KRS 154.23-005 to 080

KEOZ

- **Only use this package if you have received approval for the KEOZ credit per KRS 154.23-005 to 080 by the Cabinet for Economic Development.**
- **See instructions.**
- **Attach to form 720, 720S, 765, 765GP, or 725.**

Purpose of Package – Use this package to report KEOZ tax incentives for which your business entity has been approved per KRS 154.23–005 to 80. You must have received preliminary or final approval in accordance with KRS 154.23 on or before June 26, 2009 to determine the credit allowed. Schedule KEOZ-T is used by the company which has entered into an agreement for a Kentucky Economic Opportunity Zone (KEOZ) project to maintain a record of the debt service payments or approved costs, whichever is applicable, wage assessments, and tax credits.

General Instructions – Only include one incentive project per Package KEOZ. If your business entity files a form 720 with the state of Kentucky, you must complete Schedule KEOZ (Page 3) and Schedule KEOZ-T (Page 7). If your business entity files form 720S, 765, 765 GP, or 725, you must complete Schedule KEOZ-SP (Page 5) and Schedule KEOZ-T (Page 7).

First and Last Year Prorations—Tax incentives are only available to be claimed during the term of the incentive agreement. Tax incentives claimed during the first and last years of an incentive agreement must be prorated accordingly. Separate period accounting is recommended, but a proration factor may be used if separate period accounting is not available.

To determine the proration factor in the first year of the incentive agreement, divide the number of days from the activation date until the end of your taxable year by the total number of days in your taxable year. Multiply the total income by the proration factor to determine the project income when separate period accounting is not available.

To determine the proration factor in the last year of the incentive agreement, divide the number of days from the first day of your taxable year through the end of the incentive agreement term by the total number of days in your taxable year. Multiply the total income by the proration factor to determine the project income when separate period accounting is not available.

SCHEDULE **KEOZ**

Commonwealth of Kentucky
Department of Revenue

TAX CREDIT COMPUTATION SCHEDULE (FOR A KEOZ PROJECT OF A CORPORATION)

2017

Taxable Year Ending ______ Mo. Yr.

Name of Corporation	Federal Identification Number	Kentucky Corporation/LLET Account Number
Location of Project City County	Activation Date of KEOZ Incentive Agreement Mo. Day Yr.	Economic Development Project Number

PART I—Computation of LLET Excluding KEOZ Project

1. LLET from Form 720, Part I, line 1	1		00
2. LLET on KEOZ project (see instructions)	2		00
3. LLET excluding LLET on KEOZ project (line 1 less line 2)	3		00

PART II—Computation of Taxable Net Income Excluding Net Income from KEOZ Project and KEOZ Tax Credit

Section A–Computation of Corporation Tax

1. Enter income tax from Form 720, Part II, line 1	1		00
2. LLET of corporation (Part I, line 1)	2		00
3. LLET credit allowed (line 2 less $175, but not more than line 1)	3		00
4. Total corporation tax (lines 1 and 2 less line 3)	4		00

Section B–Computation of Tax Excluding KEOZ Project

1. Enter taxable net income from Form 720, Part III, line 25	1		00
2. Enter net income from KEOZ project; if loss, enter -0-	2		00
3. Taxable net income excluding net income from KEOZ project (line 1 less line 2). If line 2 is greater than line 1, enter -0-	3		00

4. Corporation income tax on amount from line 3:

	Taxable Net Income	Rate	Tax
(a) First $50,000		X 4%	00
(b) Next $50,000		X 5%	00
(c) All income over $100,000		X 6%	00

(d) Total income tax liability excluding KEOZ project (add lines 4(a) through 4(c))	4(d)		00
5. LLET excluding LLET on KEOZ project (Part I, line 3)	5		00
6. Enter LLET from line 5 less $175, but not more than line 4(d)	6		00
7. Total tax excluding KEOZ project (lines 4(d) and 5 less line 6)	7		00
8. Total tax attributable to KEOZ project (Section A, line 4 less Section B, line 7) Continue to Part III and enter this amount on Part III, line 1	8		00

PART III—Limitation

1. Enter tax liability attributable to KEOZ project from Part II, Section B, line 8	1		00
2. Enter limitation from Schedule KEOZ-T, Column G	2		00
3. Allowable KEOZ tax credit (lesser of line 1 or line 2)	3		00

Enter allowable credit on Schedule TCS, Part I, Column E and Column F

➤ *Economic development project* means a project authorized under the Kentucky Rural Economic Development Act (KREDA), Metropolitan College Consortium Tax Credit (MCC), Kentucky Small Business Tax Credit Program (KSBTC), 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), Skills Training Investment Credit Act (STICA), and Incentives for Energy Independence Act (IEIA).

