



INSTRUCTIONS

2002 KENTUCKY CORPORATION INCOME AND LICENSE TAX RETURN

HOW TO OBTAIN ADDITIONAL FORMS

Forms and instructions are available at some libraries, post offices, courthouses, banks and all Kentucky Taxpayer Service Centers (see page 11). They may also be obtained by writing FORMS, Revenue Cabinet, Frankfort, KY 40620, or by calling (502) 564-3658. Forms can be downloaded from www.revenue.ky.gov. Forms are also available by fax through the Revenue Cabinet's fax-on-demand system, *TaxFax*, at (502) 564-4459. Refer to the instructions on scannable forms for information on the use of faxed copies.

IMPORTANT!!!

Federal Changes to Section 179 Election to Expense Deduction, Depreciation and Net Operating Loss (NOL) Carryback Provisions Not Adopted by Kentucky—The Job Creation and Worker Assistance Act of 2002 (JCWAA) which was signed by President Bush on March 9, 2002, has not been adopted for Kentucky income tax purposes. Thus, the provisions of the JCWAA which allow a 30 percent special depreciation allowance and an additional Section 179 election to expense deduction (Section 179 deduction) for New York Liberty Zone property which are retroactive to September 10, 2001, do not apply for Kentucky. Also, the provisions of the JCWAA which provide for a five-year carryback for NOLs incurred for taxable years ending after December 31, 2000, and before January 1, 2003, do not apply for Kentucky.

Depreciation, Section 179 Deduction and Gains/Losses From Disposition of Assets—For taxable years beginning before January 1, 2002, Kentucky depreciation and Section 179 deductions are determined in accordance with the Internal Revenue Code (IRC) in effect on December 31, 1999, and for taxable years beginning after December 31, 2001, Kentucky depreciation and Section 179 deductions are determined in accordance with the IRC in effect on December 31, 2001. Effective for taxable years ending after September 10, 2001, a corporation which for federal income tax purposes elects to utilize the 30 percent special depreciation allowance or the additional Section 179 deduction for New York Liberty Zone property 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 between Kentucky and federal income tax purposes until the assets are sold or fully depreciated.

Important: *If the corporation has not taken the 30 percent special depreciation allowance or the additional Section 179 deduction for federal income tax purposes on any assets for which a depreciation deduction is being claimed for the taxable year, then no adjustment will be needed for Kentucky income tax purposes. If federal Form 4562 is required to be filed for federal income tax purposes, a copy must be submitted with Form 720 to verify that no adjustments are required.*

Determining and Reporting Depreciation and Section 179 Deduction Differences—If the corporation deducts the 30 percent special depreciation allowance or the additional Section 179 deduction for New York Liberty Zone property, the corporation will need to determine and report the Kentucky/federal differences as follows:

1. The amount from Line 20 of the federal Form 1120 or 1120A must be included on Line 6, Part I of Form 720. If federal

Form 4562 is required to be filed for federal income tax purposes, a copy must be attached to Form 720.

2. Convert federal Form 4562 to a Kentucky form by entering **Kentucky** at the top center of the form above Depreciation and Amortization. Compute Kentucky depreciation and Section 179 deduction in accordance with the IRC in effect on December 31, 2001, by ignoring the lines and instructions regarding the 30 percent special depreciation allowance and the additional Section 179 deduction for New York Liberty Zone property. **NOTE:** In determining the Section 179 deduction for Kentucky, the income limitation on Line 11 should be determined by using Kentucky net income before the Section 179 deduction instead of federal taxable income. The corporation **must attach the Kentucky Form 4562** to Form 720, and the amount from Line 22 of the Kentucky Form 4562 must be included on Line 12, Part I of Form 720. A Kentucky Form 4562 must be filed for each year even though a federal Form 4562 may not be required.

Determining and Reporting Differences in Gain or Loss From Disposition of Assets—If during the year the corporation disposes of assets on which it has taken the 30 percent special depreciation allowance or the additional Section 179 deduction for New York Liberty Zone property for federal income tax purposes, the corporation will need to determine and report the difference in the amount of gain or loss on such assets as follows:

1. Include on Line 12, Part I of Form 720 the amount of capital gain net income reported on Line 8 of Form 1120. Convert **federal Schedule D** and other applicable federal forms to Kentucky forms by entering **Kentucky** at the top center of the form, and compute the Kentucky capital gain net income from the disposed assets using Kentucky basis. Include the amount from Line 14 of the Kentucky Schedule D on Line 6, Part I of Form 720. **Federal Schedule D (Form 1120) filed with the federal return and the Kentucky Schedule D must be attached to Form 720.**
2. If the amount reported on Line 9 of federal Form 1120, Net Gain or (Loss) Form 4797, is a gain, include this amount on Line 12, Part I of Form 720. If the amount reported on Line 9 of federal Form 1120, Net Gain or (Loss) Form 4797, is a loss, include this amount on Line 6, Part I of Form 720. Convert **federal Form 4797** and other applicable federal forms to Kentucky forms by entering **Kentucky** at the top center of the form, and compute the Kentucky gain or (loss) from the sale of business property using Kentucky basis. If the amount on Line 18 of Kentucky Form 4797 is a gain, include this amount on Line 6, Part I of Form 720. If the amount on Line 18 of Kentucky Form 4797 is a loss, include this amount on Line 12, Part I of Form 720. **Federal Form 4797 filed with the federal return and the Kentucky Form 4797 must be attached to Form 720.**

2001 Return May Need to be Amended—If the corporation deducted the 30 percent special depreciation allowance or the additional Section 179 deduction for New York Liberty Zone property for 2001 and did not make the proper adjustment for Kentucky purposes, the corporation will need to file a Form 720X for 2001 to properly reflect the differences in accordance with the above instructions.

NOL Carrybacks—The two-year NOL carryback rules provided in IRC Section 172 in effect on December 31, 2001, apply for Kentucky income tax purposes instead of the special five-year carryback rule provided in the JCWAA.

2002 KENTUCKY TAX LAW CHANGES

Internal Revenue Code Reference Update—Effective for taxable years beginning after December 31, 2001, Kentucky Revised Statute (KRS) 141.010(3) was amended to define "Internal Revenue Code" for Kentucky income tax purposes to mean the IRC in effect on December 31, 2001. The provisions of the Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) are included and in effect for 2002 Kentucky returns. **Not included** in the code update are the provisions of the "Victims of Terrorism Tax Relief Act of 2001" signed by President Bush on January 23, 2002, and the "Job Creation and Worker Assistance Act of 2002" signed by President Bush on March 9, 2002.

Vouchers for Purchase of Health Insurance—Effective for taxable years beginning after December 31, 2001, KRS 141.010(13) was amended to exclude from net income any amount paid to provide vouchers or similar instruments that provide health insurance coverage to employees or their families.

Credit for Qualified Research—A new section of KRS Chapter 141 was created to allow a nonrefundable credit 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.

Revisions to Kentucky Investment Fund Act (KIFA)—Various sections of KRS 154.20-250 to 154.20-284 were repealed and new sections were created to make the following changes:

1. Provide for this credit to apply to insurance taxes imposed by KRS 136.320, 136.330 and 304.3-270, and taxes imposed on financial institutions by KRS 136.300 and 136.310 (savings and loan associations) and KRS 136.505 (bank franchise tax) in addition to individual and corporation income tax and corporation license tax;
2. Change the time the credit is granted from the time of making the investment in the fund to when the fund has made an investment in a qualified business;
3. Provide that the investor may not claim the credit until the tax year following the year in which the credit is granted; and
4. Establish \$3 million as the maximum amount of KIFA credits that may be approved during each of the fiscal years ended 2003 and 2004.

GENERAL INFORMATION

Kentucky Tax Registration Application—Prior to doing business in Kentucky, each corporation should complete a Kentucky Tax Registration Application, Revenue Form 10A100. The application is available at Kentucky Taxpayer Service Centers (see page 11) or from the Revenue Cabinet, Taxpayer Registration Section, Frankfort, KY 40620 (see Revenue Circular 10C030). The application may be faxed to (502) 227-0772.

