

**KENTUCKY GENERAL PARTNERSHIP  
INCOME RETURN****2019****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). Form 765-GP is complementary to the federal form 1065.

**KENTUCKY TAX LAW CHANGES**

**Enacted by the 2019 Regular Session of the General Assembly**—Kentucky clarified and modified several of the tax changes passed in 2018. The Department of Revenue (“Department”) has guidance at <https://revenue.ky.gov/TaxProfessionals/Pages/default.aspx>.

**Internal Revenue Code (IRC) Update**—House Bill (HB) 354 updated the Internal Revenue Code (IRC) reference date to December 31, 2018 for taxable years beginning on or after January 1, 2019.

**Estimated Tax Payment Requirements**—2019 estimated tax rules and penalties changed to generally follow federal for corporations and pass-through entities. Estimated payments are broken into four equal payments of 25% of the estimated tax. These payments are due April 15, June 15, September 15, and December 15 each year. Estimated payments are due for fiscal year filers on the 15th day of the 4th, 6th, 9th, and 12th months each year. Annualization and adjusted seasonal installment methods are now allowed for Kentucky estimated tax payment purposes. The declaration penalty has been replaced with an addition to tax penalty that mirrors the federal penalty for late or underpaid estimated tax payments.

**Seven-month Extensions for C Corporations**—C corporations requesting an extension of time to file (on Form 720EXT) on or after June 27, 2019 will now be granted seven (7) months (from the previous six months) to file their tax return.

**Unitary Combined Filing Required**—Corporations doing business in Kentucky that are part of a unitary business must begin filing combined returns for tax years beginning on or after January 1, 2019, unless they elect to file a same-as-federal affiliated group consolidated return. Unitary combined filers should use the new Form 720U and accompanying schedules.

**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](http://www.revenue.ky.gov).

- **Net Operating Losses (NOL)**—HB 458 allows NOLs to be shared among taxpayer members of a combined group, subject to certain limitations.
- **“Common control” defined**—Corporations within a combined group must be more than 50% owned by another corporation within the group.
- **Intercompany eliminations**—Intercompany transactions should be eliminated in the calculation of combined income and gross receipts.
- **Includible entities.** HB 354 and HB 458 clarified the definitions of “water’s edge”, “tax haven”, and other provisions affecting which companies are included in the combined group. **KRS 141.202**
- **Regulatory guidance.** The department proposed a regulation, 103 KAR 16:400, to provide taxpayers additional guidance on unitary combined filing.

**Elective Consolidated Returns**—The election period was shortened to 48 months (from the previous 96 months). To make the election, the common parent of the affiliated group must attach the Kentucky Form 722 to the return on or before the due date of the return, including extensions, for the first tax year the election is made. A copy of the initial election must be attached to the return for each year in which the election is effective.

**Tax Credit Changes:**

**Inventory Tax Credit**—The inventory tax credit increases to 50% of the ad valorem (tangible personal property) tax timely paid in 2019. Rental heavy equipment is now subject to ad valorem tax and thus is eligible for the credit.

**Kentucky Revised Statutes**—Kentucky Revised Statutes are referred to in these instructions as “KRS” and can be found online at [www.lrc.ky.gov/statutes](http://www.lrc.ky.gov/statutes) .

**Kentucky Administrative Regulations**—Kentucky Administrative Regulations are referred to in these instructions as “KAR” and can be found online at [www.lrc.ky.gov/kar/titles.htm](http://www.lrc.ky.gov/kar/titles.htm) .

## CURRENT YEAR INTEREST RATE

Pursuant to KRS 131.183, the 2020 tax interest rate has been set at five percent (5%). The rate charged by the Kentucky Department of Revenue on unpaid taxes is seven percent (7%) and when interest is due on a refund, the rate is three percent (3%).

## KENTUCKY FORM CHANGES

### New:

**Form 720U**—Unitary combined filers should use the new Form 720U and accompanying schedules included in the 720U packet to file their returns.

