# INSTRUCTIONS FOR 2012 KENTUCKY FORM 740-NP NONRESIDENT OR PART-YEAR RESIDENT INCOME TAX RETURN

**WHO MUST FILE FORM 740-NP**—Form 740-NP must be used by full-year nonresidents who had income from Kentucky sources and by part-year residents who had income while a Kentucky resident or from Kentucky sources while a nonresident. These persons must file Form 740-NP if (1) they had **any *gross* income** from Kentucky sources ***and gross income from all sources*** in excess of modified gross income for their family size, or (2) Kentucky gross receipts from self-employment in excess of modified gross income for their family size. See Chart A on page 2.

Individuals who are residents of Kentucky for the entire tax year must use Form 740 or Form 740-EZ. Persons who maintain a permanent residence in Kentucky (i.e., are domiciled in Kentucky) are considered residents. Persons not domiciled in Kentucky but who live in Kentucky for more than 183 days during the tax year are also considered residents.

**Full-year nonresidents** must report all income from Kentucky sources (including distributive share income, Schedule K-1), from activities carried on in Kentucky or from the performance of services in Kentucky, and from property located in Kentucky.

**Persons moving into Kentucky** must report income received from Kentucky sources prior to becoming residents and income received from all sources after becoming Kentucky residents.

**Residents moving out of Kentucky** during the year must report income from all sources while a resident and from Kentucky sources while a nonresident.

**Reciprocal States**—Kentucky has reciprocal agreements with specific states. These agreements provide for taxpayers to be taxed by their state of residence, and not the state where income is earned. **Reciprocity does not apply to persons who live in Kentucky for more than 183 days during the tax year**. The states and types of exemptions are as follows:

- **Illinois, West Virginia**—wages and salaries
- **Indiana**—wages, salaries and commissions
- **Michigan, Wisconsin**—income from personal services (including salaries and wages)
- **Ohio**—wages and salaries. **Note:** Wages which an S corporation pays to a shareholder-employee if the shareholder-employee is a "twenty (20) percent or greater" direct or indirect equity investor in the S corporation shall not be exempt under the reciprocity agreement.
- **Virginia**—commuting daily, salaries and wages

*Taxpayers who qualify for this exemption and have no other Kentucky taxable income should file Form 740-NP-R, Kentucky Income Tax Return, Nonresident–Reciprocal State, to obtain a refund. Also, nonresidents who qualify for the exemption should file Form 42A809, Certificate of Nonresidence, with their employer to exempt their future wages from Kentucky withholding.*

**Gambling income and distributive share income (Schedule K-1) are not exempt under reciprocal agreements. This income is fully taxable. A complete return must be filed if filing requirements are met.**

**Military Personnel**—Nonresident military personnel with civilian jobs in Kentucky are required to report this income on Form 740-NP except residents of reciprocal states (see reciprocal states above). Any income from nonmilitary Kentucky sources is also taxable.

**Military Pay Exclusion—**Effective for taxable years beginning on or after January 1, 2010, all military pay received by active duty members of the Armed Forces of the United States, members of reserve components of the Armed Forces of the United States, and members of the National Guard will be exempt from Kentucky income tax. (KRS 141.010(10)(u))

Soldiers will claim the exemption by excluding military pay when filing a Kentucky individual income tax return starting with the 2010 return. Provided the military member has no income other than military pay, he or she would not be required to file a Kentucky income tax return. The military pay exemption applies to all Kentucky military members regardless of where the member is stationed. Kentucky income tax should no longer be withheld from checks received for military pay, beginning January 1, 2010. If Kentucky income tax is incorrectly withheld from a soldier's military pay in 2010 and after, the Department of Revenue will refund the tax withheld.

**Military Spouse—**The Military Spouses Residency Relief Act (MSRRA) (Public Law 111-97) was signed into law on November 11, 2009. This new law is effective for taxable year 2009. The MSRRA allows the same residency benefits permitted to military personnel under the Servicemembers Civil Relief Act (SCRA) to also apply to a military spouse's nonmilitary service income, under certain circumstances.

The MSRRA prohibits a spouse's income from being considered income earned in a tax jurisdiction if the spouse is not a resident or domiciliary of such jurisdiction when the spouse is in that jurisdiction solely to be with a servicemember serving under military orders.

Those military spouses who fall under this law should file Form 740-NP Kentucky Individual Income Tax Nonresident or Part-Year Resident Return to request a refund of the Kentucky income tax withheld from his or her pay. The income would not be reported as taxable on the Kentucky income tax return. To assist the department in identifying those returns, please write across the top of the return MILITARY SPOUSE. Please address any further questions to the Taxpayer Assistance Section at (502) 564-4581.

