**—Kentucky law requires taxpayers to report income on the same calendar or fiscal year and to use the same methods of accounting as required for federal income tax purposes. Any federally approved change in accounting period or methods must be reported to the Kentucky Department of Revenue. Attach a copy of the federal approval.

Changes to federal income tax law made after the Internal Revenue Code reference date contained in KRS 141.010(3) shall not apply for purposes of Chapter 141 unless adopted by the General Assembly.

**POLITICAL PARTY FUND DESIGNATION**—You may designate that a portion of your taxes will be paid to either the Democratic or Republican parties if you have a tax liability of at least \$2 (\$4 for married persons filing joint returns). *This designation will not increase your tax or decrease your refund.* You may make this designation by checking the applicable box. A husband and wife may each make a designation. Persons making no designation should check the "No Designation" box.

**FILING STATUS**—*Legal liabilities are affected by the choice of filing methods.* Married persons who file joint returns are jointly and severally liable for all income taxes due for the period covered by the return. If married, you may file separate or joint returns. **Most married persons pay less tax if they file separate returns.**

**Filing Status 1, Single**—Use this filing status if you are unmarried, divorced, widowed, legally separated by court decree, or if you filed as "Head of Household" or "Qualifying Widow(er)" on your federal return.

**Filing Status 2, Married Filing Joint Return**—Use this filing status if you and your spouse choose to file a joint return even if one spouse had no income. Jointly means that you and your spouse add your incomes together and report the total on page 4, Section D, Column B, Lines 1 through 34.

**Filing Status 3, Married Filing Separate Returns**—If using this filing status, you and your spouse must file two separate tax forms. The husband's income is reported on one tax form, the wife's on the other. When filing separate returns, the name and Social Security number of each spouse must be entered on both returns. Enter the spouse's Social Security number in the block provided, and enter the name on page 1, Line 3.

**DETERMINING YOUR INCOME**

**SECTION D—INCOME/ADJUSTMENTS TO INCOME**

**A copy of pages 1 and 2 of your federal income tax return and all supporting schedules must be filed with Kentucky Form 740-NP. Please clearly identify as "Copy."**

**INSTRUCTIONS FOR COLUMN A**

All entries in Column A should be amounts reported for federal income tax purposes.

**Depreciation—Assets Purchased After September 10, 2001**

Effective for taxable years ending after September 10, 2001, an individual that for federal income tax purposes elects to utilize

the 30 percent or the 50 percent special depreciation allowance or the increased 179 deduction will have a different depreciation and Section 179 deduction for Kentucky purposes than for federal purposes. The differences will continue through the life of the assets. There will be recapture and basis differences for Kentucky and federal income tax purposes until the assets are sold or fully depreciated.

## INSTRUCTIONS FOR COLUMN B

**Depreciation, Section 179 Deduction and Gains/Losses From Disposition of Assets**—*Important: Follow the instructions for Reporting Depreciation and Section 179 Deduction Differences if you have elected for federal income tax purposes to take the 30 percent or the 50 percent special depreciation allowance or the increased Section 179 deduction for property placed in service after September 10, 2001. A copy of the federal Form 4562 if filed for federal income tax purposes must be submitted with Form 740-NP to verify that no adjustments are required.*

**Reporting Depreciation and Section 179 Deduction Differences for property placed in service after September 10, 2001—Create a Kentucky Form 4562** by entering **Kentucky** at the top center of a federal Form 4562 above Depreciation and Amortization. In Part I replace the \$250,000 maximum amount on Line 1 with the Kentucky limit of \$25,000 and replace the \$800,000 threshold amount on Line 3 with the Kentucky phase-out threshold of \$200,000. In Part II, strike through and ignore Line 14, Special depreciation allowance for qualified property placed in service during the tax year. Use the **created Kentucky Form 4562** to compute Kentucky depreciation and Section 179 deduction in accordance with the IRC in effect on December 31, 2001.

**Note:** In determining the Section 179 deduction for Kentucky, the income limitation on Line 11 is Kentucky net income before the Section 179 deduction, instead of federal taxable income. Adjust federal Schedules C, E and F for the difference in allowable depreciation and report in Column B the Kentucky income (loss) from business, farming or rental property. **Attach Kentucky Form 4562 and, if filed, federal Form 4562.**

**Line 1, Wages, Salaries, Tips, etc.**—Enter all wages, salaries, tips, bonuses, commissions or other compensation received for personal services from Kentucky sources while a nonresident and from all sources while a resident of Kentucky. Do not include in this amount any reimbursement for moving expenses included in Kentucky wages on your wage and tax statement.

**Line 2, Moving Expense Reimbursement**—See instructions for Schedule ME.

**Line 3, Interest**—Interest income received while a Kentucky resident must be reported, except for the following: (a) income from bonds issued by the Commonwealth of Kentucky and its political subdivisions; and (b) income from U.S. government bonds or securities. Interest income from bonds issued by other states and their political subdivisions is taxable to Kentucky and must be included on Line 3.

**Line 4, Dividends**—Report dividends received while a resident of Kentucky and the distributive share of the dividend income reflected on the Schedule K-1.

**Line 5, Taxable Refunds, Credits or Offsets of Local Income Taxes**—Enter the amount of taxable local income tax refund or credit reported on your federal return only if you received a tax benefit in a prior year.

**Line 6, Alimony Received**—Enter alimony payments received while a Kentucky resident.

**Lines 7 and 12, Profit or (Loss) from Business or Farming**—*For income taxable to Kentucky, complete and attach federal Schedule C or C-EZ for business income or federal Schedule F for farming and Form 4562, Depreciation and Amortization. Do not adjust wages by the federal work opportunity credit from federal Form 5884. For passive activities, see Form 8582-K. Do not include income from the national tobacco settlement agreement. Adjust income for the difference in allowable depreciation and report in Column B.*

**Note:** Individual owners of disregarded single member LLCs (SMLLCs) that file on Schedules C, E, or F for federal income tax shall file Form 725, Kentucky Single Member LLC Individually Owned LLET Return, to compute and pay the limited liability entity tax. The individual member shall report income or loss from the entity and determine credit in the same manner as other pass-through entities (PTEs).

**Lines 8 and 9, Gain or (Loss) from Sale or Exchange of Assets**—Gains (losses) on sales of assets (including installment sales) while a Kentucky resident must be reported on the Kentucky return. Gains (losses) on sales of tangible assets located in Kentucky must be reported regardless of state of residence. Generally, gains (losses) on sales of intangible assets are reported to the state of residence.

**Determining and Reporting Differences in Gain or Loss From Disposition of Assets**—If during the year you dispose of assets placed in service after September 10, 2001, on which the 30 percent or the 50 percent special depreciation allowance or the increased Section 179 deduction was taken for federal income tax purposes, you will need to determine and report the difference in the amount of gain or loss on the assets as follows:

**Create a Kentucky form** by entering **Kentucky** at the top center of a federal Schedule D, federal Form 4797 and other applicable federal forms. Compute Kentucky gain or loss from the disposed assets using the Kentucky basis. Enter the Kentucky gain or loss on the appropriate line. **Attach the created Kentucky Schedule D, Kentucky Form 4797 and other forms or schedules to support the deduction.**

**Line 10(a), Federally Taxable IRA Distributions, Pensions and Annuities**—Enter on Line 10(a), Column A, the total of IRA distributions, pensions and annuities received for the entire year. Enter on Line 10(a), Column B, the total of IRA distributions, pensions and annuities received while a resident of Kentucky.

**Line 10(b), Pension Income Exclusion**—You may exclude up to \$41,110 of pension income **reported on Line 10(a), Column B**. If Line 10(a), Column B, is more than \$41,110 and is from the federal government, Commonwealth of Kentucky or Kentucky local governments, complete Schedule P.

**Line 11, Income from Schedule E**—Enter income from rents, royalties, partnerships, estates, trusts, limited liability companies (LLC), S corporations and REMICs. Nonresident individuals receiving a Kentucky Schedule K-1 from a partnership, estate, trust, LLC or S corporation must report their distributive share of the income, gains or losses, etc., as reflected on the Schedule K-1. Shareholders and partners should multiply their distributive share items by the taxable percentage from Schedule K-1; Form 720S, Line B(2); Form 765, Line D(2) and Form 765-GP, Line C(2).

Part-year residents not receiving a Kentucky Schedule K-1, but receiving a federal K-1 from a partnership, estate, trust or S corporation, must report the same amount of distributive income, gains or losses, etc., as reported for federal income tax purposes from entities whose taxable years end during their period of residence.

Do not include in Column B the net income from an S corporation subject to the franchise tax imposed under KRS 136.505 or the capital stock tax imposed under KRS 136.300.

Report income from real estate mortgage investment conduits (REMICs) as follows: (1) if the REMIC is a corporation, include only distributions of cash or property during the taxable year; or (2) if other than a corporation, report the same amount as reported for federal income tax purposes for the taxable year.

**Note:** Individual owners of disregarded single member LLCs (SMLLCs) that file on Schedules C, E, or F for federal income tax shall file Form 725, Kentucky Single Member LLC Individually Owned LLET Return, to compute and pay the limited liability entity tax. The individual member shall report income or loss from the entity and determine credit in the same manner as other pass-through entities (PTEs).

**Line 13, Unemployment Compensation**—Report unemployment compensation received while a resident of Kentucky.

**Line 14, Taxable Social Security Benefits**—Social Security benefits are not taxable for Kentucky.

**Line 15, Gambling Winnings**—Report income from lottery winnings and gambling received while a Kentucky resident or from Kentucky sources while a nonresident.

**Line 16, Other Income**—Report income from prizes, awards, or any sources not listed above while a Kentucky resident or from Kentucky sources while a nonresident. Also, include any mortgage debt forgiveness excluded from federal adjusted gross income.

**Retirement Income** (For persons moving out of Kentucky)—Include differences in pension (3-year recovery rule) and IRA bases received while a resident of Kentucky (also include differences on Schedule P, Line 2).

**Net Operating Loss Deduction**—A Kentucky net operating loss deduction (KNOLD) must be computed using Kentucky income and deduction amounts. The federal net operating loss deduction is not allowed. The KNOLD should be included as a negative amount on Line 16. If the loss is from a business outside Kentucky, none of the loss may be used. Kentucky returns must be filed for the year of the loss and for all years for which the loss is utilized. Attach schedule showing computation.

**Note:** For 2005 and future years, the carryback of net operating losses to prior years is no longer allowed. Net operating losses may be carried forward for up to 20 years. Documentation to substantiate any loss must be available to the Department of Revenue upon request.

**Artistic Charitable Contributions**—A deduction is allowed for "qualified artistic charitable contributions" of any literary, musical, artistic or scholarly composition, letter or memorandum, or similar property.

An amount equal to the fair market value of the property on the date contributed is allowable as a deduction. However, the deduction is limited to the amount of the taxpayer's Kentucky artistic adjusted gross income for the taxable year. This amount should be included as a negative amount on Line 16.

The following requirements for a deduction must be met:

(a) The property must have been created by the personal efforts of the taxpayer at least one year prior to the date contributed. The creation of this property cannot be related to the performance of duties while an officer

or employee of the United States, any state or political subdivision thereof.

(b) A written appraisal of the fair market value of the contributed property must be made by a qualified independent appraiser within one year of the date of the contribution. A copy of the appraisal must be attached to the tax return.

(c) The contribution must be made to a qualified tax-exempt organization.