Who Must File—A Kentucky Corporation Income and License Tax Return, Form 720, must be filed by every corporation (a) organized under the laws of Kentucky, (b) having its commercial domicile in Kentucky, (c) owning or leasing property in Kentucky, (d) having one or more individuals employed or subject to unemployment insurance tax in Kentucky or (e) which is a partner in a partnership doing business in Kentucky. A limited liability company (LLC) is treated for Kentucky income tax purposes in the same manner as it is treated for federal income tax purposes. Therefore, an LLC filing a U.S. Corporation Income Tax Return, Form 1120, for federal income tax purposes must file Form 720. A single member LLC which is ignored for federal income tax purposes and treated as a division of its member corporation for federal income tax purposes must be treated in the same manner for Kentucky income tax purposes. **KRS 141.200, 141.208 and KRS 136.090**

Foreign Sales Corporations (FSCs) and interest-deferred or interest-charged Domestic International Sales Corporations (DISCs) are subject to Kentucky income and license tax to the same extent as other corporations (see Revenue Policy 41P250 for a discussion).

Additionally, certain organizations which must file special returns for federal purposes, e.g., homeowners associations, political organizations, real estate investment trusts and regulated investment companies must file Form 720.

Corporations Not Required to File

Income Tax—Corporations which are exempt by law from Kentucky income tax include financial institutions as defined in KRS 136.500, insurance companies, savings and loan associations, corporations exempted by IRC Section 501 and religious, educational, charitable and like corporations not conducted for profit. **KRS 141.040**

License Tax—Corporations which are exempt by law from Kentucky income tax, except for corporations exempt from income tax in accordance with Public Law 86-272, are also exempt from Kentucky license tax. In addition, public service companies subject to ad valorem tax under KRS 136.120, certified alcohol production facilities and certified fluidized bed energy production facilities are exempt from Kentucky license tax. A corporation doing business in Kentucky solely as a partner in a partnership is not subject to the Kentucky license tax. A corporation which is not organized in Kentucky, does not have its commercial domicile in Kentucky, and does not own or lease property or have individuals receiving compensation in Kentucky, but is the member of a single member LLC which has operations in Kentucky is not subject to the Kentucky license tax. **KRS 136.070**

Certain unincorporated entities may elect to be treated as corporations for federal income tax purposes and thus, would be treated as corporations for Kentucky income tax purposes. However, such entities are not subject to the corporation license tax. Examples of such entities are associations, joint stock companies, LLCs, partnerships and trusts.

Required Forms and Information—Each corporation must enter all applicable information on Form 720, attach a schedule for each line item or line item instruction which states "attach schedule," and the following forms or schedules, if applicable:

Kentucky Forms and Schedules

1. Form 722—Election to File Consolidated Kentucky Corporation Income Tax Return
2. Form 851-K—Kentucky Affiliations and Payment Schedule
3. Schedule A—Apportionment and Allocation
4. Form 41A720SL—Application for Six-Month Extension of Time to File

Required Federal Forms and Schedules

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

1. Form 1120, Page 1—**If Form 1120 is not filed, attach a copy of the income statement of the federal form filed.**
2. Form 1120, Page 4, Schedule L, Balance Sheet—**If Form 1120 is not filed, attach a copy of the balance sheet portion of the federal form filed. If the corporation is not required to submit a balance sheet for federal income tax purposes, attach the balance sheet prepared on a consistent basis from the books and records of the corporation used to complete Form 720, Part III—License Tax Computation.**
3. Form 851—Affiliations Schedule
4. Form 4797—Sales of Business Property
5. Schedule D—Capital Gains and Losses
6. Form 5884—Work Opportunity Credit
7. Schedules for items on Form 1120, Schedule L, which state "attach schedule."

SCANNABLE FORMS

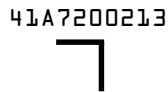
Application for Six-month Extension of Time to File, Form 41A720SL, and Kentucky Estimated Tax Voucher, Form 720ES, are scannable forms. There are boxes on these forms where scannable data is to be entered. Use **black ink** to enter data. Either handwritten data or machine print is acceptable. Numbers should be written like this:



When entering data in these boxes, the numbers should be right justified (blank spaces should be on the left). **No dollar signs, commas, decimals or other symbols should be used.** If there is no information to be entered in a box, leave it blank. All amounts should be rounded to the nearest dollar and no cents entered. For example, \$11,949.50 or \$11,950.49 would be entered:



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



Important: Use only an **original printed** Form 41A720SL or Form 720ES or an **approved** computer-generated version of these forms since data must be placed in specific areas on the form to be read correctly. Use of photocopies or faxed copies may cause delays in the processing of these forms.

Substitute Forms—Any form to be used in lieu of an official Revenue Cabinet form must be submitted to the Cabinet for prior approval.

Accounting Procedures—Kentucky income tax law requires a corporation to report income on the same calendar or fiscal year and to use the same methods of accounting required for federal income tax purposes. Any federally approved change in accounting periods or methods must be reported to the Revenue Cabinet. Attach a copy of the federal approval to the return when filed. **KRS 141.140**

Electronic Funds Transfer—The Kentucky Revenue Cabinet is currently in the process of preparing for the acceptance of corporation income and license tax payments by Electronic Funds Transfer (EFT). The Revenue Cabinet will notify all corporations by mail when the acceptance of EFT payments is implemented. For questions concerning EFT, you may contact the Revenue Cabinet at (502) 564-6020.

Mailing/Payment—Mail the return with payment to Kentucky Revenue Cabinet, Frankfort, KY 40620. Make the check payable to Kentucky State Treasurer. If payment is made by EFT, check the applicable box in the Tax Payment Summary section of Form 720.

Filing/Payment Date—A corporation return must be filed and payment must be made on or before the 15th day of the fourth month following the close of the taxable year. **KRS 141.160 and KRS 141.220**

If the filing/payment date falls on a Saturday, Sunday or a legal holiday, the filing/payment date is deemed to be on the next business day. **KRS 446.030(1)(a)**

Extensions—An extension of time to file a corporation income and license tax return may be obtained by either making a specific request to the Revenue Cabinet or attaching a copy of the

federal extension to the return when filed. **A copy of the federal extension submitted after the return is filed does not constitute a valid extension, and late filing penalties will be assessed.** For further information, see the instructions for Form 41A720SL. **Regulation 103 KAR 15:050**

NOTE: An extension of time to file a return does not extend the date for payment of tax.

Estimated Tax Payments—Estimated tax payments must be made by each corporation whose income tax liability for the taxable year can reasonably be expected to exceed \$5,000. In general, the first estimated tax payment must be made by the 15th day of the sixth month of the taxable year. To determine the amount of the first payment, subtract \$5,000 from the estimated full-year tax liability, and divide the result by two. The remaining one-half is due in equal installments on the 15th day of the ninth and 12th month, respectively. The prior year's income tax liability is not a factor in determining whether estimated payments are required. **KRS 141.044**

Failure to pay estimated tax installments equal to the amount determined by subtracting \$5,000 from 70 percent of the total income tax liability shown on the return for the taxable year will result in the assessment of an underpayment penalty. The amount of the penalty is 10 percent of the amount of the underpayment, but not less than \$25. **KRS 131.180(3) and KRS 141.990(3)**

The **Corporation Estimated Income Tax Voucher, Form 720ES**, is used to submit estimated tax payments. If the corporation is required to make estimated tax payments but did not receive Form 720ES, contact the Revenue Cabinet at (502) 564-3658.

Amended Return—Form 720X, Amended Kentucky Corporation Income Tax and Corporation License Tax Return, is available for filing an amended return. **Form 720X must be used to make any corrections to Form 720**, including: net operating loss carrybacks, capital loss carrybacks and Internal Revenue Service audit adjustments. **Do not submit federal Form 1139 as a means to apply for a refund of Kentucky corporation income tax resulting from a net operating loss carryback or a capital loss carryback.** Failure to submit Form 720X will result in delays in processing refunds requested on amended returns.

Internal Revenue Service Audit Adjustments—A corporation which has received final adjustments resulting from Internal Revenue Service audits must submit a copy of the "final determination of the federal audit" within 30 days of the conclusion of the federal audit. **Use Form 720X for reporting federal audit adjustments and computing additional tax due or refunds.** Failure to submit Form 720X will result in delays in processing refunds requested on amended returns. Any refund claim resulting from a federal audit adjustment must be filed within the four years of the date the tax was paid or within six months of the conclusion of the federal audit, whichever is later. **KRS 141.210(2)(d) and KRS 141.235(2)(b)**

Interest—Interest at the tax interest rate is applied to corporation income and license tax liabilities not paid by the date prescribed by law for filing the return (determined without regard to extensions thereof). The tax interest rate for 2003 is published in the January 2003 **Kentucky Tax Alert**, or you may contact the Revenue Cabinet at (502) 564-8139 to obtain the tax interest rate.