The KEOZ tax credit is applied against the corporation income tax imposed by KRS 141.040 and/or the limited liability entity tax (LLET) imposed by KRS 141.0401. The amount of tax credit against each tax can be different; however, for tracking purposes, the maximum amount of credit used against either tax is the amount that is used for the tax year.

PURPOSE OF SCHEDULE—This schedule is used by a corporation to determine the credit allowed against the Kentucky corporation income tax and LLET attributable to the project per KRS 141.401.

GENERAL INSTRUCTIONS

Part I—Computation of LLET Excluding KEOZ Project

Line 2—Use Schedule L, Line 1(b) of Form 720 to compute the LLET of the KEOZ project using only the Kentucky gross receipts and Kentucky gross profits of the project. If approved for multiple projects, attach a breakdown of each project's LLET computation. In the first and last years of each project, only calculate Kentucky gross receipts and gross profits received during the term of the incentive agreement.

If the corporation has operations other than the KEOZ project, it must attach schedules reflecting the computation of Kentucky gross profits and Kentucky gross receipts from the KEOZ project per KRS 141.401(6)(b)** or KRS 141.401(7)(b).****

Part II—Computation of Taxable Net Income Excluding Net Income from KEOZ Project and KEOZ Tax Credit

Section B

Line 2—Enter net income for KEOZ project. If the corporation's only operation in Kentucky is the KEOZ project, the amount entered on Line 1 must also be entered on Line 2. If the corporation has operations other than the KEOZ project, it must attach schedules reflecting the computation of the net income from the KEOZ project per KRS 141.401(6)(a)* or KRS 141.401(7)(a).*** In the first and last years of each project, only calculate Kentucky net income received during the term of the incentive agreement.

See form for computation.

Part III—Limitation

Calculate KEOZ tax credit based on the corporation's tax liability, tax liability attributable to KEOZ project, and credit limitation from Schedule KEOZ-T. Enter credit on Schedule TCS, Part I, Column E and Column F.

A corporation with more than one economic development project must separately compute the tax credit derived from each project. Complete the applicable tax computation schedules (KREDA, KIDA, KEOZ, KJRA, KIRA, KJDA, KBI, KRA, or IEIA) for each project. A corporation approved for the Skills Training Investment Credit Act (STICA) or Metropolitan College Consortium Tax Credit (MCC) must attach a copy of the certification(s) from the Bluegrass State Skills Corporation. A corporation approved for the Kentucky Small Business Tax Credit Program (KSBTC) must attach a copy of the certification from the Kentucky Economic Development Finance Authority.

Alternative Methods—Per KRS 141.401(8), if the approved company can show that the nature of the operations and activities of the approved company are such that it is not practical to use separate accounting to determine net income, Kentucky gross receipts, or Kentucky gross profits from the facility where the project is located, the approved company must determine net income, Kentucky gross receipts, or Kentucky gross profits attributable to the project using an alternative method approved by the Department of Revenue. Thus, if any method other than separate accounting is used, **a copy of the letter from the Department of Revenue approving the alternative method must be attached to this schedule.**

* Per KRS 141.401(6)(a), if the project is a totally separate facility, net income attributable to the project shall be determined by the separate accounting method.

** Per KRS 141.401(6)(b), if the project is a totally separate facility, Kentucky gross receipts or Kentucky gross profits attributable to the project shall be determined under the separate accounting method reflecting only the Kentucky gross receipts or Kentucky gross profits directly attributable to the facility.

*** Per KRS 141.401(7)(a), if the KEOZ project is an expansion to a previously existing facility, net income attributable to the entire facility shall be determined under the separate accounting method and the net income attributable to the KEOZ project shall be determined by apportioning the separate accounting net income of the entire facility to the KEOZ project income using a formula approved by the Department of Revenue. **A copy of the letter from the Department of Revenue approving the percentage must be attached to this schedule**.