## ADJUSTMENTS TO INCOME

KRS 141.010(10) and (11) provide that deductions are limited to amounts allocable to income subject to taxation. If a deduction or an adjustment to gross income is allowable based upon the receipt of certain types of income or is limited to a maximum amount deductible for federal income tax purposes, the Kentucky income used to determine the amount allowable for Kentucky shall be the same type of income used to allow the deduction on the federal return. Persons who move into or out of Kentucky during the year are limited to either the adjustments to gross income paid during the period of residence or that portion of adjustments to gross income that Kentucky income bears to total income. Nonresidents are limited to that portion of adjustments to gross income that Kentucky income bears to total income.

**Line 18, Educator Expenses**—Deduct up to \$250 for teachers and other educators for their out-of-pocket expenses incurred while a Kentucky resident or expenses for use in an educational classroom.

**Line 19, Certain Business Expenses of Reservists, Performing Artists and Fee-Basis Government Officials**—Deduct out-of-pocket expenses for members of the National Guard or Reserves.

**Line 20, Health Savings Account (HSA) Deduction**—Federal limitations apply. Contributions deducted by full-year nonresidents are limited to the percentage of their Kentucky total income (Line 17, Column B) to their federal total income (Line 17, Column A). Do not claim amounts as an itemized deduction.

**Line 21, Moving Expenses**—Enter allowable moving expense deduction (attach Schedule ME).

**Line 22, Deduction for One-Half of Self-Employment Tax**—You may deduct one-half of the self-employment tax based upon the self-employment income reported in Column B as Kentucky income for the taxable year.

**Line 23, Self-Employed SEP, SIMPLE and Qualified Plans Deduction**—Self-employed persons may deduct qualified payments to a Keogh retirement plan, a Simplified Employee Pension (SEP) or a SIMPLE plan based upon Kentucky self-employment earnings.

**Line 24, Self-Employed Health Insurance Deduction**—For Kentucky purposes, see Section D, Line 32 for the allowable health insurance deduction.

**Line 25, Penalty on Early Withdrawal of Savings**—You may deduct the interest penalty only if the interest income has been reported to Kentucky.

**Line 26, Alimony Paid**—The alimony deduction cannot exceed Kentucky income. Alimony paid by full-year nonresidents is

limited to the percentage of their Kentucky total income to their federal total income. Enter the recipient's name and Social Security number.

**Line 27, Individual Retirement Arrangements (IRAs)**—The deduction cannot exceed income earned in Kentucky. Contributions made by full-year nonresidents are limited to the percentage of their Kentucky earned income to their federal earned income. Use federal worksheets and instructions with the above limitations.

**Line 28, Student Loan Interest Deduction**—Federal limitations apply. Student loan interest deduction is limited to the percentage of Kentucky total income (Line 17, Column B) to federal total income (Line 17, Column A). Enter in Column A, the total of student loan interest from your federal return. Enter in Column B, the allowable deduction with the above limitation.

**Line 29, Tuition and Fees Deduction**—Federal limitations apply. The tuition and fees deduction is limited to the percentage of Kentucky total income (Line 17, Column B) to federal total income (Line 17, Column A). Enter in Column A, the tuition and fees deduction from your federal return. Enter in Column B, the allowable deduction with the above limitation.

**Line 30, Domestic Production Activities Deduction**—For taxable years beginning on or after January 1, 2010, the amount of the domestic production activities deduction (DPAD) for Kentucky income tax returns will remain 6 percent as allowed in Section 199(a)(2) of the Internal Revenue Code (IRC) for taxable years beginning before January 1, 2010. Kentucky does not recognize the 9 percent DPAD calculation rate allowed for federal income tax returns filed for taxable years beginning on or after January 1, 2010

Part-year resident or full-year nonresident individuals shall prorate the allowable federal DPAD based upon the percentage of Kentucky domestic production gross receipts to federal domestic production gross receipts. The KDPAD shall not exceed 50 percent of the Kentucky W-2 wages from the entity that generated Kentucky domestic production gross receipts. This deduction must be recomputed based on the 6 percent allowed for the Kentucky DPAD as opposed to the 9 percent allowed for the federal DPAD deduction. A pass-through entity is required to attach information containing each individual partner's, member's or shareholder's distributive share of DPGR, KDPGR and Kentucky W-2 wages allocable to DPGR to each individual partner's, member's or shareholder's Kentucky Schedule K-1 for purposes of making this calculation.

**Line 31, Long-Term Care Insurance Premiums**—Long-term care insurance premiums deducted by full-year nonresidents are limited to the percentage of their Kentucky total income (Line 17, Column B) to their federal total income (Line 17, Column A). Do not claim amounts as an itemized deduction.

**Line 32, Health Insurance Premiums**—Medical and dental insurance premiums deducted by full-year nonresidents are limited to the percentage of their Kentucky total income (Line 17, Column B) to their federal total income (Line 17, Column A).

**Note:** This deduction applies to premiums paid with after-tax dollars. Premiums paid with pretax income (cafeteria plans and vouchers already excluded from wage income) are not deductible again. Do not include long-term care insurance premiums deducted on Line 31. If you are eligible for the

Health Coverage Tax Credit, you may not deduct premiums paid on your behalf (advance payments) and you must reduce the amount you paid by the amount of health coverage tax credit. (See federal Form 8885.)

**Line 33, Other Deductions**—List any other adjustments to total income not listed above on lines 18 through 32. List the type of deduction in the space provided. Other deductions are limited to the percentage of Kentucky total income (Line 17, Column B) to federal total income (Line 17, Column A). Enter in Column A, the total of any other adjustments to the total income listed on your federal return. Enter in Column B, the allowable deduction with the above limitation.

## INCOME/TAX

**Note:** These items are reported on page 1, Form 740-NP.

**Line 7**—Enter the percentage from page 4, Section D, Line 36.

**Line 8**—Enter federal Adjusted Gross Income from page 4, Section D, Column A, Line 35.

**Line 9**—Enter Kentucky Adjusted Gross Income from page 4, Section D, Column B, Line 35.

**Line 10**—Nonitemizers, enter the standard deduction of \$2,240. If filing a joint return, only one \$2,240 standard deduction is allowed.

**Line 11**—Itemizers, complete Schedule A and enter itemized deductions on Line 11. If one spouse itemizes deductions, the other must itemize. See specific instructions for Schedule A.

**Line 12**—Multiply Line 11 by the percentage on Line 7. If Line 12 does not exceed \$2,240 and your filing status is 1 or 2, you should take the standard deduction. Married couples filing separate returns, see special rules under instructions for Schedule A.

**Line 13**—Subtract either Line 10 or 12 from Line 9. This is your Taxable Income.

**Line 14**—Use the tax table provided in the instructions to compute your tax. Enter this amount on Line 14.

If you had a **lump-sum distribution** from a qualified retirement plan, complete Schedule P and Form 4972-K and attach copies to Form 740-NP. The amount of tax computed on Form 4972-K should be included in the amount on this line.

**Schedule J, Farm Income Averaging**—If you elect Farm Income Averaging on your federal return, you may also use this method for Kentucky. Complete and attach Kentucky Schedule J and include tax in the amount on this line.

**Line 15**—Enter amount from page 2, Section A, Line 21. See instructions for Section A.

**Line 17**—Enter amount from page 3, Section B, Line 4. See instructions for Section B.

**Line 18**—Multiply the amount on Line 17 by the percentage on Line 7 and enter result here.

**Line 20 and Line 21, Family Size Tax Credit**— The Family Size Tax Credit is based on modified gross income (MGI) and the size of the family. If your total MGI is \$29,726 or less, you may qualify for Kentucky Family Size Tax Credit.

**STEP ONE**—Determine your family size. Check the box on Line 20 to the right of the number that represents your family size.

**Family Size**—Consists of yourself, your spouse if married and living in the same household and qualifying children.

**Family Size 1** is an individual either single, or married living apart from his or her spouse for the entire year. You may qualify for the Family Size Tax Credit even if you are claimed as a dependent on your parent's tax return.

**Family Size 2** is an individual with one qualifying child or a married couple.

**Family Size 3** is an individual with two qualifying children or a married couple with one qualifying child.

**Family Size 4** is an individual with three or more qualifying children or a married couple with two or more qualifying children.

**Qualifying Dependent Child**—Means a qualifying child as defined in Internal Revenue Code Section 152(c), and includes a child who lives in the household but cannot be claimed as a dependent if the provisions of Internal Revenue Code Section 152(e)(2) and 152(e)(4) apply. In general, to be a taxpayer's qualifying child, a person must satisfy four tests:

**Relationship**—Must be the taxpayer's child or stepchild (whether by blood or adoption), foster child, sibling or stepsibling, or a descendant of one of these.

**Residence**—Has the same principal residence as the taxpayer for more than half the tax year. A qualifying child is determined without regard to the exception for children of divorced or separated parents.

**Age**—Must be under the age of 19 at the end of the tax year, or under the age of 24 if a full-time student for at least five months of the year, or be permanently and totally disabled at any time during the year.

**Support**—Did not provide more than one-half of his/her own support for the year.

**STEP TWO**—Determine modified gross income.

**FORM 740-NP WORKSHEET FOR COMPUTATION OF MODIFIED GROSS INCOME FOR FAMILY SIZE TAX CREDIT**

- (a) Enter your federal adjusted gross income from page 1, Line 8. **If zero or less, enter zero** ..... (a) \_\_\_\_\_
- (b) If married filing separate returns and living in the same household, enter your spouse's federal adjusted gross income. **If zero or less, enter zero** ..... (b) \_\_\_\_\_
- (c) Enter tax-exempt interest from municipal bonds (non-Kentucky)..... (c) \_\_\_\_\_
- (d) Enter amount of lump-sum distributions not included in federal adjusted gross income (federal Form 4972)..... (d) \_\_\_\_\_
- (e) Enter total of Lines (a), (b), (c) and (d)..... (e) \_\_\_\_\_
- (f) Enter your Kentucky adjusted gross income from page 1, Line 9. **If zero or less, enter zero** ..... (f) \_\_\_\_\_
- (g) If married filing separate returns and living in the same household, enter your spouse's Kentucky adjusted gross income from page 1, Line 9. **If zero or less, enter zero** ..... (g) \_\_\_\_\_
- (h) Enter amount of lump-sum distributions not included in adjusted gross income (Kentucky Form 4972-K)..... (h) \_\_\_\_\_
- (i) Enter total of Lines (f), (g) and (h)..... (i) \_\_\_\_\_
- (j) Enter the **greater** of Line (e) or (i). This is your **Modified Gross Income**.  
Use this amount to determine if you qualify for the Family Size Tax Credit ..... (j) \_\_\_\_\_

**STEP THREE**—Use the Family Size Table to look up the percentage of credit and enter in the space provided on Line 21.

Family Size	One		Two		Three		Four or More		Credit Percentage is
	is over	is not over	is over	is not over	is over	is not over	is over	is not over	
2011	\$ ---	\$ 10,890	\$ ---	\$ 14,710	\$ ---	18,530	\$ ---	\$ 22,350	100
	10,890	11,326	14,710	15,298	18,530	19,271	22,350	23,244	90
	11,326	11,761	15,298	15,887	19,271	20,012	23,244	24,138	80
	11,761	12,197	15,887	16,475	20,012	20,754	24,138	25,032	70
	12,197	12,632	16,475	17,064	20,754	21,495	25,032	25,926	60
	12,632	13,068	17,064	17,652	21,495	22,236	25,926	26,820	50
	13,068	13,504	17,652	18,240	22,236	22,977	26,820	27,714	40
	13,504	13,830	18,240	18,682	22,977	23,533	27,714	28,385	30
	13,830	14,157	18,682	19,123	23,533	24,089	28,385	29,055	20
	14,157	14,484	19,123	19,564	24,089	24,645	29,055	29,726	10
14,484	---	19,564	---	24,645	---	29,726	---	0	

**STEP FOUR**—Multiply tax from Line 19 by the percentage and enter on Line 21. This is your **Family Size Tax Credit**.

**Line 23, Education Tuition Tax Credit**—Complete Form 8863-K to claim this credit. See Forms and instructions.

**Line 25, Child and Dependent Care Credit**—**Full-year nonresidents are not entitled to this credit.** Part-year residents may be entitled to a credit for child and dependent care expenses paid while a resident of Kentucky. To determine this credit, complete the following worksheet.