Penalties

Failure to file an income and license tax return by the filing date including extensions—2 percent of the tax due for each 30 days or fraction thereof that the return is late (maximum 20 percent). The minimum penalty is \$10. **KRS 131.180(1)**

Failure to pay income or license tax by the payment date—2 percent of the tax due for each 30 days or fraction thereof that the payment is overdue (maximum 20 percent). The minimum penalty is \$10. **KRS 131.180(2)**

Late payment or underpayment of estimated tax—10 percent of the late payment or underpayment. The minimum penalty is \$25. **KRS 131.180(3)**

Failure or refusal to file an income and license tax return or furnish information requested in writing—5 percent of the tax assessed for each 30 days or fraction thereof that the return is not filed or the information is not submitted (maximum 50 percent). The minimum penalty is \$25. **KRS 131.180(4)**

Negligence—10 percent of the tax assessed. **KRS 131.180(7)**

Fraud—50 percent of the tax assessed. **KRS 131.180(8)**

Post-Amnesty Cost of Collection Fees

- (a) 25 percent on all taxes which become due and owing for any reporting period, regardless of when due. These collection fees are in addition to all other penalties provided by law. **KRS 131.440(1)(a)**
- (b) 25 percent on all taxes assessed and collected by the Revenue Cabinet for taxable periods ending before December 1, 2001. **KRS 131.440(1)(b)**
- (c) 50 percent of any tax deficiency assessed after the amnesty period for nonfiled returns eligible for amnesty. **KRS 131.440(1)(c)**
- (d) A \$100 minimum penalty on all nonfiled returns, when the taxpayer fails to file a return or provide information after being requested to do so by the Revenue Cabinet. **KRS 131.150(2)**

FORM 720—SPECIFIC INSTRUCTIONS

Period Covered

File the 2002 return for calendar year 2002 and fiscal years that begin in 2002. For a fiscal year, fill in the taxable period beginning and ending at the top of Form 720.

All corporations must enter the Taxable Year Ending at the top right of Form 720 and supporting forms and schedules to indicate the ending month and year for which the return is filed.

- A calendar year is a period from January 1 through December 31 each year. This would be entered as:

1 2 / 0 2
Mo. Yr.

- A fiscal year is 12 consecutive months ending on the last day of any month except December. A fiscal year ending January 31, 2003, would be entered as:

0 1 / 0 3
Mo. Yr.

- A 52/53-week year is a fiscal year that varies between 52 and 53 weeks. *Example:* A 52/53-week year ending the first week of January 2003, would be entered as:

1 2 / 0 2
Mo. Yr.

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

Item A—The applicable boxes must be checked to identify the corporation's filing status.

Income Tax Filing Status

Separate entity—Check this box if the income tax return is filed on a separate entity basis.

A corporation is required to file a separate entity income tax return unless for any part of the taxable year it is a member of an affiliated group electing to file a consolidated return. **KRS 141.200(2)**

Consolidated—Check this box if the corporation is the common parent of an affiliated group filing a consolidated income tax return.

KRS 141.200(3) allows an affiliated group to elect to file a consolidated Kentucky income tax return with the election being binding for eight years. **Form 722, Election to File Consolidated Kentucky Corporation Income Tax Return, must be submitted to the Revenue Cabinet with the return timely filed for the first taxable year for which the election is made.** The election must be made by the common parent corporation on behalf of all members of the affiliated group. **A copy of Form 722 must be submitted for all subsequent years for which the election is effective.** "Affiliated group" means affiliated group as defined in Section 1504(a) of the IRC and related regulations. If a consolidated return is filed, a copy of federal Form 851, Affiliations Schedule, and Kentucky Form 851-K, Kentucky Affiliations and Payment Schedule, must be attached. **Regulation 103 KAR 16:200**

KRS 141.200(7)(a) prohibits affiliated corporations from filing a combined Kentucky corporation income tax return using the unitary business concept.

An election to file a consolidated income tax return does not apply to license tax. For qualifications to file a consolidated license tax return, see License Tax Filing Status below.

Return not required—Check this box *and enter one of the following two-digit reason codes in the space provided* if the corporation is not required to file the income tax return.

Reason Code	Reason
11	This return contains only the license tax computation. This corporation is a member of an affiliated group which filed a consolidated income tax return. Item D must be completed by entering the name and the Kentucky Account Number of the common parent.
12	This return contains only the license tax computation. The corporation is exempt from income tax in accordance with Public Law 86-272.

License Tax Filing Status

Separate entity—Check this box if the license tax return is filed on a separate entity basis.

A corporation is required to file a separate entity license tax return except as provided in KRS 136.071. **KRS 136.090**

In any case where two or more corporations merge, consolidate or otherwise combine into a single corporation after the close of the taxable year, but before the beginning of the succeeding taxable year, all factors used to determine the corporation license tax liability of the surviving corporation shall be computed on the basis of the consolidated accounting records of such corporations. Attach a schedule listing the corporations included in the return. **KRS 136.100(3)**

Consolidated—Check this box if the corporation qualifies and computes capital employed on a consolidated basis in accordance with KRS 136.071.

A corporation domiciled in Kentucky which holds stock or securities in other corporations equal to or greater than 50 percent of its total assets (investment ratio) may file a consolidated license tax return with all corporations (except those corporations exempt from tax under KRS 136.070) in which it owns directly or indirectly more than 50 percent of the corporation's outstanding stock. Attach a schedule listing the corporations included in the license tax return and the computation of the

investment ratio. Attach a consolidated balance sheet (prepared in columnar form) for the corporations included in the consolidated license tax return. **NOTE:** An interest in an LLC does not constitute stock or security in a corporation for the purposes of determining if a corporation qualifies for this provision, and an LLC may not be included in a consolidated return filed in accordance with this provision. **KRS 136.071**

Return not required—Check this box and enter one of the following two-digit reason codes in the space provided if the corporation is not required to file the license tax return.

Reason Code	Reason
20	License tax is not due. This is the corporation's final return.
21	License tax is not due. This corporation is a public service company subject to taxation under KRS 136.120.
22	License tax is not due. The net income tax liability is computed on a short-period basis due to a change in ownership or a change to S corporation election without a change in accounting period (see Item E if a short-period return is filed).
23	This return contains only the income tax computation. This corporation is the common parent of an affiliated group which filed a consolidated income tax return, but is not organized in Kentucky, does not have its commercial domicile in Kentucky, and does not own or lease property or have individuals receiving compensation in Kentucky.
24	This return contains only the income tax computation. This corporation is a nonparent member of a group which filed a consolidated license tax return in accordance with KRS 136.071. Item D must be completed by entering the name and the Kentucky Account Number of the parent.
25	This return contains only the income tax computation. This corporation is not incorporated or domiciled in Kentucky and carries on business in Kentucky only as a partner in a partnership.
26	This return contains only the income tax computation. This entity is an LLC and is therefore not subject to license tax.
27	This return contains only the income tax computation. This is an unincorporated entity such as an association, a joint stock company, a partnership or a trust and is therefore not subject to license tax.
28	This return contains only the income tax computation. This corporation is not organized in Kentucky, does not have its commercial domicile in Kentucky, and does not own or lease property or have individuals receiving compensation in Kentucky, but is the member of a single member LLC which has operations in Kentucky.

Name and Address—Print or type the corporation's name as set forth in the charter. For the address, include the suite, room or other unit number after the street address. If the U.S. Postal Service does not deliver mail to the street address and the corporation has a P.O. box, show the box number instead of the street address (see **Item E** if a change in name or address has occurred).

Telephone Number—Enter the business telephone number of the principal officer or chief accounting officer signing this return.

Kentucky Business Code Number—Enter the principal business activity code number listed in the federal Form 1120 instructions that best describes the principal business activity in Kentucky. Enter a brief description of the Kentucky activity in the appropriate box.

Federal Business Code Number—Enter the corporation's federal principal business activity number from the instructions to Form 1120.