**Form 722**—Use Form 722 to elect to file a consolidated return including all members of the federal affiliated group. To make the election, the common parent of the affiliated group must attach the Kentucky Form 722 to the return on or before the due date of the return,

including extensions, for the first tax year the election is made. A copy of the initial election must be attached to the return for each year in which the election is effective.

### Updated:

**Form 2220-K**—Updated to include estimated tax rules and penalty changes to follow federal rules for corporations and pass-through entities. Annualization and adjusted seasonal installment methods are now allowed for Kentucky estimated tax payment purposes. The declaration penalty has been replaced with an addition to tax penalty that mirrors the federal penalty for late or underpaid estimated tax payments.

**Form 720ES**—Updated to include estimated tax changes to generally follow federal dates for corporations and pass-through entities. Estimated payments are broken into four equal payments of 25% of the estimated tax. These payments are due April 15, June 15, September 15, and December 15 each year. Estimated payments are due for fiscal year filers on the 15th day of the 4th, 6th, 9th, and 12th months each year. Annualization and adjusted seasonal installment methods are now allowed for Kentucky estimated tax payment purposes.

**KIRA-SP, KJDA-SP, KJRA-SP, and KBI-SP**—Updated to request the amount of credit claimed for local wage assessments.

**Forms 725, 725-EZ, and 765**—Updated to include income tax payment summary.

**Schedule INV**—Updated to include Section A to report the Timely Inventory Tax Paid per local bills.

## Electronic Filing FAQs and Helpful Tips

- **Mandatory E-File if Gross Receipts  $\geq$  \$1,000,000**—For tax years beginning on or after January 1, 2019, corporations and pass-through entities are required to e-file if their federal gross receipts are one million dollars (\$1,000,000) or greater. This applies to Forms 720, 720S, 720U, 765, 765GP, 725, and 725EZ. **KRS 131.250(2)(g)**
- If your return is rejected for an invalid Kentucky Corporation/LLET Account Number or Federal Employer Identification Number (FEIN), please complete Form 20A100, "Declaration of Representative," and contact our **Registration Section at 502-564-3306** for instructions on how to obtain an account number.
- To determine which forms are supported by your software, please check with the company that develops your software.

## 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:

- **Filing Form**—Only a general partnership should file Form 765-GP. All other partnerships should file Form 765.
- **Payment—No money is due with a Form 765-GP.**
- **Account Number**—Always ensure the correct Federal Identification Number is used on the return being filed.
- **Extensions**—Extensions are for extending the filing date only; late filing penalties may apply to returns filed after the extended due date.
- **Corrected K-1's**—Adjustments to LLET or distributive share require that corrected Kentucky K-1's are sent to all partners, members, or shareholders for proper compliance by taxpayers.
- **Schedule A**—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.
- **Incorrect Year Forms**—Returns submitted on the wrong year form, on or before the due date, will be accepted as timely filed, but will require the return to be revised on the correct year form before the return can be processed.
- **Additional errors that delay processing returns:**
  - Incomplete form submitted
  - Incomplete information
  - Missing forms or schedules
  - Incorrect taxable year end

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

**Depreciation**—For property placed in service after September 10, 2001, Kentucky depreciation (§168) is determined per the Internal Revenue Code (IRC) in effect on December 31, 2001.

**Section 179 Deduction**—For property placed in service after September 10, 2001, but prior to January 1, 2020, only the expense deduction (\$25,000) allowed under §179 of the IRC in effect on December 31, 2001, exclusive of any amendments made subsequent to that date, is allowed.

For property placed in service on or after January 1, 2020, only the expense deduction (\$100,000) allowed under §179 of the IRC in effect on December 31, 2003, exclusive of any amendments made subsequent to that date, is allowed.

For 2019 returns, 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 IRC §179 expense deduction for Kentucky:

- MACRS bonus depreciation;
- IRC §179 expense deduction in excess of \$25,000 for property placed in service after September 10, 2001, but prior to January 1, 2020; or
- IRC §179 expense deduction in excess of \$100,000 for property placed in service on or after January 1, 2020.