- a. Enter total credit calculated on federal Form 2441, Line 9 ..... \_\_\_\_\_
- b. Enter total child and dependent care expenses entered on Form 2441, Line 3 ..... \_\_\_\_\_
- c. Enter the amount included on Line b paid while a Kentucky resident..... \_\_\_\_\_
- d. Divide Line c by Line b.  
Enter result..... \_\_\_\_\_
- e. Multiply the amount on Line a by the decimal amount on Line d .... \_\_\_\_\_
- f. Percent of allowable credit for Kentucky ..... x .20
- g. Multiply the amount on Line e by the decimal amount on Line f.  
This is your Child and Dependent Care Credit. Enter on Line 25..... \_\_\_\_\_

**Note:** If you and your spouse are filing separate Kentucky returns, the child and dependent care credit calculated for Kentucky must be divided based on the percentage of each spouse's adjusted gross income to total Kentucky adjusted gross income (Line 9).

**Line 27, Kentucky Use Tax**—If, while a Kentucky resident, you made any out-of-state purchases of tangible personal property or digital property for use in Kentucky on which sales tax was not charged, you must report Kentucky use tax on those purchases, pursuant to KRS 139.330. **For example, if you order from catalogs, make purchases through the Internet, or shop outside Kentucky** for items such as clothing, shoes, jewelry, cleaning supplies, furniture, computer equipment, pre-written computer software, office supplies, books, souvenirs, exercise equipment or subscribe to magazines, you may owe use tax to Kentucky.

For your convenience, the Use Tax Calculation Worksheet and Optional Use Tax Table are provided in these instructions. The Optional Use Tax Table is designed for those purchases of less than \$1,000. If you made **untaxed** out-of-state purchases in amounts under \$1,000, but do not have records readily available that show the amount of those purchases, you may use the Optional Use Tax Table below to estimate the compensating use tax based on your Kentucky Adjusted Gross Income (KYAGI). All **untaxed** purchases in the amount of \$1,000 or greater must be accounted for on an actual basis using the Use Tax Calculation Worksheet. Failure to timely report may result in assessment of penalty and interest in addition to the tax amount due.

<b>Optional Use Tax Table</b>	
KY AGI* Tax	
\$0 - \$10,000 .....	\$4
\$10,001 - \$20,000 .....	\$12
\$20,001 - \$30,000 .....	\$20
\$30,001 - \$40,000 .....	\$28
\$40,001 - \$50,000 .....	\$36
\$50,001 - \$75,000 .....	\$50
\$75,001 - \$100,000 .....	\$70
Above \$100,000 .....	Multiply AGI by 0.08% (0.0008)
* AGI from Line 9 on KY Form 740 or KY Form 740-NP or Line 1 on KY Form 740-EZ.	

<b>Use Tax Calculation Worksheet</b>	
<b>Call 502-564-5170 for assistance.</b>	
1. Purchases of \$0 to \$1,000 x 6 percent (.06) <b>OR Use Tax Table Amount</b>	<b>\$</b>
2. Purchases of \$1,000 or more x 6 percent (.06)	<b>\$</b>
3. Total Use Tax Due (add lines 1 and 2)	<b>\$</b>
<b>Report this amount on Form 740 or 740-NP, Line 27; or 740-EZ, Line 9.</b>	

**Note:** The items reported for use tax on Form 740-NP should be those purchased strictly for personal use. Any use tax liabilities accruing to a business such as mail-order office supplies must be reported on the sales and use tax return or the consumer's use tax return. The Department of Revenue routinely conducts compliance programs with other states regarding out-of-state purchases. Persons not reporting applicable use tax will be liable for the tax plus interest and penalties.

**Credit Against the Kentucky Use Tax Due**

You may reduce or eliminate the amount of Kentucky use tax due by the amount of state sales tax paid to the out-of-state seller on the same transaction. The reduction may not exceed the amount of Kentucky use tax due on the purchase. For example, if Georgia state sales tax of 4 percent is paid, only the additional 2 percent is due to Kentucky, or if Illinois state sales tax of 6.25 percent is paid, no additional Kentucky use tax is due. Sales tax paid to a city, county or another country cannot be used as a credit against Kentucky use tax due.

**Line 30(a), Tax Withheld**—Enter the amount of 2011 **Kentucky** income tax withheld by your employer(s). This amount is shown on wage and tax statements, including Forms 1099 and W-2G, which you must attach to Form 740-NP in the designated area. You will not be given credit for Kentucky income tax withheld unless you attach the wage and tax statements or other supporting documents reflecting Kentucky withholding.

Employers are required to give these statements to employees no later than January 31, 2012. If by March 1 you are unable to obtain a wage and tax statement from an employer, contact the Department of Revenue for instructions.

You may not claim credit for tax **withheld** by another state. Within certain limitations, Kentucky part-year residents may claim a credit for nonrefundable individual income tax **paid** to other states. See Section A, Line 5.

Local government occupational, license or income tax must not be included on line 30(a).

**Line 30(b), Estimated Tax Paid**—Enter Kentucky estimated tax payments made for 2011 and amounts credited from the 2010 return.

Also, include on Line 30(b) payments prepaid with extension requests. Identify as “prepaid with extension.”

**Line 30(c), Refundable Certified Rehabilitation Credit**—Enter 2011 approved refundable certified rehabilitation credit per KRS 141.382(1)(b).

**Line 30(d), Film Industry Tax Credit**—Enter 2011 approved refundable film industry tax credit per KRS 141.383. Attach Schedule K-1, if applicable.

**Line 30(e), Nonresident Withholding**—Enter the amount of **Kentucky** income tax withheld from form PTE-WH, line 9.

**Line 31**—Total of amounts on Lines 30(a) through 30(e).

Compare the amounts on Lines 29 and 31. If Line 31 is larger than Line 29, subtract Line 29 from Line 31. Enter the difference on Line 32. This is the **AMOUNT OVERPAID**.

If Line 31 is smaller than Line 29, you owe additional tax. Subtract Line 31 from Line 29. Enter on Line 40. For instructions on payment, see Line 43, **Amount You Owe**.

**Line 32, Amount Overpaid**—If you have an overpayment on Line 32, you may have all of this amount refunded to you on Line 39, and/or you may credit all or part of it toward your 2012 Kentucky estimated income tax on Line 38. You may also contribute all or a portion of your overpayment to the following funds: (a) on Line 33, the **Nature and Wildlife Fund** for the purpose of acquiring land to preserve habitat for wildlife and natural areas of historic or scenic value; (b) on Line 34, the **Child Victims' Trust Fund** to support local programs designed to prevent sexual abuse and exploitation of children; (c) on Line 35, the **Veterans' Program Trust Fund** which was created solely for the benefit of veterans' programs; or (d) on Line 36, the **Breast Cancer Research and Education Trust Fund** which was created to fund breast cancer research and provide public education about breast cancer. *Amounts contributed on Line 37 and/or credited on Line 38 must be subtracted from the overpayment and cannot exceed it.*

**Line 40, Additional Tax Due**—This is your additional tax due before penalties and interest.

### Penalties and Interest

**Line 41(a), Underpayment of Estimated Tax and/or Interest**—If the amount owed is more than \$500 and more than 30 percent of the income tax liability on Line 26, you may be subject to a penalty of 10 percent of the underpayment of estimated tax.

The amount of the penalty may be calculated on Form 2210-K. Form 2210-K may also be used by qualifying farmers and others to claim exception to the penalty. If paying the penalty or claiming an exemption, complete Form 2210-K, attach it to your return and check the block beside Line 41(a). Enter the amount of the penalty on Line 41(a). The minimum penalty is \$25.

Failure to make four equal installment payments timely may result in interest due. See Form 2210-K and instructions.

If your return is filed after April 17, 2012, or any tax due on the return is paid after April 17, 2012; you may be subject to additional penalties and interest.

**Line 41(b), Interest**—Interest will be assessed at the "tax interest rate" from the original due date of the return until the date of payment.

**Line 41(c), Late Payment Penalty**—If the amount of tax due as shown on Line 40 is not paid by the original due date of the return, a penalty of 2 percent of the tax computed due may be assessed for each 30 days or fraction thereof that the tax is past due, not to exceed 20 percent. The minimum penalty is \$10. However, if the amount timely paid is 75 percent of the tax determined due by the Department of Revenue, no late payment penalty will be assessed.

**Line 41(d), Late Filing Penalty**—If a return is not filed by the due date or the extended due date, a penalty of 2 percent of the total tax due for each 30 days or fraction thereof that a return is not filed may be assessed, not to exceed 20 percent. The minimum penalty is \$10.

**Note:** Penalties but not interest may be reduced or waived if reasonable cause for reduction or waiver can be shown.

**Line 43, Amount You Owe**—Any tax shown due on Line 43 must be paid when the return is filed. Attach a check payable to Kentucky State Treasurer and mail the check and return to Kentucky Department of Revenue, Frankfort, KY 40619-0008. **To help identify your payment write "KY Income Tax—2011" and your Social Security number on the face of the check.**

**Note:** If you cannot pay your tax in full, file your return and pay as much as possible by April 17, 2012. Contact the Department of Revenue for additional payment information.

**ESTIMATED TAX**—If, during 2012, you expect to receive income from Kentucky sources from which no tax will be withheld, you may be required to make estimated tax installment payments. For further information, obtain Form 740-ES from the Department of Revenue.

**Pay by Credit Card or ACH Debit**—Pay your 2011 Kentucky individual income tax by MasterCard, VISA, Discover credit card or by ACH Debit through April 17, 2012. Access the Department of Revenue's secure Web site ([www.revenue.ky.gov](http://www.revenue.ky.gov)) to make electronic payments over the Internet. Click on the **KY E-Tax** logo or select **E-Payments—Credit Cards and ACH Debits** link. If you do not have access to the Internet, you may call the Department of Revenue at (502) 564-4581 for assistance with payments.

To make a credit card payment, the following information is needed: credit card type, credit card number, expiration date, and the cardholder's address as it appears on the credit card billing statement. To make an ACH Debit payment, the following information is needed: bank name, bank account number, and bank routing number.

**WHEN AND WHERE TO FILE**—The income tax return for calendar year 2011 must be postmarked no later than April 17, 2012, to avoid penalties and interest. Mail to:

**Refund/Other Returns**  
Kentucky Department of Revenue  
Frankfort, KY 40618-0006

**Pay Returns**  
Kentucky Department of Revenue  
Frankfort, KY 40619-0008



**EXTENSION OF TIME TO FILE**

Taxpayers who are unable to file a return by April 17, 2012, may request an extension. Inability to pay is not an acceptable reason. Acceptable reasons include, but are not limited to, destruction of records by fire or flood and serious illness of the taxpayer. The request for the extension must be submitted in writing to the Department of Revenue on or before the due date of the return. The request must state a reasonable cause for the inability to file. Extensions are limited to six months. **A copy of the Kentucky extension request must be attached to the return.**

Individuals who receive a federal extension are not required to obtain a separate Kentucky extension. They can meet the requirements by attaching a copy of the application for automatic federal extension or the **approved** federal extension to the Kentucky return.

Kentucky residents who are in the military are often granted extensions for tax filings when serving outside the United States. Any extension granted for federal income tax purposes will be honored for Kentucky income tax purposes.