**Military Personnel Eligible for Combat Zone Extension**—Members of the Army, Navy, Marines, Air Force, or Public Health Service of the United States government who serve in an area designated as a combat zone by presidential proclamation shall not be required to file an income tax return and pay the taxes, which would otherwise become due during the period of service, until 12 months after the service is completed. Members of the National Guard or any branch of the Reserves called to active duty to serve in a combat zone are granted the same extension.

**MODIFIED GROSS INCOME AND FAMILY SIZE (Use With Chart A)**

**Family Size**—Consists of yourself, your spouse if married and living in the same household and qualifying children. Family size is limited to four.

**Qualifying Dependent Child**—Means a qualifying child as defined in Internal Revenue Code Section 152(c), and includes a child who lives in the household but cannot be claimed as a dependent if the provisions of Internal Revenue Code Section 152(e)(2) and 152(e)(4) apply. In general, to be a taxpayer's qualifying child, a person must satisfy four tests:

- **Relationship**—The taxpayer's child or stepchild (whether by blood or adoption), foster child, sibling or stepsibling, or a descendant of one of these.
- **Residence**—Has the same principal residence as the taxpayer for more than half the tax year. A qualifying child is determined without regard to the exception for children of divorced or separated parents. Other federal exceptions apply.
- **Age**—Must be under the age of 19 at the end of the tax year, or under the age of 24 if a full-time student for at least five months of the year, or be permanently and totally disabled at any time during the year.
- **Support**—Did not provide more than one-half of his/her own support for the year.

**Modified Gross Income**—Modified gross income is the greater of federal adjusted gross income adjusted to include interest income derived from municipal bonds (non-Kentucky) and lump-sum pension distributions not included in federal adjusted gross income; ***or*** Kentucky adjusted gross income adjusted to include lump-sum pension distributions not included in federal adjusted gross income.

**Chart A**

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

**WHEN TO FILE**—April 15, 2013, is the filing deadline for persons reporting income for calendar year 2012. To avoid penalties and interest, returns must be postmarked no later than April 15, 2013.

**AMENDED RETURNS**—If you discover that you omitted deductions or otherwise improperly prepared your return, you may obtain a refund by filing an amended return within four years of the due date of the original return. You are required to file an amended return to report omitted income.

**When filing an amended return, check the box on Form 740-NP and attach a detailed explanation of the changes to income, deductions and tax. Submit a completed Kentucky return and corrected federal schedules, if applicable. If you do not attach the required information, processing of your amended return may be delayed.**

**COMPOSITE RETURNS**—Beginning with tax year 2009, the filing of a composite return on Form 740-NP is no longer allowed. You must use Form 740NP-WH, Kentucky Nonresident Income Tax Withholding on Net Distributive Share Income Transmittal Report and Composite Income Tax Return.

**CONFIDENTIALITY**—Kentucky Revised Statute 131.190 requires the Department of Revenue to maintain strict confidentiality of all taxpayer records. No employee of the Department of Revenue may divulge any information regarding the tax returns, schedules or reports required to be filed. However, the Department of Revenue is not prohibited from providing evidence to or testifying in any court of law concerning official tax records.

The department may provide official information on a confidential basis to the Internal Revenue Service or to any other governmental agency with which it has an exchange of information agreement whereby the department receives similar or useful information in return.

**REPORTING PERIODS AND ACCOUNTING PROCEDURES**—Kentucky law requires taxpayers to report income on the same calendar or fiscal year and to use the same methods of accounting as required for federal income tax purposes. Any federally approved change in accounting period or methods must be reported to the Kentucky Department of Revenue. Attach a copy of the federal approval.

Changes to federal income tax law made after the Internal Revenue Code reference date contained in KRS 141.010(3) shall not apply for purposes of Chapter 141 unless adopted by the General Assembly.

**POLITICAL PARTY FUND DESIGNATION**—You may designate that a portion of your taxes will be paid to either the Democratic or Republican parties if you have a tax liability of at least $2 ($4 for married persons filing joint returns). *This designation will not increase your tax or decrease your refund*. You may make this designation by checking the applicable box. A husband and wife may each make a designation. Persons making no designation should check the "No Designation" box.

**FILING STATUS**—***Legal liabilities are affected by the choice of filing methods***. Married persons who file joint returns are jointly and severally liable for all income taxes due for the period covered by the return. If married, you may file separate or joint returns. **Most married persons pay less tax if they file separate returns.**

**Filing Status 1, Single**—Use this filing status if you are unmarried, divorced, widowed, legally separated by court decree, or if you filed as "Head of Household" or "Qualifying Widow(er)" on your federal return.