If a general partnership has taken MACRS bonus depreciation or IRC §179 expense deduction in excess of the amounts outlined above 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 IRC §179 expense deduction in excess of the amounts outlined above 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 IRC §179 Deduction Differences—federal/Kentucky depreciation or IRC §179 deduction differences must 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 (§168) per the IRC in effect on December 31, 2001, by ignoring the lines and instructions regarding the special depreciation allowance. **NOTE:** For Kentucky purposes, for property placed into service between September 10, 2001 and December 31, 2019, the maximum IRC §179 deduction

amount on Line 1 is \$25,000 and the threshold cost of IRC §179 property on Line 3 is \$200,000. For Kentucky purposes, for property placed into service on or after January 1, 2020, the maximum IRC §179 deduction amount on Line 1 is \$100,000 and the threshold cost of IRC §179 property on Line 3 is \$400,000. The maximum allowable IRC §179 deduction for Kentucky purposes is reduced dollar-for-dollar by the amount by which the cost of qualifying IRC §179 property placed in service during the year exceeds the threshold. In determining the IRC §179 deduction for Kentucky, the income limitation on Line 11 should be determined by using Kentucky net income before the IRC §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 IRC §179 deduction on Line 12 must be included on Form 765-GP, Part I, Line 8. The IRC §179 deduction from the Kentucky Form 4562, Line 12 must be included on Form 765-GP, Schedule K, Section A, Line 9. A Kentucky Form 4562 must be filed for each year, even though a federal Form 4562 may not be required.

**Schedule 4797 and Schedule D**

**Gains/Losses from Disposition of Assets—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 IRC §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 A, Line 4(d) or 7. Enter the amount from Kentucky Schedule D, Line 15 on Form 765-GP, Schedule K, Section A, 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. A nonresident partner's distributive share income is reported by the general partnership on a nonresident withholding return.

Resident partners of a general partnership must report and pay tax on the distributive share of net income, gain, loss, or deduction. Nonresident partners of a general partnership must report and pay tax on the distributive share of net income, gain, loss, or deduction multiplied by the apportionment fraction per KRS 141.206(11)(b). **KRS 141.206(7) and (8)**

**If the general partnership is a partner or member of a limited liability pass-through entity doing business in Kentucky, the general partners are entitled to an LLET credit against taxes imposed by KRS 141.020 or KRS 141.040 and KRS 141.0401.** The LLET credit is 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 may 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 will be disallowed. **KRS 141.0401(3)**

**GENERAL INFORMATION**

**Internal Revenue Code Reference Date**— Kentucky's Internal Revenue Code (IRC) reference date is December 31, 2018, exclusive of any amendments made subsequent to that date, other than amendments that extend provisions in effect on December 31, 2018, that would otherwise terminate, for purposes of computing corporation and individual income tax, except for depreciation differences per KRS 141.0101.

**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(7) and KRS 141.206(1)**

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

**Pass-through Entities**—A pass-through entity doing business in Kentucky solely as a partner or member in a pass-through entity will file Form 765-GP per KRS 141.010, KRS 141.120, and KRS 141.206. (See Schedule A- Apportionment and Allocation Instructions.)

**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 per KRS 141.010(22).**

KRS 141.206(4) provides that for taxable years beginning on or after January 1, 2019, every pass-through entity required to file a return under KRS 141.206(1), except publicly traded partnerships defined in KRS 141.0401(6)(a)18 and (b)14, must 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 is at the highest rate provided in KRS 141.020 or KRS 141.040.

Withholding is not required if: (a) the partner, member, or shareholder is exempt from withholding per KRS 141.206(6)(a); (b) the partner or member is exempt from Kentucky income tax per KRS 141.040(1); (c) the pass-through entity is a qualified investment partnership per KRS 141.206(14), 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, 2019, a pass-through entity required to withhold or file a Composite return on Kentucky income tax per KRS 141.206 must make estimated tax payments if required by KRS 141.206(5). If the pass-through entity is required to make estimated tax payments for taxable years beginning on or after January 1, 2019, 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 rate of five percent (5%) will 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 must 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(15)). 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 credits and deductions.

