

General Information

Which form should I file?

File Form 740-EZ if you are a Kentucky resident for the entire year and:

- are filing federal Form 1040EZ.
- file as single.
- do not claim additional credits for being age 65 or over, blind, or a member of the Kentucky National Guard at the end of 2012.
- had only wages, salaries, tips, unemployment compensation, taxable scholarship or fellowship grants, and taxable interest was \$1,500 or less.

File Form 740 if you are a full-year Kentucky resident and:

- have farm, business, rental and/or capital gain income or losses.
- itemize deductions.
- have additions to or subtractions from federal adjusted gross income (see instructions). **Schedule M required.**
- report on an accrual basis.
- claim Kentucky estimated tax payments.
- have pension income.

File Form 740-NP if you are a nonresident and:

- had income from Kentucky sources.

or are a part-year Kentucky resident and:

- moved into or out of Kentucky during the taxable year.
- had income while a Kentucky resident.
- had income from Kentucky sources while a nonresident.

Computer-Generated Returns and 2-D Bar Code

Most software packages produce a 2-D bar code. The Department of Revenue scans the bar code that contains all of the information needed to process your return. The bar code is printed in the upper right-hand corner of the return when you prepare your return using an approved software package. **Last minute changes** should be entered into the program and the **entire** return printed again so that the bar code also contains the correct information. This bar code should not be covered up or marked through. Using the bar code reduces

data entry errors for the department and results in a faster refund for you.

Check to be sure your software generates an acceptable form. A list of vendors whose software has been approved is posted on the Internet at www.revenue.ky.gov, the Department of Revenue's Web site.

Where to Get Forms

Forms and instructions are available online from the Department of Revenue's Web site at www.revenue.ky.gov and at all Kentucky Taxpayer Service Centers. They may also be obtained by writing FORMS, Kentucky Department of Revenue, Frankfort, KY 40620, or by calling (502) 564-3658.

Address Change

If you move after you file your tax return, please notify the Kentucky Department of Revenue of your new address. This can be done by sending a change of address card (available at your local post office) to: Taxpayer Assistance Section, Kentucky Department of Revenue, P.O. Box 181, Station 56, Frankfort, KY 40602-0181. Notification can also be made to any Kentucky Taxpayer Service Center. A list of locations is included in your packet.

Refund Inquiries

The Automated Refund and Tax Information System (ARTIS) is a touch-tone telephone system designed to provide information about your individual income tax return. Information about electronically filed returns should be available within 72 hours of receipt. Information about other refund request filed on paper will be available after the return has completed initial processing (approximately 12 weeks).

The ARTIS number is (502) 564-1600. It is available 24 hours a day, 7 days a week. If during the call you do not receive a refund mailing date, please allow seven days before calling again.

Need a Copy of Your Tax Return?

If you need a copy of your tax return, you must send your request in writing to: Taxpayer Assistance Section, Kentucky Department of Revenue, P.O. Box 181, Station 56, Frankfort, KY 40602-0181. Please include your name(s) as it appeared on your return, Social Security number(s), your complete mailing address, and a photo ID. To ensure confidentiality, all requests must include your signature.

How Long Should Records be Kept?

Keep a copy of your tax return, worksheets and records of all items appearing on it (such as Forms W-2 and 1099 or other receipts) until the statute of limitations runs out for that return. Usually, this is four years from the date the return was due or filed (with extensions), or the date the tax was paid, whichever is later. You should keep some records longer. For example, keep property records (including those on your home) as long as they are needed to figure the basis of the original or replacement property.



Filing as an Injured Spouse on Your Federal Form 1040?

Kentucky does not recognize the federal injured spouse form. Income tax refunds may be withheld by the department if you owe money to the Kentucky Department of Revenue, another state agency or the Internal Revenue Service.

Kentucky law requires the offset of the entire refund if a joint return is filed. **If spouses want to keep their tax liabilities and/or refunds separate, each must file a separate tax form.** If you choose to file separately on a combined return, for agencies other than the Department of Revenue, the refund will be apportioned between spouses, based

on each spouse's income. The indebted spouse's refund will then be paid to the appropriate agency.

Death of a Taxpayer

If a taxpayer died before filing a return for 2012, the taxpayer's spouse or personal representative may have to file and sign a return for that taxpayer. A personal representative can be an executor, administrator or anyone who is in charge of the deceased taxpayer's property. If the deceased taxpayer did not have to file a return but had tax withheld, a return must be filed to get a refund. The person who files the return should enter "DECD" after the deceased taxpayer's name and write "DECEASED" and the date of death across the top of the return.

If your spouse died in 2012 and you did not remarry in 2012, you can file jointly or separately on a combined return. The return should show your spouse's 2012 income before death and your income for all of 2012. You can also file jointly or separately on a combined return if your spouse died in 2013 before filing a 2012 return. Write "Filing as surviving spouse" in the area where you sign the return. If someone else is the personal representative, he or she must also sign.

Death of Military Personnel Killed in Line of Duty

KRS 141.010(10)(t) exempts all income earned by soldiers killed in the line of duty from Kentucky tax for the years during which the death occurred and the year prior to the year during which the death occurred.

The exemption applies to tax years beginning after December 31, 2001. The income exclusion applies to all income from all sources of the decedent, not just military income. The exclusion includes all federal and state death benefits payable to the estate or any beneficiaries.

Amended returns may be filed for the year the soldier was killed in the line of duty and the year prior to the year of death. The amended returns must be filed within the statute of limitations period; four years from the due date, the extended due date or the date the tax was paid, whichever is later.

If a combined return was filed, the exclusion would apply to the income reported in Column A or Column B of the Kentucky return attributable to the military member. If a joint return was filed, the income must be separated accordingly. Refunds will be issued in the names on the original return. Beneficiaries or estates that received death benefits that were included in a Kentucky return may file an amended return to request a refund of taxes paid on the benefit.

The Department of Revenue will use the Veterans Administration definition for "in the line of duty," which states that a soldier is in the line of duty when he is in active military service, whether on active duty or authorized leave; unless the death was the result of the person's own willful misconduct.

Income Tax Withholding for 2013

If the amount you owe or the amount you overpaid is large, you may want to change the amount of income tax withheld from your 2013 pay. To do so you must file a new Form K-4 with your employer.

The Family Size Tax Credit is based on modified gross income and the size of the family. See instructions for Lines 20 and 21 for further explanation of these limitations. Changes have been made to the Special Withholding Exemption Certificate (Form K-4E) to reflect the Family Size Tax Credit. If you do not expect to have any tax liability for the current year and you meet the modified gross income requirements, you may be entitled to claim exemption from withholding of Kentucky income tax. The Special Withholding Exemption Certificate (Form K-4E) can be downloaded at <http://revenue.ky.gov/business/whtax.htm>, the Department of Revenue's Web site.

2013 Estimated Tax Payments

Persons who reasonably expect to have income in excess of \$5,000 from which no Kentucky income tax will be withheld may be required to make estimated tax payments on Form 740-ES. However, if the amount of estimated tax is \$500 or less, no estimated payments are required.

Persons who do not prepay at least 70 percent of the tax liability may be subject to a 10 percent penalty for underpayment of estimated tax. If you are required to make estimated tax payments you may also be subject to interest if the payments are not made timely. Prepayments for 2013 may be made through withholding, a credit forward of a 2012 overpayment or estimated tax installment payments. The instructions for Form 740-ES include a worksheet for calculating the amount of estimated tax due and for making installment payments. These forms may be obtained from the Kentucky Department of Revenue, Frankfort, KY 40620, or any Kentucky Taxpayer Service Center. You may also download Form 740-ES and instructions at www.revenue.ky.gov, the Department of Revenue's Web site.