**Filing Status 2, Married Filing Joint Return**—Use this filing status if you and your spouse choose to file a joint return even if one spouse had no income. Jointly means that you and your spouse add your incomes together and report the total on page 4, Section D, Column B, Lines 1 through 34.

**Filing Status 3, Married Filing Separate Returns**—If using this filing status, you and your spouse must file two separate tax forms. The husband's income is reported on one tax form, the wife's on the other. When filing separate returns, the name and Social Security number of each spouse must be entered on both returns. Enter the spouse's Social Security number in the block provided, and enter the name on page 1, Line 3.

**DETERMINING YOUR INCOME**

**SECTION D—INCOME/ADJUSTMENTS TO INCOME**

**A copy of pages 1 and 2 of your federal income tax return and all supporting schedules must be filed with Kentucky Form 740-NP**. ***Please clearly identify as "Copy."***

**INSTRUCTIONS FOR COLUMN A**

All entries in Column A should be amounts reported for federal income tax purposes.

**Depreciation—Assets Purchased After September 10, 2001**

Effective for taxable years ending after September 10, 2001, an individual that for federal income tax purposes elects to utilize the 30 percent or the 50 percent special depreciation allowance or the increased 179 deduction will have a different depreciation and Section 179 deduction for Kentucky purposes than for federal purposes. The differences will continue through the life of the assets. There will be recapture and basis differences for Kentucky and federal income tax purposes until the assets are sold or fully depreciated.

**INSTRUCTIONS FOR COLUMN B**

**Depreciation, Section 179 Deduction and Gains/Losses From Disposition of Assets**—*Important: Follow the instructions for Reporting Depreciation and Section 179 Deduction Differences if you have elected for federal income tax purposes to take the 30 percent or the 50 percent special depreciation allowance or the increased Section 179 deduction for property placed in service after September 10, 2001.* **A copy of the federal Form 4562 if filed for federal income tax purposes *must* be submitted with Form 740-NP to verify that no adjustments are required.**

**Reporting Depreciation and Section 179 Deduction Differences for property placed in service after September 10, 2001**—**Create a Kentucky Form 4562** by entering **Kentucky** at the top center of a federal Form 4562 above Depreciation and Amortization. In Part I replace the $139,000 maximum amount on Line 1 with the Kentucky limit of $25,000 and replace the $560,000 threshold amount on Line 3 with the Kentucky phase-out threshold of $200,000. In Part II, strike through and ignore Line 14, Special depreciation allowance for qualified property placed in service during the tax year. Use the **created Kentucky Form 4562** to compute Kentucky depreciation and Section 179 deduction in accordance with the IRC in effect on December 31, 2001.

**Note:** In determining the Section 179 deduction for Kentucky, the income limitation on Line 11 is Kentucky net income before the Section 179 deduction, instead of federal taxable income. Adjust federal Schedules C, E and F for the difference in allowable depreciation and report in Column B the Kentucky income (loss) from business, farming or rental property. **Attach Kentucky Form 4562 and, if filed, federal Form 4562**.

**Line 1, Wages, Salaries, Tips, etc.**—Enter all wages, salaries, tips, bonuses, commissions or other compensation received for personal services from Kentucky sources while a nonresident and from all sources while a resident of Kentucky. Do not include in this amount any reimbursement for moving expenses included in Kentucky wages on your wage and tax statement.

**Line 2, Moving Expense Reimbursement**—See instructions for Schedule ME.

**Line 3, Interest**—Interest income received while a Kentucky resident must be reported, except for the following: (a) income from bonds issued by the Commonwealth of Kentucky and its political subdivisions; and (b) income from U.S. government bonds or securities. Interest income from bonds issued by other states and their political subdivisions is taxable to Kentucky and must be included on Line 3.

**Line 4, Dividends**—Report dividends received while a resident of Kentucky and the distributive share of the dividend income reflected on the Schedule K-1.

**Line 5, Taxable Refunds, Credits or Offsets of State or Local Income Taxes**—Enter the amount of taxable local income tax refund or credit reported on your federal return only if you received a tax benefit in a prior year. Do not include state income tax refunds.

**Line 6, Alimony Received**—Enter alimony payments received while a Kentucky resident.

**Lines 7 and 12, Profit or (Loss) from Business or Farming**—*For income taxable to Kentucky*, complete and attach federal Schedule C or C-EZ for business income or federal Schedule F for farming and Form 4562, Depreciation and Amortization. Do not adjust wages by the federal work opportunity credit from federal Form 5884. For passive activities, see Form 8582-K. Do not include income from the national tobacco settlement agreement. Adjust income for the difference in allowable depreciation and report in Column B.

