PACKAGE **KESA**

Kentucky Environmental Stewardship Act (KESA) Tax Credit

2017

KRS 154.48-010 to 035

KESA

- **Only use this package if you have received approval for the KESA credit per KRS 154.48-010 to 035 by the Cabinet for Economic Development.**
- **See instructions.**
- **Attach to form 720, 720S, 765, 765GP, or 725.**

Purpose of Package – Use this package for taxable years ending on or after June 4, 2010, to report KESA tax incentives for which your business entity has been approved per KRS 154.48–010 to 035. You must have received preliminary or final approval in accordance with KRS 154.48 to determine the credit allowed. Schedule KESA-T is used by the company which has an agreement for a Kentucky Environmental Stewardship Act (KESA) project to maintain a record of the balance of approved costs and tax credits.

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

TAX CREDIT COMPUTATION SCHEDULE (FOR A KESA 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 KESA Incentive Agreement Mo. Day Yr.	Environmental Stewardship Project Number

PART I—Base Year Net Tax

1. Compute the tax imposed by KRS 141.040	1		00
2. Compute the tax imposed by KRS 141.0401	2		00
3. LLET credit permitted by KRS 141.0401(3)	3		00
4. Base year tax (total of lines 1 and 2 less line 3)	4		00
5. Base year net tax (enter 50% of line 4)	5		00

PART II—Current Year Net Tax

1. Compute the tax imposed by KRS 141.040	1		00
2. Compute the tax imposed by KRS 141.0401	2		00
3. LLET credit permitted by KRS 141.0401(3)	3		00
4. Current year net tax (total of lines 1 and 2 less line 3)	4		00

PART III—KESA Credit

1. Enter credit available: (Part II, Line 4, less Part I, Line 5; if less than -0-, enter -0-)	1		00
2. Enter 25% of total authorized inducement per KESA agreement	2		00
3. Enter allowable LLET credit on Schedule TCS, Part II, Column E	3		00
4. Enter allowable income tax credit on Schedule TCS, Part II, Column F	4		00

The KESA 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. For tracking purposes, the maximum amount of credit used against either tax is the amount that is entered on Schedule KESA-T, Column C for this taxable year. This is the greater of Part III, Line 3 or Part III, Line 4.

The KESA 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 environmental stewardship tax credit allowed against the corporation income tax and LLET attributable to the project per KRS 141.430.

KRS 141.430(2) provides that for each taxable year beginning with the year in which the activation date defined in KRS 154.48–010(1) occurs and ending with the year in which the project terminates, a corporation's environmental stewardship tax credit is determined by subtracting the base year tax from the current year combined corporation income tax and LLET; however, the tax credit claimed for any single tax year cannot exceed 25% of the total authorized inducement. The base year tax is the combined corporation income tax and LLET for the first taxable year after December 31, 2005, that ends immediately prior to the activation date. If the base year is for a taxable year beginning before January 1, 2007, the LLET will not apply. For taxable years ending on or after June 4, 2010, the base year tax is reduced by fifty percent (50%).

GENERAL INSTRUCTIONS

Part I—Base Year Net Tax

Enter the tax computed before the application of any tax credits.

Line 1—This is the income tax imposed by KRS 141.040 on the taxable net income of the corporation for the base year.

Line 2—This is the LLET imposed by KRS 141.0401 on the corporation for the base year (not applicable for years beginning before January 1, 2007).

Line 3—This is the LLET credit permitted by KRS 141.0401(3) for the base year (not applicable for years beginning before January 1, 2007).

Part II—Current Year Net Tax

Enter the tax computed before the application of any tax credits.

Line 1—This is the income tax imposed by KRS 141.040 on the taxable net income of the corporation for the current taxable year.

Line 2—This is the LLET imposed by KRS 141.0401 on the corporation for the current taxable year.

Line 3—This is the LLET credit permitted by KRS 141.0401(3) for the current taxable year.

Part III—KESA Credit

Line 3—This is the lesser of Part III, Line 1 or Line 2, but not more than the amount of credit allowed against the LLET.

Line 4—This is the lesser of Part III, Line 1 or Line 2, but not more than the amount of credit allowed against the income tax.

For this taxable year, enter on Schedule KESA-T, Column C the greater of Part III, Line 3 or Part III, Line 4.

SCHEDULE **KESA-SP**

Commonwealth of Kentucky
Department of Revenue

TAX CREDIT COMPUTATION SCHEDULE (FOR A KESA 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 KESA Incentive Agreement Mo. Day Yr.	Environmental Stewardship Project Number

PART I—Base Year Net Tax

1. Compute the tax imposed by KRS 141.020	1		00
2. Compute the tax imposed by KRS 141.0401. **Not applicable for Form 765-GP**	2		00
3. LLET credit permitted by KRS 141.0401(3). **Not applicable for Form 765-GP**	3		00
4. Base year tax (total of lines 1 and 2 less line 3)	4		00
5. Base year net tax (enter 50% of line 4)	5		00