Return Adjustments

If the Department of Revenue adjusts your return and you do not understand the adjustment, you may write to Taxpayer Assistance, Kentucky Department of Revenue, P.O. Box 181, Station 56, Frankfort, KY 40602-0181 or call (502) 564-4581. If you disagree with an adjustment made to your return, you may appeal that adjustment by submitting a written protest within 45 days of notification.

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.* You may obtain Form 740-X by contacting a Kentucky Taxpayer Service Center or writing FORMS, Kentucky Department of Revenue, Frankfort, KY 40620. You may also download Form 740-X at www.revenue.ky.gov, the Department of Revenue's Web site.

Federal Audit Adjustments



Taxpayers who have received a final determination of an Internal Revenue Service audit must submit a copy to the department **within 30 days of its conclusion**. The information should be submitted to the Individual Governmental Program Section, Kentucky Department of Revenue, P.O. Box 1074, Station 68, Frankfort, KY 40602-1074.

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. **Also, Department of Revenue employees or any other person authorized to access confidential state information are prohibited from intentionally viewing such information without an official need to view.**

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.

Extension of Time to File

Taxpayers who are unable to file a return by April 15 may request an extension. 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. 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. 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 request a separate Kentucky extension. They can meet the requirements by attaching a copy of the application for automatic federal extension to the Kentucky return.

IRS extensions by e-file (by personal computer or a tax professional)— Attach a copy of Form 4868 with the confirmation number in the lower right-hand corner of the form or a copy of the electronic acknowledgment.



Military Personnel—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.

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.

Interest and Penalties—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 penalty charges can be avoided or reduced by sending payment with your extension request by the due date. If you wish to make a payment prior to the due date of your return when using the:

- (1) *Kentucky Extension*—Complete Section II, Kentucky Extension Payment Voucher, of the Application for Extension of Time to File, Form 40A102, and send with payment. Write “KY Income Tax—2012” and your Social Security number(s) on the face of the check.
- (2) *Federal Automatic Extension*—Make a copy of the lower portion of the federal Application for Automatic Extension, Form 4868, and send with payment. Write “KY Income Tax—2012” and your Social Security number(s) on the face of the check.

Personal Property Forms

Kentucky business 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 this return is May 15. **Do not mail this return with your income tax return; use a separate envelope.**

Kentucky Department of Revenue Mission Statement

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

* * * * *

The Kentucky Department of Revenue does not discriminate on the basis of race, color, national origin, sex, age, religion, disability, sexual orientation, gender identity, veteran status, genetic information or ancestry in employment or the provision of services.

2012 FEDERAL/KENTUCKY INDIVIDUAL INCOME TAX DIFFERENCES

Kentucky income tax law is based on the federal income tax law in effect on December 31, 2006. The Department of Revenue generally follows the administrative regulations and rulings of the Internal Revenue Service in those areas where no specific Kentucky law exists.

The chart below provides a quick reference guide to the major federal/Kentucky differences. It is not intended to be all inclusive. Items not listed may be referred to the Department of Revenue to determine Kentucky tax treatment.

PROVISION	FEDERAL TAX TREATMENT	KENTUCKY TAX TREATMENT
1. Interest from Federal Obligations	Taxable	Exempt
2. Retirement Income from:		Partially exempt if retired after December 31, 1997; exempt if retired before January 1, 1998; Schedule P may be required
Commonwealth of Kentucky Retirement Systems	Taxable	
Kentucky Local Government Retirement Systems	Taxable	
Federal and Military Retirement Systems	Taxable	
3. Pensions and Annuities Starting After 7/1/86 and Before 1/1/90	3-year recovery rule eliminated	3-year recovery rule retained
4. Other Pension and Annuity Income	Taxable	100% excludable up to \$41,110; Schedule P may be required
5. Benefits from U.S. Railroad Retirement Board	May be taxable	Exempt; Schedule P may be required
6. Social Security Benefits	May be taxable	Exempt
7. Capital Gains on Sale of Kentucky Turnpike Bonds	Taxable	Exempt
8. Other States' Municipal Bond Interest Income	Exempt	Taxable
9. Kentucky Local Government Lease Interest Payments	Taxable	Exempt
10. Long-Term Care Insurance Premiums Paid With After-Tax Dollars	Limited deduction as self-employed health insurance	100% adjustment to gross income
11. Medical and Dental Insurance Premiums Paid With After-Tax Dollars	Limited deduction as self-employed health insurance	100% adjustment to gross income
12. Capital Gains on Property Taken by Eminent Domain	Taxable	Exempt
13. Election Workers—Income for Training or Working at Election Booths	Taxable	Exempt
14. Artistic Contributions	Noncash contribution allowed as itemized deduction	Appraised value allowed as itemized deduction or adjustment to income
15. State Income Taxes	Deductible	Nondeductible
16. Leasehold Interest—Charitable Contribution	May be deductible	Deductible; Schedule HH required
17. Kentucky Unemployment Tax Credit	No credit allowed	\$100 per certified employee; Schedule UTC required
18. Work Opportunity Credit (federal Form 5884)	Tax credit allowed; wage expense reduced by amount of credit	No credit allowed; entire wage expense is deductible
19. Welfare to Work Credit (federal Form 8861)	Tax credit allowed; wage expense reduced by amount of credit	No credit allowed; wage expense reduced by amount of federal credit
20. Child and Dependent Care Credit	Tax credit based on expenses	20% of federal credit
21. Family Size Tax Credit	No credit allowed	Decreasing tax credit allowed
22. Education Tuition Tax Credit	Tax credit based on expenses	Credit allowed Form 8863-K required
23. Taxpayer Who May be Claimed as Dependent on Another's Return (i.e., full-time student)	May not claim self	May claim self
24. Child's Income Reported by Parent	Permitted; taxed at parent's rate	Not permitted
25. National Tobacco Settlement TLAP Income Quota Buyout (including imputed interest)	Taxable	Exempt
26. Bonus Depreciation/Additional Section 179 Expense	Deductible	Nondeductible
27. Mortgage Debt Forgiveness	Exempt	Taxable
28. Domestic Production Activities Deduction	Deductible	Deductible; may be limited
29. Active Duty Military Pay	Taxable	Exempt
30. Certain Business Expenses of Reservists	Deductible	Nondeductible

INSTRUCTIONS

2012 FORM 740

Do You Have to File a Kentucky Return?

If you were a Kentucky resident for the entire year, your filing requirement depends upon your family size, modified gross income, Kentucky adjusted gross income and income from self-employment. You must file if your modified gross income exceeds the amount in Chart A and your Kentucky adjusted gross income exceeds the amount in Chart B.

Complete your federal tax return first. If you are not required to file a federal tax return, see instructions for Line 5.

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. For the purposes of computing the Family Size Tax Credit, the maximum family size is 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.

KENTUCKY ADJUSTED GROSS INCOME (Use Chart B if Modified Gross Income is Greater Than the Amounts in Chart A)

Kentucky Adjusted Gross Income—Consists of your federal adjusted gross income plus any additions and subtractions from Schedule M, Modifications to Federal Adjusted Gross Income.

Chart B

If Your Filing Status is:	Your Kentucky Adjusted Gross Income is greater than:
Single Person— Under age 65.....	and \$ 3,330
Single Person— Age 65 or over or blind.....	and \$ 5,330
Single Person— Age 65 or over and blind.....	and \$ 6,600
Husband and Wife— Both under age 65.....	and \$ 4,330
Husband and Wife— One age 65 or over	and \$ 6,000
Husband and Wife— Both age 65 or over	and \$ 7,100

TAXPAYERS WITH SELF-EMPLOYMENT INCOME—Must file a Kentucky individual income tax return regardless of the amount of Kentucky adjusted gross income used in the Chart B if you have gross receipts from self-employment in excess of modified gross income for your family size in Chart A.