**Note:** Individual owners of disregarded single member LLCs (SMLLCs) that file on Schedules C, E, or F for federal income tax shall file Form 725, Kentucky Single Member LLC Individually Owned LLET Return, to compute and pay the limited liability entity tax. The individual member shall report income or loss from the entity and determine credit in the same manner as other pass-through entities (PTEs).

**Lines 8 and 9, Gain or (Loss) from Sale or Exchange of Assets**—Gains (losses) on sales of assets (including installment sales) while a Kentucky resident must be reported on the Kentucky return. Gains (losses) on sales of tangible assets located in Kentucky must be reported regardless of state of residence. Generally, gains (losses) on sales of intangible assets are reported to the state of residence.

**Determining and Reporting Differences in Gain or Loss From Disposition of Assets**—If during the year you dispose of assets placed in service after September 10, 2001, on which the 30 percent or the 50 percent special depreciation allowance or the increased Section 179 deduction was taken for federal income tax purposes, you will need to determine and report the difference in the amount of gain or loss on the assets as follows:

**Create a Kentucky form** by entering **Kentucky** at the top center of a federal Schedule D, federal Form 4797 and other applicable federal forms. Compute Kentucky gain or loss from the disposed assets using the Kentucky basis. Enter the Kentucky gain or loss on the appropriate line. **Attach the *created* Kentucky Schedule D, Kentucky Form 4797 and other forms or schedules to support the deduction.**

**Line 10(a), Federally Taxable IRA Distributions, Pensions and Annuities**—Enter on Line 10(a), Column A, the total of IRA distributions, pensions and annuities received for the entire year. Enter on Line 10(a), Column B, the total of IRA distributions, pensions and annuities received while a resident of Kentucky.

**Line 10(b), Pension Income Exclusion**—You may exclude up to $41,110 of pension income **reported on Line 10(a), Column B**. If Line 10(a), Column B, is more than $41,110 and is from the federal government, Commonwealth of Kentucky or Kentucky local governments, complete Schedule P.

**Line 11, Income from Schedule E**—Enter income from rents, royalties, partnerships, estates, trusts, limited liability companies (LLC), S corporations and REMICs. Nonresident individuals receiving a Kentucky Schedule K-1 from a partnership, estate, trust, LLC or S corporation must report their distributive share of the income, gains or losses, etc., as reflected on the Schedule K-1. Shareholders and partners should multiply their distributive share items by the taxable percentage from Schedule K-1; Form 720S, Line B(2); Form 765, Line D(2) and Form 765-GP, Line C(2).

Part-year residents not receiving a Kentucky Schedule K-1, but receiving a federal K-1 from a partnership, estate, trust or S corporation, must report the same amount of distributive income, gains or losses, etc., as reported for federal income tax purposes from entities whose taxable years end during their period of residence.

Do not include in Column B the net income from an S corporation subject to the franchise tax imposed under KRS 136.505 or the capital stock tax imposed under KRS 136.300.

Report income from real estate mortgage investment conduits (REMICs) as follows: (1) if the REMIC is a corporation, include only distributions of cash or property during the taxable year; or (2) if other than a corporation, report the same amount as reported for federal income tax purposes for the taxable year.

**Note:** Individual owners of disregarded single member LLCs (SMLLCs) that file on Schedules C, E, or F for federal income tax shall file Form 725, Kentucky Single Member LLC Individually Owned LLET Return, to compute and pay the limited liability entity tax. The individual member shall report income or loss from the entity and determine credit in the same manner as other pass-through entities (PTEs).

**Line 13, Unemployment Compensation**—Report unemployment compensation received while a resident of Kentucky.

**Line 14, Taxable Social Security Benefits**—Social Security benefits are not taxable for Kentucky.

**Line 15, Gambling Winnings**—Report income from lottery winnings and gambling received while a Kentucky resident or from Kentucky sources while a nonresident.

**Line 16, Other Income**—Report income from prizes, awards, or any sources not listed above while a Kentucky resident or from Kentucky sources while a nonresident. Also, include any mortgage debt forgiveness excluded from federal adjusted gross income.

**Retirement Income** (For persons moving out of Kentucky)—Include differences in pension (3-year recovery rule) and IRA bases received while a resident of Kentucky (also include differences on Schedule P, Line 2).

**Net Operating Loss Deduction**—A Kentucky net operating loss deduction (KNOLD) must be computed using Kentucky income and deduction amounts. The federal net operating loss deduction is not allowed. The KNOLD should be included as a negative amount on Line 16. If the loss is from a business outside Kentucky, none of the loss may be used. Kentucky returns must be filed for the year of the loss and for all years for which the loss is utilized. Attach schedule showing computation.

**Note:** For 2005 and future years, the carryback of net operating losses to prior years is no longer allowed. Net operating losses may be carried forward for up to 20 years. Documentation to substantiate any loss must be available to the Department of Revenue upon request.