A pass-through entity must file Form 740NP-WH and complete a Form PTE-WH for each nonresident individual, estate, or trust partner, member, or shareholder; or corporate partner or member. Form 740NP-WH with Copy A of each Form PTE-WH must be filed and paid by the 15<sup>th</sup> day of the fourth month following the close of the taxable period. Provide copies B and C of Form PTE-WH to the partner, member, or shareholder.

**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. Cost of Goods Sold (Schedule COGS)
5. Application for Extension of Time to File Individual, General Partnership and Fiduciary Income Tax Returns for Kentucky (Form 40A102)
6. Related Party Costs Disclosure Statement (Schedule RPC)
7. 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)**

**Mail the return to:**

Kentucky Department of Revenue  
Frankfort, KY 40620

**Extensions**—A six-month extension of time to file a general partnership income return may be obtained by filing Form

40A102, Application for Extension of Time to File Individual, General Partnership, and Fiduciary Income Tax Returns for Kentucky, 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. 103 KAR 15:050**

**Federal Extension**—A partnership granted an extension of time for filing a federal income tax return will be granted the same extension of time for filing a Kentucky income and LLET return for the same taxable year if a copy of the federal Form 7004 is attached to the Kentucky return when it is filed. A copy of the federal Form 7004 should not be mailed to the Department of Revenue before filing the return.

**Amended Return**—To correct Form 765–GP as originally filed, file an amended Form 765–GP and check the appropriate box on page 1, Item C. 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 an Internal Revenue Service audit must submit copies of the “final determinations of the federal audit” within 180 days of the conclusion of the federal audit. Use Form 765–GP for reporting federal audit adjustments, check the Amended Return box, and attach the complete Revenue Agent Report (RAR).

**Mail returns with federal audit adjustments (RAR) to:**

Corporate Governmental Programs Section  
P. O. Box 1074, Station 68  
Frankfort, KY 40602-1074

**GENERAL INSTRUCTIONS (FORM 765-GP)**

Enter the general partnership’s federal identification number. See federal Publication 583 if the general partnership has not obtained this number.

**Item A—**

**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.

**Change of Name**—Check the applicable box if the general partnership’s name has changed since the filing of the prior year Kentucky tax return. Attach a statement to the tax return providing the general partnership’s name reflected on the prior year Kentucky tax return.

**Period Covered**—File the 2019 return for calendar year 2019 and fiscal years that begin in 2019. For a fiscal year, fill in the taxable period beginning and ending at the top of Form 765–GP.

**NOTE:** For 52/53 week filers, fill in the taxable period beginning and ending dates as specified below:

- Begin on the first day of the calendar month beginning nearest to the first day of the 52/53-week tax year.
- End on the last day of the calendar month ending nearest to the last day of the 52/53-week tax year.

**All partnerships must enter Taxable Year Ending at the top right of Form 765** and supporting forms and schedules to indicate the ending month and year for which the return is filed.

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

$$\frac{12}{MM} / \frac{19}{YY}$$

- A fiscal year is 12 consecutive months ending on the last day of any month except December. A fiscal year ending January 31, 2020, would be entered as:

$$\frac{01}{MM} / \frac{20}{YY}$$

- A 52/53-week year is a fiscal year that varies between 52 and 53 weeks. Example: A 52/53-week year ending the first week of the month would be entered as the month and year of the prior month. If it ends the first week of January 2020, the taxable year ending would be entered as:

$$\frac{12}{MM} / \frac{19}{YY}$$

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

**Date Commenced or Qualified**—Enter the date the entity's business commenced or qualified.

**Principal Business Activity in Kentucky**—Enter the entity's principal business activity in Kentucky.

**North American Industrial Classification System (NAICS)**—Enter your six-digit NAICS code. To view a complete listing of NAICS codes, visit the Census Bureau Web site at [www.census.gov/eos/www/naics](http://www.census.gov/eos/www/naics).