NOTE: The Kentucky and federal business code numbers entered on Form 720 may be different if the principal business in Kentucky varies from the principal business outside Kentucky.

Item B—Enter the corporation's Federal Identification Number. See federal Publication 583 if the corporation has not obtained this number.

Item C—Enter the six-digit **Kentucky Corporation Income and License Account Number** in the appropriate box at the top of each form and schedule and on all checks and correspondence. This number is located in correspondence received from the Revenue Cabinet as a result of registration.

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

Item D—See Reason Codes 11 and 24 under **Item A**.

Item E—Check the applicable boxes:

- (a) **LLC**—This return is for a limited liability company.
- (b) **Initial Return**—This return is the corporation's initial return. Complete questions 1, 2 and 3 on Form 720, page 2, Schedule Q, Kentucky Corporation Questionnaire.
- (c) **Final Return/Dissolution**—This is the corporation's final return. The corporation has dissolved.
- (d) **Final Return/Withdrawal**—This is the corporation's final return. The corporation has ceased doing business in Kentucky and has filed a Certificate of Withdrawal with the Secretary of State.
- (e) **Short-period Return**—This return is a short-period return. **Submit an explanation for the short-period return.**
- (f) **Change of Name/Address**—A change in name or address has occurred. **Submit a copy of the amendment of the articles of incorporation for a name change.**

PART I—TAXABLE INCOME COMPUTATION

Line 1—Enter the amount of federal taxable income in accordance with the following instructions:

- (a) **Separate Entity Kentucky Return/Separate Entity Federal Return**—If this is a separate entity income tax return and the corporation filed a separate entity federal income tax return for the taxable year, enter the amount from Line 28 of Form 1120, or Line 24 of Form 1120A. **Attach a copy of Form 1120, page 1, or Form 1120A, page 1.**
- (b) **Separate Entity Kentucky Return/Consolidated Federal Return**—If this is a separate entity income tax return and the corporation participated in a consolidated federal income tax return for the taxable year, enter the amount from Line 28 of the pro forma Form 1120 prepared on a separate entity basis. **Attach a copy of the pro forma Form 1120, page 1.**
- (c) **Consolidated Kentucky Return/Consolidated Federal Return**—If this is a consolidated income tax return and the corporations participated in a consolidated federal income tax return for the taxable year, enter the amount from Line 28 of the consolidated Form 1120. If the consolidated federal return includes a corporation which is exempt from Kentucky income tax, an adjustment to exclude the income or loss of the corporation must be made on Line 6 or 12. See instructions for Lines 6 and 12. **Attach a copy of Form 1120, page 1.**
- (d) **Consolidated Kentucky Return/Separate Entity Federal Return**—If this is a consolidated income tax return and no member of the affiliated group participated in a consolidated federal income tax return for the taxable year, enter the

amount from Line 28 of the pro forma Form 1120 prepared on a consolidated basis including all members of the affiliated group as defined in Section 1504(a) of the IRC and related regulations except any corporation exempt from Kentucky income tax. **Attach a copy of the pro forma Form 1120, page 1.**

Special Returns—If the corporation is an organization which filed a special return for federal purposes (e.g., 1120H, 1120POL), enter the amount from the line on the special return which is comparable to Line 28 (Form 1120), federal taxable income. **Attach pages of form comparable to pages 1 and 4 of Form 1120.**

REIT Returns—Enter the amount from Line 22, Form 1120-REIT adjusted to add back any net operating loss deduction reflected on Line 21a, Form 1120-REIT.

Corporations Doing Business in Kentucky Solely as a Partner in a Partnership, skip Lines 1 through 13 and follow the instructions under Line 14 for "Corporations Doing Business in Kentucky Solely as a Partner in a Partnership." KRS 141.206

Additions to Federal Taxable Income—Lines 2 through 6 itemize items of additional taxable income or unallowed deductions which are differences between federal taxable income and Kentucky taxable net income.

Line 2—Enter interest income from obligations of states other than Kentucky and the political subdivisions of states other than Kentucky. **KRS 141.010(12)(c)**

Line 3—Enter state taxes measured in whole or in part by gross or net income. "State" means any state of the United States, the District of Columbia, the commonwealth of Puerto Rico, any territory or possession of the United States or any foreign country or political subdivision thereof. Attach a schedule itemizing the total taxes deducted on Form 1120. **KRS 141.010(13)(a)** (For further information, see Revenue Policies 41P100, 41P110, 41P120 and 41P121.)

Line 4—Enter safe harbor lease adjustments (see Revenue Circular 41C020). Attach a schedule. **KRS 141.010(12)(h) and (13)(e)**

Line 5—Enter deductions attributable to income which is exempt from taxation. Any expense related directly or indirectly to the acquisition, management or disposition of assets, the income from which is exempt, is not deductible. The related expense adjustment is required regardless of whether any income was actually received or accrued during the taxable year (see Revenue Policy 41P150). Attach a schedule. **KRS 141.010(13)(d)**

Line 6—Enter the total amount of other differences which result in additions to federal taxable income in computing Kentucky taxable net income. A **schedule must be attached** reflecting an itemization of the amount reflected on this line. Also any Kentucky or federal form or schedule from which an amount is entered on this line **must be attached**:

- (a) See instructions on page 1 regarding **depreciation and Section 179 deduction differences**, and if applicable, include the amount from Line 20 of federal Form 1120 or 1120A. **If federal Form 4562 is required to be filed for federal income tax purposes, a copy must be attached.**
- (b) See instructions on page 1 regarding **differences in gain or loss from disposition of assets**, and if applicable, include the amount from Line 14 of the Kentucky Schedule D. **Kentucky Schedule D must be attached to Form 720.**
- (c) See instructions on page 1 regarding **differences in gain or loss from disposition of assets**. If applicable, include the amount of loss reported on Line 9 of federal Form 1120 and the amount of gain from Line 18 of Kentucky Form 4797. **Federal Form 4797 filed with the federal return and the Kentucky Form 4797 must be attached.**

(d) Corporations that carried on transactions with stockholders of affiliated corporations directly or indirectly shall increase the net income of the corporation to an amount that would result if the transactions were carried on at arm's length. **KRS 141.205**

(e) To determine the allowable depletion or contribution deductions for Kentucky purposes, the percentage limitations provided by the IRC must be applied to Kentucky gross/net income rather than federal gross/net income (see Revenue Policy 41P070). **KRS 141.050**

(f) Ignore the provisions of IRC Section 281, Terminal Railroad Corporations and Their Shareholders. **KRS 141.010(12)(g)**

(g) The passive activity loss limitation rules of IRC Section 469 as they apply to personal service corporations and closely held C corporations are applicable for Kentucky income tax purposes. However, because of the differences listed above, the amounts of income and deductions used to determine passive activity losses for Kentucky may differ from the amounts used for federal income tax purposes. Therefore, corporations subject to the passive activity loss limitations must file federal Form 8810, Corporate Passive Activity Loss and Credit Limitations, using Part I and appropriate worksheets, reflecting the allowable passive activity loss(es) for Kentucky purposes. See instructions for federal Form 8810.

(h) Any difference in the gain (loss) upon disposition of intangible assets resulting from a difference between the accumulated federal amortization deduction and the accumulated Kentucky amortization deduction. **Regulation 103 KAR 15:090**

(i) If this return is a consolidated return and Line 28 of the consolidated Form 1120 includes the federal taxable loss of a corporation which is exempt from Kentucky income tax (exempt corporation), include the federal taxable loss of the exempt corporation on this line. If the consolidated Form 1120 includes more than one exempt corporation, combine the federal taxable income (loss) of all exempt corporations (attach schedule). If the result is a net loss, include the amount on this line. If the result is a net income, see Item (j) of Line 12 instructions. **KRS 141.200, Regulation 103 KAR 16:200**

(j) Include one-twelfth of the transition amount if: (1) the transition amount (income) exceeded \$5,000,000; (2) included Section 338 property; and (3) the corporation elected the provisions of KRS 141.010(14)(a). Attach a copy of the 1994 Form 762TS. **KRS 141.010(14)(a)**

Line 7—Enter the total of Lines 1 through 6.

Subtractions from Federal Taxable Income—Lines 8 through 12 itemize items of income which are excluded or additional deductions allowed which are differences between federal taxable income and Kentucky taxable net income.