**Artistic Charitable Contributions**—A deduction is allowed for "qualified artistic charitable contributions" of any literary, musical, artistic or scholarly composition, letter or memorandum, or similar property.

An amount equal to the fair market value of the property on the date contributed is allowable as a deduction. However, the deduction is limited to the amount of the taxpayer's Kentucky artistic adjusted gross income for the taxable year. This amount should be included as a negative amount on Line 16.
The following requirements for a deduction must be met:

(a) The property must have been created by the personal efforts of the taxpayer at least one year prior to the date contributed. The creation of this property cannot be related to the performance of duties while an officer or employee of the United States, any state or political subdivision thereof.

(b) A written appraisal of the fair market value of the contributed property must be made by a qualified independent appraiser within one year of the date of the contribution. A copy of the appraisal must be attached to the tax return.

(c) The contribution must be made to a qualified tax-exempt organization.

**ADJUSTMENTS TO INCOME**

KRS 141.010(10) and (11) provide that deductions are limited to amounts allocable to income subject to taxation. If a deduction or an adjustment to gross income is allowable based upon the receipt of certain types of income or is limited to a maximum amount deductible for federal income tax purposes, the Kentucky income used to determine the amount allowable for Kentucky shall be the same type of income used to allow the deduction on the federal return. Persons who move into or out of Kentucky during the year are limited to either the adjustments to gross income paid during the period of residence or that portion of adjustments to gross income that Kentucky income bears to total income. Nonresidents are limited to that portion of adjustments to gross income that Kentucky income bears to total income.

**Line 18, Reserved**—Pending federal legislation.

**Line 19, Certain Business Expenses of Reservists, Performing Artists and Fee-Basis Government Officials**—Do not include out-of-pocket expenses for members of the National Guard or Reserves.

**Line 20, Health Savings Account (HSA) Deduction**—Federal limitations apply. Contributions deducted by full-year nonresidents are limited to the percentage of their Kentucky total income (Line 17, Column B) to their federal total income (Line 17, Column A). Do not claim amounts as an itemized deduction.

**Line 21, Moving Expenses**—Enter allowable moving expense deduction (attach Schedule ME).

**Line 22, Deduction for One-Half of Self-Employment Tax**—You may deduct one-half of the self-employment tax based upon the self-employment income reported in Column B as Kentucky income for the taxable year.

**Line 23, Self-Employed SEP, SIMPLE and Qualified Plans Deduction**—Self-employed persons may deduct qualified payments to a Keogh retirement plan, a Simplified Employee Pension (SEP) or a SIMPLE plan based upon Kentucky self-employment earnings.

**Line 24, Self-Employed Health Insurance Deduction**—For Kentucky purposes, see Section D, Line 32 for the allowable health insurance deduction.

**Line 25, Penalty on Early Withdrawal of Savings**—You may deduct the interest penalty only if the interest income has been reported to Kentucky.

**Line 26, Alimony Paid**—The alimony deduction cannot exceed Kentucky income. Alimony paid by full-year nonresidents is limited to the percentage of their Kentucky total income to their federal total income. Enter the recipient's name and Social Security number.

**Line 27, Individual Retirement Arrangements (IRAs)**—The deduction cannot exceed income earned in Kentucky. Contributions made by full-year nonresidents are limited to the percentage of their Kentucky earned income to their federal earned income. Use federal worksheets and instructions with the above limitations.

**Line 28, Student Loan Interest Deduction**—Federal limitations apply. Student loan interest deduction is limited to the percentage of Kentucky total income (Line 17, Column B) to federal total income (Line 17, Column A). Enter in Column A, the total of student loan interest from your federal return. Enter in Column B, the allowable deduction with the above limitation.

**Line 29, Reserved**—Pending federal legislation.

**Line 30, Domestic Production Activities Deduction**—For taxable years beginning on or after January 1, 2010, the amount of the domestic production activities deduction (DPAD) for Kentucky income tax returns will remain 6 percent as allowed in Section 199(a)(2) of the Internal Revenue Code (IRC) for taxable years beginning before January 1, 2010. Kentucky does not recognize the 9 percent DPAD calculation rate allowed for federal income tax returns filed for taxable years beginning on or after January 1, 2010.

Part-year resident or full-year nonresident individuals shall prorate the allowable federal DPAD based upon the percentage of Kentucky domestic production gross receipts to federal domestic production gross receipts. The KDPAD shall not exceed 50 percent of the Kentucky W-2 wages from the entity that generated Kentucky domestic production gross receipts. This deduction must be recomputed based on the 6 percent allowed for the Kentucky DPAD as opposed to the 9 percent allowed for the federal DPAD deduction. A pass-through entity is required to attach information containing each individual partner's, member's or shareholder's distributive share of DPGR, KDPGR and Kentucky W-2 wages allocable to DPGR to each individual partner's, member's or shareholder's Kentucky Schedule K-1 for purposes of making this calculation.