Chart A

If Your Family Size is:	Your Modified Gross Income is greater than:
One.....	and\$11,170
Two	and\$15,130
Three.....	and\$19,090
Four or More	and\$23,050



TIP: Even though the filing requirements are not met, an income tax return must be filed to claim a refund of the Kentucky taxes withheld.

FILING REQUIREMENTS (Continued)

Part-time or part-year workers may have income taxes withheld from their paychecks even though the filing requirements are not met. An income tax return must be filed to claim a refund of the Kentucky taxes withheld.

A child meeting the filing requirements must file a return even though being claimed as a dependent by the parent. Kentucky income tax law contains no special provisions for taxing the income of a minor child at the parent’s tax rates nor the reporting of income of a child on the parent’s return.

Generally, all income of Kentucky residents, regardless of where it was earned, is subject to Kentucky income tax.

Nonresidents and part-year residents must report income on Form 740-NP.

Military Personnel—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, the Department of Revenue will refund the tax withheld.

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

For Fiscal Year Filers Only—Most people pay taxes for a calendar year. However, if you file for a taxable year other than a calendar year or for part of a year, enter the beginning and ending dates of that year on the line at the top of the form.

When and Where to File

The income tax return for calendar year 2012 must be postmarked or submitted electronically no later than April 15, 2013, to avoid penalties and interest. Mail to:

APRIL 2013						
S	M	T	W	T	F	S
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30				

Refund/Other Returns

Kentucky Department of Revenue
Frankfort, KY 40618-0006

Pay Returns

Kentucky Department of Revenue
Frankfort, KY 40619-0008

Taxpayers who expect refunds should file as early as possible to receive refunds promptly. If you have your tax return prepared by another person, you may wish to mail the return yourself in order to ensure prompt filing.

Social Security Number—You are required to provide your social security number per Section 405, Title 42, of the United States Code. This information will be used to establish your identity for tax purposes only.

Political Party Fund Designation

You may designate \$2 of your taxes to either the Democratic or Republican party if you have a tax liability of at least \$2 (\$4 for married persons filing joint returns). Fifty cents will be paid to the corresponding political organization in your county of residence and the remainder will be paid to the respective state political party. *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.



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.

Filing Status

Legal liabilities are affected by the choice of filing status. Married persons who file joint or combined returns are jointly and severally liable for all income taxes due for the period covered by the return. That is, each spouse may be held legally responsible for payment of taxes on income earned by the other. If spouses want to credit the refund of one against the liability of the other or combine their tax liabilities or refunds, they must file a combined return. **If spouses want to keep their tax liabilities and/or refunds separate, each must file a separate tax form.**

Check the box that describes your filing status. If you are married, filed a joint federal return and both you and your spouse had income, you may be able to reduce your tax by using Filing Status 2 rather than Filing Status 3.

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 Separately on This Combined Return—Use this filing status to report your incomes individually but on only one tax form. You do this by filling in both Columns A and B. You may file separately on this combined return regardless of whether you filed jointly or separately for federal purposes if both you and your spouse had income. This filing status usually results in a lower tax than Filing Status 3.

Each spouse must claim his or her own income and deductions. The total of Line 5, Columns A and B, must equal your and your spouse’s federal adjusted gross income.

Filing Status 3, 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 in Column B. If both you and your spouse have income, it may be to your benefit to use Filing Status 2.

Filing Status 4, 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 Line 4.

Adjusted Gross Income

LINE 5, Federal Adjusted Gross Income

Enter the total amount of your federal adjusted gross income from your federal income tax return in Column B if Filing Status 1, 3 or 4 is used. Use Column A only when entering your spouse’s income on a combined return (Filing Status 2). When using Filing Status 2, Columns A and B, Line 5, must equal your federal adjusted gross income. **(Do not confuse federal adjusted gross income with federal taxable income shown on the federal return.)**

Where husband and wife have filed a joint return for federal income tax purposes and have not elected to file a joint Kentucky income tax return, each spouse must claim his or her own income and deductions.

If you are not required to file a federal income tax return, enter on Line 5 the total of wages, salaries, tips, fees, commissions, bonuses, other payments for personal services, taxable scholarships and fellowships, taxable interest and dividends, trade or business income, unemployment compensation and all other income from sources within and without Kentucky including amounts not reported on attached wage and tax statements. If you have income not supported by a wage and tax statement, attach a supporting schedule showing the source and amount.

Determining Kentucky Adjusted Gross Income—Kentucky law requires that the individual income tax return begin with federal adjusted gross income and be adjusted for any differences to arrive at Kentucky adjusted gross income. Schedule M is designed to make “additions to” federal adjusted gross income and provides for “subtractions from”

federal adjusted gross income. For a list of differences, see the Federal/Kentucky Individual Income Tax Differences chart and the line-by-line instructions.

LINE 6—Additions to Federal Adjusted Gross Income—Enter amount from Schedule M, Part I, Line 8.

LINE 8—Subtractions from Federal Adjusted Gross Income—Enter amount from Schedule M, Part II, Line 20.

LINE 9—Kentucky Adjusted Gross Income—Subtract Line 8 from Line 7. This is your **Kentucky Adjusted Gross Income**.

Taxable Income

LINE 10, Deductions—Itemizers, complete Schedule A and enter allowable deductions on Line 10. *If one spouse itemizes deductions, the other must itemize.* See specific instructions for Schedule A.

Nonitemizers, enter the standard deduction of \$2,290. If married filing separately on a combined return, enter \$2,290 in both Columns A and B. **If filing a joint return, only one \$2,290 standard deduction is allowed.**

LINE 11—Subtract Line 10 from Line 9. This is your **Taxable Income**.

Tax

LINE 12—Determining Your Tax

Tax Table or Computation—An optional tax table is located elsewhere in this publication for your convenience. You may use this table whether or not you itemize. Married taxpayers filing separately on a combined return may use the tax table or the tax rate schedule, or one spouse may use the tax table and the other the tax rate schedule. If you choose not to use the tax table, compute your tax using the tax rate schedule below.

Tax Rate Schedule

<i>If taxable amount is:</i>	<i>Tax is:</i>
\$3,000 or less	2% of taxable amount
over \$3,000 but not over \$4,000	\$60 plus 3% of amount over \$3,000
over \$4,000 but not over \$5,000	\$90 plus 4% of amount over \$4,000
over \$5,000 but not over \$8,000	\$130 plus 5% of amount over \$5,000
over \$8,000 but not over \$75,000 ..	\$280 plus 5.8% of amount over \$8,000
over \$75,000	\$4,166 plus 6% of amount over \$75,000

Farm Income Averaging, Schedule J—If you elect farm income averaging on your federal return, you may also use this method for Kentucky. The amount of income you may average is limited to the amount elected for federal purposes. Enter tax from Schedule J, Line 22, on Form 740, Line 12, and check the box for “Schedule J.” Attach completed Schedule J.



LINE 13, Lump-sum Distribution—Special 10-Year Averaging— Kentucky allows a special 10-year averaging method for determining tax on lump-sum distributions received from certain retirement plans that qualify for federal 10-year averaging. If this special method is used for federal purposes, Form 4972-K, Kentucky Tax on Lump-Sum Distributions, and Schedule P, Pension Income Exclusion, must be filed with Form 740. Enter tax from Form 4972-K and check the box.

Recycling Composting Recapture— Enter amount from Schedule RC-R and check the box.

If both Form 4972-K and Schedule RC-R are used, add the amounts together and enter the total on Line 13.

LINE 15— Enter amounts from page 3, Section A. See instructions for Section A.

LINE 17— Enter amounts from page 3, Section B. See instructions for Section B.

