



INSTRUCTIONS

2016 KENTUCKY GENERAL PARTNERSHIP INCOME RETURN

PURPOSE OF INSTRUCTIONS

These instructions have been designed for Kentucky general partnerships, both domestic and foreign, which are required by law to file a Kentucky general partnership income return (Form 765-GP).

Refer to the chart on page 3 to determine what tax form your business needs to file.

KENTUCKY TAX LAW CHANGES

Enacted by the 2016 Regular Session of the General Assembly

Internal Revenue Code Update—House Bill 80 updates the Internal Revenue Code (IRC) reference date from December 31, 2013 to December 31, 2015, for purposes of computing corporation and individual income tax, except for depreciation differences contained in KRS 141.0101. The Code update applies to taxable years beginning on or after April 27, 2016. For fiscal year-end taxpayers with tax years beginning on or after April 27, 2016, the applicable IRC reference date is December 31, 2015. Any taxable differences related to the IRC update should be entered on the other additions and/or other subtractions line(s) of the applicable tax return or schedule. The IRC updates will apply to the calendar year-end taxpayers beginning January 1, 2017.

Enacted by the 2014 Regular Session of the General Assembly

Endow Kentucky Tax Credit—For fiscal years beginning on or after July 1, 2016, House Bill 208 amends KRS 141.438 to increase the total amount of tax credit that may be awarded from \$500,000 to \$1 million for each fiscal year.

CURRENT YEAR INTEREST RATE

Pursuant to KRS 131.183, the 2017 tax interest rate has been set at three percent (3%). The rate charged by the Kentucky Department of Revenue on unpaid taxes shall be five percent (5%) and when interest is due on a refund, the rate shall be one percent (1%).

HOW TO OBTAIN ADDITIONAL FORMS

Forms and instructions are available at all Kentucky Taxpayer Service Centers (see page 14). They may also be obtained by writing FORMS, Department of Revenue, P. O. Box 518, Frankfort, KY 40602-0518, or by calling (502) 564-3658. Forms can be downloaded from www.revenue.ky.gov.

KENTUCKY FORM CHANGES

Form 5695-K—Not applicable for tax year 2016 due to expiration of the Energy Efficiency Products Tax Credit. Any unused credit from tax year 2015 may be carried forward and reflected on Schedule TCS line 16.

Form 8908-K—Not applicable for tax year 2016 due to expiration of the Energy Star Home or Energy Star Manufactured Home Tax Credit.

Note: Expiration of the energy credits changed line references on several forms including Form 720S, 765, 765-GP and related schedule K's and K-1's.

Forms 720S, 765, 725 and 740NP-WH—Additional lines were added to page 1 to accommodate for money paid or overpaid on the original return. These lines are applicable when filing an amended return.

Schedule TCS—Line 16 changed to allow for reporting of any unused Energy Efficiency Products Tax Credit carried forward from tax year 2015.

Note: The credit formally referred to as the "Kentucky Small Business Investment Credit" is now referred to as "Kentucky Small Business Tax Credit" in order to conform with statute. There has been no change in the credit.

Schedule FD—Qualification questions were added in Part I to clarify who is entitled to claim the credit. A carryforward worksheet was added in order to track any unused credit to be carried forward.

Schedule O-720—Lines 12 and 18 were updated to report additions to and subtractions from federal taxable income resulting from amendments to the Internal Revenue Code (IRC) (excluding amendments affecting depreciation and the IRC § 179 deduction) subsequent to the applicable IRC date. Kentucky's IRC reference date is December 31, 2013 for the 2016 calendar year and fiscal years beginning on or before April 26, 2016. For fiscal years beginning on or after April 27, 2016, the applicable IRC reference date is December 31, 2015.

Schedule O-PTE—Lines 5 and 9 were updated to report additions to and subtractions from federal taxable income resulting from amendments to the Internal Revenue Code (IRC) (excluding amendments affecting depreciation and the IRC § 179 deduction) subsequent to the applicable IRC date. Kentucky's IRC reference date is December 31, 2013 for the 2016 calendar year and fiscal years beginning on or before April 26, 2016. For fiscal years beginning on or after April 27, 2016, the applicable IRC reference date is December 31, 2015.

Electronic Filing FAQs and Helpful Tips

- If your return is rejected for an invalid Kentucky Corporation/LLET Account Number or Federal Employer Identification Number (FEIN), please contact our **Registration Section at 502-564-3306**.
- If your e-filed return has been **REJECTED, DO NOT** submit a 720-V voucher at that time. You will get a **NEW** 720-V voucher once you have successfully submitted an accepted Kentucky return. (Note: The Submission ID number will change each time your return is sent to the Kentucky Department of Revenue.)
- To determine which forms are supported by your software, please check with the company that develops your software.
- To find the Kentucky Department of Revenue's listing of approved software vendors and developers, please visit our electronic filing webpage at <http://revenue.ky.gov/Software-Developer/Pages/Substitute-Forms-Design.aspx>.
- **New for tax year 2016:** Ability to file Forms 725 and 720 Kentucky Mandatory Nexus consolidated returns and their supporting schedules.

Filing Tips and Checkpoints

The following list of filing tips is provided for your convenience to help ensure that returns are processed accurately and promptly. To avoid processing problems, please note the following:

- Only a general partnership should file Form 765-GP. All other partnerships should file Form 765.
- No money is due with a Form 765-GP.
- Always ensure the correct Federal Identification Number is used on the return being filed.
- Extensions are for filing purposes only; late filing penalties may apply to returns filed after the original due date.
- Do not check the box on Schedule A, Apportionment and Allocation, indicating the use of an alternative allocation and apportionment formula if the general partnership has not received written approval from the Department of Revenue. If written approval has been received, a copy of the letter from the Department of Revenue must be attached to the return when filed.
- Additional errors that delay processing returns or create adjustments include:
 - Incomplete information
 - Missing forms or schedules
 - Incorrect taxable year end

FILING FORM GUIDE

Type of Entity	Kentucky Form and Tax		
	Form Required	Corporation Income Tax	LLET
1. C corporation	720	Yes	Yes
2. C corporation (nexus consolidated group as provided by KRS 141.200(11))	720	Yes	Yes
3. Publicly traded partnership (taxed as a corporation for federal income tax purposes)	720	Yes	Yes
4. S corporation	720S	Yes*	Yes
5. Single member limited liability company whose single member is an individual	725	No	Yes
6. Limited liability company (two or more members)	765	No	Yes
7. Limited partnership	765	No	Yes
8. Limited liability partnership	765	No	Yes
9. General partnership	765-GP	No	No
10. Publicly traded partnership (taxed as a partnership for federal income tax purposes)	765-GP	No	No

* If the S corporation has built-in gains, passive investment income or installments of tax on the recapture of LIFO benefits as provided by KRS 141.040(14), corporation income tax is due.

IMPORTANT

General Partnerships must create a Kentucky Form 4562, Schedule D and Form 4797 by converting federal forms.

Depreciation, Section 179 Deduction and Gains/Losses From Disposition of Assets—For taxable years beginning after December 31, 2001, Kentucky depreciation and Section 179 deduction are determined in accordance with the Internal Revenue Code in effect on December 31, 2001. For calendar year 2016 returns and fiscal year returns that begin in 2016, any general partnership that for federal purposes elects in the current taxable year or has elected in past taxable years any of the following will have a different depreciation and Section 179 expense deduction for Kentucky:

- MACRS bonus depreciation; or
- Section 179 expense deduction in excess of \$25,000.

If a general partnership has taken MACRS bonus depreciation or Section 179 expense deduction in excess of \$25,000 for any year, federal and Kentucky differences will exist, and the differences will continue through the life of the assets.