Interest at the "tax interest rate" applies to any income tax paid after the original due date of the return. If the amount of tax paid by the original due date is less than 75 percent of the tax due, a late payment penalty may be assessed (minimum penalty is \$10). Interest and late payment penalty charges can be avoided by remitting payment with the Extension Payment Voucher by the due date.

If you wish to make a payment prior to the due date of your tax return, complete Section II of the Application for Extension of Time to File, Form 40A102, and remit with payment. Write "KY Income Tax—2011" and your Social Security number on the face of the check.

**Personal Property**—Kentucky taxpayers are reminded to report all taxable personal property, except motor vehicles, owned on January 1 to either the property valuation administrator in the county of residence (or location of business) or the Office of Property Valuation in Frankfort. Tangible personal property is to be reported on the Tangible Personal Property Tax Return, Form 62A500. The due date for these returns is May 15.

**SECTION A—BUSINESS INCENTIVE AND OTHER TAX CREDITS**

**Line 1, Nonrefundable Limited Liability Entity Tax Credit (KRS 141.0401(2))**

An individual that is a partner, member or shareholder of a limited liability pass-through entity is allowed a limited liability entity tax (LLET) credit against the income tax imposed by KRS 141.020 equal to the individual's proportionate share of LLET computed on the gross receipts or gross profits of the limited liability pass-through entity as provided by KRS 141.0401(2), after the LLET is reduced by the minimum tax of \$175 and by other tax credits which the limited liability pass-through entity may be allowed. The credit allowed an individual that is a partner, member, or shareholder of a limited liability pass-through entity against income tax shall be applied only to income tax assessed on the individual's proportionate share of distributive income from the limited liability pass-through entity as provided by KRS 141.0401(3)(b). Any remaining LLET credit shall be disallowed and shall not be carried forward to the next year.

Nonrefundable Kentucky limited liability entity tax credit (KRS 141.0401(2))—The credit amount is shown on Kentucky Schedule(s) K-1 from pass-through entities (PTEs) or Form(s) 725 for single member limited liability companies. **Copies of Kentucky Schedule(s) K-1 or Form(s) 725 must be attached to your return.**

**Kentucky Limited Liability Entity Tax Credit Worksheet**

Complete a separate worksheet for each LLE. Retain for your records.

Name \_\_\_\_\_

Address \_\_\_\_\_

FEIN \_\_\_\_\_

Percentage of Ownership ..... %

1. Enter Kentucky taxable income from Form 740-NP, Line 13..... \_\_\_\_\_
2. Enter LLE income **as shown on Kentucky Schedule K-1 or Form 725** ..... \_\_\_\_\_
3. Subtract Line 2 from Line 1 and enter total here ..... \_\_\_\_\_
4. Enter Kentucky tax on income amount on Line 1..... \_\_\_\_\_
5. Enter Kentucky tax on income amount on Line 3..... \_\_\_\_\_
6. Subtract Line 5 from Line 4. If Line 5 is larger than Line 4, enter zero. This is your tax savings if income is ignored ..... \_\_\_\_\_
7. Enter nonrefundable limited liability entity tax credit (**from Kentucky Schedule K-1 or Form 725**) ..... \_\_\_\_\_
8. Enter the lesser of Line 6 or Line 7. This is your credit. Enter here and on Form 740-NP, Section A, Line 1 .... \_\_\_\_\_

**Line 2, Kentucky Small Business Investment Credit**—For taxable years beginning after December 31, 2010, a small business may be eligible for a nonrefundable credit of up to one hundred percent (100%) of the Kentucky income tax imposed under KRS 141.020 or 141.040, and the limited liability entity tax imposed under KRS 141.0401.

The small business development credit program authorized by KRS 154.60-020 and KRS 141.384 was amended to allow the credit to apply to taxable years beginning after Dec. 31, 2010. The definition of base year for purposes of the credit computation was changed to the first full year of operation that begins on or after Jan.1, 2009 and before Jan. 1, 2010.

Small businesses are eligible to apply for credits and receive final approval for these credits one (1) year after the small business:

- Creates and fills one (1) or more eligible positions over the base employment, and that position or positions are created and filled for twelve (12) months; and
- Invests five thousand dollars (\$5,000) or more in qualifying equipment or technology.

The small business shall submit all information necessary to the Kentucky Economic Development Finance Authority to determine credit eligibility for each year and the amount of credit for which the small business is approved.

A small business that is a pass-through entity not subject to the tax imposed by KRS 141.040 and that has tax credits approved under Subchapter 60 of KRS Chapter 154 shall apply the credits against the limited liability entity tax imposed by KRS 141.0401, and shall also distribute the amount of the approved tax credits to each partner, member, or shareholder based on the partner's, member's, or shareholder's distributive

share of income as determined for the year during which the tax credits are approved.

The maximum amount of credits that may be committed in each fiscal year by the Kentucky Economic Development Finance Authority shall be capped at three million dollars (\$3,000,000).

The maximum amount of credit for each small business for each year shall not exceed twenty-five thousand dollars (\$25,000). The credit shall be claimed on the tax return for the year during which the credit was approved. As per KRS 141.0205, individuals entitled to this credit will claim the credit on Line 2, Section A – Business Incentive and Other Tax Credits.


Unused credits may be carried forward for up to five (5) years.

**Line 3, Skills Training Investment Tax Credit**—Enter the amount of credit certified by the Bluegrass State Skills Corporation. A copy of the Kentucky Schedule K-1 for the year the credit was approved must be attached to the return in the first year the credit is claimed. The excess credit over the income tax liability in the year approved may be carried forward for three successive taxable years. For information regarding the application and approval process for this credit, contact the Cabinet for Economic Development, Bluegrass State Skills Corporation at (502) 564-2021, for information.

**Line 4, Nonrefundable Certified Rehabilitation Credit**—This credit is available to owner-occupied residential and commercial preservation projects for structures that are listed in the National Register of Historic Places, or in a National Register historic district, up to \$3 million annually. The credit is 30 percent of certified rehabilitation expenses for owner-occupied residential properties, not to exceed \$60,000 per project, and 20 percent for commercial and income-producing properties. To qualify, an owner must spend at least \$20,000 on rehabilitation.

Individuals or businesses can apply the credit against their state income tax liability, carry the credit forward up to seven years or transfer it to a banking institution to leverage financing. For application submitted on or after April 30, 2010, the credit shall be refundable if the taxpayer makes an election under KRS 171.397(2)(b). For more information regarding this credit, visit the Kentucky Heritage Council’s Web site at [www.heritage.ky.gov](http://www.heritage.ky.gov), or call (502) 564-7005.

**Line 5, Credit for Tax Paid to Another State**—Kentucky residents are required to report all income received including income from sources outside Kentucky. Within certain limitations, a credit for income tax paid to another state may be claimed. The credit is **limited** to the amount of Kentucky tax savings had the income reported to the other state been omitted, or the amount of tax paid to the other state, **whichever is less**.

 **TIP**—Credit for taxes paid to another state may be reduced or eliminated if gambling losses are claimed on Schedule A.

**You may not claim credit for tax withheld by another state.** You must file a return with the other state and pay tax on income also taxed by Kentucky in order to claim the credit. A copy of the other state’s return including a schedule of income sources must be attached to verify this credit. **If you owe tax in more than one state, the credit for each state must be computed separately.**

**Reciprocal States**—Kentucky has reciprocal agreements with specific states. These agreements provide that taxpayers be taxed by their state of residence, and not the state where income is earned. Persons who live in Kentucky for more than 183 days during the tax year are considered residents and reciprocity does not apply. The states and types of exemptions are as follows:

**Illinois, West Virginia**—wages and salaries

**Indiana**—wages, salaries and commissions

**Michigan, Wisconsin**—income from personal services (including salaries and wages)

**Ohio**—wages and salaries. **Note:** Wages which an S corporation pays to a shareholder-employee if the shareholder-employee is a “twenty (20) percent or greater” direct or indirect equity investor in the S corporation shall not be exempt under the reciprocity agreement.

**Virginia**—commuting daily, salaries and wages

Kentucky does not allow a credit for tax paid to a reciprocal state on the above income. If tax was withheld by a reciprocal state, you must file directly with the other state for a refund of those taxes.

**Credit for Taxes Paid to Other State Worksheet**

**Kentucky residents/part-year residents only. Complete a separate worksheet for each state. See instructions for Form 740-NP, Section A, Line 5.**

Name of other state.....

1. List Kentucky taxable income from Form 740-NP, Line 13..... \_\_\_\_\_
2. List any gambling losses from Schedule A, Line 31 ..... \_\_\_\_\_
3. Add Lines 1 and 2 and enter total here ..... \_\_\_\_\_
4. List income reported to other state included on Kentucky return ..... \_\_\_\_\_
5. Subtract Line 4 from Line 3 and enter total here ..... \_\_\_\_\_
6. Adjusted gambling losses. Compute gambling losses allowed on Kentucky return if income from other state is ignored ..... \_\_\_\_\_
7. Subtract Line 6 from Line 5 and enter total here ..... \_\_\_\_\_
8. Enter Kentucky tax on income amount on Line 7..... \_\_\_\_\_
9. Enter Kentucky tax on income amount on Line 1..... \_\_\_\_\_
10. Subtract Line 8 from Line 9. This is the tax savings on return if other state’s income is ignored ..... \_\_\_\_\_
11. Enter tax paid to other state on income claimed on Kentucky return. \_\_\_\_\_
12. Enter the lesser of Line 10 or Line 11. This is your credit for tax paid to other state. Carry this total to Form 740-NP, Section A, Line 5..... \_\_\_\_\_

**Line 6, Employer's Unemployment Tax Credit**—If you hired unemployed Kentucky residents to work for you during the last six months of 2010 or during 2011, you may be eligible to claim the unemployment tax credit. In order to claim a credit, each person hired must meet specific criteria. For each qualified person, you may claim a tax credit of \$100. The period of unemployment must be certified by the Office of Employment and Training, Education Cabinet, 275 East Main Street, 2-WA, Frankfort, KY 40621-0001, and you must maintain a copy of the certification in your files. A copy of Schedule UTC must be attached to your return.

**Line 7, Recycling and/or Composting Tax Credit**—Individuals who purchase recycling or composting equipment to be used exclusively in Kentucky for recycling or composting post-consumer waste materials, are entitled to a credit against the tax equal to 50 percent of the installed cost of the equipment. Application for this credit must be made on Schedule RC, which may be obtained from the Department of Revenue. A copy of Schedule RC and/or Schedule RC (K-1) reflecting the amount of credit approved by the Department of Revenue must be attached to the return.

**Line 8, Kentucky Investment Fund Tax Credit—Limits on Kentucky Investment Fund Act (KIFA) Credits**—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. An investor whose cash contribution to an investment fund has been certified by the Kentucky Economic Development Finance Authority (KEDFA) is entitled to a nonrefundable credit against Kentucky income tax equal to 40 percent of the cash contribution. For investments before July 1, 2002, the amount of credit that may be claimed in any given year is limited to 25 percent of the total amount certified by the Kentucky Economic Development Finance Authority (KEDFA). For investments after June 30, 2002, the credit is claimed on the tax return filed for the tax year following the year in which the credit is granted and is limited in any tax year to 50 percent of the initial aggregate credit apportioned to the investor. Attach a copy of the certification by KEDFA in the first year claimed. Any excess credit may be carried forward. No credit may extend beyond 15 years of the initial certification.

**Line 9, Coal Incentive Tax Credit**—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 return on which the credit is claimed.