LINE 19, Total Tax Liability— Married taxpayers filing a combined return must add the amounts on Line 18, Columns A and B, and enter the sum on Line 19. Other taxpayers should enter the amount from Line 18, Column B, on Line 19.

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 \$30,657 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 WORKSHEET FOR COMPUTATION OF MODIFIED GROSS INCOME FOR FAMILY SIZE TAX CREDIT

- (a) Enter your federal adjusted gross income from Line 5. **If zero or less, enter zero** (a) _____
- (b) If married filing separately on a combined return or 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 Line 9. **If zero or less, enter zero** (f) _____
- (g) If married filing separately on a combined return or married filing separate returns and living in the same household, enter your spouse’s Kentucky adjusted gross income from 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	
2012	\$ ---	\$ 11,170	\$ ---	\$ 15,130	\$ ---	\$ 19,090	\$ ---	\$ 23,050	100
	11,170	11,617	15,130	15,735	19,090	19,854	23,050	23,972	90
	11,617	12,064	15,735	16,340	19,854	20,617	23,972	24,894	80
	12,064	12,510	16,340	16,946	20,617	21,381	24,894	25,816	70
	12,510	12,957	16,946	17,551	21,381	22,144	25,816	26,738	60
	12,957	13,404	17,551	18,156	22,144	22,908	26,738	27,660	50
	13,404	13,851	18,156	18,761	22,908	23,672	27,660	28,582	40
	13,851	14,186	18,761	19,215	23,672	24,244	28,582	29,274	30
	14,186	14,521	19,215	19,669	24,244	24,817	29,274	29,965	20
	14,521	14,856	19,669	20,123	24,817	25,390	29,965	30,657	10
14,856	---	20,123	---	25,390	---	30,657	---	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 form and instructions.

LINE 25, Child and Dependent Care Credit—Enter in the space provided the amount of credit calculated on federal Form 2441, Line 9, for child and dependent care expenses. Multiply this amount by 20 percent (.20), and enter result on Line 25.

If you do not meet the filing requirements to file a federal income tax return but would have been entitled to the federal child and dependent care credit, you may claim the child and dependent care credit for Kentucky purposes. Complete and attach federal Form 2441, state on the form “did not meet federal filing requirements” and follow instructions for Line 25.

LINE 27, Kentucky Use Tax

Important Reminder from the Department of Revenue About Out-of-State Purchases:
If you made untaxed purchases from out-of-state retailers, the use tax line on your return should contain a number.

Like every other state that has a sales tax, Kentucky has a use tax that requires that out-of-state purchases of tangible personal property or digital property for use in Kentucky be taxed at the same amount as if they had taken place in Kentucky and subjected to Kentucky’s sales tax. This ensures equality of treatment between in-state and out-of-state transactions. Although the use tax has been in the tax code since 1960, it is now more relevant than ever because of the increasing percentage of online sales. Pursuant to KRS 139.330, a 6 percent use tax is due if you make out-of-state purchases for storage, use or other consumption in Kentucky and did not pay at least 6 percent state sales tax to the seller at the time of purchase. **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. It is important to remember that use tax applies **only** to items purchased from a retailer outside Kentucky, including another country, which would have been taxed if purchased in Kentucky.

For your convenience, a Use Tax Calculation Worksheet and Optional Use Tax Table are provided below. 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.

<p style="text-align: center;">Optional Use Tax Table</p> <p style="text-align: center;">KY AGI* Tax</p> <table style="width: 100%; border-collapse: collapse;"> <tr><td style="width: 80%;">\$0 - \$10,000</td><td style="text-align: right;">\$4</td></tr> <tr><td>\$10,001 - \$20,000</td><td style="text-align: right;">\$12</td></tr> <tr><td>\$20,001 - \$30,000</td><td style="text-align: right;">\$20</td></tr> <tr><td>\$30,001 - \$40,000</td><td style="text-align: right;">\$28</td></tr> <tr><td>\$40,001 - \$50,000</td><td style="text-align: right;">\$36</td></tr> <tr><td>\$50,001 - \$75,000</td><td style="text-align: right;">\$50</td></tr> <tr><td>\$75,001 - \$100,000</td><td style="text-align: right;">\$70</td></tr> <tr><td>Above \$100,000.....</td><td style="text-align: right;">Multiply AGI by 0.08% (0.0008)</td></tr> </table> <p>* AGI from Line 9 on KY Form 740 or KY Form 740-NP or Line 1 on KY Form 740-EZ.</p>	\$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)	<p style="text-align: center;">Use Tax Calculation Worksheet</p> <p style="text-align: center;">Call 502-564-5170 for assistance.</p> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 70%;">1. Purchases of \$0 to \$1,000 x 6 percent (.06) OR Use Tax Table Amount</td> <td style="width: 30%; text-align: center; vertical-align: bottom;">\$</td> </tr> <tr> <td>2. Purchases of \$1,000 or more x 6 percent (.06)</td> <td style="text-align: center; vertical-align: bottom;">\$</td> </tr> <tr> <td>3. Total Use Tax Due (add lines 1 and 2)</td> <td style="text-align: center; vertical-align: bottom;">\$</td> </tr> </table> <p>Report this amount on Form 740 or 740-NP, Line 27; or 740-EZ, Line 9.</p>	1. Purchases of \$0 to \$1,000 x 6 percent (.06) OR Use Tax Table Amount	\$	2. Purchases of \$1,000 or more x 6 percent (.06)	\$	3. Total Use Tax Due (add lines 1 and 2)	\$
\$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)																						
1. Purchases of \$0 to \$1,000 x 6 percent (.06) OR Use Tax Table Amount	\$																						
2. Purchases of \$1,000 or more x 6 percent (.06)	\$																						
3. Total Use Tax Due (add lines 1 and 2)	\$																						

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.

Need more information about use tax?

Visit our Web site at: www.revenue.ky.gov

Call or write:
 Kentucky Department of Revenue
 Attention: Use Tax
 P.O. Box 181, Station 53
 Frankfort, KY 40602-0181



Monday—Friday
 8 a.m.—5:00 p.m., ET
 (502) 564-5170

Voluntary Refund Contributions

LINE 30(a), Tax Withheld—Enter the amount of 2012 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 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, 2013. 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 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 2012 and amounts credited from the 2011 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 2012 approved refundable certified rehabilitation credit per KRS 141.382(1)(b).

LINE 30(d), Film Industry Tax Credit—Enter 2012 approved refundable film industry tax credit per KRS 141.383. Attach Schedule K-1, if applicable.

LINE 31—Total of amounts on Lines 30(a) through 30(d).

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. You also may contribute all or part of it to the Nature and Wildlife Fund, the Child Victims' Trust Fund, the Veterans' Program Trust Fund, and/or the Breast Cancer Research and Education Trust Fund and/or credit all or part of it toward your 2013 estimated tax.

Donations to the following funds are voluntary and amounts donated will reduce your refund. You may contribute all or a portion of your overpayment to one or more of the following funds. Enter the amount you wish to contribute on the appropriate lines.