**Line 31, Long–Term Care Insurance Premiums**—Long-term care insurance premiums deducted by full-year nonresidents are limited to the percentage of their Kentucky total income (Line 17, Column B) to their federal total income (Line 17, Column A). Do not claim amounts as an itemized deduction.

**Line 32, Health Insurance Premiums**—Medical and dental insurance premiums deducted by full-year nonresidents are limited to the percentage of their Kentucky total income (Line 17, Column B) to their federal total income (Line 17, Column A).

**Note:** This deduction applies to premiums paid with after-tax dollars. Premiums paid with pretax income (cafeteria plans and vouchers already excluded from wage income) are not deductible again. Do not include long-term care insurance premiums deducted on Line 31. If you are eligible for the Health Coverage Tax Credit, you may not deduct premiums paid on your behalf (advance payments) and you must reduce the amount you paid by the amount of health coverage tax credit. (See federal Form 8885.)

**Line 33, Other Deductions**—List any other adjustments to total income not listed above on lines 18 through 32. List the type of deduction in the space provided. Other deductions are limited to the percentage of Kentucky total income (Line 17, Column B) to federal total income (Line 17, Column A). Enter in Column A, the total of any other adjustments to the total income listed on your federal return. Enter in Column B, the allowable deduction with the above limitation.

**INCOME/TAX**

**Note**: These items are reported on page 1, Form 740-NP.

**Line 7**—Enter the percentage from page 4, Section D, Line 36.

**Line 8**—Enter federal Adjusted Gross Income from page 4, Section D, Column A, Line 35.

**Line 9**—Enter Kentucky Adjusted Gross Income from page 4, Section D, Column B, Line 35.

**Line 10**—Nonitemizers, enter the standard deduction of $2,290. If filing a joint return, only one $2,290 standard deduction is allowed.

**Line 11**—Itemizers, complete Schedule A and enter itemized deductions on Line 11. If one spouse itemizes deductions, the other must itemize. See specific instructions for Schedule A.

**Line 12**—Multiply Line 11 by the percentage on Line 7. If Line 12 does not exceed $2,290 and your filing status is 1 or 2, you should take the standard deduction. Married couples filing separate returns, see special rules under instructions for Schedule A.

**Line 13**—Subtract either Line 10 or 12 from Line 9. This is your Taxable Income.

**Line 14**—Use the tax table provided in the instructions to compute your tax. Enter this amount on Line 14.

If you had a **lump-sum distribution** from a qualified retirement plan, complete Schedule P and Form 4972-K and attach copies to Form 740-NP. The amount of tax computed on Form 4972-K should be included in the amount on this line.

**Schedule J, Farm Income Averaging**—If you elect Farm Income Averaging on your federal return, you may also use this method for Kentucky. Complete and attach Kentucky Schedule J and include tax in the amount on this line.

**Line 15**—Enter amount from page 2, Section A, Line 21. See instructions for Section A.

**Line 17**—Enter amount from page 3, Section B, Line 4. See instructions for Section B.

**Line 18**—Multiply the amount on Line 17 by the percentage on Line 7 and enter result here.

**Line 20 and Line 21, Family Size Tax Credit**— The Family Size Tax Credit is based on modified gross income (MGI) and the size of the family. If your total MGI is $30,657 or less, you may qualify for Kentucky Family Size Tax Credit.

**STEP ONE**—Determine your family size. Check the box on Line 20 to the right of the number that represents your family size.

**Family Size**—Consists of yourself, your spouse if married and living in the same household and qualifying children.

**Family Size 1** is an individual either single, or married living apart from his or her spouse for the entire year. You may qualify for the Family Size Tax Credit even if you are claimed as a dependent on your parent's tax return.

**Family Size 2** is an individual with one qualifying child or a married couple.

**Family Size 3** is an individual with two qualifying children or a married couple with one qualifying child.

**Family Size 4** is an individual with three or more qualifying children or a married couple with two or more qualifying children.

**Qualifying Dependent Child**—Means a qualifying child as defined in Internal Revenue Code Section 152(c), and includes a child who lives in the household but cannot be claimed as a dependent if the provisions of Internal Revenue Code Section 152(e)(2) and 152(e)(4) apply. In general, to be a taxpayer's qualifying child, a person must satisfy four tests:

**Relationship**—Must be the taxpayer's child or stepchild (whether by blood or adoption), foster child, sibling or stepsibling, or a descendant of one of these.