Important: If a general partnership has not taken MACRS bonus depreciation or the Section 179 expense deduction in excess of \$25,000 for any taxable year, then no adjustment will be needed for Kentucky income tax purposes. **If federal Form 4562 is required to be filed for federal income tax purposes, a copy must be submitted with Form 765-GP to substantiate that no adjustment is required.**

Determining and Reporting Depreciation and Section 179 Deduction Differences—federal/Kentucky depreciation or Section 179 deduction differences shall be reported as follows:

1. The depreciation from federal Form 1065, Line 16(a) must be included on Form 765–GP, Part I, Line 3. **If federal Form 4562 is required to be filed for federal income tax purposes, a copy must be attached to Form 765–GP.**
2. Convert federal Form 4562 to a **Kentucky** form by entering **Kentucky** at the top center of the form above Depreciation and Amortization. Compute Kentucky depreciation and Section 179 deduction in accordance with IRC in effect on December 31, 2001, by ignoring the lines and instructions regarding the special depreciation allowance and the additional Section 179 deduction. **NOTE:** For Kentucky purposes, the maximum Section 179 deduction amount on Line 1 is \$25,000 and the threshold cost of Section 179 property on Line 3 is \$200,000. The \$25,000 maximum allowable Section 179 deduction for Kentucky purposes is reduced dollar–for–dollar by the amount by which the cost of qualifying Section 179 property placed in service during the year exceeds \$200,000. In determining the Section 179 deduction for Kentucky, the income limitation on Line 11 should be determined by using Kentucky net income before the Section 179 deduction instead of federal taxable income.
3. The general partnership **must attach the Kentucky Form 4562** to Form 765–GP, and the amount from Kentucky Form 4562, Line 22 less the Section 179 deduction on Line 12 must be included on Form 765–GP, Part I, Line 8. The Section 179 deduction from the Kentucky Form 4562, Line 12 must be included on Form 765–GP, Schedule K, Section I, Line 9. A Kentucky Form 4562 must be filed for each year even though a federal Form 4562 may not be required.

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

1. Convert **federal Schedule D (Form 1065)** and other applicable federal forms to Kentucky forms by entering **Kentucky** at the top center of the form, and compute the Kentucky capital gain or (loss) from the disposal of assets using Kentucky basis. Enter the amount from Kentucky Schedule D, Line 7 on Form 765–GP, Schedule K, Section I, Line 4(d) or 7. Enter the amount from Kentucky Schedule D, Line 15 on Form 765–GP, Schedule K, Section I, Line 4(e) or 7. **Federal Schedule D (Form 1065) filed with the federal return and the Kentucky Schedule D must be attached to Form 765–GP.**
2. If the amount reported on federal Form 1065, Line 6 (from Form 4797, Line 17) is a gain, enter this amount on Schedule O–PTE, Part II, Line 1. If the amount reported on federal Form 1065, Line 6 (from Form 4797, Line 17) is a loss, enter this amount on Schedule O–PTE, Part I, Line 1. Convert **federal Form 4797** and other applicable federal forms to Kentucky forms by entering **Kentucky** at the top center of the form, and compute the Kentucky gain or (loss) from the sale of business property listing Kentucky basis. If the amount on Kentucky Form 4797, Line 17 is a gain, enter this amount on Schedule O–PTE, Part I, Line 2. If the amount on Kentucky Form 4797, Line 17 is a loss, enter this amount on Schedule O–PTE, Part II, Line 2. **Federal Form 4797 filed with the federal return and the Kentucky Form 4797 must be attached to Form 765–GP.**

Tax Treatment of Kentucky General Partnerships and Partners

General partnerships are exempt by law from Kentucky income tax. However, **general partners of general partnerships doing business in Kentucky must report their share of income for Kentucky income tax purposes.** This applies to individuals, trusts, estates and corporations. Individuals who are Kentucky residents are required to file Form 740 and report their share of general partnership income earned within or without Kentucky. Nonresidents who are not included by the general partnership in a composite return filing or nonresident withholding shall file Form 740-NP and report their distributive share of income from general partnerships doing business in Kentucky.

Resident partners of a general partnership shall report and pay tax on the distributive share of net income, gain, loss or deduction. Nonresident partners of a general partnership shall report and pay tax on the distributive share of net income, gain, loss or deduction multiplied by the apportionment fraction as provided by KRS 141.206(12). **KRS 141.206(8) and (9)**

If the general partnership is a partner or member of a limited liability pass-through entity doing business in Kentucky, the general partners shall be entitled to an LLET credit against taxes imposed by KRS 141.020 or KRS 141.040 and KRS 141.0401. The LLET credit shall be the general partners' proportionate share of the LLET from the limited liability pass-through entity for the current year after the subtraction of any credits identified in KRS 141.0205 and reduced by the minimum tax of \$175. The LLET credit allowed shall be applied to the income tax assessed on the income from the limited liability pass-through entity. Any remaining LLET credit from the limited liability pass-through entity shall be disallowed. **KRS 141.0401(3)**

GENERAL INFORMATION

Internal Revenue Code Reference Date—Effective for tax years beginning on or before April 26, 2016 the IRC reference date is December 31, 2013 for purposes of computing corporation income tax, except for depreciation differences contained in KRS 141.0101. For tax years beginning on or after April 27, 2016, the applicable IRC reference date is December 31, 2015.

Enter the addition to federal taxable income equal to the excess of Kentucky taxable income over federal taxable income resulting from amendments to the IRC (excluding amendments affecting depreciation and the IRC §179 deduction) subsequent to the applicable IRC date. Attach a schedule to the tax return showing the detail of the addition, including the related IRC section(s).

Who Must File—A Kentucky General Partnership Income Return, Form 765-GP, must be filed by every general partnership: (a) being organized under the laws of this state; (b) having a commercial domicile in this state; (c) owning or leasing property in this state; (d) having one or more individuals performing services in this state; (e) maintaining an interest in a pass-through entity doing business in this state; (f) deriving income from or attributable to sources within this state, including deriving income directly or indirectly from a trust doing business in this state, or deriving income directly or indirectly from a single member limited liability company that is doing business in this state and is disregarded as an entity separate from its single member for federal income tax purposes or (g) directing activities at Kentucky customers for the purpose of selling them goods or services. **KRS 141.010(25) and KRS 141.206(2)**

General Partnerships—General partnerships doing business in Kentucky solely as a partner in a pass-through entity will file Form 765-GP pursuant to the provisions of KRS 141.010, 141.120 and 141.206. For apportionment information, see instructions on page 7.

Nonresident Withholding and Composite Return (Form 740NP-WH)

A partner or member that is an S corporation or partnership is not subject to withholding. S corporations and partnerships are pass-through entities as provided by KRS 141.010(26).

KRS 141.206(5) provides that for taxable years beginning on or after January 1, 2007, every pass-through entity required to file a return under KRS 141.206(2), except publicly traded partnerships as defined in KRS 141.0401(6)(r), shall withhold Kentucky income tax or file a composite return on the distributive share, whether distributed or undistributed, of each nonresident individual (**includes an estate or trust**) partner, member or shareholder, or each C-corporation partner or member that is doing business in Kentucky only through its ownership interest in a pass-through entity. Withholding and composite filing shall be at the maximum rate as provided in KRS 141.020 or KRS 141.040.

Withholding shall not be required if: (a) the partner, member or shareholder is exempt from withholding as provided by KRS 141.206(7)(a); (b) the partner or member is exempt from Kentucky income tax as provided by KRS 141.040(1); (c) the pass-through entity is a qualified investment partnership as provided by KRS 141.206(15), and the partner, member or shareholder is an individual; or (d) the partner or member is a pass-through entity.

For taxable years beginning on or after January 1, 2012, a pass-through entity required to withhold or file a Composite return on Kentucky income tax as provided by KRS 141.206(5) shall make estimated tax payments if required by KRS 141.206(6). If the pass-through entity is required to make estimated tax payments for taxable years beginning on or after January 1, 2012, use Form 740NP-WH-ES (Kentucky Estimated Tax Voucher).

The reporting of a nonresident individual's, estate's or trust's net distributive share income and withholding on Form 740NP-WH at the maximum rate of six (6) percent shall satisfy the filing requirements of KRS 141.180 for a nonresident individual, estate or trust partner, member or shareholder whose only Kentucky source income is net distributive share income. The partners', members' or shareholders' distributive share of income shall include all items of income or deduction used to compute adjusted gross income on the Kentucky return that is passed through to the partner, member or shareholder by the pass-through entity, including but not limited to interest, dividend, capital gains or losses, guaranteed payments and rents (KRS 141.206(16)). The nonresident individual, estate or trust partner, member or shareholder may file a Kentucky Individual Income Tax Return Nonresident or Part-Year Resident (Form 740-NP) or a Kentucky Fiduciary Income Tax Return (Form 741) to take advantage of the graduated tax rates, credits and deductions.

A pass-through entity shall complete Form 740NP-WH and Form PTE-WH for each nonresident individual, estate or trust partner, member or shareholder and each corporate partner or member and mail Form 740NP-WH and Copy A of Form PTE-WH to the Kentucky Department of Revenue with payment of any tax due by the 15th day of the fourth month following the close of the pass-through entity's taxable year. Also, Copy B and C of Form PTE-WH shall be provided to the partners, members or shareholders. Form 740NP-WH and Form PTE-WH are available at www.revenue.ky.gov.

Note: Composite returns apply to nonresidents only.