**Telephone Number**—Enter the business telephone number of the general partner or chief financial officer signing this return.

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

**Item C**—Check the applicable boxes:

- (a) *Initial Return*—This is the general partnership's first time filing a return in Kentucky. Complete questions 1 and 2 on Schedule Q—Kentucky General Partnership Questionnaire.

- (b) *Publicly Traded Partnership*—This partnership is a publicly traded partnership as provided by KRS 141.0401(6)(r).
- (c) *Qualified Investment Partnership*—The general partnership is a qualified investment partnership per KRS 141.206(14)(a).
- (d) *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.
- (e) *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.
- (f) *Amended Return*—This is an amended tax return. Provide an explanation of all changes in Part III – Explanation of Amended Return Changes.

#### Item D—Provider 3-Factor Apportionment Code

If the entity is a provider as defined in KRS 141.121(1)(e), enter one of the following two-digit codes in the space provided. The apportionment fraction for a provider continues to be calculated using a three (3)-factor formula as provided in KRS 141.901 for tax years beginning on or after January 1, 2018.

**Failure to include a valid code will delay the processing of the tax return and may result in a tax notice for assessment of taxes and penalties.**

REASON CODE	PROVIDER BUSINESS
31	Communications service as defined in KRS 136.602;
32	Cable service as defined in KRS 136.602;
33	Internet service as defined in 47 U.S.C. sec. 151; or
34	Other (attach statement)

**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, 2018, except for differences provided in KRS 141.010 and KRS 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 IRC §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 141.039(2)(c)**

**Line 3**—See instructions on page 4 regarding depreciation and IRC §179 deduction differences, and if applicable, include the depreciation amount from Line 16a of Form 1065 (do not include the IRC §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 6**— Enter the total of Lines 1 through 5.

**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 IRC §179 deduction). See instructions on page 4 regarding depreciation and IRC §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 7.

**Line 10**— Enter the total of Lines 7 through 9.

**Line 11**— Enter Line 6 less Line 10.

**SCHEDULE Q**—Answer all applicable questions on Schedule Q.

**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.

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 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).

**SECTION A—Income (Loss) and Deductions**

**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.

**Line 4(b)**—Enter the amount of dividend income reported on federal Schedule K, Form 1065.

**Line 4(c)**—Enter the amount of 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 17 of the Kentucky Form 4797, and **Kentucky Form 4797 must be attached to Form 765–GP.** Otherwise, enter net gain (loss) under IRC §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 percentage limitations of each category. These percentage limitations must be applied to the Kentucky amounts rather than the federal amounts.

**Line 9**—See instructions on page 4 regarding **depreciation and IRC §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 IRC §179 deduction from federal Form 4562.

**Line 10**—Enter the expense deductions 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 included on Line 10, Schedule K, Form 765-GP. See federal instructions for Schedule K, Form 1065.

**Line 13**—Use the following codes for tax credits passed through to the partnership's owners.

**KSBTC**—Kentucky Small Business tax credit per KRS 141.384; attach a copy of the Kentucky Economic Development Finance Authority notification

**STICA**—Skills Training Investment Credit Act tax credit per KRS 141.405; attach copy of the Bluegrass State Skills Corporation certification(s)

**CR**—Certified Rehabilitation tax credit per KRS 171.397; attach a copy of the Kentucky Heritage Council certification(s)

**UTC**—Kentucky Unemployment tax credit per KRS 141.065; attach Schedule UTC

**RC**—Recycling/Composting Equipment tax credit per KRS 141.390; attach Schedule RC

**KIFA**—Kentucky Investment Fund tax credit per KRS 154.20-258; attach a copy of the Kentucky Economic Development Finance Authority notification with the credit amount granted and the first year the credit may be claimed