LINE 33, Nature and Wildlife Fund—Contributions to this fund are used to purchase and protect Kentucky's finest natural areas as state nature preserves and for nongame species protection. The Kentucky Department of Fish and Wildlife Resources and the Kentucky State Nature



Preserves Commission work together to protect Kentucky's rare plants and animals; acquire the most precious and threatened forests, wetlands and prairies; and manage Kentucky's diverse wildlife. Your tax deductible contributions play a critical role in protecting and managing

the best examples of Kentucky's natural environment for the future. *Contributions may also be made directly to the Nature and Wildlife Fund, c/o the Kentucky State Nature Preserves Commission, 801 Schenkel Lane, Frankfort, KY 40601, or c/o the Kentucky Department of Fish and Wildlife Resources, #1 Sportsman's Lane, Frankfort, KY 40601.*

*Kentucky Department of Fish and Wildlife Resources:
<http://www.fw.ky.gov>*

*Kentucky State Nature Preserves Commission:
<http://naturepreserves.ky.gov>*

LINE 34, Child Victims' Trust Fund—Contributions to this fund finance local programs designed to prevent the sexual abuse and exploitation of children. This fund is administered through the Attorney General's Office and relies solely on the tax deductible contributions made by interested citizens. *Contributions may also be made directly to the Child Victims' Trust Fund, c/o Kentucky Attorney General, Capitol Building, Frankfort, KY 40601.*



LINE 35, Veterans' Program Trust Fund—Contributions to this fund are administered by a Board of Directors, who are all veterans. The Trust Fund is used to provide services to veterans that are not already resourced by state law or federal appropriation. In an effort to recognize the service and sacrifice of Kentucky's deserving veterans, the fund supports programs such as state veterans nursing homes, state veterans cemeteries, homeless veterans transition facilities, transportation for disabled veterans and other veteran related projects. *Contributions may also be made directly to the Kentucky Veterans' Program Trust Fund, 1111B Louisville Road, Frankfort, KY 40601.*



LINE 36, Breast Cancer Research and Education Trust Fund Contribution—Contributions will be used to fund breast cancer research, education, awareness, treatment and screening. Additional information may be obtained from the Division of Women’s Health, (502) 564-3236 or at <http://chfs.ky.gov/dph/info/dwh/>. Contributions may also be made directly to the state Department for Public Health, Division of Administration and Financial Management, 275 East Main Street, HS1GWA, Frankfort, KY 40621, (502) 564-6663.



LINE 38, Estimated Tax—You may credit all or part of the overpayment toward your estimated tax liability for 2013. Enter the amount you want credited on Line 38.

LINE 39—Subtract amounts entered on Lines 37 and/or 38 from Line 32. Enter the difference, if any, on Line 39. This amount will be refunded to you. If the total of Lines 37 and 38 equals the amount on Line 32, enter a zero on Line 39.

Note: If the amount of Kentucky tax you overpaid is excessive, obtain a copy of Form K-4A from your employer. If you are entitled to additional allowances, file a new Form K-4 with your employer to reduce the amount of Kentucky tax withheld.

LINE 40—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 exemption to the penalty. If paying the penalty or claiming an exemption, complete Form 2210-K, attach it to your return and check the box 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 15, 2013, or any tax due on the return is paid after April 15, 2013, 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—When filing the return, you must pay any tax due shown on Line 43. Attach check payable to **Kentucky State Treasurer** to your return. To help identify your payment properly, **write “KY Income Tax—2012” and your Social Security number on the face of the check.** Attach check at the left side of Form 740. Place the check on TOP of any wage and tax statements.

Pay by Credit Card or ACH Debit—Pay your 2012 Kentucky individual income tax by MasterCard, VISA, Discover credit card or by ACH Debit through April 15, 2013. Access the Department of Revenue’s secure Web site (www.revenue.ky.gov) to make electronic payments over the Internet. Click on the **KY E-Tax** logo and 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.

Note: If you cannot pay your tax in full, file your return and pay as much as possible by April 15. Contact the Department of Revenue for additional payment information.

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, Line 11
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, 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.

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 applications 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, 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**.

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 for taxpayers to 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, Section A, Line 5.



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

Name of other state.....

1. List Kentucky taxable income from Form 740, Line 11..... _____
2. List any gambling losses from Schedule A, Line 29 _____
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, 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 2011 or during 2012, 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 postconsumer waste materials, are entitled to a credit against the tax equal to 50 percent of the installed cost of the equipment pursuant to KRS 141.390. 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—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—A company that owns and operates an alternative fuel facility or a gasification facility as defined in KRS 154.27-010 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 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, KY 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 Kentucky 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-I 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.

Line 21, New Markets Development Program Tax Credit—A taxpayer that makes a qualified equity investment in a qualified community development entity may be eligible for a credit that may be taken against the corporation income tax, individual income tax, insurance premiums taxes and limited liability entity tax. The qualified community development entity must first submit an application to the Department of Revenue for approval. The person or entity actually making the loan or making the equity investment will be able to claim a credit, subject to a \$5 million credit cap each fiscal year, by completing Form 8874(K)-A.

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, 2012, 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.

Lines 3A and 3B, Dividing the Credits—Each taxpayer must claim all of his or her own tax credits including the credits for age and blindness. *Therefore, if married, each spouse must claim at least one credit. However, spouses may divide tax*

credits for dependents, or one spouse may claim all dependent credits and the other none.

Example I—A husband who is 65 and a wife who is 60 are filing separately on a combined return. The husband must claim three credits (one regular and two for being 65 or older), and the wife must claim one.

Example II—A husband and wife have two dependents. The husband must claim his regular credit, and the wife must claim hers. However, the two dependent credits may be claimed by either spouse, or each spouse may claim one.

For married taxpayers, each spouse must claim all of his or her own credits. Therefore, each spouse must claim at least one credit. Credits for dependents may be divided between the spouses, or one spouse may claim all the credits for dependents and the other none.



TIP—Multiply credits by \$20 and subtract from tax on page 1. The tax table and the tax rate schedule do not deduct for tax credits.

Remember to carry amounts from page 3, Line 4A and/or 4B, to page 1, Line 17.

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.

COPY OF FEDERAL RETURN

You must attach a complete copy of your federal return if you received farm, business, or rental income or loss.

The Kentucky Department of Revenue does not require copies if you filed Form 1040EZ or 1040A. Check the box on Form 740, page 3 if you are not required to attach a copy of your federal return.

SIGN RETURN

Be sure to sign on page 3 after completion of pages 1, 2 and 3 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 your tax return.

Instructions for Schedule M—Modifications to Federal Adjusted Gross Income

Additions to Federal Adjusted Gross Income

Line 1—Interest on securities issued by other states and their political subdivisions is taxed by Kentucky and must be reported. Also report dividends received from regulated investment companies (mutual funds) that are taxable for Kentucky income tax purposes. **Note:** *Interest from securities of Kentucky and its political subdivisions is exempt.*

Line 2—Enter the self-employed health insurance deduction from federal Form 1040, Line 29.

Line 3—Enter resident adjustment from Kentucky Schedule K-1. Partners, beneficiaries of estates and trusts and S corporation shareholders, see Kentucky Schedule K-1 instructions.

Line 4—Enter total depreciation from federal Form 4562 if you have elected to take the 30 percent or 50 percent special depreciation allowance or the increased Section 179 deduction for property placed in service after September 10, 2001. See Line 16 for additional instructions.

Line 5—Enter federal net operating loss reported on Line 21 of 2012 federal Form 1040.

Line 6—Enter federal domestic production activities deduction from federal Form 8903, line 25.

Line 7—Enter other additions to federal adjusted gross income not listed above (attach detailed schedule).

Include:

- Reservists and National Guard expenses reported on federal Form 1040, line 24;
- the portion of a lump-sum distribution on which you have

- elected the 20 percent capital gains rate for federal income tax purposes (Schedule P and Form 4972-K required);
- any mortgage debt forgiven under the Mortgage Forgiveness Debt Relief Act of 2007;
- the passive activity loss adjustment (see Form 8582-K and instructions);
- differences in pension (3-year recovery rule) and IRA bases;
- differences in gains (losses) from the sale of intangible assets amortized under the provisions of the Revenue Reconciliation Act of 1993; and
- differences in gains (losses) from the sale of depreciable property placed in service after September 10, 2001.

Note: Before entering the difference on Line 7 you must take into account any addition or subtraction affecting the at-risk limitations. See instructions for Line 19.