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

Required Forms and Information—A partnership must enter all applicable information on Form 765-GP, attach a schedule for each line item or line item instruction which states "attach

schedule," and attach the following forms or schedules, if applicable:

Kentucky Forms and Schedules

1. General Partnership Income Return (Form 765-GP)
2. Partner's Share of Income, Credits, Deductions, Etc.—Schedule K-1 (Form 765-GP)
3. Apportionment and Allocation (Schedule A)
4. Apportionment and Allocation—Continuation Sheet (Schedule A-C)
5. Cost of Goods Sold (Schedule COGS)
6. Application for Extension of Time to File Individual, General Partnership and Fiduciary Income Tax Returns for Kentucky (Form 40A102)
7. Related Party Costs Disclosure Statement (Schedule RPC)
8. Other Additions And Subtractions To/From Federal Ordinary Income (Schedule O-PTE)

Required Federal Forms and Schedules

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

1. Form 1065, all pages
2. Form 1125-A—Cost of Goods Sold
3. Form 4797—Sales of Business Property
4. Schedule D—Capital Gains and Losses
5. Form 5884—Work Opportunity Credit
6. Schedules for items on Form 1065, Schedule L, which state, "attach schedule."
7. Form 4562—Depreciation and Amortization
8. Form 8825—Rental Real Estate Income and Expenses of a Partnership or an S Corporation

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

Filing Date—A general partnership return must be filed on or before the 15th day of the fourth month following the close of the taxable year.

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

Mailing—Mail the return to Kentucky Department of Revenue, Frankfort, KY 40620.

Jeopardy Fee—A \$100 minimum penalty on all nonfiled returns, when the taxpayer fails to file a return or provide information after being requested to do so by the Department of Revenue. **KRS 131.150(2)**

Extensions—A six-month extension of time to file a general partnership income return may be obtained by either making a specific request to the Department of Revenue or attaching a copy of the federal extension to the return when filed. **A copy of the federal extension submitted after the return is filed does not constitute a valid extension, and late filing penalties will be assessed.** For further information, see the instructions for Form 40A102, Application for Extension of Time to File Individual, General Partnership and Fiduciary Income Tax Returns for Kentucky. **103 KAR 15:050**

Amended Return—To correct Form 765-GP as originally filed, file an amended Form 765-GP and check the appropriate box on page 1, Section F. If the amended return results in a change in income or a change in the distribution of any income or other

information provided to partners, an amended Schedule K-1 (Form 765-GP) must also be filed with the amended Form 765-GP and given to each partner. Check the Amended K-1 box on each Schedule K-1 to indicate that it is an amended Schedule K-1.

Internal Revenue Service Audit Adjustments—A general partnership which has received final adjustments resulting from Internal Revenue Service audits must submit a copy of the "final determination of the federal audit" within 30 days of the conclusion of the federal audit. Use Form 765-GP for reporting federal audit adjustments and check the Amended Return box.

GENERAL INSTRUCTIONS (FORM 765-GP)

Period Covered

File the 2016 return for calendar year 2016 and fiscal years that begin in 2016. For a fiscal year, fill in the taxable period beginning and ending at the top of Form 765-GP.

Item A—Enter date business commenced or qualified.

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

Change of Name/Address—Check the applicable box(es) if the general partnership's name and/or address has changed since the filing of the prior year Kentucky tax return. For a change of name, attach a statement to the tax return providing the general partnership's name reflected on the prior year Kentucky tax return.

Item B—Enter number of partners (attach K-1s).

Item C—North American Industrial Classification System (NAICS)—Enter your six-digit NAICS code. To view a complete listing of NAICS codes, visit the United States Census Bureau Web site at www.census.gov.

Item D—Telephone Number—Enter the business telephone number of the general partner signing this return.

Item E—Enter the general partnership's federal identification number. See federal Publication 583 if the general partnership has not obtained this number.

Item F—Check the applicable boxes:

- (a) *Initial Return*—This return is the general partnership's initial return.
- (b) *Short-period Return*—This return is for a period of less than one year and not an initial return or final return. Check the appropriate box in Part II – Explanation of Final Return and/or Short-Period Return.
- (c) *Publicly Traded Partnership*—This partnership is a publicly traded partnership as provided by KRS 141.0401(6)(r).
- (d) *Amended Return*—This is an amended tax return. Provide an explanation of all changes in Part III – Explanation of Amended Return Changes.
- (e) *Final Return*—This is the general partnership's final Kentucky tax return. Check the appropriate box in Part II – Explanation of Final Return and/or Short-Period Return.
- (f) *Qualified Investment Pass-through Entity*—The general partnership is a qualified investment pass-through entity.

INCOME/DEDUCTIONS TO BE REPORTED—The income and deductions of a Kentucky general partnership are determined under the Internal Revenue Code (IRC) in effect December 31, 2013 for tax years beginning on or before April 26, 2016 and December 31, 2015 for tax years beginning on or after April 27, 2016 except for differences provided in KRS 141.010 and 141.206. Differences include but are not limited to:

- (1) Exclude interest income from U.S. government obligations.
- (2) Include interest income from obligations of other states and their political subdivisions.
- (3) Exclude MACRS bonus depreciation or Section 179 expense deduction in excess of \$25,000.

For additional instructions for reporting income and deductions, see federal instructions, Form 1065.

PART I – ORDINARY INCOME (LOSS) COMPUTATION

Line 1—The Kentucky Form 765–GP begins with ordinary income (loss) reported on federal Form 1065, Line 22. Report adjustments to federal ordinary income (loss) on Form 765–GP, Lines 2, 3, 4, 5, 7, 8 and 9. See instructions for Lines 3, 5, 8 and 9 for reporting differences in depreciation and basis for assets purchased after September 10, 2001.

Reporting Depreciation Differences—Important: Use Lines 3 and 8 **only** if the general partnership has elected for federal income tax purposes to take the special depreciation allowance. Attach a copy of the federal Form 4562 filed for federal income tax purposes to verify that no adjustments are required.

Line 2 – Enter state taxes measured in whole or in part by gross or net income. “State” means any state of the United States, the District of Columbia, the Commonwealth of Puerto Rico, any territory or possession of the United States or any foreign country or political subdivision thereof. Attach a schedule reflecting the total taxes deducted on Form 1065. **KRS 141.010(11)(d)**

Line 3—See instructions on page 4 regarding depreciation and Section 179 deduction differences, and if applicable, include the depreciation amount from Line 16a of Form 1065 (do not include the Section 179 deduction). **If federal Form 4562 is required to be filed for federal income tax purposes, a copy must be attached.**

Line 4—Enter related party cost additions from Schedule RPC, Part II, Section B, Line 1.

Line 5— Enter the amount from Schedule O–PTE, Part I, Line 7.

Line 7—Enter the amount of the work opportunity credit reflected on federal Form 5884. For Kentucky purposes, the general partnership may deduct the total amount of salaries and wages paid or incurred for the taxable year. **This adjustment does not apply for other federal tax credits.**

Line 8—Enter Kentucky depreciation (do not include Section 179 deduction). See instructions on page 4 regarding depreciation and Section 179 deduction differences, and if applicable, Kentucky converted Form 4562 must be attached.

Line 9—Enter the amount from Schedule O–PTE, Part II, Line 11.

SCHEDULE A—APPORTIONMENT

A general partnership doing business within and without Kentucky shall apportion its net income by a fraction, the numerator of which is the property factor, representing 25 percent of the fraction, plus the payroll factor, representing 25

percent of the fraction, plus the sales factor, representing 50 percent of the fraction, with each factor determined in the same manner as provided in **KRS 141.120(8)**, and the denominator of which is four reduced by the number of factors, if any, having no denominator, provided that if the sales factor has no denominator, then the denominator shall be reduced by two. **KRS 141.206(12)**

Gross receipts, for determining the sales factor, should include in the numerator and denominator interest, dividends, royalties and gross receipts of any gains or losses on the disposition of property, except as provided by KRS 141.121.

If the general partnership is a partner in another pass-through entity then the general partnership shall be deemed to own the pro rata share of the property owned or leased by the pass-through entity, and shall also include its pro rata share of the pass-through entity’s payroll and sales. The phrase “a partner in another pass-through entity” shall extend to each level of multiple-tiered pass-through entities. KRS 141.206(11)

SCHEDULE K (FORM 765-GP)

General Instructions—Complete all applicable lines by entering the total pro rata share amount for each item listed. Federal instructions for Form 1065 and federal Schedule K provide additional information which will assist the general partnership in completing Schedule K, Form 765–GP.