****Per KRS 141.401(7)(b), if the KEOZ project is an expansion to a previously existing facility, Kentucky gross receipts or Kentucky gross profits attributable to the entire facility shall be determined under the separate accounting method and the Kentucky gross receipts or Kentucky gross profits attributable to the KEOZ project shall be determined by apportioning the separate accounting Kentucky gross receipts or Kentucky gross profits of the entire facility to the KEOZ project Kentucky gross receipts or Kentucky gross profits. **A copy of the letter from the Department of Revenue approving the percentage must be attached to this schedule**.

SCHEDULE **KEOZ-SP**

Commonwealth of Kentucky
Department of Revenue

TAX COMPUTATION SCHEDULE
(FOR A KEOZ PROJECT OF A PASS-THROUGH ENTITY)

2017

Taxable Year Ending

______ Mo. Yr.

Name of Pass-through Entity	Federal Identification Number	Kentucky Corporation/LLET Account Number
Location of Project City County	Activation Date of KEOZ Incentive Agreement Mo. Day Yr.	Economic Development Project Number

PART I—Computation of KEOZ Tax Credit and Tax Due

1. Kentucky taxable income on KEOZ project (see instructions)	1		00
2. Net operating loss deduction on KEOZ project	2	( )	00
3. Kentucky taxable income on KEOZ project after net operating loss deduction (line 1 less line 2)	3		00

4. Income tax on amount from line 3:

	Taxable Net Income		Rate	Tax
(a) First $3,000		x	2%	00
(b) Next $1,000		x	3%	00
(c) Next $1,000		x	4%	00
(d) Next $3,000		x	5%	00
(e) Over $8,000 up to $75,000		x	5.8%	00
(f) Over $75,000		x	6%	00

(g) Total income tax liability of KEOZ project (add lines 4(a) through 4(f))	4(g)		00
5. LLET on KEOZ project (see instructions). **Not applicable for Form 765-GP**	5		00
6. LLET credit allowed (line 5 less $175, but not more than line 4(g)). **Not applicable for Form 765-GP**	6		00
7. Total tax on KEOZ project (lines 4(g) and 5 less line 6)	7		00
8. Limitation (Column G from Schedule KEOZ-T)	8		00
9. Enter the lesser of line 7 or line 8 as either: (a) KEOZ tax credit	9(a)		00
or (b) Estimated tax payment and complete election in Part II	9(b)		00
10. If line 7 is larger than line 9(a) or 9(b), enter difference here as a **liability** of the pass-through entity. (Any pass-through entity reflecting a tax liability, complete Tax Payment Summary below and remit payment.)	10		00

PART II—Estimated Tax Election

In accordance with KRS 141.401(4)(b), ______________________________
Name of Pass-through Entity

elects for the taxable year ended ____________ , in lieu of the KEOZ tax credit, to have an amount equal to the lesser of line 7 or line 8 above applied as an estimated tax payment.

➤ ______________________________
Signature of Shareholder, Partner, or Member Date

TAX PAYMENT SUMMARY (Make check payable to Kentucky State Treasurer.)

Tax ____________ Interest ____________ Penalty ____________ **TOTAL** ____________

PURPOSE OF SCHEDULE—This schedule is used by a pass-through entity to determine the credit allowed against the Kentucky income tax and LLET attributable to the project per KRS 141.401.

Pass-through entities should first complete Form 720S, 765, or 765-GP to determine net income (loss), deductions, etc., from the entire operations of the pass-through entity. The pass-through entity should then complete Schedule KEOZ-SP to determine the KEOZ tax credit and the tax due, if any, from the KEOZ project. A pass-through entity is subject to tax per KRS 141.020 and KRS 141.0401 on the net income and the Kentucky gross receipts or Kentucky gross profits from the project and the KEOZ credit is applied against the tax of the KEOZ project. Consequently, the pass-through entity must use Form 720S(K), Form 765(K), or Form 765-GP(K) to exclude the net income from the KEOZ project from the partners, members, or shareholders' distributive share income, and Schedule L, Line 1(b) of Form 720S or Form 765 to exclude Kentucky gross receipts or Kentucky gross profits of the KEOZ project from LLET at the entity level.