Line 8, Total Additions—Add Lines 1 through 7. Enter on Line 8 and on Form 740, page 1, Line 6.

Subtractions from Federal Adjusted Gross Income

Line 9—Enter the amount of taxable state income tax refund or credit **reported on your federal return** and included as income on Form 740, page 1, Line 5.

Line 10—Enter interest income from U.S. government bonds and securities. Do not include taxable interest from securities, such as FNMA (Fannie Mae), GNMA (Ginnie Mae) and FHLMC (Freddie Mac), which are merely guaranteed by the U.S. government.

Line 11, Pension Income Exclusion—The 2012 exclusion amount is 100 percent of taxable retirement benefits or \$41,110, whichever is less. All pension and retirement income paid under a written retirement plan (qualified or unqualified) is eligible for exclusion. This includes pensions, annuities, IRA accounts, 401(k) and similar deferred compensation plans, income received from converting a regular IRA to a Roth IRA, death benefits, disability retirement benefits and other similar accounts or plans.

This exclusion is for each taxpayer and must be computed independently of your spouse who may be filing on the same return. A husband and wife must complete and claim their own exclusion, regardless of filing status. *Joint filers—Combine the separately computed pension exclusion amounts and enter on Schedule M, Line 11, Column B.*

Pension Income Exclusion Worksheet

	Column A Spouse	Column B Yourself
Step 1.		
a. Enter taxable pension income reported on your federal Form 1040, Line 15(b) or 16(b); Form 1040A, Line 11(b) or 12(b).....	a	
b. Enter disability retirement benefits on Form 1040, Line 7 or Form 1040A, Line 7.....	b	
c. Enter deferred compensation reported on Form 1040, Line 7 or Form 1040A, Line 7.....	c	
d. Add Lines a, b and c.....	d	
Step 2. Line d is \$41,110 or less. Enter the amount from Line d on Schedule M, Line 11.		
Step 3. Line d is more than \$41,110. Do you have retirement income from the federal government, the Commonwealth of Kentucky or a Kentucky local government; or supplemental U.S. Railroad Retirement Board benefits?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
If you answered no, enter \$41,110 on Schedule M, Line 11.		
If you answered yes, you must complete Schedule P to determine your pension exclusion.		

Line 12—Enter Social Security and Social Security equivalent U.S. Railroad Retirement Board benefits included on Form 740, page 1, Line 5. These amounts are reported on federal Form 1040, Line 20(b) (Form 1040A, Line 14(b)).

Line 13, Long-term Care Insurance Premiums—Enter long-term care insurance premiums paid in 2012. Do not claim as an itemized deduction.

Line 14, Health Insurance Premiums—Enter medical and dental insurance premiums paid for yourself, your spouse and your dependents. This deduction applies to premiums paid with after-tax dollars. **Note:** You **cannot** deduct on Line 14 insurance premiums paid with pretax dollars (cafeteria plans and vouchers already excluded from wage income) because the premiums are not included in box 1 of your W-2 form(s). Do not include long-term care insurance premiums included on Schedule M, Line 13. 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 15—Enter resident adjustment from Kentucky Schedule K-1. Partners, beneficiaries of estates and trusts and S corporation shareholders, see Kentucky Schedule K-1 instructions. Subtract the distributive share of 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.

Line 16—Depreciation, Section 179 Deduction and Gains/Losses From Disposition of Assets—Important: Use Schedule M, Lines 4 and 16 **only** 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 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 \$139,000 maximum amount on Line 1 with the Kentucky limit of \$25,000 and replace the \$560,000 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. **Attach the created Kentucky Form 4562** to Form 740 and enter the amount of Kentucky depreciation from Line 22 on Line 16.

Line 17—Enter Kentucky net operating loss calculated from prior years. Keep worksheet detailing the net operating loss claimed with your records.

Note: If your net operating loss occurred in 2012, complete Kentucky Schedule KNOL to determine the amount of your loss to be carried forward in future years. Any carry forward of a prior year loss claimed on Line 17 of Schedule M should be calculated using a worksheet. Keep a copy for your records and attach a copy to your return.

Line 18—Enter Kentucky domestic productions activities deduction. Beginning on or after January 1, 2010 limit the federal domestic productions activity by the six percent (6%) in lieu of the rate provided by IRC§ 199(a).

Line 19—Enter other subtractions from federal adjusted gross income not listed above (attach detailed schedule). Include:

- **income of active duty military pay;**
- income received from the tobacco quota buyout;
- income received as a result of the Master Tobacco Settlement Agreement, the secondary settlement fund referred to as "Phase II";
- income received from the Tobacco Loss Assistance Program (TLAP);
- income of precinct workers for election training or working at election booths;
- capital gains on property taken by eminent domain;
- passive activity loss adjustment (see Form 8582-K and instructions);
- income of a child reported on the parent's return;
- artistic charitable contributions (if you do not itemize deductions);
- the federal work opportunity credit used to reduce wages;
- at-risk limitations (see instructions below);
- qualified farm networking project differences per KRS 141.0101(15);
- differences in the gains (losses) from the sale of intangible assets amortized under the provisions of the Revenue Reconciliation Act of 1993;
- differences in gains (losses) from assets purchased after September 10, 2001; and
- income of military personnel killed in the line of duty.

Note: All income earned by soldiers killed in the line of duty is exempt from Kentucky tax for the year during which the death occurred and the year preceding the death. Federal and state death benefits payable to the estate or any beneficiaries may also be excluded. Additional information may be found in the General Information section of the instructions for Form 740.

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 difference in federal gain or loss and 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.**

At-Risk Limitations—Federal/Kentucky income (loss) differences may create different allowable losses due to at-risk limitations. If you have amounts invested in an activity for which you are not at risk and used federal Form 6198, At-Risk Limitations, complete federal Form 6198 using Kentucky amounts to determine if the Kentucky allowable loss differs from the federal allowable loss. For a passive activity, use the Kentucky allowable loss to complete Form 8582-K. For all other activities (nonpassive), enter the difference as an "other addition" or "other subtraction" on Line 7 or Line 19.

Line 20, Total Subtractions—Add Lines 9 through 19. Enter on Line 20 and on Form 740, page 1, Line 8.

Instructions for Schedule A

Do not include on Schedule A items deducted elsewhere, such as on Schedule C, C-EZ, E, F or Kentucky Schedule M.

You may itemize your deductions for Kentucky even if you do not itemize for federal purposes. Generally, if your deductions exceed \$2,290, it will benefit you to itemize. If you do not itemize, a standard deduction of \$2,290 is allowed.

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

Lines 1 through 3—Medical and Dental Expenses

You may deduct only your medical and dental expenses that exceed 7.5 percent of Line 9, Form 740. Include all amounts you paid during 2012 but **do not** include amounts which have been previously deducted; paid by hospital, health or accident insurance; or paid by your employer. Federal rules apply for reimbursement.

When you compute your deduction, you may include medical and dental bills you paid for:

Yourself.

All dependents you claim on your return.

Your child whom you do not claim as a dependent because of the rules for Children of Divorced or Separated Parents.

Any person that you could have claimed as a dependent on your return if that person had not received \$3,650 or more of gross income or had not filed a joint return.

Examples of Medical and Dental Payments You MAY Deduct

To the extent you were not reimbursed, you may deduct what you paid for:

Medicines and drugs that required a prescription, or insulin.

Medical doctors, dentists, eye doctors, chiropractors, osteopaths, podiatrists, psychiatrists, psychologists, physical therapists, acupuncturists and psychoanalysts (medical care only).

Medical examinations, X-ray and laboratory services, insulin treatment and whirlpool baths your doctor ordered.

Nursing help. If you paid someone to do both nursing and housework, you may deduct only the cost of the nursing help.

Hospital care (including meals and lodging), clinic costs and lab fees.