**Line 10, Qualified Research Facility Tax Credit**—A nonrefundable credit is allowed against individual and corporation income taxes equal to 5 percent of the cost of constructing and equipping new facilities or expanding or remodeling existing facilities in Kentucky for qualified research. "Qualified research" is defined to mean qualified research as defined in Section 41 of the IRC. Any unused credit may be carried forward 10 years. Complete and attach Schedule QR, Qualified Research Facility Tax Credit.

**Line 11, Employer GED Incentive Tax Credit**—KRS Chapter 151B.127 provides a nonrefundable income tax credit for employers who assist employees in completing a learning contract in which the employee agrees to obtain his or her high school equivalency diploma. The employer shall complete the lower portion of the GED-Incentive Program Final Report (Form DAEL-31) and attach a copy to the return to claim this credit. Shareholders and partners should attach a copy of Schedule

K-1 showing the amount of credit distributed. For information regarding the program, contact the Education Cabinet, Kentucky Adult Education, Council on Postsecondary Education.

**Line 12, Voluntary Environmental Remediation Credit**—This line should be completed only if the taxpayers have an agreed order with the Environmental and Public Protection Cabinet under the provisions of KRS 224.01-518 and have 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.

**Line 13, Biodiesel and Renewable Diesel Credit**—Producers and blenders of biodiesel and producers of renewable diesel are entitled to a tax credit against the taxes imposed by KRS 141.020, KRS 141.040 and KRS 141.0401. The taxpayer must file a claim for biodiesel and renewable diesel credit with the Department of Revenue by January 15 each year for biodiesel produced or blended and the renewable diesel produced in the previous calendar year. The department shall issue a credit certification to the taxpayer by April 15. The credit certification must be attached to the tax return claiming this credit.

**Line 14, Environmental Stewardship Tax Credit**—An approved company may be permitted a credit against the Kentucky income tax imposed by KRS 141.020, KRS 141.040 or KRS 141.0401 on the income of the approved company generated by or arising out of a project as determined under KRS 154.48-020. An "environmental stewardship product" means any new manufactured product or substantially improved existing manufactured product that has a lesser or reduced adverse effect on human health and the environment or provides for improvement to human health and the environment when compared with existing products or competing products that serve the same purpose. A company must have eligible costs of at least \$5 million and within six months after the activation date, the approved company compensates a minimum of 90 percent of its full-time employees whose jobs were created or retained with base hourly wages equal to either: (1) 75 percent of the average hourly wage for the Commonwealth; or (2) 75 percent of the average hourly wage for the county in which the project is to be undertaken. The maximum amount of negotiated inducement that can be claimed by a company for any single tax year may be up to 25 percent of the authorized inducement. The agreement shall expire on the earlier of the date the approved company has received inducements equal to the approved costs of its project, or 10 years from the activation date. For more information, contact the Cabinet for Economic Development, Old Capitol Annex, 300 West Broadway, Frankfort, Kentucky 40601.

KRS 141.430 was amended to provide that for tax years beginning on or after June 4, 2010, the base tax year is reduced by fifty percent (50%). The base tax year is the combined income tax and LLET for the first taxable year after December 31, 2005, that ends immediately prior to the activation date. If the base year is for a taxable year beginning before January 1, 2007, the LLET will not apply.

**Caution:** An approved company under the Environmental Stewardship Act shall not be entitled to the recycling credit provided under the provisions of KRS 141.390 for equipment used in the production of an environmental stewardship project.

**Line 15, Clean Coal Incentive Tax Credit**—A nonrefundable, nontransferable credit against taxes imposed by KRS 136.120, KRS 141.020, KRS 141.040, or KRS 141.0401 shall be allowed

for a clean coal facility. As provided by KRS 141.428, a clean coal facility means an electric generation facility beginning commercial operation on or after January 1, 2005, at a cost greater than \$150 million that is located in the Commonwealth of Kentucky and is certified by the Environmental and Public Protection Cabinet as reducing emissions of pollutants released during generation of electricity through the use of clean coal equipment and technologies. The amount of the credit shall be two dollars (\$2) per ton of eligible coal purchased that is used to generate electric power at a certified clean coal facility, except that no credit shall be allowed if the eligible coal has been used to generate a credit under KRS 141.0405 for the taxpayer, parent or a subsidiary.

**Line 16, Ethanol Tax Credit**—An ethanol producer shall be eligible for a nonrefundable tax credit against the taxes imposed by KRS 141.020 or 141.040 and 141.0401 in an amount certified by the department. The credit rate shall be one dollar (\$1) per ethanol gallon produced, unless the total amount of approved credit for all ethanol producers exceeds the annual ethanol tax credit cap. If the total amount of approved credit for all ethanol producers exceeds the annual ethanol tax credit cap, the department shall determine the amount of credit each ethanol producer receives by multiplying the annual ethanol tax credit cap by a fraction, the numerator of which is the amount of approved credit for the ethanol producer and the denominator of which is the total approved credit for all ethanol producers. The credit allowed shall be applied both to the income tax imposed under KRS 141.020 or 141.040 and to the limited liability entity tax imposed under KRS 141.0401, with the ordering of credits as provided in KRS 141.0205. Any remaining ethanol credit shall be disallowed and shall not be carried forward to the next year. “Ethanol producer” is defined as an entity that uses corn, soybeans, or wheat to manufacture ethanol at a location in this Commonwealth.

**Line 17, Cellulosic Ethanol Tax Credit**—A cellulosic ethanol producer shall be eligible for a nonrefundable tax credit against the taxes imposed by KRS 141.020 or 141.040 and 141.0401 in an amount certified by the department. The credit rate shall be one dollar (\$1) per cellulosic ethanol gallon produced, unless the total amount of approved credit for all cellulosic ethanol producers exceeds the annual cellulosic ethanol tax credit cap. If the total amount of approved credit for all cellulosic ethanol producers exceeds the annual cellulosic ethanol tax credit cap, the department shall determine the amount of credit each cellulosic ethanol producer receives by multiplying the annual cellulosic ethanol tax credit cap by a fraction, the numerator of which is the amount of approved credit for the cellulosic ethanol producer and the denominator of which is the total approved credit for all cellulosic ethanol producers. The credit allowed shall be applied both to the income tax imposed under KRS 141.020 or 141.040 and to the limited liability entity tax imposed under KRS 141.0401, with the ordering of credits as provided in KRS 141.0205. Any remaining cellulosic ethanol credit shall be disallowed and shall not be carried forward to the next year. “Cellulosic ethanol producer” is defined as an entity that uses cellulosic biomass materials to manufacture cellulosic ethanol at a location in this Commonwealth.

**Line 18, Energy Efficiency Products Tax Credits**—This nonrefundable credit is available to taxpayers who install energy efficiency products for residential and commercial property located in the Commonwealth as provided by KRS 141.436 for taxable years beginning after December 31, 2008, and before January 1, 2016.

Complete Form 5695-K, Kentucky Energy Efficiency Products Tax Credit, to see if you meet the qualifications for this credit.

Individuals or businesses can apply the credit against their state income tax liability and carry the credit forward for one (1)

year if the credit cannot be taken in full in the year in which the installation is completed.

**Line 19, Railroad Maintenance and Improvement Credit**—The railroad maintenance and improvement credit provided by KRS 141.385 is a nonrefundable credit that can be applied against the taxes imposed by KRS 141.020, KRS 141.040 and KRS 141.0401. The tax credit shall be used in the tax year of the qualified expenditures which generated the tax credit and cannot be carried forward to a return for any other period.

An *eligible taxpayer* means the owner of a Class II or Class III railroad located in Kentucky, the transporter of property using the rail facilities of a Class II or III railroad in Kentucky, or any person that furnishes railroad-related property or services to a Class II or Class III railroad located in Kentucky. A copy of Schedule RR-1 must be attached to your return.

**Line 20, Endow Kentucky Credit**—Effective for taxable years beginning on or after Jan. 1, 2011, the Endow Kentucky Tax Credit was created to encourage donations to community foundations across the Commonwealth. KRS 141.438 was created to allow a nonrefundable income tax and limited liability entity tax credit of 20 percent of the value of the endowment gift, not to exceed \$10,000.

A taxpayer shall attach a copy of the approved Schedule ENDOW to the tax return each year to claim the tax credit against the taxes imposed by KRS 141.020 or 141.040 and 141.0401.

A partner, member or shareholder of a pass-through entity shall attach a copy of Schedule K-1, Form 720S; Schedule K-1, Form 765; or Schedule K-1, Form 765-GP to the partner's, member's or shareholder's tax return each year to claim the tax credit.

Unused credit may be carried forward for use in a subsequent taxable year, for a period not to exceed five years.

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## SECTION B—PERSONAL TAX CREDITS

**Line 1(a), Yourself**—You are always allowed to claim a tax credit for yourself (even if your parent(s) can claim a credit for you on their return). On Line 1(a), there are five boxes under three separate headings. Always check the box under “Check Regular” to claim a tax credit for yourself. *If 65 or older*, also check the next two boxes on the line. *If legally blind*, also check the last two boxes on the line.

**Line 1(b), Your Spouse**—Do not fill in Line 1(b) if (1) you are single; (2) you are married and you and your spouse are filing two separate returns; or (3) your spouse received more than half of his or her support from another taxpayer.

Fill in Line 1(b) if you are married and (1) you and your spouse are filing a joint or combined return, or (2) if your spouse had no income or is not required to file a return. If you meet these criteria, check the first box on Line 1(b) for your spouse. *If your spouse is 65 or older*, also check the next two boxes. *If your spouse was legally blind at the end of the taxable year*, also check the last two boxes on Line 1(b).

**Dependents**—You are allowed to claim a tax credit for each person defined as a dependent in the Internal Revenue Code. Generally, dependents who qualify for federal purposes also qualify for Kentucky.

### Line 2, Dependents Who Live With You

Use to claim tax credits for your dependent children, including stepchildren and legally adopted children, who lived with you

during the taxable year. **If the dependent meets the requirements for a qualifying child under the provisions of IRC 152(c), check the box; this child qualifies to be counted to determine the family size.**

#### **Dependents Who Did Not Live With You**

Also use Line 2 to claim tax credits for your dependent children who did not live with you and to claim tax credits for other persons who qualify as dependents. **These dependents do not qualify to be counted to determine the family size.**

**Children of Divorced or Separated Parents**—Attach a copy of federal Form 8332 filed with your federal return. Children may only be counted for family size by the custodial parent.

**Tax Credits for Individuals Supported by More Than One Taxpayer**—Attach a copy of federal Form 2120 filed with your federal return.

**Kentucky National Guard Members**—Persons who were members of the Kentucky National Guard on December 31, 2011, may claim an additional credit on Line 2. Designate this credit with the initials "N.G." Kentucky law specifically restricts this credit to Kentucky National Guard members; military reserve members are not eligible.

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### **SECTION C—FAMILY SIZE TAX CREDIT**

Children may only be counted for family size by the custodial parent. Even if you have signed federal Form 8332 and may not claim the child as a dependent, you may count children who otherwise meet the requirements for the Family Size Tax Credit.

You must include in Section C the names and Social Security numbers of the qualifying children that are not claimed as dependents in Section B in order to count them in your total family size.

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**SIGN RETURN**—Be sure to sign on page 3 after completion of pages 1, 2, 3 and 4 of your return. Each return must be signed by the taxpayer. Joint and combined returns must be signed by both husband and wife. Returns that are not signed may be returned to you for signature.

Please enter a telephone number where you can be reached during regular working hours. You may be contacted for additional information needed to complete processing of your tax return.

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### **INSTRUCTIONS FOR SCHEDULE A**

#### **FORM 740-NP**

You may itemize your deductions for Kentucky even if you do not itemize for federal purposes. Amounts entered on Schedule A should be total deductions for the taxable period.