Line 8—Enter the amount of interest income from U. S. government bonds or from securities issued by a federal agency or other income exempt from state taxation by the Kentucky Constitution, the United States Constitution or the United States Code. Securities which are merely guaranteed by the U.S. government are not tax-exempt. Attach a schedule listing the type of obligation and the amount of tax-exempt interest (see Revenue Circular 40C003 for a tax status listing). **KRS 141.010(12)(a)**

Line 9—Enter the amount of dividend income from Form 1120. **KRS 141.010(12)(b)**

Line 10—Enter the amount of the work opportunity credit reflected on federal Form 5884. For Kentucky purposes, the corporation may deduct the total amount of salaries and wages paid or incurred for the taxable year (see Revenue Policy 41P090).

Line 11—Enter safe harbor lease adjustments (see Revenue Circular 41C020). Attach a schedule. **KRS 141.010(12)(h) and (13)(e)**

Line 12—Enter the total amount of other differences which result in subtractions from federal taxable income in computing Kentucky taxable net income. A **schedule must be attached** reflecting an itemization of the amount reflected on this line. Also any Kentucky or federal form or schedule from which an amount is entered on this line **must be attached**:

- (a) See instructions on page 1 regarding **depreciation and Section 179 deduction differences**, and if applicable, include the amount from Line 22 of the Kentucky Form 4562. **Kentucky Form 4562 must be attached.**
- (b) See instructions on page 1 regarding **differences in gain or loss from disposition of assets**, and if applicable, include the amount reported on Line 8, Form 1120. **Federal Schedule D must be attached.**
- (c) See instructions on page 1 regarding **differences in gain or loss from disposition of assets**. If applicable, include the amount of gain reported on Line 9 of federal Form 1120 and the amount of loss from Line 18 of Kentucky Form 4797. **Federal Form 4797 filed with the federal return and the Kentucky Form 4797 must be attached.**
- (d) 50 percent of the gross royalty income derived from any disposal of coal with a retained economic interest defined by IRC Section 631(c) and all IRC Section 272 expenses if the corporation elects not to use percentage depletion. A deduction is allowed for cost depletion and other expenses not classified as IRC Section 272 expenses for federal income tax purposes (see Revenue Policy 41P080). **KRS 141.010(12)(d)**
- (e) The value of leasehold interest of property donated to a charitable organization which is to be used to provide living quarters for a homeless family. This deduction is a special deduction allowed for Kentucky in addition to the ordinary charitable contribution deduction allowed by Chapter 1 of the IRC. However, in accordance with KRS 141.010(13)(d), the same item may not be deducted more than once. **KRS 141.0202**
- (f) Any difference in the gain (loss) upon disposition of intangible assets resulting from a difference between the accumulated federal amortization deduction and the accumulated Kentucky amortization deduction. **Regulation 103 KAR 15:090**
- (g) Ignore the provisions of IRC Section 281, Terminal Railroad Corporations and Their Shareholders. **KRS 141.010(12)(g)**
- (h) The passive activity loss limitation rules of IRC Section 469 as they apply to personal service corporations and closely held C corporations are applicable for Kentucky income tax purposes. However, because of the differences listed above, the amounts of income and deductions used to determine passive activity losses for Kentucky may differ from the amounts used for federal income tax purposes. Therefore, corporations subject to the passive activity loss limitations must file federal Form 8810, Corporate Passive Activity Loss and Credit Limitations, using Part I and appropriate worksheets, reflecting the allowable passive activity loss(es) for Kentucky purposes. See instructions for federal Form 8810.
- (i) To determine the allowable depletion or contribution deductions for Kentucky purposes, the percentage limitations provided by the IRC must be applied to Kentucky gross/net income rather than federal gross/net income (see Revenue Policy 41P070). **KRS 141.050**
- (j) If this return is a consolidated return and Line 28 of the consolidated Form 1120 includes the federal taxable income of a corporation which is exempt from Kentucky income tax (exempt corporation), include the federal taxable income of the exempt corporation on this line. If the consolidated Form 1120 includes more than one exempt corporation, combine the federal taxable income (loss) of all exempt corporations (attach a schedule). If the result is a net income, include the amount on this line. If the result is a net loss, see Item (i) of Line 6 instructions. **KRS 141.200, Regulation 103 KAR 16:200**

- (k) Any amounts received from the Tobacco Master Settlement Agreement signed on November 22, 1998, the Phase II Settlement Fund or the Tobacco Loss Assistance Program which were included in federal taxable income. **KRS 141.010(12)(i), (j) and (k)**

Line 13—Subtract Lines 8 through 12 from Line 7.

Line 14—Enter the amount from Line 13 or the amount on Schedule A, Section II, Line 8, if applicable. A corporation having property or payroll both within and without Kentucky must allocate and apportion income to Kentucky on Schedule A (Form 720), Apportionment and Allocation. See Schedule A Instructions for information on the apportionment fraction. **KRS 141.010(14) and KRS 141.120**

Corporations Doing Business in Kentucky Solely as a Partner in a Partnership—If during the taxable period the corporation was not organized under the laws of Kentucky, was not commercially domiciled in Kentucky and neither owned or leased tangible property nor had employees in Kentucky but was a partner in a partnership doing business in Kentucky, determine taxable net income as follows:

- (a) Combine the corporation's distributive share of net income, gain, loss and deductions from Schedule K-1, Form 765, Partner's Share of Income, Credits, Deductions, Etc., to determine the net amount.
- (b) Multiply the net amount by the percentage shown in Item D on Schedule K-1, Form 765.

Attach Schedule K-1, Form 765.

Kentucky Net Operating Loss Deduction—The amount of net operating loss to be carried back or forward and deducted for Kentucky income tax purposes is the amount of loss determined under KRS Chapter 141. In accordance with IRC Section 172, losses incurred for tax years beginning after August 5, 1997, must first be carried back to the earliest of the two preceding years and then carried forward 20 years unless the corporation elects to relinquish the carryback period.

To elect in accordance with IRC Section 172(b)(3) to relinquish the carryback period and carry the entire loss forward, check the box in question 7 of Schedule Q, Kentucky Corporation Questionnaire, included with the Kentucky return filed for the loss year. This election is irrevocable. An election for federal purposes does not constitute an election for Kentucky purposes.

Line 15—For Kentucky purposes, the same carryback-carryforward provisions allowed by IRC Section 172 are applicable for losses incurred in taxable years beginning after December 31, 1979, except that no loss may be carried to a taxable year beginning before January 1, 1980. The amount to be carried back or forward is the amount of loss determined by KRS Chapter 141 and, in the case of multistate corporations, it is the amount determined after apportionment and allocation. Attach a schedule showing the computation of the net operating loss deduction but do not enter more than the corporation's taxable income. For additional details on carryback and carryover rules, see federal Publication 536, Net Operating Losses. **KRS 141.050**

Line 16—Subtract Line 15 from Line 14.

PART II—INCOME TAX COMPUTATION

Line 1—To compute the liability, apply the following rates:

- (a) 4 percent of the first \$25,000 of taxable net income;
- (b) 5 percent of the amount of taxable net income in excess of \$25,000, but not in excess of \$50,000;
- (c) 6 percent of the amount of taxable net income in excess of \$50,000, but not in excess of \$100,000;

- (d) 7 percent of the amount of taxable net income in excess of \$100,000, but not in excess of \$250,000; and
- (e) 8.25 percent of the amount of taxable net income in excess of \$250,000.

Short-period Computation of Income Tax—A corporation filing an income tax return for a period of less than 12 months is required to annualize taxable net income. To annualize, multiply taxable net income computed for the short period by 365 and divide by the number of days in the short period. The income tax liability shall be the tax computed on the annualized income multiplied by the number of days in the short period and divided by 365. **Annualization is not permitted if the return is for the initial or final period of operations. KRS 141.140**

Line 2—Economic Development Tax Credits. This line should be completed only if the corporation has been approved for one or more of the credits authorized by the Kentucky Rural Economic Development Act (KREDA), the Kentucky Jobs Development Act (KJDA), the Kentucky Industrial Revitalization Act (KIRA), the Kentucky Industrial Development Act (KIDA), the Kentucky Economic Opportunity Zone (KEOZ) or the Skills Training Investment Credit Act (STICA). **If an amount is entered on this line, the return and applicable schedules must be mailed to Economic Tax Credits, Corporation Tax Section, Revenue Cabinet, P.O. Box 181, Frankfort KY 40602-0181.**

To qualify for the KREDA, KJDA, KIRA, KIDA or KEOZ credits, the corporation must be approved by the Kentucky Economic Development Finance Authority (KEDFA) and have executed and activated the appropriate agreement with KEDFA. Form(s) and instructions for the computation of the credit(s) will be mailed to the approved corporation. To claim any of these credits, the applicable tax credit schedule must be attached.