SECTION I—Income (Loss) and Deductions

A general partnership filing Form 765–GP must use Form 765-GP(K), “Kentucky Schedule K for General Partnerships with Economic Development Project(s);” if the partnership has one or more projects under the Kentucky Rural Economic Development Act (KREDA), Kentucky Industrial Development Act (KIDA), Kentucky Economic Opportunity Zone Act (KEOZ), Kentucky Jobs Retention Agreement (KJRA), Kentucky Industrial Revitalization Act (KIRA), Kentucky Jobs Development Act (KJDA), Kentucky Business Investment Program (KBI), Kentucky Reinvestment Act (KRA), Incentives for Energy Independence Act (IEIA) or Farming Operation Networking Project (FON).

Line 1—Enter Kentucky ordinary income (loss) from trade or business activities reported on Form 765–GP, Ordinary Income (Loss) Computation, page 1, Line 11.

Line 2—Enter net income (loss) from rental real estate activities reported on federal Schedule K, Form 1065, adjusted to reflect any differences in Kentucky and federal income tax laws.

Line 3(a)—Enter the gross income from other rental activities reported on federal Schedule K, Form 1065.

Line 3(b)—Enter the expenses from other rental activities reported on federal Schedule K, Form 1065, adjusted to reflect any differences in Kentucky and federal income tax laws.

Line 3(c)—Enter the difference of Line 3(a) and Line 3(b).

Line 4(a)—Enter interest income from federal Schedule K, Form 1065, adjusted to exclude tax-exempt U.S. government interest, if any, and to include interest income from obligations of states other than Kentucky and their political subdivisions.

Lines 4(b) and 4(c)—Enter the amount of dividend and royalty income reported on federal Schedule K, Form 1065.

Line 4(d)—See instructions on page 4 regarding **differences in gain or loss from disposition of assets**, and if applicable, enter the amount from Line 7 of the Kentucky Schedule D that is portfolio income. Report any gain or loss that is not portfolio income on Line 7, Schedule K, Form 765-GP. **Kentucky Schedule D must be attached to Form 765-GP.** Otherwise, enter the amount from Line 7 of the federal Schedule D (Form 1065) that is portfolio income.

Line 4(e)—See instructions on page 4 regarding **differences in gain or loss from disposition of assets**, and if applicable, enter the amount from Line 15 of the Kentucky Schedule D that is portfolio income. Report any gain or loss that is not portfolio income on Line 7, Schedule K, Form 765–GP. **Kentucky Schedule D must be attached to Form 765–GP.** Otherwise, enter the amount from Line 15 of the federal Schedule D (Form 1065) that is portfolio income.

Line 4(f)—Enter any other portfolio income not reported on Lines 4(a) through 4(e), Schedule K, Form 765–GP.

Line 5—Enter guaranteed payments to partners from federal Schedule K, Form 1065.

Line 6—See instructions on page 4 regarding **differences in gain or loss from disposition of assets**. If applicable, enter the amount from Line 7 of the Kentucky Form 4797, and **Kentucky Form 4797 must be attached to Form 765–GP.** Otherwise, enter net gain (loss) under Section 1231 from federal Form 4797. Do not include net gains (losses) from involuntary conversions due to casualties or thefts on this line. Instead, report them on Line 7.

Line 7—Enter all other items of income (loss) of the general partnership not included on Lines 1 through 6. See federal instructions for Schedule K, Form 1065.

Line 8—Enter total contributions paid by the general partnership during its taxable year and attach a schedule showing separately the contributions subject to the 50 percent, 30 percent and 20 percent limitations. These percentage limitations must be applied to the Kentucky amounts rather than the federal amounts.

Also, enter amount of deduction allowable from Schedule HH for the value of leasehold interest of property donated for living quarters for a homeless family. The ordinary charitable contribution deduction must be reduced by any amount attributable to property on which this deduction is taken.

Line 9—See instructions on page 4 regarding **depreciation and Section 179 deduction differences**, and if applicable, include the amount from Line 12 of the Kentucky Form 4562. **Kentucky Form 4562 must be attached.** Otherwise, enter Section 179 deduction from federal Form 4562.

Line 10—Enter the expenses related to portfolio income reported on federal Schedule K, Form 1065, adjusted to exclude expenses related to tax–exempt interest income and other exempt income.

Line 11—Enter any other deductions of the general partnership not included on Lines 8, 9 and 10. See federal instructions for Schedule K, Form 1065.

Line 12(a)—Enter the general partnership’s deductible interest expense allocable to debt on property held for investment purposes. Property held for investment purposes includes property that produces investment income (interest, dividends, annuities, royalties, etc.). The total amount entered should equal the amount of interest expense reported on federal Schedule K, Form 1065, adjusted to exclude any interest expense on debts incurred to purchase or carry investment property producing, or held for the production of, U.S. government interest income.

Lines 12(b)(1) and (b)(2)—Enter only the investment income included on Lines 4(a), 4(b), 4(c) and 4(f), Schedule K, Form 765–GP, and only the investment expenses related thereto included on Line 10, Schedule K, Form 765–GP. See federal instructions for Schedule K, Form 1065.

Line 13—Enter the Kentucky Small Business Tax Credit Program (KSBTC) tax credit as provided by KRS 141.384 and attach a copy of the Kentucky Economic Development Finance Authority notification.

Line 14—Enter the Skills Training Investment Credit Act (STICA) tax credit as provided by KRS 141.405 and attach the Bluegrass State Skills Corporation certification(s).

Line 15—Enter the Certified Rehabilitation Tax Credit as provided by KRS 171.397 and attach the Kentucky Heritage Council certification(s).

Line 16—Enter the Kentucky Unemployment Tax Credit as provided by KRS 141.065 and attach Kentucky Schedule UTC (Form 42A740–UTC).

Line 17—Enter the Recycling and Composting Equipment Tax Credit as provided by KRS 141.390 and attach Kentucky Schedule RC (Form 41A720RC).

Line 18—Enter the Kentucky Investment Fund Tax Credit as provided by KRS 154.20–258 and attach a copy of the notification from Kentucky Economic Development Finance Authority (KEDFA) reflecting the amount of credit granted and the year in which the credit may first be claimed.

Line 19—Enter the Coal Incentive Tax Credit for electric power generation as provided by KRS 141.0405 and attach Kentucky Schedule CI (Form 41A720–CI).

Line 20—Enter the Qualified Research Facility Tax Credit as provided by KRS 141.395 and attach Kentucky Schedule QR (Form 41A720QR).

Line 21—Enter the GED Incentive Tax Credit as provided by KRS 151B.127 and attach GED–Incentive Program Final Report (Form DAEL–31) for each employee that completed a learning contract during the year.

Line 22—Enter the Voluntary Environmental Remediation Tax Credit as provided by KRS 141.418 and attach Kentucky Schedule VERB (Form 41A720VERB).

Line 23—Enter the Biodiesel Tax Credit as provided by KRS 141.424 and attach Kentucky Schedule BIO (Form 41A720BIO).

Line 24—Enter the Environmental Stewardship Tax Credit as provided by KRS 141.430 and attach Kentucky Schedule KESA (Form 41A720KESA).

Line 25—Enter the Clean Coal Incentive Tax Credit as provided by KRS 141.428 and attach Kentucky Schedule CCI (Form 41A720–CCI).

Line 26—Enter the Ethanol Tax Credit as provided by KRS 141.4242 and attach Kentucky Schedule ETH (Form 41A720ETH).

Line 27—Enter the Cellulosic Ethanol Tax Credit as provided by KRS 141.4244 and attach Kentucky Schedule CELL (Form 41A720CELL).

Line 28—Enter the Railroad Maintenance and Improvement Tax Credit as provided by KRS 141.385 and attach Kentucky Schedule RR–I (Form 41A720RR–I).

Line 29—Enter the Railroad Expansion Tax Credit as provided by KRS 141.386 and attach Kentucky Schedule RR–E (Form 41A720RR–E).

Line 30—Enter the ENDOW Kentucky Tax Credit as provided by KRS 141.438 and attach Kentucky Schedule ENDOW (Form 41A720–S86).

Line 31—Enter the New Markets Program Tax Credit as provided by KRS 141.434 and attach Kentucky Form 8874(K)–A (Form 41A720–S81).

Line 32—Enter the Food Donation Tax Credit as provided by KRS 141.392 and attach Kentucky Schedule FD (Form 41A720FD).

Line 33—Enter the Distilled Spirits Tax Credit as provided by KRS 141.389 and attach Kentucky Schedule DS (Form 41A720DS).