These amounts are prorated on Form 740-NP, page 1. If you do not itemize, a standard deduction of \$2,240 is allowed and does not have to be prorated.

**Special Rules for Married Couples**—If one spouse itemizes deductions, the other must itemize. Married couples filing a joint federal return and who wish to file separate returns for Kentucky may: (a) file separate Schedules A showing the specific deductions claimed by each; (b) file a joint Schedule A, divide the total deductions between them based on the percentage of each spouse's income to total income, and attach a copy to each return; or (c) each spouse may claim the standard deduction of \$2,240.

#### **MEDICAL AND DENTAL EXPENSES**

Federal rules apply. You may deduct only your medical and dental expenses that exceed 7.5 percent of Form 740-NP, Line 8. Do not include any expenses deducted on Form 740-NP, page 4, Section D, Column B, Line 31 or Line 32. Married taxpayers filing separate Forms 740-NP who choose to file one Schedule A and prorate the total must combine the Line 8 amounts from both returns.

#### **TAXES**

You may not deduct new motor vehicle taxes, sales tax, state or federal income taxes paid or withheld, otherwise federal rules apply.

#### **INTEREST**

You may deduct interest that you have paid during the taxable year on a home mortgage. You may not deduct interest paid on credit or charge card accounts, a life insurance loan, an automobile or other consumer loan, delinquent taxes or on a personal note held by a bank or individual.

Interest paid on business debts should be deducted as a business expense on the appropriate business income schedule.

You may not deduct interest on an indebtedness of another person when you are not legally liable for payment of the interest. Nor may you deduct interest paid on a gambling debt or any other nonenforceable obligation. Interest paid on money borrowed to buy tax-exempt securities or single premium life insurance is not deductible.

**Line 10**—List the interest and points (including "seller-paid points") paid on your home mortgage to financial institutions and reported to you on federal Form 1098.

**Line 11**—List other interest paid on your home mortgage and not reported to you on federal Form 1098. Show name and address.

**Line 12**—List points (including "seller-paid points") not reported to you on federal Form 1098. Points (including loan origination fees) charged only for the use of money and paid with funds other than those obtained from the lender are deductible over the life of the mortgage. However, points may be deducted in the year paid if all three of the following apply: (1) the loan was used to **buy, build or improve your main home**, and was secured by that home, (2) the points did not exceed the points usually charged in the area where the loan was made, and were figured as a percentage of the loan amount, and (3) if the loan was used to **buy or build** the home, you must have provided funds (see below) at least equal to the points charged. If the loan was used to **improve**

the home, you must have paid the points with funds other than those obtained from the lender.

**Funds provided by you** include down payments, escrow deposits, earnest money applied at closing, and other amounts actually paid at closing. They do not include amounts you borrowed as part of the overall transaction.

**Seller-Paid Points**—If you are the buyer, you may be able to deduct points the seller paid in 2011. You can do this if the loan was used to buy your main home and the points meet item 2 above. You must reduce your basis in the home by those points, even if you do not deduct them.

The seller cannot deduct these points as interest. However, they are a selling expense that reduces the amount realized by the seller. See federal Publication 523 for information on selling your home.

This generally does not apply to points paid to refinance your mortgage. Federal rules apply. See federal Publication 936 for more information.

**Line 13, Qualified Mortgage Insurance Premiums**—Premiums that you pay or accrue for “qualified mortgage insurance” during 2011 in connection with home acquisition debt on your qualified home are deductible as home mortgage insurance premiums. Qualified mortgage insurance is mortgage insurance provided by the Veterans Administration, the Federal Housing Administration, or the Rural Housing Administration, and private mortgage insurance. Mortgage insurance premiums you paid or accrued on any mortgage insurance contract issued before January 1, 2007, are not deductible.

**Limit on amount you can deduct.** You cannot deduct your mortgage insurance premiums if the amount on Form 740-NP, line 8, is more than \$109,000 (\$54,500 if married filing separate returns). If the amount on Form 740-NP, line 8, is more than \$100,000 (\$50,000 if married filing separate returns), your deduction is limited and you must use the worksheet below to figure your deduction.

**Qualified Mortgage Insurance Premiums Deduction Worksheet**

*See the instructions for Line 13 above to see if you must use this worksheet to figure your deduction.*

<p>1. Enter the total premiums you paid in 2011 for qualified mortgage insurance for a contract <b>entered into on or after January 1, 2007</b> .....</p> <p>2. Enter the amount from Form 740-NP, page 1, Line 8.....</p> <p>3. Enter \$100,000 (\$50,000 if married filing separate returns).....</p> <p>4. Is the amount on Line 2 more than the amount on Line 3?  <input type="checkbox"/> No. Your deduction is not limited. Enter the amount from Line 1 above on Schedule A, Line 13.  <input type="checkbox"/> Yes. Subtract Line 3 from Line 2. If the result is not a multiple of \$1,000 (\$500 if married filing separate returns), increase it to the next multiple of \$1,000 (\$500 if married filing separate returns). For example, increase \$425 to \$1,000, increase \$2,025 to \$3,000; or if married filing separate returns, increase \$425 to \$500, increase \$2,025 to \$2,500, etc. ....</p> <p>5. Divide Line 4 by \$10,000 (\$5,000 if married filing separate returns). Enter the result as a decimal. If the result is 1.0 or more, enter 1.0.....</p> <p>6. Multiply Line 1 by Line 5.....</p> <p>7. Qualified mortgage insurance premiums deduction. Subtract Line 6 from Line 1. Enter the result here and on Schedule A, Line 13 .....</p>	<p>1. _____</p> <p>2. _____</p> <p>3. _____</p> <p>4. _____</p> <p>5. _____</p> <p>6. _____</p> <p>7. _____</p>
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**Line 14, Interest on Investment Property**—Investment interest is interest paid on money you borrowed that is allocable to property held for investment. It does not include any interest allocable to a passive activity.

Attach federal Form 4952, Investment Interest Expense Deduction.

**Exception.** You do not have to file federal Form 4952 if all three of the following apply:

- (a) your investment interest is not more than your investment income from interest and ordinary dividends,
- (b) you have no other deductible investment expenses, and
- (c) you have no disallowed investment interest expense from 2010.

For more details, see federal Publication 550, Investment Income and Expenses.

## CONTRIBUTIONS

You may deduct what you actually gave to organizations that are religious, charitable, educational, scientific or literary in purpose. You may also deduct what you gave to organizations that work to prevent cruelty to children or animals. In general, contributions deductible for federal income tax purposes are also deductible for Kentucky.

You are required to maintain receipts, cancelled checks or other reliable written documentation showing the name of the organization and the date and amount given to support claimed deductions for charitable contributions.

Separate contributions of \$250 or more require written substantiation from the donee organization in addition to your proof of payment. It is your responsibility to secure substantiation. A letter or other documentation from the qualifying charitable organization that acknowledges receipt of the contribution and shows the date and amount constitutes a receipt. This substantiation should be kept in your files. Do not send it with your return.

In addition, enter on Line 17 the value of a leasehold interest property contributed to a charitable organization to provide temporary housing for the homeless. Attach Schedule HH.

## CASUALTY AND THEFT LOSSES

Use Line 20 to report casualty or theft losses of property that is not trade, business, rent or royalty property. Attach federal Form 4684, Casualties and Thefts, or a similar statement to figure your loss. Enter on Line 20 the amount of loss from federal Form 4684.

### Losses You MAY Deduct

You may be able to deduct all or part of each loss caused by theft, vandalism, fire, storm, and car, boat and other accidents or similar causes. You may also be able to deduct money you had in a financial institution but lost because of the insolvency or bankruptcy of the institution.

You may deduct nonbusiness casualty or theft losses only to the extent that:

- (a) the amount of **each** separate casualty or theft loss is more than \$100, and
- (b) the total amount of **all** losses during the year is more than 10 percent of Form 740-NP, page 1, Line 8.

**Note:** Married taxpayers filing separate Forms 740-NP who choose to file one Schedule A and prorate the total must combine the Line 8 amounts from both returns.

Special rules apply if you had both gains and losses from nonbusiness casualties or thefts. See federal Form 4684 for details.

### Losses You MAY NOT Deduct

Money or property misplaced or lost.

Breakage of china, glassware, furniture and similar items under normal conditions.

Progressive damage to property (buildings, clothes, trees, etc.) caused by termites, moths, other insects or disease.

Deduct the costs of proving you had a property loss as a miscellaneous deduction on Line 26. (Examples of these costs are appraisal fees and photographs used to establish the amount of your loss.)

For more details, see federal Publication 547, Nonbusiness Disasters, Casualties, and Thefts. It also gives information about federal disaster area losses.

## MISCELLANEOUS DEDUCTIONS

Most miscellaneous deductions cannot be deducted in full. You must subtract 2 percent of your adjusted gross income from the total. Compute the 2 percent limit on Line 29.

**Note:** Married taxpayers filing separate Forms 740-NP who choose to file one Schedule A and prorate the total must combine the Line 8 amounts from both returns.

Generally, the 2 percent limit applies to job expenses you paid for which you were not reimbursed (Line 24). The limit also applies to certain expenses you paid to produce or collect taxable income (Line 26). See the instructions for Lines 24, 25 and 26 for examples of expenses to claim on these lines.

The 2 percent limit does not apply to certain other miscellaneous expenses that you may deduct. These expenses can be deducted in full on Line 31. The Line 31 instructions describe these expenses. Included are deductible gambling losses (to the extent of winnings) and certain job expenses of disabled employees. See federal Publication 529, Miscellaneous Deductions, for more information.

### Expenses Subject to the 2 Percent Limit

**Important:** The increase in first-year luxury automobile depreciation caps, the 30 percent and **the 50 percent** special depreciation allowance, the additional New York Liberty Zone Section 179 deduction for property placed in service after September 10, 2001, and **the increased Section 179 deduction limits and thresholds for property placed in service after December 31, 2002**, are not allowable for Kentucky tax purposes. For passenger automobiles purchased after September 10, 2001, you must compute Kentucky depreciation in accordance with the IRC in effect on December 31, 2001.

**Create a Kentucky Form 2106** by entering **Kentucky** at the top center of a federal Form 2106, Employee Business Expenses. Complete Section D—Depreciation of Vehicles in accordance with the IRC in effect on December 31, 2001. **Attach a copy of the federal Form 2106 filed for federal income tax purposes if no adjustments are required.**

**Line 24**—Use this line to report job-related expenses you paid for which you were not reimbursed. In some cases you **MUST** first fill out Form 2106, Employee Business Expenses, or Form 2106-EZ, Unreimbursed Employee Business Expenses. Fill out Form 2106-EZ if you claim any unreimbursed travel, transportation, meal or entertainment expenses for your job.

Fill out Form 2106 if your employer paid you for any of your job-related expenses reportable on Line 24.

Enter the amount of unreimbursed employee business expenses from Form 2106 or 2106-EZ on Line 24 of Schedule A.

If you do not have to fill out Form 2106 or 2106-EZ, list the type and amount of your expenses in the space provided. If you need more space, attach a statement showing the type and amount of the expense. Enter one total on Line 24.

**Line 25**—Use this line to report tax return preparation fees paid during the taxable year including fees paid for filing your return electronically.

**Line 26**—Use this line for amounts you paid to produce or collect taxable income and manage or protect property held for earning income. List the type and amount of each expense in the space provided. If you need more space, attach a statement showing the type and amount of each expense. Enter one total on Line 26.

### **LINE 31—OTHER MISCELLANEOUS DEDUCTIONS**

Use this line to report miscellaneous deductions that are NOT subject to the 2 percent adjusted gross income limit. Only the expenses listed below can be deducted on Line 31.