To claim the STICA credit, a copy of the final authorizing resolution received from the Bluegrass State Skills Corporation reflecting the amount of credit awarded must be attached. The credit shall be claimed on the income tax return filed for the taxable year during which the final authorizing resolution is adopted by the Bluegrass State Skills Corporation. If the amount of the credit exceeds the income tax liability for the taxable year during which the final authorizing resolution is adopted by the Bluegrass State Skills Corporation, the excess may be carried forward for three successive years. If the credit claimed is being carried forward from a prior year, a schedule reflecting the computation of the amount of credit available to be carried forward should be attached in addition to the final authorizing resolution from the Bluegrass State Skills Corporation.

Information regarding the approval process for these credits may be obtained from the Cabinet for Economic Development, Department of Financial Incentives at (502) 564-7670.

Line 3—Unemployment Tax Credit. If a corporation has hired a Kentucky resident classified as unemployed for at least 60 days and the resident remains in the employ of the corporation for 180 consecutive days during the tax year (a qualified person), the corporation may be entitled to the unemployment tax credit. For each qualified person, a one-time nonrefundable credit of \$100 may be claimed. The period of unemployment must be certified by the Cabinet for Workforce Development, Frankfort, KY, and a copy of the certification must be maintained by the corporation. To claim this credit, Schedule UTC must be attached. **KRS 141.065**

Line 4—Recycling/Composting Tax Credit. A corporation, which purchases recycling and/or composting equipment to be used exclusively in Kentucky for recycling or composting post-consumer waste materials, may be entitled to a nonrefundable credit against the income tax imposed on the corporation by KRS Chapter 141 in an amount equal to 50 percent of the installed cost of the equipment. Application for this credit must be made on Schedule RC, and a copy of the schedule reflecting the amount of credit approved by the Revenue Cabinet must be

attached to the corporation's return on which the credit is claimed. The amount of this credit claimed for the tax year may not exceed 25 percent of the income tax liability. **KRS 141.390**

Line 5—Coal Conversion Tax Credit. A corporation which converts boilers from other fuels to the use of Kentucky coal or which substitutes Kentucky coal for other fuels in a boiler capable of burning coal and other fuels to produce energy for specific purposes may be entitled to a credit against corporation income tax equal to 4.5 percent of expenditures for Kentucky coal (less transportation costs). Unused portions of this credit may not be carried forward or back. To claim this credit, Schedule CC must be attached. **KRS 141.041**

Line 6—Enterprise Zone Tax Credit. For employees hired on or after July 14, 1992, a corporation certified by the Kentucky Enterprise Zone Authority as a qualified business may be entitled to a nonrefundable credit against Kentucky corporation income tax equal to 10 percent of wages paid to each employee who has been certified by the Cabinet for Workforce Development as having been unemployed for at least 90 days or having received public assistance benefits, based on need and intended to alleviate poverty, for at least 90 days prior to employment with the qualified business. The credit is limited to \$1,500 per employee, and any unused credit may be carried forward for up to five years. To claim the credit, Schedule EZC must be filed. **KRS 154.45-090**

Line 7—Kentucky Investment Fund Tax Credit. A corporation which makes a cash contribution to an investment fund approved by KEDFA in accordance with KRS 154.20-250 to 154.20-284 is entitled to a nonrefundable credit equal to 40 percent of the investor's proportional ownership share of all qualified investments made by its investment fund and verified by the authority. The credit may be applied against corporation income tax and corporation license tax. **To claim the credit a copy of the notification from KEDFA reflecting the amount of credit granted and the year in which the credit may first be claimed must be attached to the return.**

The tax credit amount that may be claimed by an investor in any tax year shall not exceed 50 percent of the initial aggregate credit amount approved by the authority for the investment fund which would be proportionally available to the investor. *Example: An investor with a 10 percent investment in a fund which has been approved for a total credit to all investors of \$400,000 would be limited to \$20,000 maximum credit in any given year.* (\$400,000 x 10% x 50%)

If the amount of credit that may be claimed in any tax year exceeds the corporation's combined income and license tax liability the excess credit may be carried forward, but the carry-forward of any excess tax credit shall not increase the limitation that may be claimed in any tax year. Any credit not used in 15 years, including the year in which the credit may first be claimed, shall be lost.

Information regarding the approval process for these credits may be obtained from the Cabinet for Economic Development, Department of Financial Incentives at (502) 564-7670.

Line 8—Coal Incentive Tax Credit. Effective for tax returns filed after July 15, 2001, an electric power company or a company that owns and operates a coal-fired electric generating plant may be entitled to a coal incentive tax credit. Application for this credit is made on Schedule CI, Application for Coal Incentive Tax Credit, and a copy of the credit certificate issued by the Kentucky Revenue Cabinet must be attached to the corporation's return on which the credit is claimed. **KRS 141.0405**

Line 9—Qualified Research Facility Tax Credit. A corporation is entitled to a credit against corporation income tax of 5 percent of the qualified costs of construction, remodeling, expanding and equipping facilities in Kentucky for "qualified research." Any unused credit may be carried forward 10 years. Schedule QRFTC,

Qualified Research Facility Tax Credit, must be attached to the corporation's return on which this credit is claimed. Federal Form 6765, Credit for Increasing Research Activities, must also be attached if applicable. See instructions for Schedule QRFTC for more information regarding this credit. **KRS 141.395**

Line 10—GED Incentive Tax Credit. To claim this credit attach the GED-Incentive Program Final Report (Form DAEL-31) for each employee which completed a learning contract during the tax year. The credit reflected on this line must equal the sum of the credits reflected on the attached GED-Incentive Program Final Reports. This credit may be claimed only in the year during which the learning contract was completed and unused portions of the credit may not be carried forward or back. For information regarding the program, contact the Cabinet for Workforce Development, Department of Adult Education and Literacy.

Line 11—Subtract Lines 2 through 10 from Line 1. **The credits on Lines 2 through 10 are nonrefundable credits. Therefore, the total of these credits cannot exceed the income tax liability on Line 1.**

Line 12—Enter the total of estimated tax payments made for the taxable year. Do not include the amount credited from prior year. This amount is to be reported on Line 14.

Line 13—Enter the amount of income tax paid with Form 41A720SL, Application for Six-Month Extension of Time to File Kentucky Corporation Income and License Tax Return.

Line 14—Enter the amount credited to 2002 from Part II, Line 18 or Part III, Line 24 of the 2001 return.

Line 15—Enter the license tax overpayment credited to the 2002 income tax liability from Part III, Line 23.

Line 16—If Line 11 is greater than the total of Lines 12 through 15, enter the difference on this line and submit payment.

Line 17—If Line 11 is less than the total of Lines 12 through 15, enter the difference.

Line 18—Enter the portion of Line 17 credited to the 2002 license tax liability in Part III, Line 20.

Line 19—Enter the portion of Line 17 to be credited to 2003.

Line 20—Enter the portion of Line 17 (Line 17 less Lines 18 and 19) to be refunded.

PART III—LICENSE TAX COMPUTATION

NOTE: If a Final Return box in Item E has been checked, no license tax is due. Complete only Lines 19 through 25, where applicable.

Single Member of LLC—A corporation which is the member of a single member LLC must use a balance sheet which does not include the assets, liabilities and surplus items of the LLC to determine its capital employed. However, the corporation's balance sheet would include its investment in the LLC as though the LLC is a separate entity. Likewise, the sales, property and payroll of the LLC must be disregarded in computing the corporation's Kentucky apportionment factor, if applicable.

Capital Defined—Capital is defined by KRS 136.070(2) and is not dependent upon the various technical definitions of capital prescribed for accounting, economics or other governmental purposes. Capital includes capital stock, surplus, advances by affiliated companies, intercompany accounts and borrowed moneys. **KRS 136.070(2) and Regulation 103 KAR 20:020**

Balance Sheet—KRS 136.070(2)(a) provides that the accounts comprising capital shall be reported at the value shown on the financial statement prepared for book purposes. Regulation 103 KAR 20:020 defines "financial statement prepared for book purpose" to mean:

- (a) the balance sheet prepared on a consistent basis from the corporation's books and records as of the last day of the taxable year; and
- (b) if the balance sheet presentation of an account is questioned, a financial statement prepared as required by generally accepted accounting principles.