Medical treatment at a center for drug or alcohol addiction.

Medical aids such as hearing aids (and batteries), false teeth, eyeglasses, contact lenses, braces, crutches, wheelchairs, guide dogs and the cost of maintaining them.

Lodging expenses (but not meals) paid while away from home to receive medical care in a hospital or a medical care facility that is related to a hospital. Do not include more than \$50 a night for each eligible person.

Ambulance service and other travel costs to get medical care. If you used your own car, you may claim what you spent for gas and oil to go to and from the place you received the care; or you may claim mileage. The mileage rate is 23 cents per mile. Add parking and tolls to the amount you claim under either method.

The supplemental part of Medicare insurance (Medicare B). To claim these expenses, see instructions for Schedule M, Line 14.

Surgery to improve vision including radial keratotomy or other laser eye surgery.

Examples of Medical and Dental Payments You MAY NOT Deduct

You may not deduct payments for the following:

Elective cosmetic surgery.

Hospital, medical and extra Medicare B insurance. To claim these expenses, see instructions for Schedule M, Line 14.

The basic cost of Medicare insurance (Medicare A). (**Note:** If you are 65 or over and not entitled to Social Security benefits, you may deduct premiums you voluntarily paid for Medicare A coverage.)

Life insurance or income protection policies.

Long-term care insurance premiums. To claim, see instructions for Schedule M, Line 13.

The hospital insurance benefits (Medicare) tax withheld from your pay as part of the Social Security tax or paid as part of Social Security self-employment tax.

Nursing care for a healthy baby.

Illegal operations or drugs.

Medicines or drugs you bought without a prescription.

Travel your doctor told you to take for rest or change.

Funeral, burial or cremation costs.

See federal Publication 502 for more information on allowable medical and dental expenses including deductions for capital expenditures and special care for persons with disabilities.

Lines 4 through 8—Taxes

Taxes You MAY Deduct

Line 4, Local Income Taxes—Enter the total amount of local occupational (payroll) tax paid. **Do not include state or federal income taxes paid or withheld; they are not deductible.**

Line 5, Real Estate Taxes—Enter the amount of local and state property taxes you paid on real estate owned by you. Do not report real estate taxes here that were paid in connection with a business or profession and have been deducted on Schedule C, E or F.

Line 6, Personal Property Taxes—Enter property taxes paid on automobiles, intangible property (accounts receivable, bonds, etc.) or other personal property.

Line 7, Other Taxes—Enter other taxes that are deductible. Do not deduct on Schedule A taxes paid in connection with a business or profession which are deductible on Schedule C, E or F.

Taxes You MAY NOT Deduct

- Foreign income taxes paid.
- Sales and use taxes.
- New motor vehicle taxes.
- Usage taxes on motor vehicles.
- State or federal income taxes.
- State or federal inheritance or estate taxes.
- State gasoline taxes.
- Federal excise taxes on your personal expenditures, such as taxes on theater admissions, furs, jewelry, cosmetics, tires, telephone service, airplane tickets, etc.
- Federal Social Security taxes.
- Hunting, fishing or dog licenses.
- Auto inspection fees.
- Auto license fees.
- Cigarette or liquor taxes.
- Taxes paid by you for another person.
- Motorboat registration fees.
- Drivers' license fees.
- Sewer assessments.
- School taxes based on electric, water, sewer, gas and telephone bills.
- Local or state insurance premiums taxes or surcharges.

Lines 9 through 14—Interest Expense

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 9—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 10—List other interest paid on your home mortgage and not reported to you on federal Form 1098. Show name and address of individual to whom interest was paid.

Line 11—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 2012. 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.

If you are the seller, you **cannot** deduct the points as interest. Instead, include them as an expense of the sale.

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

Line 12, Qualified Mortgage Insurance Premiums—Premiums that you pay or accrue for “qualified mortgage insurance” during 2012 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, line 9, is more than \$109,000 (\$54,500 if married filing separately on a combined return or separate returns). If the amount on Form 740, line 9, is more than \$100,000 (\$50,000 if married filing separately on a combined return or 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 12 above to see if you must use this worksheet to figure your deduction.

	A. Spouse	B. Yourself (or Joint)
1. Enter the total premiums you paid in 2012 for qualified mortgage insurance for a contract entered into on or after January 1, 2007	1. _____	1. _____
2. Enter the amount from Form 740, Line 9.....	2. _____	2. _____
3. Enter \$100,000 (\$50,000 if married filing separately on a combined return or separate returns).....	3. _____	3. _____
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 12. <input type="checkbox"/> Yes. Subtract Line 3 from Line 2. If the result is not a multiple of \$1,000 (\$500 if married filing separately on a combined return or separate returns), increase it to the next multiple of \$1,000 (\$500 if married filing separately on a combined return or separate returns). For example, increase \$425 to \$1,000, increase \$2,025 to \$3,000; or if married filing separately on a combined return or separate returns, increase \$425 to \$500, increase \$2,025 to \$2,500, etc.	4. _____	4. _____
5. Divide Line 4 by \$10,000 (\$5,000 if married filing separately on a combined return or separate returns). Enter the result as a decimal. If the result is 1.0 or more, enter 1.0.....	5. _____	5. _____
6. Multiply Line 1 by Line 5.....	6. _____	6. _____
7. Qualified mortgage insurance premiums deduction. Subtract Line 6 from Line 1.....	7. _____	7. _____
8. Add Line 7, Columns A and B. Enter here and on Schedule A, Line 12.....	8. _____	

Line 13, 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 or to securities that generate tax-exempt income.

(c) you have no disallowed investment interest expense from 2011.

Complete and attach federal Form 4952, Investment Interest Expense Deduction, to figure your deduction.

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

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

Lines 15 through 19—Contributions

- (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

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.

Examples of qualifying organizations are:

Churches, temples, synagogues, Salvation Army, Red Cross, CARE, Goodwill Industries, United Way, Boy Scouts, Girl Scouts, Boys and Girls Clubs of America, etc.

Fraternal orders if the gifts will be used for the purposes listed above.

Veterans' and certain cultural groups.

Nonprofit schools, hospitals and organizations whose purpose is to find a cure for, or help people who have arthritis, asthma, birth defects, cancer, cerebral palsy, cystic fibrosis, diabetes, heart disease, hemophilia, mental illness or retardation, multiple sclerosis, muscular dystrophy, tuberculosis, etc.

Federal, state and local governments if the gifts are solely for public purposes.

If you contributed to a qualifying charitable organization and also received a benefit from it, you may deduct only the amount that is more than the value of the benefit you received.

Contributions You MAY Deduct

Contributions may be in cash, property or out-of-pocket expenses you paid to do volunteer work for the kinds of organizations described above. If you drove to and from the volunteer work, you may take 14 cents a mile or the actual cost of gas and oil. Add parking and tolls to the amount you claim under either method. (Do not deduct any amounts that were repaid to you.)

Note: 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.**

See federal Publication 526 for special rules that apply if:

your total contributions exceed 50 percent of Line 9, Form 740,

your total deduction for gifts of property is over \$500, you gave less than your entire interest in the property, your cash contributions or contributions of ordinary income property are more than 30 percent of Line 9, Form 740,

your gifts of capital gain property to certain organizations are more than 20 percent of Line 9, Form 740, or

you gave gifts of property that increased in value, made bargain sales to charity, or gave gifts of the use of property.

You MAY NOT Deduct as Contributions

Travel expenses (including meals and lodging) while away from home unless there was no significant element of personal pleasure, recreation or vacation in the travel.

Political contributions.

Dues, fees or bills paid to country clubs, lodges, fraternal orders or similar groups.

Value of any benefit, such as food, entertainment or merchandise that you received in connection with a contribution to a charitable organization.