### **Expenses NOT Subject to the 2 Percent Limit**

Gambling losses to the extent of gambling winnings. Gambling winnings must be included on Form 740-NP, Section D, Line 15. (**Note:** Gambling losses must be verified by supplemental records. These include a diary and unredeemed tickets, payment slips and winning statements.)

Federal estate tax on income in respect of a decedent.

Amortizable bond premium on bonds acquired before October 23, 1986.

Deduction for repayment of amounts under a claim of right if more than \$3,000. See federal Publication 525.

Unrecovered investment in a pension.

Impairment-related work expenses of a disabled person.

Casualty and theft losses of income-producing property.

List the type and amount of each expense. Enter one total on Line 31. For more information on these expenses, see federal Publication 529.

### **LINE 32—TOTAL ITEMIZED DEDUCTIONS**

**Dividing Deductions Between Spouses**—Married taxpayers combining itemized deductions must divide the itemized deductions if filing separate Kentucky returns or if one spouse is not filing a Kentucky return. Complete Lines 33 through 36, Schedule A.



## Instructions for Form 2210-K

**Purpose of Form**—Use this form to determine if you owe an underpayment of estimated tax penalty for failing to prepay 70% of your tax liability and/or interest for failing to make four equal estimated tax installments timely. You may be subject to one or both even if you are due a refund when you file your tax return.

**Underpayment of Estimated Tax Penalty**—You may be charged an underpayment of estimated tax penalty if you did not prepay 70% of your tax liability and you did not meet one of the exceptions listed in Part I.

**Estimated Tax Interest**—You may also be charged interest if you failed to make four equal installments timely pursuant to KRS 141.305. These payments are due by April 15, June 15, September 15 of the taxable year, and on January 15 of the succeeding taxable year. Failure to make these equal installments timely may result in interest due pursuant to KRS 141.985. The interest is computed separately for each due date.

- If you paid estimated tax on January 16<sup>th</sup> or 17<sup>th</sup>, 2012, it is considered paid on January 15<sup>th</sup>, 2012, to the extent it is applied to the fourth required installment.

**Part I—Exceptions and Exclusions**—The underpayment of estimated tax penalty may not apply if one of the exceptions listed in Part I is met. If you meet one or more of the exceptions, check the appropriate block(s), complete the lines associated with the exception and check the “Form 2210-K attached” block on form 740, line 41a (Form 740-NP, line 41a). If none of the exceptions apply, go to Part II.

**Part II—Figuring the Underpayment and Penalty**—Only complete this section if the additional tax due exceeds \$500 and you do not meet one of the exceptions listed in Part I. Do not include amounts that were prepaid with extension or payments made after the due date of the fourth declaration installment. To avoid this penalty in the future, obtain and file Form 740-ES.

**Part III—Required Annual Payment and Interest Calculation**—This section is used to calculate your required annual payment. The required annual payment is used to calculate the amount of payment that you should have made each quarter. If you do not pay the required amount in each quarter, you will be subject to interest until that payment is made. You may not be required to pay estimated tax payments if you meet one of the following exceptions:

- Taxpayer died during the taxable year
- Declaration was not required until after September 1, 2011, and the taxpayer files a return and pays the full amount of the tax computed on the return on or before February 1, 2012.
- Two-thirds (2/3) or more of the gross income was from farming; this return is being filed on or before March 1, 2012; and the total tax due is being paid in full.
- Prepaid your last years tax liability with timely payments.

**Lines 1–7**—Calculates your required annual payment which is the lesser of your current years income tax liability or your previous years tax liability. If you have paid withholding that exceeds the lesser of the two, you do not owe interest and you do not need to complete the rest of the form.

**Line 8**—Multiply line 7, page 2, by 25 percent (.25) and enter amount in columns A through D. However, if your source(s) of income changed unexpectedly throughout the year or your income was received later in the year, the required number of installments may be fewer.

A taxpayer who is not required to pay estimated tax in four equal installments at the beginning of the year may be required to make installment payments during the remainder of the year. Refer to the payment due dates at the top of columns A – D to determine how many installments you are required to make based on when your income changed or was received.

If you are required to make 3 installments, multiply line 7 by 33.3 percent (.333) and enter in columns B through D.

If you are required to make 2 installments, multiply line 7 by 50 percent (.50) and enter in columns C and D.

If you are required to only make 1 installment, multiply line 7 by 100 percent (1.00) and enter in column D.

**Line 9**—Enter the sum of estimated tax payments made and Kentucky withholding for each quarter. If you have Kentucky income tax withheld, multiply the total by 25 percent (.25) and enter in columns A through D. If you had a credit forward from a prior year return, enter the total amount in Column A only.

**Note:** Complete lines 10 through 17 for Column A before going to Column B, etc.

**Line 10**—Enter amount from line 17 of the previous column. This amount should be the overpayment if any from the previous column.

**Line 12**—Enter amount from line 16 of the previous column. This amount should be the underpayment amount from the previous column that will be carried over to each column until the payment is made.

**Line 16**—This is the underpayment amount for that column and any underpayment from the previous columns. The underpayment will continue to carryover to the next column until the payment is made or the due date, whichever is earlier.

**Figuring the Interest**—Interest will be calculated on each underpayment in each column from the payment due date written above line 8 to the date on line 18 or the date the payment was made, whichever is earlier. The underpayments will carryover to the next column and be added to that column's underpayment to calculate interest on that balance.

**Line 18**—Use this date to calculate the number of days that the current interest amount will be based upon, unless the underpayment was paid prior to this date.

**Line 19**—This is the number of days from the payment due date shown above line 8 to the date the amount on line 16 was paid or the date shown on line 18 for the column in which you are calculating interest.

For example, if your underpayment on line 16 for column A is \$1,000, you would calculate the interest from 4–15–11 to 6–15–11 and enter 61 days on line 19. If this \$1,000 remains unpaid, it will be added to any underpayment in column B and you would calculate interest from 6–15–11 until 9–15–11 which would be 92 days for that period, etc.

**Line 20**—The annual interest rate is established by the Department of Revenue for each calendar year. The interest rate for calendar year 2011 is 5 percent and the interest rate for calendar year 2012 is 6 percent. The interest calculation for the required third installment payment may be calculated using two different interest rates.

# INSTRUCTIONS FOR FORM 5695-K

**Purpose of Form**—This form is used by a taxpayer to claim a tax credit for installation of energy efficiency products for residential and commercial property as provided by KRS 141.436. The nonrefundable credit shall apply against tax imposed under KRS 141.020 or 141.040, and KRS 141.0401 for taxable years beginning after December 31, 2008, and before January 1, 2016. An unused tax credit may be carried forward one year.

## PART I – QUALIFICATIONS

The tax credit provided by KRS 141.436 shall apply in the tax year in which the installation is complete. If the installation was completed before January 1, 2011, or after December 31, 2011, you do not qualify for this credit. If you have taken the ENERGY STAR home or the ENERGY STAR manufactured home tax credit provided by KRS 141.437, you do not qualify for this credit.

## PART II – INSTALLATION OF ENERGY EFFICIENCY PRODUCTS

### Taxpayer's Residence or Single-family or Multifamily Residential Rental Unit:

**Line 1**—Enter the installed cost of qualified upgraded insulation. KRS 141.435(15) provides that “upgraded insulation” means insulation with the following R-value ratings: (a) Attic insulation rated R-38 or higher; (b) Exterior wall, crawl space, and basement exterior wall insulation rated R-13 or higher; and (c) Floor insulation rated R-19 or higher.

**Line 2**—Enter the amount on Line 1 multiplied by 30 percent (.30).

**Line 3**—Enter the total of the amounts from Form 720S, Schedule K-1, Line 26 and Form 765 or Form 765-GP, Schedule K-1, Line 27.

**Line 4**—Enter the total of Lines 2 and 3.

**Line 6**—Enter the smaller of Line 4 or Line 5.

**Line 7**—Enter the installed cost of qualified energy-efficient windows and storm doors. KRS 141.435(8) provides that “energy-efficient windows and storm doors” means windows and storm doors that are: (a) ENERGY STAR-labeled; and (b) Certified by the National Fenestration Rating Council as meeting the North-Central U.S. climate zone performance standards for U-factor (nonsolar heat conductance), solar heat gain coefficient, air leakage, visible-light transmittance, and condensation resistance.

**Line 8**—Enter the amount on Line 7 multiplied by 30 percent (.30).

**Line 9**—Enter the total of the amounts from Form 720S, Schedule K-1, Line 27 and Form 765 or Form 765-GP, Schedule K-1, Line 28.

**Line 10**—Enter the total of Lines 8 and 9.

**Line 12**—Enter the smaller of Line 10 or Line 11.

**Line 13**—Enter the installed cost of qualified energy property. KRS 141.435(12) provides that “qualified energy property” means the following property that meets the performance, quality, and certification standards of and that would have been eligible for the federal tax credit for residential energy property expenditures under 26 U.S.C. § 25C, as it existed on December 31, 2007: (a) An electric heat pump water heater; (b) An electric heat pump; (c) A closed loop geothermal heat pump; (d) An open loop geothermal heat pump; (e) A direct expansion (DX) geothermal heat pump; (f) A central air conditioner; (g) A

natural gas, propane, or oil furnace or hot water heater; (h) A hot water boiler including outdoor wood-fired boiler units; or (i) An advanced main air circulating fan.

**Line 14**—Enter the amount on Line 13 multiplied by 30 percent (.30).

**Line 15**—Enter the total of the amounts from Form 720S, Schedule K-1, Line 28 and Form 765 or Form 765-GP, Schedule K-1, Line 29.

**Line 16**—Enter the total of Lines 14 and 15.

**Line 18**—Enter the smaller of Line 16 or Line 17.

**Line 19**—Enter the total of Lines 6, 12, and 18.

**Line 21**—Enter the smaller of Line 19 or Line 20.

### Taxpayer's Residence or Single-family Residential Rental Unit:

**Line 22**—Enter the installed cost of a qualified active solar space-heating system. KRS 141.435(1) provides that “active solar space-heating system” means a system that: (a) Consists of solar energy collectors that collect and absorb solar radiation combined with electric fans or pumps to transfer and distribute that solar heat; (b) May include an energy storage space-heating system to provide heat when the sun is not shining; and (c) Is installed by a certified installer.

**Line 23**—Enter the installed cost of a qualified passive solar space-heating system. KRS 141.435(11) provides that “passive solar space-heating system” means a system that: (a) Takes advantage of the warmth of the sun through the use of design features such as large south-facing windows and materials in the floors or walls that absorb warmth during the day and release that warmth at night; (b) Includes one or more of the following designs: (i) Direct gain which stores and slowly releases heat energy collected from the sun shining directly into the building and warming materials such as tile or concrete; (ii) Indirect gain which uses materials that are located between the sun and the living space such as a wall to hold, store, and release heat; or (iii) Isolated gain which collects warmer air from an area that is remote from the living space, such as a sunroom attached to a house, and the warmer air flows naturally to the rest of the house; and (c) Meets the guidelines and technical requirements for passive solar design.

**Line 24**—Enter the installed cost of a qualified combined active solar space-heating and water-heating system. KRS 141.435(3) provides that a “combined active solar space-heating and water-heating system” means a system that meets the requirements of both an active solar space-heating system and a solar water-heating system and is installed by a certified installer.