The balance sheet presented for federal income tax purposes (Form 1120, Schedule L) is the balance sheet that generally meets this definition. **KRS 136.070(2)(a) and Regulation 103 KAR 20:020**

Line 1—Enter the value of capital stock computed as follows:

- (a) The sum of:
 1. the par value of all issued and outstanding shares of stock having a par value; and
 2. the amount of consideration received by the corporation for shares of stock issued and outstanding without a par value.
- (b) Less treasury stock. **Regulation 103 KAR 20:020, Section 1 (6)**

Line 2(a)—Enter the value of total assets of the corporation computed as follows:

- (a) The sum of:
 1. the original cost of the entire property of the corporation excluding deferred tax benefits; and
 2. equity in affiliated corporations if the corporation records the equity on its financial statements prepared for book purposes.
- (b) Less applicable contra-asset accounts.

A schedule reflecting a computation of total assets **must be attached**. **Regulation 103 KAR 20:020, Section 1(17) and Section 3**

Line 2(b)—Enter the total debt of the corporation including trade payables or accrued operating expense accounts. Debt does not include contingent or estimated liabilities. A schedule reflecting a computation of total debt **must be attached**. **Regulation 103 KAR 20:020, Section 1(8)**

Line 2(c)—Subtract Line 2(b) from Line 2(a) and enter the result here. **Regulation 103 KAR 20:020, Section 1(14)**

Line 2(d)—Enter the amount of capital stock from Line 1. **Regulation 103 KAR 20:020, Section 1(6)**

Line 3— Subtract Line 2(d) from Line 2(c) and enter the result here. **Regulation 103 KAR 20:020, Section 1(16)**

Line 4—Enter the excess if any of the advances by or from affiliated companies over the total advances to affiliated companies. Advances by affiliated companies include liability accounts representing a transfer of cash resulting from a cash management plan. Advances to affiliated companies include asset accounts representing a transfer of cash resulting from a cash management plan. *If advances to affiliated companies exceed advances by affiliated companies, enter zero on this line.* **Regulation 103 KAR 20:020, Section 4**

Line 5—Enter the net of intercompany payable and receivable accounts. Intercompany accounts do not include loans of money, asset or liability accounts between affiliated companies representing transfers of cash resulting from a cash management plan or advances by or to an affiliated company. *If intercompany receivables exceed intercompany payables, enter the amount on this line as a negative.* **Regulation 103 KAR 20:020, Section 5**

Line 6—Enter the year-end balance of all loans including loans from stockholders and bank overdrafts. Borrowed moneys do not include trade accounts or notes payable arising through trade transactions including salaries payable, taxes payable, or accounts representing various types of liabilities incurred for

supplies, repairs, or other accounts if the seller allows the purchaser to pay within 30 to 90 days. **Regulation 103 KAR 20:020, Section 5**

Line 7—Enter moneys borrowed to purchase inventory if the corporation can show by evidence submitted with the return that the moneys were used to purchase inventory. A schedule reflecting a computation of this amount **must be attached**. If a line of credit is used, the Revenue Cabinet will accept the following types of evidence to establish that all or a portion of the borrowed money has been used directly to purchase inventory:

1. A copy of the loan agreement, or other document executed at the time the line of credit is established, stating that the sole purpose of the loan is for purchasing inventory. If such a document is submitted to the Revenue Cabinet, the lesser of the balance of the line of credit at the end of the year or the total cost of the inventory purchased for the year will be excluded from the calculation of capital under KRS 136.070.
2. If the corporation cannot produce documentation that the line of credit is to be used solely for the purchase of inventory, the Revenue Cabinet will allow a pro rata portion of the line of credit balance to be excluded from capital by using a formula to determine the amount of the line of credit reasonably attributable to the purchase of inventory. A copy of the loan agreement or other document executed at the time the line of credit is established must be submitted.
 - (a) The amount of moneys borrowed to finance inventory will be determined by multiplying the line of credit balance at the end of the taxable year by a fraction, the numerator of which is cash outlays for inventory during the taxable year and the denominator of which is total cash outlays during the taxable year.
 - (b) Any other formula sufficient to document that all or a portion of the borrowed moneys are attributable to the purchase of inventory will be considered by the Revenue Cabinet upon submission.

(See Revenue Policies 41P520, 41P530 and 41P550.)

Line 8—This deduction is available only to a corporation filing a separate entity license tax return which is domiciled in Kentucky and holds stock or securities in other corporations equal to or greater than 50 percent of its total assets (investment ratio). Enter the book value of the corporation's investment in the stock and securities of any corporation in which it owns more than 50 percent of the corporation's outstanding stock. Attach a schedule showing the computation of the investment ratio and a schedule showing the computation of the deduction listing the name of each corporation, percentage of stock owned and the amount of deduction taken. **NOTE:** An interest in an LLC does not constitute stock or security in a corporation for the purposes of determining if a corporation qualifies for this deduction. Also, if a corporation meets the qualifications for this deduction, exclusive of its investment in any LLC, the book value of an interest in an LLC may not be included in this deduction. **KRS 136.071**

Line 9—Combine Line 1 and Lines 3 through 8.

Line 10—Enter "100" or the apportionment fraction from Schedule A, Section I, Line 12, if applicable.

Line 11—Multiply the amount on Line 9 by the percentage on Line 10.

Line 12—Multiply the amount on Line 11 by .0021. Enter the result or \$30, whichever is greater. The license tax rate is \$2.10 on each \$1,000 of capital employed in the business in Kentucky or a minimum of \$30. **KRS 136.070(1) and (5)**

Line 13—A corporation with gross income of \$500,000 or less is allowed a credit of \$1.40 per \$1,000 of the first \$350,000 of capital employed (maximum credit \$490) against the license tax. For the purpose of this credit, gross income means total taxable and nontaxable receipts before reduction for cost of

goods sold, cost of assets sold or other deductions. Do not include prior year credit on this line. **KRS 136.070(a) and Regulation 103 KAR 20:010**

Line 14—Subtract Line 13 from Line 12 and enter the result or \$30, whichever is greater.

Short-period Computation of License Tax—A corporation filing a short-period license tax return resulting from a **change in accounting period** is required to annualize its license tax liability. To annualize, subtract Line 13 from Line 12, multiply by the number of months in the short period, divide by 12, and enter the result or \$30, whichever is greater. The license tax liability is not annualized on an initial return. **KRS 136.100**

NOTE: No license tax return is required for short periods due to a change in ownership or the termination of the election of S corporation treatment **unless** there is a change in accounting period.

Line 15—Kentucky Investment Fund Tax Credit. See instructions for Part II, Line 7.

Line 16—KIRA Tax Credit. Enter the appropriate amount from Schedule KIRA-L. *This credit is applicable only for those corporations which have been approved by the Kentucky Economic Development Finance Authority (KEDFA) for a Kentucky Industrial Revitalization (KIRA) Project and have executed a Revitalization Agreement with KEDFA.* **KRS 154.26-090 and KRS 136.0704**

Line 17—Coal Incentive Tax Credit. See instructions for Part II, Line 8.

Line 18—Net License Tax Liability. Subtract Lines 15, 16 and 17 from Line 14. **The credits on Lines 15, 16 and 17 are nonrefundable credits. Therefore, the total of these credits cannot exceed the license tax liability on Line 14.**

Line 19—Enter the amount of license tax paid with the application for Six-month Extension of Time to File Kentucky Corporation Income and License Tax Return, Form 41A720SL.

Line 20—Enter the income tax overpayment credited to the 2002 license tax liability from Part II, Line 18 and any amount credited to 2002 from Line 24 of the 2001 return.

Line 21—If line 18 is greater than the total of Lines 19 and 20, enter the difference and submit payment.

Line 22—If Line 18 is less than the total of Lines 19 and 20, enter the difference.

Line 23—Enter the portion of Line 22 credited to the 2002 income tax liability in Part II, Line 15.

Line 24—Enter the portion of Line 22 to be credited to 2003.