Line 34—Enter the refundable Certified Rehabilitation Tax Credit as provided by KRS 141.382 and attach the Kentucky Heritage Council certification(s) or Kentucky Schedule(s) K-1 (Form 765-GP).

Line 35—Enter the refundable Film Industry Tax Credit as provided by KRS 141.383 and attach the Kentucky Film Office certification(s) or Kentucky Schedule(s) K-1 (Form 765-GP).

Line 36(a)—Enter the information provided on federal Schedule K, Form 1065, Line 13c(1).

Line 36(b)—Enter the amount reported on federal Schedule K, Form 1065, Line 13c(2).

Line 37—Enter the total amount of interest income of the partnership from U.S. government bonds and securities and obligations of Kentucky and its political subdivisions.

Line 38—Enter the total amount of any other type of income of the partnership where the partner is exempt from Kentucky income tax.

Line 39—Enter the total amount of nondeductible expenses paid or incurred by the general partnership including, but not limited to, state taxes measured by gross/net income, expenses related to tax-exempt income, etc. Do not include a deduction reported elsewhere on Schedule K, Form 765-GP, capital expenditures or items the deductions for which are deferred to a later year.

Line 40—Enter the amount reported on federal Schedule K, Form 1065, Line 19a and 19b.

Line 41—Attach schedules to report the general partnership's total income, expenses and other information applicable to items not included on Lines 1 through 40 including, but not limited to, any recapture of Section 179 deduction, gross income and other information relating to oil and gas well properties enabling the general partnership to figure the allowable depletion deduction, and any other information the partners need to prepare their Kentucky income tax returns. See federal instructions for Schedule K, Form 1065, Line 13d.

Domestic Production Activities Deduction (DPAD)—A pass-through entity does not complete Form 8903-K, but attaches information to each partner's, member's or shareholder's Kentucky Schedule K-1 that will be needed to compute their DPAD. A pass-through entity shall attach the following information to each Kentucky Schedule K-1 to be used by the partner, member or shareholder to compute their DPAD for Kentucky income tax purposes:

If the partner, member or shareholder is an individual (includes estates and trusts), attach the following: (i) Domestic Production Gross Receipts (DPGR); (ii) Kentucky Domestic Production Gross Receipts (KDPGR); and (iii) Kentucky W-2 wages allocable to DPGR.

If the partner or member is a corporation or pass-through entity, and the partnership filing Form 765 or Form 765-GP was eligible and chose to figure Qualified Production Activities Income (QPAI) at the entity level, attach the following (i) QPAI, adjusted to reflect differences in Kentucky and federal income tax laws; and (ii) Kentucky W-2 wages allocable to DPGR.

If the partner or member is a corporation or pass-through entity, and the partnership filing Form 765 or Form 765-GP was not eligible or chose not to figure QPAI at the entity level,

attach the following (i) DPGR (ii) Cost of goods sold allocable to DPGR, adjusted to reflect differences in Kentucky and federal income tax laws; (iii) Expenses allocable to DPGR, adjusted to reflect differences in Kentucky and federal income tax laws; and (iv) Kentucky W-2 wages allocable to DPGR.

See the instructions to Form 8903-K for definitions of: (i) Domestic Production Gross Receipts (DPGR); (ii) Kentucky Domestic Production Gross Receipts (KDPGR); and (iii) Qualified Production Activities Income (QPAI).

SECTION II—General Partnership Pass-through Items

Lines 1 through 8 of this section do not need to be completed if all the partners or members are individuals, estates or trusts. In order to enter the correct amounts on lines 1 through 8 of this section, Schedule A (Form 41A720A) must be completed and attached to the tax return.

Line 1—Enter the general partnership's Kentucky sales from Schedule A, Section I, Line 1.

Line 2—Enter the general partnership's total sales from Schedule A, Section I, Line 2.

Line 3—Enter the general partnership's Kentucky property from Schedule A, Section I, Line 5.

Line 4—Enter the general partnership's total property from Schedule A, Section I, Line 6.

Line 5—Enter the general partnership's Kentucky payroll from Schedule A, Section I, Line 8.

Line 6—Enter the general partnership's total payroll from Schedule A, Section I, Line 9.

Line 7—Enter the general partnership's Kentucky gross profits.

Line 8—Enter the general partnership's total gross profits from all sources.

SECTION III—Limited Liability Entity Tax (LLET) Pass-through Items

Attach Schedule K-1 (Form 765) from a Kentucky Partnership Income and LLET Return, or a Kentucky Single Member LLC Individually Owned LLET Return (Form 725). If the general partnership is a partner or member of more than one limited liability pass-through entity complete a separate Section III for each entity.

Line 1—Enter the net distributive income from Kentucky Schedule K-1 (Form 765), Lines 1 through 6, 9 and portions of Lines 7 and 11 multiplied by the apportionment fraction on Line D(2) of Schedule K-1; or net distributive income from Form 725, Line 11 multiplied by the apportionment fraction on Line 12 of Form 725.

Line 2—Enter the nonrefundable credit from Kentucky Schedule K-1 (Form 765), Line 48; or Form 725, page 2, Part III, Line 3.



Signature—Form 765-GP must be signed by a partner. **Failure by a partner to sign the return, to complete all applicable lines on any required Kentucky form, to attach all applicable schedules including copies of federal forms or to complete all information on the questionnaire will delay the processing of tax returns and may result in the assessment of penalties.**

**SCHEDULE K-1 (FORM 765-GP)—KENTUCKY
PARTNER'S SHARE OF INCOME,
CREDITS, DEDUCTIONS, ETC.**

General Instructions

Schedule K-1 (Form 765-GP) shows each general partner's pro rata share of the general partnership's income, deductions, credits, etc. On each Schedule K-1 (Form 765-GP) enter the names, addresses and identifying numbers of the general partner and general partnership and complete items A, B, C, D and E. All general partners' names, Social Security or identifying numbers and other general partner information must be complete and legible. Schedule K-1 (Form 765-GP) must be completed and given to each general partner with instructions on or before the day on which Form 765-GP is filed with the Department of Revenue.

A copy of each partner's K-1 (Form 765-GP) must be attached to Form 765-GP filed with the Department of Revenue, and a copy kept as part of the general partnership's records.

Photocopies of Schedule K-1 (Form 765-GP) may be used in lieu of the official schedule printed by the Department of Revenue, provided the photocopies are on bond paper of at least 16 pounds and are of good quality.

Specific Instructions

Federal instructions for Schedule K-1 (Form 1065) explain the rules for allocating items of income (loss), deductions, credits, etc., to each general partner. The distributive share items reported on all Kentucky Schedules K-1, Lines 1 through 41 must equal the amounts reported on Kentucky Schedule K, Lines 1 through 41; the distributive share items reported on all Schedules K-1, Lines 42 through 49 must equal the amounts reported on comparable lines of Schedule K, Section II, Lines 1 through 8; and the distributive share items reported on all Schedules K-1, Lines 50 and 51 must equal the amounts reported on comparable lines of Schedule K, Section III, Lines 1 and 2. Schedule K-1, Lines 52 and 53 do not correspond with Schedule K.

Multiple Activities—If items of income, loss or deduction from more than one activity are reported on Lines 1, 2 or 3 of

Schedule K-1 (Form 765-GP), the general partnership must provide information for each activity to its general partners. See **Passive Activity Reporting Requirements** in the instructions for Schedule K-1 (Form 1065) for details on the information to be provided on an attachment to Schedule K-1 (Form 765-GP) for each activity.

At-Risk Activities—If the general partnership is involved in one or more at-risk activities for which a loss is reported on Schedule K-1 (Form 765-GP), the general partnership must report information separately for each at-risk activity. See **Special Reporting Requirements for At-Risk Activities** in the federal instructions for Schedule K-1 (Form 1065) for details on the information to be provided on an attachment to Schedule K-1 (Form 765-GP) for each at-risk activity.

Lines 1 through 51—Enter the general partner's total pro rata share of each item listed on Schedule K, Form 765-GP. **Do not multiply these amounts by the percentage entered on Item C(2).** Attach schedules showing separately the required information for each IRC Section 469 passive activity and each Section 465 at-risk activity. Other schedules are to be attached for line items where requested on Schedule K-1 (Form 765-GP).

Enter on attached schedules the supplemental information required to be reported separately to each general partner for Lines 1 through 41 and any other information or items and amounts not included on Schedule K-1 (Form 765-GP) for which the partner needs to prepare a Kentucky income tax return including, but not limited to, any recapture of Section 179 deduction, gross income and other information relating to oil and gas well properties enabling the partner to figure the allowable depletion deduction, etc. See instructions for federal Schedule K-1 (Form 1065), Line 20.