**QR**—Qualified Research facility tax credit per KRS 141.395; attach Schedule QR

**GED**—GED incentive tax credit per KRS 151B.402; attach GED-Incentive Program Final Report (Form DAEL-31) for each employee that completed a learning contract during the year

**VERB**—Voluntary Environmental Remediation tax credit per KRS 141.418; attach Schedule VERB

**BIO**—Biodiesel tax credit per KRS 141.424; attach Schedule BIO

**CCI**—Clean Coal Initiative tax credit per KRS 141.428; attach Schedule CCI

**ETH**—Ethanol tax credit per KRS 141.4242; attach Schedule ETH

**CELL**—Cellulosic Ethanol tax credit per KRS 141.4244; attach Schedule CELL

**RR-I**—Railroad Maintenance and Improvement tax credit per KRS 141.385; attach Schedule RR-I

**RR-E**—Railroad Expansion tax credit per KRS 141.386; attach Schedule RR-E

**ENDOW**—ENDOW Kentucky tax credit per KRS 141.438; attach Schedule ENDOW

**NMDP**—New Markets Development Program tax credit per KRS 141.434; attach Form 8874(K)-A

**DS**—Distilled Spirits tax credit per KRS 141.389; attach Schedule DS

**FILM**—Film industry tax credit per KRS 141.383; attach film office certification

**INV**—Inventory tax credit per KRS 141.408; attach Schedule INV

**Line 14**—Enter the refundable certified rehabilitation tax credit. **Attach the Kentucky Heritage Council certification(s) or Kentucky Schedule(s) K-1 (Form 765-GP).**

**Line 15**—Enter the refundable film industry tax credit. **Attach the Kentucky Film Office certification(s) or Kentucky Schedule(s) K-1 (Form 765-GP).**

**NOTE: For applications approved prior to April 27, 2018 this credit is refundable and should be entered here. For applications approved on or after April 27, 2018, this credit is nonrefundable and should be entered on Schedule TCS.**

**Line 16(a)**—Enter the information provided on federal Schedule K, Form 1065, Line 13c(1).

**Line 16(b)**—Enter the amount reported on federal Schedule K, Form 1065, Line 13c(2).

**Line 17**—Enter the total amount of tax exempt interest income of the partnership from U.S. government bonds and securities and obligations of Kentucky and its political subdivisions.

**Line 18**—Enter the total amount of any other type of income of the partnership where the partner is exempt from Kentucky income tax.

**Line 19**—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 20**—Enter the amount reported on federal Schedule K, Form 1065, Line 19a and 19b, adjusted to reflect any differences in Kentucky and federal tax laws, such as depreciation.

**Line 21**—Attach schedules to report the general partnership's total income, expenses, and other information applicable to

items not included on Lines 1 through 12 and Lines 14 through 21 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.

#### SECTION B—LLET Pass-through Items (Required)

Enter the corporation's and pass-through entities partner's proportionate share of the receipts, gross profits, and nonrefundable credit of the limited liability pass-through entity or general partnership in Section B, Lines 1 through 5.

#### SECTION C—Apportionment Pass-through Items (if applicable)

**Line 1**—Enter the general partnership's Kentucky receipts from Schedule A, Part I, Line 1.

**Line 2**—Enter the general partnership's total receipts from Schedule A, Part I, Line 2.

#### SECTION D—Apportionment for Providers, (KRS 141.121(1)(e))

**Line 1**—Enter the general partnership's Kentucky property from Schedule A, Part I, Line 5.

**Line 2**—Enter the general partnership's total property from Schedule A, Part I, Line 6.

**Line 3**—Enter the general partnership's Kentucky payroll from Schedule A, Part I, Line 8.

**Line 4**—Enter the general partnership's total payroll from Schedule A, Part I, Line 9.



**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.

### 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.

#### 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 21 must equal the amounts reported on Kentucky Schedule K, Lines 1 through 21. The distributive share items reported on all Schedules K-1, Sections B, C, and D must equal the amounts reported on comparable lines of Schedule K, Sections B, C, and D, Schedule K-1. Section E does 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.