Line 25—Enter the portion of Line 22 (Line 22 less Lines 23 and 24) to be refunded.

Tax Payment Summary—The payment submitted with Form 720 or paid by EFT must be itemized. Enter the amount of income tax payment on the Income line (Part II, Line 16), the amount of license tax payment on the License line (Part III, Line 21), the amount of interest payment on the Interest line, the amount of penalty payment on the Penalty line, and the total payment on the TOTAL line.



Signature—Form 720 must be signed by an authorized corporate officer. **Failure by corporate officers to sign the return, to complete all applicable lines on any required Kentucky form, to attach all applicable schedules including copies of federal forms, or to complete all information on the questionnaire will delay the processing of tax returns and may result in the assessment of penalties.**

TAXPAYER ASSISTANCE

Forms:

Support Services Branch
Revenue Cabinet
200 Fair Oaks Lane
Frankfort, KY 40620
(502) 564-3658
(502) 564-4459 (Forms by Fax)
www.revenue.ky.gov (Internet)



Information:

Corporation Tax Section
Revenue Cabinet
P.O. Box 1302
Frankfort, KY 40602-1302

Revenue Cabinet
200 Fair Oaks Lane
Frankfort, KY 40620
(502) 564-4581
(502) 564-3058 (Telecommunication Device for the Deaf)



KENTUCKY TAXPAYER SERVICE CENTERS

Information and forms are available from Kentucky Taxpayer Service Centers in the following cities.

Ashland, 134 Sixteenth Street, 41101-7670
(606) 920-2037

Bowling Green, 201 West Professional Park Court, 42104-3278
(270) 746-7470

Central Kentucky, 200 Fair Oaks Lane, Frankfort, 40620
(502) 564-4581 (*Taxpayer Assistance*)

Corbin, 15100 North US25E, Suite 2, 40701-6188
(606) 528-3322

Hopkinsville, 181 Hammond Drive, 42240
(270) 889-6521

Louisville, 620 South Third Street
Suite 102, 40202-2446
(502) 595-4512

Northern Kentucky, Turfway Ridge Office Park
7310 Turfway Road, Suite 190
Florence, 41042-1385
(859) 371-9049

Owensboro, Building C, Suite 201
401 Frederica Street, 42302
(270) 687-7301

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

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

INTANGIBLE PROPERTY TAXES—The listing period for intangible property is January 1 through May 15 of each year. Each taxpayer is responsible for reporting intangible property subject to ad valorem taxation. The Intangible Property Tax Return, Revenue Form 62A376, and instructions can be obtained from the Department of Property Valuation or your local county property valuation administrator’s office.

TANGIBLE PERSONAL PROPERTY TAXES—The listing period for tangible personal property is January 1 through May 15 of each year. Each taxpayer is responsible for reporting his tangible personalty subject to ad valorem taxation. The Tangible Personal Property Tax Return, Revenue Form 62A500, and instructions can be obtained from the Department of Property Valuation or your local county property valuation administrator’s office. A separate form must be filed for each location in Kentucky where you have tangible personal property.

**Kentucky Revenue Cabinet
Mission Statement**

The mission of the Kentucky Revenue Cabinet is to . . .

Provide courteous, accurate and efficient services for the benefit of the Commonwealth and administer Kentucky tax laws in a fair and impartial manner.

* * * * *

The Kentucky Revenue Cabinet does not discriminate on the basis of race, color, national origin, sex, religion, age or disability in employment or the provision of services.

YOUR RIGHTS AS A KENTUCKY TAXPAYER

The mission of the Kentucky Revenue Cabinet (KRC) is to provide courteous, accurate and efficient services for the benefit of the Commonwealth and administer Kentucky tax laws in a fair and impartial manner.

As a Kentucky taxpayer, you have the right to expect the KRC to honor its mission and uphold your rights every time you contact or are contacted by the KRC.

RIGHTS OF TAXPAYER

Privacy—You have the right to privacy of information provided to the KRC.

Assistance—You have the right to advice and assistance from the KRC in complying with state tax laws.

Explanation—You have the right to a clear and concise explanation of:

- basis of assessment of additional taxes, interest and penalties, or the denial or reduction of any refund or credit claim;
- procedure for protest and appeal of a determination of the KRC; and
- tax laws and changes in tax laws so that you can comply with the law.

Protest and Appeal—You have the right to protest and appeal a determination of the KRC if you disagree with an assessment of tax or penalty, reduction or a denial of a refund, a revocation of a license or permit, or other determination made by the KRC.

Conference—You have the right to a conference to discuss a tax matter.

Representation—You have the right to representation by your authorized agent (attorney, accountant or other person) in any hearing or conference with the KRC. You have the right to be informed of this right prior to the conference or hearing. If you intend for your representative to attend the conference or hearing in your place, you may be required to give your representative a power of attorney before the KRC can discuss tax matters with your authorized agent.

Recordings—You have the right to make an audio recording of any meeting, conference or hearing with the KRC, or to be notified in advance if the KRC plans to record the proceedings and to receive a copy of any recording.

Consideration—You have the right to consideration of:

- waiver of penalties or collection fees if "reasonable cause" for reduction or waiver is given ("reasonable cause" is defined in KRS 131.010(9) as: "an event, happening, or circumstance entirely beyond the knowledge or control of a taxpayer who has exercised due care and prudence in the filing of a return or report or the payment of monies due the cabinet pursuant to law or administrative regulation");
- installment payments of delinquent taxes, interest and penalties;
- waiver of interest and penalties, but not taxes, resulting from incorrect written advice from the KRC if all facts were given and the law did not change or the courts did not issue a ruling to the contrary;
- extension of time for filing reports or returns; and
- payment of charges incurred resulting from an erroneous filing of a lien or levy by the KRC.

Guarantee—You have the right to a guarantee that KRC employees are not paid, evaluated or promoted based on taxes assessed or collected, or a tax assessment or collection quota or goal imposed or suggested.

Damages—You have the right to file a claim for actual and direct monetary damages with the Kentucky Board of Claims if a KRC employee willfully, recklessly and intentionally disregards your rights as a Kentucky taxpayer.

Interest—You have the right to receive interest on an overpayment of tax, except delinquent property tax, payable at the same rate you would pay if you underpaid your tax.

REVENUE CABINET RESPONSIBILITIES

The KRC has the responsibility to:

- perform audits, conduct conferences and hearings with you at reasonable times and places;
- authorize, require or conduct an investigation or surveillance of you only if it relates to a tax matter;
- make a written request for payment of delinquent taxes which are due and payable at least 30 days prior to seizure and sale of your assets;
- conduct educational and informational programs to help you understand and comply with the laws;
- publish clear and simple statements to explain tax procedures, remedies, your rights and obligations, and the rights and obligations of the KRC;
- notify you in writing when an erroneous lien or levy is released and, if requested, notify major credit reporting companies in counties where lien was filed;
- advise you of procedures, remedies and your rights and obligations with an original notice of audit or when an original notice of tax due is issued, a refund or credit is denied or reduced, or whenever a license or permit is denied, revoked or canceled;
- notify you in writing prior to termination or modification of a payment agreement;
- furnish copies of the agent's audit workpapers and a written narrative explaining the reason(s) for the assessment; and
- resolve tax controversies on a fair and equitable basis at the administrative level whenever possible.

The KRC has a Taxpayer Ombudsman's Office which consists of the Ombudsman and a staff whose job is to serve as an advocate for taxpayers' rights. One of the main functions of the office is to ensure that your rights as a Kentucky taxpayer are protected by the KRC.

The Taxpayer Ombudsman's Office may be contacted by telephone at (502) 564-7822 (between 8:00 a.m. and 4:30 p.m. weekdays). From a Telecommunication Device for the Deaf (TDD), call (502) 564-3058. The mailing address is: Office of Taxpayer Ombudsman, P.O. Box 930, Frankfort, Kentucky 40602-0930.

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This information merely summarizes your rights as a Kentucky taxpayer and the responsibilities of the Revenue Cabinet. The Kentucky Taxpayers' Bill of Rights may be found in the Kentucky Revised Statutes (KRS) at Chapter 131.041—131.081. Additional rights and responsibilities are provided for in KRS 131.020, 131.110, 131.170, 131.183, 131.500, 133.120, 133.130, 134.580 and 134.590.