Lines 52 through 54—The amounts are to be entered by the general partner and not by the general partnership.

Tax Credit Summary

Kentucky Small Business Tax Credit Program—KRS 141.384 provides a (Kentucky Small Business Tax Credit Program (KSBTC)) nonrefundable tax credit against the taxes imposed by KRS 141.020 or 141.040 and KRS 141.0401. A small business shall not be eligible to apply for the credit and receive final approval for the credit until one year after the small business: (a) creates and fills one or more eligible positions over the base employment, and that position or positions are created and filled for twelve months; and (b) invests \$5,000 or more in qualifying equipment or technology. The maximum amount of credits that may be committed in each fiscal year by the Kentucky Economic Development Finance Authority (KEDFA) shall be capped at \$3 million. The maximum amount of credit for each small business for each year shall not exceed \$25,000. To claim the KSBTC credit, a copy of the notification received from KEDFA must be attached to the tax return. A partner, member or shareholder of a pass-through entity shall attach a copy of Schedule K-1, Form 720S, 765 or 765-GP to the partner's, member's or shareholder's tax return each year to claim the tax credit. The tax credit not used during the year of approval by KEDFA may be carried forward up to five years.

Skills Training Investment Tax Credit—To claim the STICA credit, a copy of the Bluegrass State Skills Corporation certification(s) reflecting the amount of credit awarded must be attached. The credit shall be claimed on the income tax return filed for the taxable year during which the final authorizing resolution is adopted by the Bluegrass State Skills Corporation. If the amount of the credit exceeds the income tax liability for the taxable year during which the final authorizing resolution is adopted by the Bluegrass State Skills Corporation, the excess may be carried forward for three successive years. If the credit claimed is being carried forward from a prior year, attach a schedule reflecting the computation of the amount of credit available to be carried forward in addition to the Bluegrass State Skills Corporation certification(s). **KRS 141.405**

Certified Rehabilitation Tax Credit—This credit is allowed only if the taxpayer has been approved for the credit by the Kentucky Heritage Council. Credit is allowed against the taxes imposed by KRS 141.020, KRS 141.040, KRS 141.0401 and KRS 136.505 for qualified rehabilitation expenses on certified historic structures. Information regarding this credit is available at www.heritage.ky.gov. **KRS 171.3961 and KRS 171.397**

Unemployment Tax Credit—If a taxpayer has hired a Kentucky resident classified as unemployed for at least 60 days and the resident remains in the employ of the taxpayer for 180 consecutive days during the tax year (a qualified person), the taxpayer may be entitled to the unemployment tax credit against the taxes imposed by KRS 141.020, KRS 141.040 and KRS 141.0401. For each qualified person, a one-time nonrefundable credit of \$100 may be claimed. The period of unemployment must be certified by the Education and Workforce Development Cabinet, Department of Workforce Investment, Office of Employment and Training, Frankfort, KY, and a copy of the certification must be maintained by the taxpayer. For certification questions, call (502) 564-7456. Schedule UTC must be attached to the return claiming this credit. **KRS 141.065**

Recycling/Composting Tax Credit—A taxpayer, which purchases recycling and/or composting equipment to be used exclusively in Kentucky for recycling or composting post-consumer waste materials, may be entitled to a nonrefundable credit against the taxes imposed by KRS 141.020, KRS 141.040 and KRS 141.0401 in an amount equal to 50 percent of the installed cost of the equipment. Application for this credit must be made on Schedule RC, and a copy of the schedule reflecting the amount of credit approved by the Department of Revenue must be attached to the tax return on which the credit is claimed. The

amount of this credit claimed for the tax year may not exceed 25 percent of the tax liability and cannot exceed 10 percent of the credit approved in the first year of eligibility.

For taxable years beginning after December 31, 2004, a taxpayer which purchases recycling and/or composting equipment to be used exclusively in Kentucky for recycling or composting post-consumer waste material that qualifies as a Major Recycling Project is entitled to a nonrefundable credit against the taxes imposed by KRS 141.020, KRS 141.040 and KRS 141.0401. The credit is an amount equal to 50 percent of the installed cost of the recycling or composting equipment limited to: 50 percent of the excess of the total of each tax liability over the baseline tax liability of the taxpayer or \$2,500,000. To qualify, the taxpayer must: (1) invest more than \$10,000,000 in recycling or composting equipment to be used exclusively in this state; (2) have more than 750 full-time employees with an average hourly wage of more than 300 percent of the federal minimum wage; and (3) have plant and equipment with a total cost of more than \$500,000,000. Application for this credit must be made on Schedule RC, and a copy of the schedule reflecting the amount of credit approved by the Department of Revenue must be attached to the tax return on which the credit is claimed. The credit is limited to a period of 10 years commencing with the approval of the recycling credit application.

A taxpayer is entitled to claim the recycling credits in KRS 141.390(2)(a) and (b), but cannot claim both for the same recycling and/or composting equipment. **KRS 141.390**

Kentucky Investment Fund Tax Credit—A taxpayer which makes a cash contribution to an investment fund approved by KEDFA in accordance with KRS 154.20-250 to 154.20-284 is entitled to a nonrefundable credit equal to 40 percent of the investor's proportional ownership share of all qualified investments made by the investment fund and verified by the authority. The credit may be applied against the taxes imposed by KRS 141.020, KRS 141.040, KRS 141.0401, KRS 136.320, KRS 136.300, KRS 136.310, KRS 136.505 and KRS 304.3-270. **A copy of the notification from KEDFA reflecting the amount of credit granted and the year in which the credit may first be claimed must be attached to the tax return claiming this credit.**

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

If the amount of credit that may be claimed in any tax year exceeds the tax liabilities, the excess credit may be carried forward, but the carryforward of any excess tax credit shall not increase the limitation that may be claimed in any tax year. Any credit not used in 15 years, including the year in which the credit may first be claimed, shall be lost.

Information regarding the approval process for these credits may be obtained from the Cabinet for Economic Development, Department of Financial Incentives at (502) 564-4554. **KRS 141.068**

Coal Incentive Tax Credit—Effective for tax returns filed after July 15, 2001, an electric power company or a company that owns and operates a coal-fired electric generating plant may be entitled to a coal incentive tax credit first against the taxes imposed by KRS 141.020, KRS 141.040 and KRS 141.0401 and then against tax imposed by KRS 136.120. 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 tax return on which the credit is claimed. **KRS 141.0405**

Qualified Research Facility Tax Credit—A taxpayer is entitled to a credit against the taxes imposed by KRS 141.020, KRS 141.040 and KRS 141.0401 of 5 percent of the qualified costs of construction, remodeling, expanding and equipping facilities in Kentucky for “qualified research.” Any unused credit may be carried forward 10 years. Schedule QR, Qualified Research Facility Tax Credit, must be attached to the tax return on which this credit is claimed. Federal Form 6765, Credit for Increasing Research Activities, must also be attached if applicable. See instructions for Schedule QR for more information regarding this credit. **KRS 141.395**

GED Incentive Tax Credit—A taxpayer is entitled to a credit against the taxes imposed by KRS 141.020, KRS 141.040 and KRS 141.0401. The credit reflected on this line must equal the sum of the credits reflected on the attached GED–Incentive Program Final Reports. This credit may be claimed only in the year during which the learning contract was completed and unused portions of the credit may not be carried forward or back. For information regarding the program, contact the Education and Workforce Development Cabinet, Kentucky Adult Education, Council on Postsecondary Education. The GED–Incentive Program Final Report (DAEL–31) for each employee that completed a learning contract during the tax year must be attached to the tax return claiming the credit. **KRS 164.0062**

Voluntary Environmental Remediation Tax Credit—The taxpayer must have an agreed order and be approved by the Energy and Environment Cabinet under the provisions of KRS 224.01–518. Maximum tax credit allowed to be claimed per taxable year is 25 percent of the approved credit. This credit may be claimed against the taxes imposed by KRS 141.020, KRS 141.040 and KRS 141.0401. For more information regarding credit for voluntary environmental remediation property, contact the Energy and Environment Cabinet at (502) 564–3350. Schedule VERB must be attached to the tax return claiming this credit. **KRS 141.418**

Biodiesel Tax 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 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 (Schedule BIO) to the taxpayer by April 15. The credit certification must be attached to the tax return claiming this credit. **KRS 141.423 and 103 KAR 15:140**

Kentucky Environmental Stewardship Tax Credit—For tax years beginning on or after January 1, 2006, an approved company may be entitled to a credit against the taxes imposed by KRS 141.020, KRS 141.040 or KRS 141.0401 on the income and the LLET of the approved company generated by or arising out of a project as determined under KRS 154.48–020. An “environmental stewardship product” means any new manufactured product or substantially improved existing manufactured product that has a lesser or reduced adverse effect on human health and the environment or provides for improvement to human health and the environment when compared with existing products or competing products that serve the same purpose. A company must have eligible costs of at least \$5 million and within six months after the activation date, the approved company compensates a minimum of 90 percent of its full–time employees whose jobs were created or retained with base hourly wages equal to either: (1) 75 percent of the average hourly wage for the commonwealth; or (2) 75 percent of the average hourly wage for the county in which the project is to be undertaken. The maximum amount of negotiated

inducement that can be claimed by a company for any single tax year may be up to 25 percent of the authorized inducement. The agreement shall expire on the earlier of the date the approved company has received inducements equal to the approved costs of its project, or 10 years from the activation date. For more information, contact the Cabinet for Economic Development, Department of Financial Incentives at (502) 564–4554.