**Sections A, B, C, and D**—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 §469 passive activity and each IRC §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 21 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 IRC §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.

**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 KRS 141.040 and KRS 141.0401. A small business is not eligible to apply for 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) is capped at \$3 million. The maximum amount of credit for each small business for each year must 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 must 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 must 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 or KRS 141.040 and KRS 141.0401 or KRS 136.505 for qualified rehabilitation expenses on certified historic structures. Certification copies must be attached to the return claiming the credit. **KRS 171.3961 and KRS 171.397**

**Unemployment Tax Credit**—If a taxpayer 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 or 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 or 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 per KRS 154.20-250 to KRS 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 or 141.040, 141.0401, 136.320, 136.300, 136.310, 136.505, and 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 must 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 will 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, will 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**

**Qualified Research Facility Tax Credit**—A taxpayer is entitled to a credit against the taxes imposed by KRS 141.020 or 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 or 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 at 502-573-5114. 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 151B.402**

**Voluntary Environmental Remediation Tax Credit**—The taxpayer must have an agreed order and be approved by the Energy and Environment Cabinet per KRS 224.1-514. 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 or KRS 141.040 and KRS 141.0401. For more information regarding credit for voluntary environmental remediation property, contact the Energy and Environment Cabinet at 502-564-6716. 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 or 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 will 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**

**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, or KRS 141.040 and KRS 141.0401 will be allowed for a clean coal facility. Per 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 is \$2 per ton of eligible coal purchased that is used to generate electric power at a certified clean coal facility, except that no credit will 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 or 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 will 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 or 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 will 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, is entitled to a nonrefundable credit against taxes imposed by KRS 141.020 or KRS 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 must not exceed the product of \$3,500 multiplied by the sum of: (1) 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 (2) 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. Attach Schedule RR-I to the return when claiming this credit. **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 KRS 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 KRS 143A.020 or biomass resources is entitled to a nonrefundable tax credit against taxes imposed under KRS 141.040 and KRS 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 is limited to \$1 million. If the total amount of approved credit exceeds \$1 million, the department will 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 must file Schedule RR-E by the fifteenth day of the first month following the close of the preceding calendar year. The department will 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, 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 will issue a credit certification (Schedule ENDOW) to a taxpayer upon receiving proof that the endowment gift was made to the approved community foundation per 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 must 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. **Note:** This credit may limit charitable contribution deductions allowed under Section 170 of the IRC. See the IRC and federal regulations for additional information on any limitations. **KRS 141.438 and 103 KAR 15:195**

**New Markets Development Program Tax Credit**—A taxpayer that makes a qualified equity investment per KRS 141.432(7) in a qualified community development entity defined by KRS 141.432(6) is 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 is 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 is \$10 million, whether made by one or several qualified community development entities.

The amount of the credit will 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 KRS 141.434**

**Food Donation Tax Credit**—For taxable years beginning on or after January 1, 2018, the tax credit was repealed. Any unused credit may be carried forward for up to four (4) succeeding years after the credit was claimed. See Schedule TCS, Part II, line 18 to claim this credit. **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 KRS 141.040 and KRS 141.0401 is available to taxpayers who pay Kentucky property tax on distilled spirits.

The distilled spirits credit is equal to 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. Attach Schedule DS to the return claiming the credit. **KRS 141.389**

**Film Industry Tax Credit**—For applications approved on or after April 27, 2018, a nonrefundable and nontransferable credit against the taxes imposed by KRS 141.020 or KRS 141.040 and KRS 141.0401 is available for taxpayers who have received notification from the film office that the approved company has satisfied all requirements of KRS 148.542 to KRS 148.546. Attach film office certification to the return claiming the credit. **KRS 141.383**

**Inventory Tax Credit**—For taxable years beginning on or after January 1, 2018, a nonrefundable and nontransferable tax credit is allowed against the taxes imposed by KRS 141.020 or KRS 141.040 and KRS 141.0401 for ad valorem (property) taxes timely paid on inventory. This credit is phased in as follows: 25% in 2018; 50% in 2019; 75% in 2020; 100% in 2021 and thereafter. Attach Schedule INV to the return claiming the credit. **KRS 141.408**

**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](http://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. Do not attach a copy of Form 62A500 to Form 765-GP.