PART II—Current Year Net Tax

1. Compute the tax imposed by KRS 141.020	1		00
2. Compute the tax imposed by KRS 141.0401. **Not applicable for Form 765-GP**	2		00
3. LLET credit permitted by KRS 141.0401(3). **Not applicable for Form 765-GP**	3		00
4. Current year net tax (total of lines 1 and 2 less line 3)	4		00

PART III—KESA Credit

1. Enter credit available: (Part II, Line 4 less Part I, Line 5; if less than -0-, enter -0-)	1		00
2. Enter 25% of total authorized inducement per KESA agreement	2		00
3. Enter the lesser of line 1 or line 2, and enter this amount on Schedule TCS, Part II, Column E and on Schedule K of Form 720S, 765, or 765-GP	3		00

The KESA tax credit is applied against the income tax imposed by KRS 141.020 or KRS 141.040 and the limited liability entity tax (LLET) imposed by KRS 141.0401. The amount of tax credit against each tax can be different.

The KESA tax credit is applied against the income tax imposed by KRS 141.020 or KRS 141.040 and the limited liability entity tax (LLET) imposed by KRS 141.0401. The amount of tax credit against each tax can be different.

PURPOSE OF SCHEDULE—This schedule is used by a pass-through entity to determine the environmental stewardship tax credit allowed against the LLET attributable to the project per KRS 141.430 and distributed to the partners, members, or shareholders.

KRS 141.430(2) provides that for each taxable year beginning with the year in which the activation date defined in KRS 154.48–010(1) occurs and ending with the year in which the project terminates, a limited liability pass-through entity's environmental stewardship tax credit is determined by subtracting the base year tax from the current year combined individual income tax and LLET; however, the tax credit claimed for any single tax year cannot exceed 25% of the total authorized inducement. The base year tax is the combined individual income tax and LLET for the first taxable year after December 31, 2005, that ends immediately prior to the activation date. If the base year is for a taxable year beginning before January 1, 2007, the LLET will not apply. For taxable years ending on or after June 4, 2010, the base year tax is reduced by fifty percent (50%).

GENERAL INSTRUCTIONS

Part I—Base Year Net Tax

Enter the tax computed before the application of any tax credits.

Line 1—This is the income tax imposed by KRS 141.020 on the taxable net income of the pass-through entity for the base year.

Line 2—This is the LLET imposed by KRS 141.0401 on the limited liability pass-through entity for the base year (not applicable for years beginning before January 1, 2007).

Line 3—This is the LLET credit permitted by KRS 141.0401(3) for the base year (not applicable for years beginning before January 1, 2007).

Part II—Current Year Net Tax

Enter the tax computed before the application of any tax credits.

Line 1—This is the income tax imposed by KRS 141.020 on the taxable net income of the pass-through entity for the current taxable year.

Line 2—This is the LLET imposed by KRS 141.0401 on the limited liability pass-through entity for the current taxable year.

Line 3—This is the LLET credit permitted by KRS 141.0401(3) for the current taxable year.

Part III—KESA Credit

Line 3—This is the lesser of Part III, Line 1 or Line 2.

For this taxable year, enter on Schedule KESA-T, Column C the greater of Part III, Line 3 or the tax credit allowed against the applicable tax.

SCHEDULE **KESA-T**

Commonwealth of Kentucky
Department of Revenue

TRACKING SCHEDULE FOR A KESA 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 KESA Incentive Agreement Mo. Day Yr.	Environmental Stewardship Project Number

A Taxable Year Credit Taken (Month/Year)	**B** Balance of Approved Costs		**C*** Environmental Stewardship Credit Claimed	
1.		**00**		**00**
2.		**00**		**00**
3.		**00**		**00**
4.		**00**		**00**
5.		**00**		**00**
6.		**00**		**00**
7.		**00**		**00**
8.		**00**		**00**
9.		**00**		**00**
10.		**00**		**00**
11.		**00**		**00**

* *The maximum amount of credit claimed by an approved company for any single taxable year cannot exceed twenty-five percent (25%) of the total approved costs.*

PURPOSE OF SCHEDULE—This schedule is used to maintain a record of the balance of approved costs and credits claimed 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 KESA-T, Tracking Schedule for a KESA Project, must be maintained for the duration of each KESA project. Beginning with the tax year of activation, complete Columns A through C using a separate line for each year of the agreement. The company must attach a copy of this schedule updated with current year information to the Schedule KESA or Schedule KESA-SP which is filed with the Kentucky income 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 liability below zero.

KRS 154.48-025(5) provides that the carryover of inducements must not be longer than the earlier of: (a) the date on which the approved company has received inducements equal to the approved costs of its project; or (b) ten (10) years 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 and C is entered.

Column B—Enter the total authorized inducement for the tax year of activation. For each year thereafter, if the amount entered in Column B for the prior year exceeds the amount entered in Column C for the prior year, enter the difference. If the amount entered in Column C for the prior year equals the amount entered in Column B for the prior year, enter zero (-0-).

Column C—The tax credit calculated for each tax can be different; however, for tracking purposes, the maximum amount used against either tax is recorded as amount claimed. Enter the greater of Column E or Column F from Schedule TCS for this project. The maximum amount of KESA credit claimed by an approved company for any single taxable year cannot exceed twenty-five percent (25%) of the total approved costs.