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 50 percent. 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 tax year is for a taxable year beginning before January 1, 2007, the LLET will not apply. **KRS 141.430**

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.

Clean Coal Incentive Tax Credit—Effective for tax years ending on or after December 31, 2006, 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 Energy and Environment 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 \$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 subsidiary. **KRS 141.428**

Ethanol Tax Credit—Producers of ethanol 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 ethanol credit with the Department of Revenue by January 15 each year for ethanol produced in the previous calendar year. The department shall issue a credit certification (Schedule ETH) to the taxpayer by April 15. The credit certification must be attached to the tax return claiming this credit. **KRS 141.4242 and 103 KAR 15:110**

Cellulosic Ethanol Tax Credit—Producers of cellulosic ethanol 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 ethanol credit with the Department of Revenue by January 15 each year for cellulosic ethanol produced in the previous calendar year. The department shall issue a credit certification (Schedule CELL) to the taxpayer by April 15. The credit certification must be attached to the tax return claiming this credit. **KRS 141.4244 and 103 KAR 15:120**

Railroad Maintenance and Improvement Tax Credit—For tax years beginning on or after January 1, 2010, an owner of any Class II railroad or Class III railroad located in Kentucky or any person who transports property using the rail facilities of a Class II railroad or Class III railroad located in Kentucky or furnishes railroad-related property or services to a Class II railroad or Class III railroad located in Kentucky, but only with respect to miles of railroad track assigned to the person by a Class II railroad or Class III railroad, shall be entitled to a nonrefundable credit against taxes imposed by KRS 141.020 or 141.040 and KRS 141.0401 in an amount equal to fifty percent (50%) of the qualified expenditures paid or incurred to maintain or improve railroads located in Kentucky, including roadbeds,

bridges, and related structures, that are owned or leased as of January 1, 2008, by a Class II or Class III railroad.

The credit allowed shall not exceed the product of \$3,500 multiplied by the sum of: (i) The number of miles of railroad track in Kentucky owned or leased by the eligible taxpayer as of the close of the taxable year; and (ii) The number of miles of railroad track in Kentucky assigned to the eligible taxpayer by a Class II railroad or Class III railroad which owns or leases the railroad track as of the close of the taxable year. **KRS 141.385**

Railroad Expansion Tax Credit—For tax years beginning on or after January 1, 2010: (a) a corporation that owns fossil energy resources subject to tax under KRS 143.020 or 143A.020 or biomass resources and transports these resources using rail facilities; or (b) a railway company subject to tax under KRS 136.120 that serves a corporation that owns fossil energy resources subject to tax under KRS 143.020 or 143A.020 or biomass resources shall be entitled to a nonrefundable tax credit against taxes imposed under KRS 141.040 and 141.0401 equal to twenty-five percent (25%) of the expenditures paid or incurred by the corporation or railway company to expand or upgrade railroad track, including roadbeds, bridges, and related track structures, to accommodate the transport of fossil energy resources or biomass resources.

The credit amount approved for a calendar year for all taxpayers under KRS 141.386 shall be limited to \$1 million. If the total amount of approved credit exceeds \$1 million, the department shall determine the amount of credit each corporation and railroad company receives by multiplying \$1 million by a fraction, the numerator of which is the amount of approved credit for a corporation or railway company and the denominator of which is the total approved credit for all corporations and railway companies.

Each corporation or railway company eligible for the credit provided under this section shall file a railroad expansion tax credit claim on forms prescribed by the department by the fifteenth day of the first month following the close of the preceding calendar year. The department shall determine the amount of the approved credit and issue a credit certificate to the corporation or railway company by the fifteenth day of the third month following the close of the calendar year. **KRS 141.386**

ENDOW Kentucky Tax Credit—A taxpayer making an endowment gift to a permanent endowment fund of a qualified community foundation, or county-specific component fund, or affiliate community foundation, which has been certified under KRS 147A.325, is entitled to a tax credit equal to twenty percent (20%) of the endowment gift, not to exceed \$10,000. The nonrefundable tax credit is allowed against the taxes imposed by KRS 141.020 or 141.040 and KRS 141.0401 and if not used in the year the tax credit is awarded may be carried forward for a period not to exceed five years. The department shall issue a credit certification (Schedule ENDOW) to a taxpayer upon receiving proof that the endowment gift was made to the approved community foundation as provided by KRS 141.438(7). Schedule ENDOW must be attached to the taxpayer's tax return each year to claim the credit. A partner, member or shareholder of a pass-through entity shall attach a copy of Schedule K-1, Form 720S, 765 or 765-GP to the partner's, member's or shareholder's tax return each year to claim the tax credit. **KRS 141.438 and 103 KAR 15:195**

New Markets Development Program Tax Credit—A taxpayer that makes a qualified equity investment as provided by KRS 141.432(7) in a qualified community development entity as provided by KRS 141.432(6) shall be entitled to a nonrefundable

tax credit against the taxes imposed by KRS 141.020, 141.040, 141.0401, 136.320, 136.330, 136.340, 136.350, 137.370, 136.390 or 304.3-270. The total amount of tax credits that may be awarded by the department shall be limited to \$10 million. "Qualified low-income community investment" means any capital or equity investment in, or loan to, any qualified active low-income community business made after June 4, 2010. With respect to any one qualified active low-income community business, the maximum amount of qualified active low-income community investments that may be made in the business, on a collective basis with all of its affiliates, with the proceeds of qualified equity investments that have been certified under KRS 141.433 shall be \$10 million, whether made by one or several qualified community development entities.

The amount of the credit shall be equal to 39% of the purchase price of the qualified equity investment made by the taxpayer. A taxpayer is allowed to claim zero percent (0%) for each of the first two credit allowance dates, seven percent (7%) for the third allowance date, and eight percent (8%) for the next four allowance dates. "Credit allowance date" means with respect to any qualified equity investment: (a) the date on which the investment is initially made; and (b) each of the six anniversary dates of that date thereafter. **KRS 141.432 to 141.434**

Food Donation Tax Credit—For taxable years beginning on or after January 1, 2014, but before January 1, 2018, a qualified taxpayer shall be allowed a nonrefundable credit against the tax imposed by KRS 141.020, or 141.040 and 141.0401, with the ordering of credits as provided in KRS 141.0205, in an amount equal to ten percent (10%) of the value of donated edible agriculture products to a nonprofit organization operating a food program in Kentucky that is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

A qualified taxpayer means a person responsible for and deriving income from: (i) growing fruits, vegetables, or other edible agriculture products; or (ii) raising beef, poultry, pork, fish, or other edible agriculture products. Edible agriculture products means fruits, vegetables, beef, poultry, pork, fish, or any other edible product raised or grown in Kentucky that is intended for and fit for human consumption. **KRS 141.392**

Distilled Spirits Tax Credit—For taxable years beginning on or after January 1, 2015, a nonrefundable and nontransferable credit against the tax imposed by KRS 141.020, or 141.040 and 141.0401, for taxpayers who pay Kentucky property tax on distilled spirits.

The distilled spirits credit is equal to: 40 percent of the property tax assessed and timely paid for taxable years beginning on or after January 1, 2016; 60 percent of the property tax assessed and timely paid for taxable years beginning on or after January 1, 2017; 80 percent of the property tax assessed and timely paid for taxable years beginning on or after January 1, 2018; and 100 percent of the property tax assessed and timely paid for taxable years beginning on or after January 1, 2019.