Cost of raffle, bingo or lottery tickets.

Cost of tuition.

Value of your time or service.

Value of blood given to a blood bank.

The transfer of a future interest in tangible personal property (generally, until the entire interest has been transferred).

Gifts to:

Individuals.

Foreign organizations.

Groups that are run for personal profit.

Groups whose purpose is to lobby for changes in the laws.

Civic leagues, social and sports clubs, labor unions and chambers of commerce.

Line 15—Enter all of your contributions paid by cash or check (including out-of-pocket expenses).

Line 16—Enter your contributions of property. If you gave used items, such as clothing or furniture, deduct their fair market value at the time you gave them. Fair market value is what a willing buyer would pay a willing seller when neither has to buy or sell and both are aware of the conditions of the sale. If your total deduction for gifts of property is more than \$500, you must complete and attach federal Form 8283, Noncash Charitable Contributions. If your total deduction is over \$5,000, you may also have to obtain appraisals of the values of the donated property. See federal Form 8283 and its instructions for details.

Also include the value of a leasehold interest property contributed to a charitable organization to provide temporary housing for the homeless. Attach Schedule HH.

Recordkeeping—If you gave property, you should keep a receipt or written statement from the organization you gave the property to, or a reliable written record, that shows the organization's name and address, the date and location of the gift and a description of the property. You should also keep reliable written records for each gift of property that include the following information:

- (a) How you figured the property's value at the time you gave it. (If the value was determined by an appraisal, you should also keep a signed copy of the appraisal.)
- (b) The cost or other basis of the property if you must reduce it by any ordinary income or capital gain that would have resulted if the property had been sold at its fair market value.
- (c) How you figured your deduction if you chose to reduce your deduction for gifts of capital gain property.
- (d) Any conditions attached to the gift.
- (e) If the gift was a "qualified conservation contribution" under IRC Section 170(h), the fair market value of the underlying property before and after the gift, the type of legal interest donated and the conservation purpose furthered by the gift.

Line 17—Enter 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 artistic adjusted gross income for the taxable year.

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 organization as described in this section.

Line 18—Enter any carryover of contributions that you were not able to deduct in an earlier year because they exceeded your adjusted gross income limit. See federal Publication 526 for details on how to figure your carryover.

Lines 20 through 22—Casualty and Theft Losses

Line 20—Enter 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.

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 Line 9, Form 740.

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 25, Schedule A. (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.

Lines 23 through 28—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 27.

Generally, the 2 percent limit applies to job-related expenses you paid for which you were not reimbursed (Line 23). The limit also applies to certain expenses you paid to produce or collect taxable income (Line 25). See the instructions for Lines 23 and 25 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 29. The Line 29 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 You MAY NOT Deduct

Political contributions.

Personal legal expenses.

Lost or misplaced cash or property (but see casualty and theft losses).

Expenses for meals during regular or extra work hours.

The cost of entertaining friends.

Expenses of going to or from your regular workplace.

Education needed to meet minimum requirements for your job or that will qualify you for a new occupation.

Travel expenses for employment away from home if that period of employment exceeds one year.

Expenses of:

- (a) Travel as a form of education.
- (b) Attending a seminar, convention or similar meeting unless it is related to your employment.
- (c) Adopting a child, including a child with special needs.

Fines and penalties.

Expenses of producing tax-exempt income.

Amounts paid to organizations or establishments which have been found to practice discrimination.

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 23—Use this line to report job-related expenses you paid for which you were not reimbursed. You MUST first fill out Form 2106, Employee Business Expenses, or Form 2106-EZ, Unreimbursed Employee Business Expenses, if you claim any unreimbursed travel, transportation, meal or entertainment expenses for your job; or your employer paid you for any of your job-related expenses reportable on Line 23.

Enter the amount of unreimbursed employee business expense from Form 2106 or 2106-EZ on Line 23 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 23.

Examples of expenses to include on Line 23 are:

Travel, transportation, meal or entertainment expense. (**Note:** If you have any of these expenses, you must use Form 2106 or 2106-EZ for all of your job-related expenses.)

Union dues.

Safety equipment, small tools and supplies required for your job.

Uniforms required by your employer, which you may not usually wear away from work.

Protective clothing, required in your work, such as hard hats and safety shoes and glasses.

Physical examinations required by your employer.

Dues to professional organizations and chambers of commerce.

Subscriptions to professional journals.

Fees to employment agencies and other costs to look for a new job in your present occupation, even if you do not get a new job.

Business use of part of your home but only if you use that part exclusively and on a regular basis in your work and for the convenience of your employer. For details, including limits that apply, see federal Publication 587, Business Use of Your Home.

Education expenses you paid that were required by your employer, or by law or regulations, to keep your salary or job. In general, you may also include the cost of keeping or improving skills you must have in your job. For more details, see federal Publication 508, Educational Expenses. Some education expenses are not deductible. See "Expenses You MAY NOT Deduct."

Line 24—Use this line to report tax return preparation fees paid during the taxable year including fees paid for filing your return electronically.

Line 25—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 state-

ment showing the type and amount of each expense. Enter one total on Line 25. Examples of these expenses are:

Safe deposit box rental.

Certain legal and accounting fees.

Clerical help and office rent.

Custodial (e.g., trust account) fees.

Your share of the investment expenses of a regulated investment company.

Certain losses on nonfederally insured deposits in an insolvent or bankrupt financial institution. For more information (including limits on the amount you can deduct), see federal Publication 529.

Deduction for repayment of amounts under a claim of right if \$3,000 or less.

Expenses related to an activity not engaged in for profit. These expenses are limited to the income from the activity that you reported on federal Form 1040, Line 21. See Not-for-Profit Activities in federal Publication 535, Business Expenses, for details on how to figure the amount to deduct.

Line 29—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 29.

Expenses NOT Subject to the 2 Percent Limit

Gambling losses to the extent of gambling winnings. Gambling winnings must be included in federal adjusted gross income (Form 740, Line 5). (**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 29. For more information on these expenses, see federal Publication 529.

Note: A credit for tax paid to another state on gambling income may be allowed if the income is taxed by **both** Kentucky and the other state. However, if you have paid tax on gambling income in another state **and** you claimed an itemized deduction on your Kentucky Schedule A for losses, the allowable credit may be reduced or eliminated.

Line 30—Total Itemized Deductions

Dividing Deductions Between Spouses—Married taxpayers who are filing separate returns or a combined return but using only one Schedule A must divide the itemized deductions. Complete page 2, Part I, Lines 1 through 5. If one spouse is not required to file a Kentucky return, total deductions may be divided between them based on the percentage of each spouse's income to total income or separate Schedules A may be filed.

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.

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 box(es), complete the lines associated with the exception and check the “Form 2210-K attached” box 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, 2012, and the taxpayer files a return and pays the full amount of the tax computed on the return on or before February 1, 2013.
- Two-thirds (2/3) or more of the gross income was from farming; this return is being filed on or before March 1, 2013; 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 4–15–12 to 6–15–12 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 6–15–12 until 9–15–12 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 years 2012 and 2013 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, 2012, or after December 31, 2012, 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.

A taxpayer and spouse may each file Form 5695-K, Kentucky Energy Efficiency Tax Credit, regardless of their filing status, and each of them may claim up to the maximum credit subject to the limitation provided for each type of energy efficiency product. However, the cost of qualified energy efficiency products shall not be claimed more than once.

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 generating electricity that: (a) Is certified as meeting the U.S. Wind Industry

INSTRUCTIONS FOR FORM 5695-K

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 2011, 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 2012 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 2012 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 2012, 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 2012 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 2012.
- 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 \$124,000 if married, filing jointly or married, filing separately on a combined return (\$62,000 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 2012 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 2012 to 2013. 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.