Multiple Projects—A pass-through entity with multiple economic development projects must complete the applicable schedules (KREDA-SP, KIDA-SP, KEOZ-SP, KJRA-SP, KIRA-SP, KJDA-SP, KBI-SP, KRA-SP, or IEIA-SP) to determine the credit and net tax liability, if any, for each project.

Line 1—If the pass-through entity's only operation is the KEOZ project, the amount entered on Line 1 is the net income (loss) from Form 720S, 765, or 765-GP. If the pass-through entity has operations other than the KEOZ project, a schedule must be attached reflecting the computation of the net income (loss) from the KEOZ project in accordance with the following instructions, and such amount entered on Line 1. In the first and last years of each project, only calculate Kentucky taxable income received during the term of the incentive agreement.

Separate Facility—Per KRS 141.401(6), if the project is a totally separate facility, net income, Kentucky gross receipts, and Kentucky gross profits attributable to the project must be determined by a separate accounting method.

Expansion of Existing Facility—Per KRS 141.401(7), if the KEOZ project is an expansion to a previously existing facility, the net income, Kentucky gross receipts, and Kentucky gross profits must be determined under a separate accounting method reflecting the entire facility, and the net income, Kentucky gross receipts, and Kentucky gross profits must be determined by apportioning the net income, Kentucky gross receipts, and Kentucky gross profits of the entire facility to the economic development project by a formula approved by the Department of Revenue. **A copy of the letter from the Department of Revenue approving the percentage must be attached to the schedule.**

Alternative Methods—Per KRS 141.401(8), if the approved company can show that the nature of the operations and activities of the approved company are such that it is not practical to use a separate accounting method to determine the net income, Kentucky gross receipts, and Kentucky gross profits from the facility where the economic development project is located, the approved company must use an alternative method approved by the Department of Revenue. **A copy of the letter from the Department of Revenue approving the alternative method must be attached to this schedule.**

Separate Accounting—If the economic development project is a totally separate facility, net income must reflect only the gross income, deductions, expenses, gains, and losses allowed under this chapter directly attributable to the facility and overhead expenses apportioned to the facility; and Kentucky gross receipts or Kentucky gross profits must reflect only Kentucky gross receipts or Kentucky gross profits directly attributable to the facility.

If the economic development project is an expansion to a previously existing facility, net income of the entire facility must reflect only the gross income, deductions, expenses, gains, and losses allowed under this chapter directly attributable to the facility and overhead expenses apportioned to the facility; and Kentucky gross receipts and Kentucky gross profits must reflect only Kentucky gross receipts and Kentucky gross profits directly attributable to the facility. Net income, Kentucky gross receipts, and Kentucky gross profits of the entire facility attributable to the economic development project must be determined by apportioning the net income, Kentucky gross receipts, and Kentucky gross profits by a formula approved by the Department of Revenue.

Line 2—Enter the net operating loss from the KEOZ project, if any, being carried forward from previous years.

Note: Just as the income from a KEOZ project does not flow through to partners, members, or shareholders, neither do the losses. The project's net operating loss from prior years must be subtracted from the project income before calculating the KEOZ credit.

General Partnership—Lines 5 and 6 of this schedule should not be completed by a general partnership as a general partnership is not subject to LLET.

Line 5—Use Schedule L, Line 1(b) of Form 720S or Form 765 to compute the LLET of the KEOZ project using only the Kentucky gross receipts and Kentucky gross profits of the project. If approved for multiple projects, attach a breakdown of each project's LLET computation. In the first and last years of each project, only calculate Kentucky LLET received during the term of the incentive agreement.

Line 9—In lieu of the tax credit, the approved company may elect, on an annual basis, to apply as an estimated tax payment an amount equal to the allowable tax credit. Any estimated tax payment must be in satisfaction of the tax liability of the partners, members, or shareholders of the pass-through entity, and must be paid on behalf of the partners, members, or shareholders. Enter an amount on either (a) or (b), but in no case should there be an entry on both (a) and (b). Per KRS 141.401(5), this estimated tax payment is excluded in determining each partner, member, or shareholder's distributive share income or credit from a pass-through entity. Accordingly, the partners, members, or shareholders are not entitled to claim any portion of this estimated tax payment against their Kentucky income tax liability.