The amount of the credit is contingent on the costs associated with the following capital improvements at the premises of the distiller: construction, replacement, or remodeling of warehouses or facilities; purchases of barrels and pallets used for the storage and aging of distilled spirits in maturing warehouses; acquisition, construction, or installation of equipment for the use in the manufacture, bottling, or shipment of distilled spirits; addition or replacement of access roads or parking facilities; and construction, replacement, or remodeling of facilities to market or promote tourism, including but not limited to a visitor's center. **KRS 141.389**

TAXPAYER ASSISTANCE

Forms:

Operations and Support Services Branches
P. O. Box 518
Frankfort, KY 40602-0518
(502) 564-3658
Website: www.revenue.ky.gov
Email: Financerevenueformsandenvelopes@ky.gov



Information:

Pass-Through Entity Branch
Department of Revenue
501 High Street, Station 69
Frankfort, KY 40601-2103
(502) 564-8139



Mail the return to:

Kentucky Department of Revenue
Frankfort, KY 40620



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

**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.

KENTUCKY TAXPAYER SERVICE CENTERS

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

Ashland, 1539 Greenup Avenue, 41101-7695
(606) 920-2037

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

Corbin, 15100 North US 25E, Suite 2, 40701-6188
(606) 528-3322

Frankfort, 501 High Street, 40601-2103
(502) 564-4581 (*Taxpayer Assistance*)

Hopkinsville, 181 Hammond Drive, 42240-7926
(270) 889-6521

Louisville, 600 West Cedar Street
2nd Floor West, 40202-2310
(502) 595-4512

Northern Kentucky, Turfway Ridge Office Park
7310 Turfway Road, Suite 190
Florence, 41042-4871
(859) 371-9049

Owensboro, Corporate Center
401 Frederica Street, Building C, Suite 201, 42301-6295
(270) 687-7301

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

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



YOUR RIGHTS AS A KENTUCKY TAXPAYER

As part of the Finance and Administration Cabinet, the mission of the Kentucky Department of Revenue (DOR) 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.

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

Some Kentucky taxpayer rights are very specific, such as when and how to protest an assessment or the denial of a refund or credit. Others are more general.

The following is a summary of your rights and the DOR's responsibilities to you as a Kentucky taxpayer.

RIGHTS OF TAXPAYER

Privacy

You have the right to privacy with regard to information you provide pertaining to returns, reports, or the affairs of your business.

Assistance

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

Explanation

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

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

Protest and Appeal

You have the right to protest and appeal a determination of the DOR if you disagree with an assessment of tax or penalty, reduction or a denial of a refund, a revocation of a license or permit, or other determination made by the DOR. If you file a timely protest, you have a right to a conference to discuss the matter. (See reverse for procedure to file a protest.)

Representation

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

Recordings

You have the right to make an audio recording of any meeting, conference, or hearing with the DOR. The DOR has the right to make an audio recording, if you are notified in writing in advance or if you make a recording. You have the right to receive a copy of the recording.

Consideration

You have the right to consideration of:

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

Guarantee

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

Damages

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

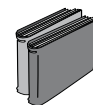
Interest


You may have the right to receive interest on an overpayment of tax.

DEPARTMENT OF REVENUE RESPONSIBILITIES

The DOR has the responsibility to:

- ✓ perform audits, conduct conferences and hearings with you at reasonable times and places;
- ✓ authorize, require or conduct an investigation or surveillance of you only if it relates to a tax matter;
- ✓ make a written request for payment of delinquent taxes which are due and payable at least 30 days prior to seizure and sale of your assets;
- ✓ conduct educational and informational programs to help you understand and comply with the laws;
- ✓ publish clear and simple statements to explain tax procedures, remedies, your rights and obligations, and the rights and obligations of the DOR;
- ✓ notify you in writing when an erroneous lien or levy is released and, if requested, notify major credit reporting companies in counties where lien was filed;
- ✓ advise you of procedures, remedies and your rights and obligations with an original notice of audit or when an original notice of tax due is issued, a refund or credit is denied or reduced, or whenever a license or permit is denied, revoked or canceled;




- ✓ notify you in writing prior to termination or modification of a payment agreement;
- ✓ furnish copies of the agent's audit workpapers and a written narrative explaining the reason(s) for the assessment; 
- ✓ resolve tax controversies on a fair and equitable basis at the administrative level whenever possible;
- ✓ notify you in writing at your last known address at least 60 days prior to publishing your name on a list of delinquent taxpayers for which a tax or judgment lien has been filed; and
- ✓ notify you by certified mail 20 days prior to submitting name to the relevant agency for the revocation or denial of professional license, driver's license or motor vehicle registration.

PROTEST AND APPEAL PROCEDURE

Protest

If you receive a notice of assessment, a Notice of Tax Due for tax or penalty or if the DOR notifies you that a tax refund or credit has been reduced or denied, a license or permit revoked or denied, or other determination made by the DOR, you have the right to protest. To do so:

- ✓ submit a written protest within 45 days of the original Notice of Tax Due, notice of refund reduction or denial, revocation or denial of a license or permit, or other DOR determination;
- ✓ identify the type of tax involved and give the account number, Social Security number or other identification number and attach a copy of the DOR notice of determination to support that protest is timely;
- ✓ explain why you disagree;
- ✓ attach any proof or documentation available to support your protest or request additional time to support your protest;
- ✓ sign your statement, include your daytime telephone number and mailing address; and
- ✓ mail to the Kentucky Department of Revenue, Frankfort, Kentucky 40620. 


Conference

You have the right to request a conference to discuss the issue.

Final Ruling

If you do not want to have a conference or if the conference did not resolve your protest, you have the right to request a final ruling of the DOR so that you can appeal your case further.

Appeal

If you do not agree with the DOR's final ruling, you can file a written appeal with the Kentucky Board of Tax Appeals. If you do not agree with the decision of the Kentucky Board of Tax Appeals, you have the right to appeal their ruling to the Kentucky courts (first to the circuit court in your home county or in Franklin County, then to the Kentucky Court of Appeals, and finally to the Kentucky Supreme Court). 

NOTE: The above protest and appeal procedures do not apply for real property which is valued by the local property valuation administrator (PVA). Contact the local PVA for information about how to appeal the valuation of real property.

TAXPAYER OMBUDSMAN

The DOR has a Taxpayer Ombudsman whose job is to serve as an advocate for taxpayers' rights. One of the main functions of the Ombudsman is to ensure that your rights as a Kentucky taxpayer are protected.

Also, an important function of the Taxpayer Ombudsman is to confer with DOR employees when you have a problem or conflict that you have been unable to resolve. However, it is not the role of the Ombudsman to intercede in an audit, handle a protest, waive taxes, penalty or interest, or answer technical tax questions. To file a protest, see PROTEST AND APPEAL PROCEDURE. Please do not mail your protest to the Ombudsman.

The Taxpayer Ombudsman is your advocate and is there to make sure your rights are protected. If you think you are not being treated

fairly or if you have a problem or complaint, please contact the Ombudsman for assistance.

The Taxpayer Ombudsman may be contacted by telephone at (502) 564-7822 (between 8:00 a.m. and 5:00 p.m. weekdays). The mailing address is: Department of Revenue, Taxpayer Ombudsman, P. O. Box 930, Frankfort, Kentucky 40602-0930.

WHERE TO GET ASSISTANCE

The DOR has offices in Frankfort and taxpayer service centers in nine cities and towns throughout Kentucky. DOR employees in the service centers answer tax questions and provide assistance. You may obtain assistance by contacting any of the following:

Ashland Taxpayer Service Center

1539 Greenup Avenue, 41101-7695
(606) 920-2037

Bowling Green Taxpayer Service Center

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

Corbin Taxpayer Service Center

15100 North US25E, Suite 2, 40701-6188
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(270) 687-7301

Paducah Taxpayer Service Center

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

Pikeville Taxpayer Service Center

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

* * * * *

The DOR has an online taxpayer service center where you can download forms, publications, and obtain general information about the department. The address is www.revenue.ky.gov.

The information in this brochure merely summarizes your rights as a Kentucky taxpayer and the responsibilities of the Department of Revenue. The Kentucky Taxpayers' Bill of Rights may be found in the Kentucky Revised Statutes (KRS) at Chapter 131.041-131.083. Additional rights and responsibilities are provided for in KRS 131.020, 131.110, 131.170, 131.1817, 131.183, 131.190, 131.500, 131.654, 133.120, 133.130, 134.580 and 134.590.

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.

Printing costs paid from state funds.

Commonwealth of Kentucky
DEPARTMENT OF REVENUE

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