**Residence**—Has the same principal residence as the taxpayer for more than half the tax year. A qualifying child is determined without regard to the exception for children of divorced or separated parents.

**Age**—Must be under the age of 19 at the end of the tax year, or under the age of 24 if a full-time student for at least five months of the year, or be permanently and totally disabled at any time during the year.

**Support**—Did not provide more than one-half of his/her own support for the year.

**STEP TWO**—Determine modified gross income.

**FORM 740-NP WORKSHEET FOR COMPUTATION OF MODIFIED GROSS INCOME FOR FAMILY SIZE TAX CREDIT**

(a) Enter your federal adjusted gross income from page 1, Line 8. **If zero or less, enter zero** ........ (a) __________

(b) If married filing separate returns and living in the same household, enter your spouse's federal adjusted gross income. **If zero or less, enter zero** ........ (b) __________

(c) Enter tax-exempt interest from municipal bonds (non-Kentucky) ........ (c) __________

(d) Enter amount of lump-sum distributions not included in federal adjusted gross income (federal Form 4972)........ (d) __________

(e) Enter total of Lines (a), (b), (c) and (d)........ (e) __________

(f) Enter your Kentucky adjusted gross income from page 1, Line 9. **If zero or less, enter zero** ........ (f) __________

(g) If married filing separate returns and living in the same household, enter your spouse's Kentucky adjusted gross income from page 1, Line 9. **If zero or less, enter zero** ........ (g) __________

(h) Enter amount of lump-sum distributions not included in adjusted gross income (Kentucky Form 4972-K)........ (h) __________

(i) Enter total of Lines (f), (g) and (h)........ (i) __________

(j) Enter the **greater** of Line (e) or (i). This is your **Modified Gross Income**. Use this amount to determine if you qualify for the Family Size Tax Credit........ (j) __________

**STEP THREE**—Use the Family Size Table to look up the percentage of credit and enter in the space provided on Line 21.

| Family Size | One | | Two | | Three | | Four or More | | Credit Percentage is |
|---|---|---|---|---|---|---|---|---|---|
| If MGI . . . | is over | is not over | is over | is not over | is over | is not over | is over | is not over | |
| 2012 | $ --- | $ 11,170 | $ --- | $15,130 | $ --- | 19,090 | $ --- | $23,050 | 100 |
| | 11,170 | 11,617 | 15,130 | 15,735 | 19,090 | 19,854 | 23,050 | 23,972 | 90 |
| | 11,617 | 12,064 | 15,735 | 16,340 | 19,854 | 20,617 | 23,972 | 24,894 | 80 |
| | 12,064 | 12,510 | 16,340 | 16,946 | 20,617 | 21,381 | 24,894 | 25,816 | 70 |
| | 12,510 | 12,957 | 16,946 | 17,551 | 21,381 | 22,144 | 25,816 | 26,738 | 60 |
| | 12,957 | 13,404 | 17,551 | 18,156 | 22,144 | 22,908 | 26,738 | 27,660 | 50 |
| | 13,404 | 13,851 | 18,156 | 18,761 | 22,908 | 23,672 | 27,660 | 28,582 | 40 |
| | 13,851 | 14,186 | 18,761 | 19,215 | 23,672 | 24,244 | 28,582 | 29,274 | 30 |
| | 14,186 | 14,521 | 19,215 | 19,669 | 24,244 | 24,817 | 29,274 | 29,965 | 20 |
| | 14,521 | 14,856 | 19,669 | 20,123 | 24,817 | 25,390 | 29,965 | 30,657 | 10 |
| | 14,856 | --- | 20,123 | --- | 25,390 | --- | 30,657 | --- | 0 |

**STEP FOUR**—Multiply tax from Line 19 by the percentage and enter on Line 21. This is your **Family Size Tax Credit**.

**Line 23, Education Tuition Tax Credit**—Complete Form 8863-K to claim this credit. See Forms and instructions.

**Line 25, Child and Dependent Care Credit—Full-year nonresidents are not entitled to this credit.** Part-year residents may be entitled to a credit for child and dependent care expenses paid while a resident of Kentucky. To determine this credit, complete the following worksheet.

a. Enter total credit calculated on federal Form 2441, Line 9 .............................. ________________

b. Enter total child and dependent care expenses entered on Form 2441, Line 3 .................................................. ________________

c. Enter the amount included on Line b paid while a Kentucky resident............................................... ________________

d. Divide Line c by Line b. Enter result......................................... ___.______

e. Multiply the amount on Line a by the decimal amount on Line d ..... ________________

f. Percent of allowable credit for Kentucky............................................ x .20

g. Multiply the amount on Line e by the decimal amount on Line f. This is your Child and Dependent Care Credit. Enter on Line 25............ ________________

**Note**: If you and your spouse are filing separate Kentucky returns, the child and dependent care credit calculated for Kentucky must be divided based on the percentage of each spouse's adjusted gross income to total Kentucky adjusted gross income (Line 9).