**Line 25**—Enter the installed cost of a qualified solar water-heating system. KRS 141.435(14) provides that a “solar water-heating system” means a system that: (a) Uses solar-thermal energy to heat water; (b) Is an indirect pressurized glycol system that uses propylene glycol or an indirect drainback system that uses distilled water or propylene glycol; (c) Uses OG-100 solar thermal collectors that are certified by the Solar Rating and Certification Corporation and covered by a manufacturer's warranty of not less than five years; (d) Is installed by a certified installer; and (e) Is warranted by the certified installer for a period of not less than two years.

**Line 26**—Enter the installed cost of a qualified wind turbine or wind machine. KRS 141.435(16) provides that a “wind turbine” or “wind machine” means a turbine or machine used for

# INSTRUCTIONS FOR FORM 5695-K

electricity that: (a) Is certified as meeting the U.S. Wind Industry Consensus Standards developed by the American Wind Energy Association in partnership with the U.S. Department of Energy; (b) Is covered by a manufacturer's warranty of not less than five years; (c) Is in compliance with all relevant building codes, height restriction variances, other special code requirements, and zoning ordinances; (d) Has been installed in accordance with all building codes and all permits were received prior to the start of construction and installation; (e) Is in compliance with all applicable Federal Aviation Administration regulations; (f) Meets all requirements of Article 705 of the National Electrical Code for electrical components and installations; and (g) Is rated and listed by Underwriters Laboratories.

**Line 27**—Enter the total of Lines 22 through 26.

**Line 28**—Enter the amount on Line 27 multiplied by 30 percent (.30).

**Line 29**—Enter the total of the amounts from Form 720S, Schedule K-1, Line 29 and Form 765 or Form 765-GP, Schedule K-1, Line 30.

**Line 30**—Enter the total of Lines 28 and 29.

**Line 31**—Enter the total watts of direct current (DC) (enter watts in space provided on this line) of the rated capacity of a qualified solar photovoltaic system multiplied by \$3. KRS 141.435(13) provides that a "solar photovoltaic system" means a system for electricity generation that: (a) Includes solar photovoltaic panels, structural attachments, electric wiring, inverters for converting direct current output to alternating current, and appropriate controls and safety measures for output monitoring; (b) Meets the requirements of Article 690 of the National Electrical Code; (c) Uses solar photovoltaic panels and inverters that are rated and listed by Underwriters Laboratories; and (d) Is installed by a certified installer.

**Line 32**—Enter the total of the amounts from Form 720S, Schedule K-1, Line 30 and Form 765 or Form 765-GP, Schedule K-1, Line 31.

**Line 33**—Enter the total of Lines 31 and 32.

**Line 34**—Enter the larger of Line 30 or Line 33.

**Line 36**—Enter the smaller of Line 34 or Line 35.

## **Multifamily Residential Rental Unit or Commercial Property:**

**Line 37**—Enter the installed cost of a qualified active solar space-heating system. See instructions for Line 22 to determine qualified cost.

**Line 38**—Enter the installed cost of a qualified passive solar space-heating system. See instructions for Line 23 to determine qualified cost.

**Line 39**—Enter the installed cost of a qualified combined active solar space-heating and water-heating system. See instructions for Line 24 to determine qualified cost.

**Line 40**—Enter the installed cost of a qualified solar water-heating system. See instructions for Line 25 to determine qualified cost.

**Line 41**—Enter the installed cost of a qualified wind turbine or wind machine. See instructions for Line 26 to determine qualified cost.

**Line 42**—Enter the total of Lines 37 through 41.

**Line 43**—Enter the amount on Line 42 multiplied by 30 percent (.30).

**Line 44**—Enter the total of the amounts from Form 720S, Schedule K-1, Line 31 and Form 765 or Form 765-GP, Schedule K-1, Line 32.

**Line 45**—Enter the total of Lines 43 and 44.

**Line 46**—Enter the total watts of direct current (DC) (enter watts in space provided on this line) of the rated capacity of a qualified solar photovoltaic system multiplied by \$3. See instructions for Line 31 to determine qualified cost.

**Line 47**—Enter the total of the amounts from Form 720S, Schedule K-1, Line 32 and Form 765 or Form 765-GP, Schedule K-1, Line 33.

**Line 48**—Enter the total of Lines 46 and 47.

**Line 49**—Enter the larger of Line 45 or Line 48.

**Line 51**—Enter the smaller of Line 49 or Line 50.

## **Commercial Property:**

**Line 52**—Enter the installed cost of a qualified energy-efficient interior lighting system. KRS 141.435(6) provides that "energy-efficient interior lighting system" means an interior lighting system that meets the maximum reduction in lighting power density requirements for the federal energy efficient commercial building deduction under 26 U.S.C. § 179D, as in effect December 31, 2007.

**Line 53**—Enter the amount on Line 52 multiplied by 30 percent (.30).

**Line 54**—Enter the total of the amounts from Form 720S, Schedule K-1, Line 33 and Form 765 or Form 765-GP, Schedule K-1, Line 34.

**Line 55**—Enter the total of Lines 53 and 54.

**Line 57**—Enter the smaller of Line 55 or Line 56.

**Line 58**—Enter the installed cost of a qualified energy-efficient heating, cooling, ventilation, or hot water system. KRS 141.435(7) provides that "energy-efficient heating, cooling, ventilation, or hot water system" means a heating, cooling, ventilation, or hot water system that meets the requirements for the federal energy-efficient commercial building deduction under 26 U.S.C. § 179D, as in effect December 31, 2007.

**Line 59**—Enter the amount on Line 58 multiplied by 30 percent (.30).

**Line 60**—Enter the total of the amounts from Form 720S, Schedule K-1, Line 34 and Form 765 or Form 765-GP, Schedule K-1, Line 35.

**Line 61**—Enter the total of Lines 59 and 60.

**Line 63**—Enter the smaller of Line 61 or Line 62.

**Line 64**—Enter the total of Lines 57 and 63.

**Line 65**—Enter the total of Lines 21, 36, 51 and 64.

**Line 66**—Enter the carry forward balance of any Energy Efficiency Products Tax Credit earned in 2010, if applicable.

**Line 67**—Enter the total of Lines 65 and 66.

## Instructions for Form 8863-K

**Purpose of Form**—Use Form 8863-K to calculate and claim your education credits. The education credits are: the Hope Credit and the Lifetime Learning Credit. These credits are based on qualified education expenses paid to an eligible postsecondary educational institution located in Kentucky. If you elected to claim the education credit for federal purposes rather than the tuition and fees deduction, you must make that same election for Kentucky purposes.

**Caution:** Requirements for the 2011 Kentucky Education Tuition Tax Credit are different from the federal education requirements due to Kentucky not adopting the American Recovery and Reinvestment Act of 2009.

**Qualified Education Expenses**—Generally, qualified education expenses are amounts paid in 2011 for tuition and fees required for the student's enrollment or attendance at an eligible educational institution. It does not matter whether the expenses were paid in cash, by check, by credit card, or with borrowed funds.

**Eligible Educational Institution located in Kentucky**—An eligible educational institution is generally any accredited public, nonprofit, or private college, university, vocational school, or other postsecondary institution. Also, the institution must be eligible to participate in a student aid program administered by the Department of Education. The institution must also be physically located in Kentucky to qualify.

**Part I, Qualifications**—All questions in Part I must be answered yes to be eligible for the Kentucky Education Tuition Tax Credit.

**Part II, Hope Credit**—You may be able to take a credit of up to 25% of \$1,800 for qualified education expenses paid for each student who qualifies for the Hope Credit. The Hope Credit equals 100% of the first \$1,200 and 50% of the next \$1,200 of qualified expenses paid for each eligible student. For Kentucky, the credit is then limited to 25% for a maximum amount allowed of \$450 for each student who qualified. You can take the Hope Credit for a student if all of the following apply.

- As of the beginning of 2011, the student had not completed the first 2 years of postsecondary education (generally, the freshman and sophomore years of college), as determined by the eligible educational institution. For this purpose, do not include academic credit awarded solely because of the student's performance on proficiency exams.
- The student was enrolled in 2011 in a program that leads to a degree, certificate, or other recognized educational credential.
- The student was taking at least one-half the normal full-time workload for his or her course of study for at least one academic period beginning in 2011.
- The Hope Credit was not claimed for that student's expenses in more than one prior tax year.
- The student has not been convicted of a felony for possessing or distributing a controlled substance.

**Note:** If a student does not meet all of the above qualifications, you may be able to take the Lifetime Learning Credit for part or all of the student's qualified education expenses.

**Line 1, Columns A and B**—Enter student's name, Social Security number and the name and address of qualified Kentucky institution.

**Line 1, Column C**—Enter qualified expenses; do not enter more than \$2,400 for each student.

**Line 1, Column D**—Enter the amount from Column C or \$1,200, whichever is smaller.

**Line 1, Column E**—Add Column C and Column D.

**Line 1, Column F**—Enter one-half of the amount in Column E.

**Line 2**—Add all amounts in Column F for all students to compute your tentative Hope credit. If you have expenses for more than two students, attach a list to Form 8863-K and list the total for all students on Line 2. If you are taking the Lifetime Learning Credit for another student, go to Part III; otherwise go to Part IV.

**Part III—Lifetime Learning Credit**—You may be able to take 25% of the Lifetime Learning Credit that equals 20% of qualified expenses paid, up to a maximum of \$10,000 of qualified expenses per return. The maximum amount of Lifetime Learning Credit you can claim on your tax return for the tax year is \$2,000. For Kentucky, the Lifetime Learning Credit is then limited to 25% of the \$2,000 for a maximum allowed of \$500 per return.

**Line 3, Column A–D**—Enter student's name, Social security number, name and address of qualified Kentucky institution and amount of qualified expenses.

**Line 4**—Add all amounts in Column D for all students.

**Line 5**—Enter the smaller of Line 4 or \$10,000.

**Line 6**—Multiply Line 5 by 20%. Do not enter more than \$2,000. This is your tentative Lifetime Learning Credit.

**Line 7**—Add Line 2 (tentative Hope Credit) and Line 6 (tentative Lifetime Learning Credit) to get your tentative Kentucky Education Credits. Enter the amount on Line 7 and on page 2, Line 8.

**Part IV—Allowable Education Credits**—

**Line 9 – Line 13**—You cannot take any Kentucky Education Credits if your federal adjusted gross income (federal Form 1040, Line 37 or 1040A, Line 21) exceeds \$122,000 if married, filing jointly or married, filing separately on a combined return (\$61,000 if single). **If you are filing a separate return, you do not qualify for this credit.** If your income is greater than \$100,000, you may only be entitled to a portion of the credits, if any. Proceed to Line 14 if your income is less than \$100,000.

**Line 14**—Enter the amount from Line 8 if your credit was not limited based on income. If the credit was limited based on income, multiply the amount on Line 8 by the decimal amount on Line 13.

**Line 15**—Multiply Line 14 by 25% (.25). This is your tentative Kentucky allowable credit.

**Line 16**—Enter the tentative tax from Form 740 or Form 740-NP, page 1, Line 22.

**Line 17**—Enter the amount from page 2, Part V, Line 37. This is the allowable credit carryforward from prior year(s). If there is no carryforward, enter zero.

**Line 18**—Subtract Line 17 from Line 16.

**Line 19**—Enter the smaller of Line 18 or Line 15.

**Line 20**—Add Lines 17 and 19. Enter here and on Form 740 or Form 740-NP, Line 23. This is your allowable 2011 education credit.

**Line 21**—If Line 18 is smaller than Line 15, subtract Line 18 from Line 15. This is the amount of unused credit carryforward from 2011 to 2012. Maintain records for following years.

**Part V, Credit Carryforward from Prior Years**—The Kentucky Education Tuition Tax credit can be carried forward for up to 5 years if unused during the preceding tax year(s). You must have completed Form 8863-K for any prior year in which you are claiming a credit carryforward.