**Kentucky State Treasury—Unclaimed Property**

**Individuals**

The Kentucky State Treasury may be holding unclaimed property for you or your family. The Treasury holds hundreds of millions of dollars from bank accounts, payroll checks, life insurance, utility deposits, and other types of property that have been unclaimed by the owners. Please visit [www.treasury.ky.gov](http://www.treasury.ky.gov) or [www.missingmoney.com](http://www.missingmoney.com) for more information on how to locate and claim any funds that may belong to you.

**Businesses**

Kentucky businesses are required to comply with the Kentucky Revised Uniform Unclaimed Property Act, codified as KRS Chapter 393A. If you have uncashed vendor checks, payroll checks, unclaimed customer deposits or refunds, or other types of property belonging to third-parties, you may be required to turn the property over to the Kentucky State Treasury. Please review KRS Chapter 393A, or visit [www.treasury.ky.gov](http://www.treasury.ky.gov) for more information.

**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.*

**TAXPAYER ASSISTANCE**

*Forms:*

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

*Information:*

Pass-Through Entity Branch  
Department of Revenue  
501 High Street, Station 52  
Frankfort, KY 40601-2103  
502-564-8139

*Mail the return to:*

Kentucky Department of Revenue  
Frankfort, KY 40620

**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  
502-564-5930

**Hopkinsville**, 181 Hammond Drive, 42240-7926  
270-889-6521

**Louisville**, 600 West Cedar Street  
2<sup>nd</sup> 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



JULY 2018

# 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 a Notice of Tax Due or the denial of a refund. 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 Notice of Tax Due, a reduction or denial of a refund, or a denial of a request for additional time to file a supporting statement; and
- ✓ tax laws and changes in tax laws so that you can comply with the law.

### **Protest and Appeal**

You have the right to file a protest with the DOR if you disagree with a Notice of Tax Due, a reduction or denial of a refund, or a denial of a request for additional time to file a supporting statement. If you file a timely protest, you have a right to a conference to discuss the matter. If you are not satisfied with the Department's final ruling following your protest, you may appeal the final ruling to the Kentucky Claims Commission, Tax Appeals pursuant to KRS 131.110(5) and KRS 49.220 et. seq. (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 will be required to give your representative a power of attorney before the DOR can discuss tax matters with your authorized agent. See Form 20A100.

### **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 Claims Commission 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 and 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 your 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 Tax Due, or if the DOR notifies you that a tax refund has been reduced or denied, or the DOR denies your request for additional time to file a supporting statement, you have the right to protest. To do so:

- ✓ submit a written protest within 60 days from the original notice date (or 45 days if the original notice date is prior to 07/01/2018); notice of refund reduction or denial, or denial of a request for additional time to file a supporting statement;
- ✓ 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 Tax Due or refund denial to support that your 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 Claims Commission. If you do not agree with the decision of the Kentucky Claims Commission, 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  
606-528-3322

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

**Hopkinsville Taxpayer Service Center**  
181 Hammond Drive, 42240-7926  
270-889-6521

**Louisville Taxpayer Service Center**  
600 West Cedar Street, 2nd Floor West, 40202-2310  
502-595-4512

**Northern Kentucky Taxpayer Service Center**  
Turfway Ridge Office Park  
7310 Turfway Road, Suite 190  
Florence 41042-4871  
859-371-9049

**Owensboro Taxpayer Service Center**  
401 Frederica Street, Building C, Suite 201, 42301-6295  
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](http://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.

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