SCHEDULE **KEOZ-T**

Commonwealth of Kentucky
Department of Revenue

TRACKING SCHEDULE FOR A KEOZ PROJECT

2017

Name of Entity

Entity Type ☐ Corporation ☐ Limited Liability Pass-through Entity ☐ General Partnership ☐ Other	Federal Identification Number	Kentucky Corporation/LLET Account Number
Location of Project City County	Activation Date of KEOZ Incentive Agreement Mo. Day Yr.	Economic Development Project Number

Check One: ☐ Service or Technology Agreement ☐ Tax Incentive Agreement

Note that Columns B and C apply only to service or technology agreements and Columns D and E apply only to tax incentive agreements.

A Taxable Year Ended	B Balance of Approved Costs	C 50 Percent of Approved Annual Rental Payments	D Excess Debt Service Payment (Col. G–Col. H) from Prior Year)	E Debt Service Payment	F Employee Wage Assessments Withheld	G KEOZ Tax Credit Limitation	H KEOZ Tax Credit Claimed
	+			−	=		
	+		+	−	=		
	+		+	−	=		
	+		+	−	=		
	+		+	−	=		
	+		+	−	=		
	+		+	−	=		
	+		+	−	=		
	+		+	−	=		
	+		+	−	=		

PURPOSE OF SCHEDULE—This schedule is used to maintain a record of the debt service payments, wage assessments, approved costs, and tax credits (income tax and LLET) for the duration of the agreement. This information is necessary for the company to determine the limitation of the tax credit for each year of the agreement and to allow the Kentucky Department of Revenue to verify that the credit has been properly computed.

GENERAL INSTRUCTIONS

A separate Schedule KEOZ-T, Tracking Schedule for a KEOZ Project, must be maintained for the duration of each KEOZ project. Beginning with the first tax year of the KEOZ agreement, complete Columns A through H using a separate line for each year of the agreement. **Note that Columns B and C apply only to service and technology agreements and Columns D and E apply only to manufacturing agreements.** The company must attach a copy of this schedule updated with current year information to the Schedule KEOZ or Schedule KEOZ-SP which is filed with the Kentucky tax return.

For Form 720, all tax credits are entered on Schedule TCS, Tax Credit Summary Schedule. The total tax credits calculated may exceed the amount that can be used. Credits must be claimed in the order prescribed by KRS 141.0205. Total credits claimed cannot reduce the LLET below the $175 minimum nor the income tax below zero.

Activation Date of KEOZ Incentive Agreement—Enter the date established by the approved company as the activation date for implementation of the inducements authorized by the agreement. The 10-year period for the term of the agreement begins from the activation date.

SPECIFIC INSTRUCTIONS

Column A—Enter on each line the ending date (month, day and year) of the tax year for which the information requested in Columns B through H is entered.

Column B—For the taxable year that includes the activation date of the service and technology agreement, enter 50 percent of the total start-up costs as verified by the Kentucky Economic Development Finance Authority. For each year thereafter, if the amount entered in Column G for the prior year exceeds the amount entered in Column H for the prior year, enter the difference. If the amount entered in Column H for the prior year equals the amount entered in Column G for the prior year, enter zero (-0-).

Column C—Enter 50 percent of rental payments made during the taxable year as set forth in the service and technology agreement.

Column D—This column applies only to tax incentive agreements. This column will always be blank for the first taxable year of the agreement. For each year thereafter, if the amount entered in Column G for the prior year exceeds the amount entered in Column H for the prior year, enter the difference. If the amount entered in Column H for the prior year equals the amount entered in Column G for the prior year, enter zero (-0-).

Column E—This column applies only to tax incentive agreements. Enter the total amount of debt service payment made during the taxable year. Debt service payment includes both principal and interest paid per the agreement.

Column F—Enter the total amount of employee wage assessments (both the state and local portion) withheld from the salaries of employees during the taxable year.

Column G—Enter the result of adding the amounts entered in Columns B, C, D, and E and subtract the amount entered in Column F. Also, enter on Schedule KEOZ, Part **III**, Line 2 or Schedule KEOZ-SP, Part **I**, Line 8, whichever is applicable.

Column H—The tax credit calculated for each tax can be different; however, for tracking purposes, the maximum amount used against either tax is recorded as the amount claimed. Enter the greater of Column E or Column F from Schedule TCS for this project.