**Line 27, Kentucky Use Tax**—If, while a Kentucky resident, you made any out-of-state purchases of tangible personal property or digital property for use in Kentucky on which sales tax was not charged, you must report Kentucky use tax on those purchases, pursuant to KRS 139.330. **For example, if you order from catalogs, make purchases through the Internet, or shop outside Kentucky** for items such as clothing, shoes, jewelry, cleaning supplies, furniture, computer equipment, pre-written computer software, office supplies, books, souvenirs, exercise equipment or subscribe to magazines, you may owe use tax to Kentucky.

For your convenience, the Use Tax Calculation Worksheet and Optional Use Tax Table are provided in these instructions. The Optional Use Tax Table is designed for those purchases of less than $1,000. If you made **untaxed** out-of-state purchases in amounts under $1,000, but do not have records readily available that show the amount of those purchases, you may use the Optional Use Tax Table below to estimate the compensating use tax based on your Kentucky Adjusted Gross Income (KYAGI). All **untaxed** purchases in the amount of $1,000 or greater must be accounted for on an actual basis using the Use Tax Calculation Worksheet. Failure to timely report may result in assessment of penalty and interest in addition to the tax amount due.

## Optional Use Tax Table

| KY AGI* | Tax |
|---|---|
| $0 - $10,000 | $4 |
| $10,001 - $20,000 | $12 |
| $20,001 - $30,000 | $20 |
| $30,001 - $40,000 | $28 |
| $40,001 - $50,000 | $36 |
| $50,001 - $75,000 | $50 |
| $75,001 - $100,000 | $70 |
| Above $100,000 | Multiply AGI by 0.08% (0.0008) |

* AGI from Line 9 on KY Form 740 or KY Form 740-NP or Line 1 on KY Form 740-EZ.

## Use Tax Calculation Worksheet

**Call 502-564-5170 for assistance.**

| | |
|---|---|
| 1. Purchases of $0 to $1,000 x 6 percent (.06) **OR** Use Tax Table Amount | $ |
| 2. Purchases of $1,000 or more x 6 percent (.06) | $ |
| 3. Total Use Tax Due (add lines 1 and 2) | $ |

**Report this amount on Form 740 or 740-NP, Line 27; or 740-EZ, Line 9.**

**Note:** The items reported for use tax on Form 740-NP should be those purchased strictly for personal use. Any use tax liabilities accruing to a business such as mail-order office supplies must be reported on the sales and use tax return or the consumer's use tax return. The Department of Revenue routinely conducts compliance programs with other states regarding out-of-state purchases. Persons not reporting applicable use tax will be liable for the tax plus interest and penalties.

**Credit Against the Kentucky Use Tax Due**

You may reduce or eliminate the amount of Kentucky use tax due by the amount of state sales tax paid to the out-of-state seller on the same transaction. The reduction may not exceed the amount of Kentucky use tax due on the purchase. For example, if Georgia state sales tax of 4 percent is paid, only the additional 2 percent is due to Kentucky, or if Illinois state sales tax of 6.25 percent is paid, no additional Kentucky use tax is due. Sales tax paid to a city, county or another country cannot be used as a credit against Kentucky use tax due.

**Line 30(a), Tax Withheld**—Enter the amount of 2012 **Kentucky** income tax withheld by your employer(s). This amount is shown on wage and tax statements, including Forms 1099 and W-2G, which you must attach to Form 740-NP in the designated area. You will not be given credit for Kentucky income tax withheld unless you attach the wage and tax statements or other supporting documents reflecting Kentucky withholding.

Employers are required to give these statements to employees no later than January 31, 2013. If by March 1 you are unable to obtain a wage and tax statement from an employer, contact the Department of Revenue for instructions.

You may not claim credit for tax **withheld** by another state. Within certain limitations, Kentucky part-year residents may claim a credit for nonrefundable individual income tax **paid** to other states. See Section A, Line 5.

Local government occupational, license or income tax must not be included on line 30(a).

**Line 30(b), Estimated Tax Paid**—Enter Kentucky estimated tax payments made for 2012 and amounts credited from the 2011 return.

Also, include on Line 30(b) payments prepaid with extension requests. Identify as “prepaid with extension.”

**Line 30(c), Refundable Certified Rehabilitation Credit**—Enter 2012 approved refundable certified rehabilitation credit per KRS 141.382(1)(b).

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

**Line 30(e), Nonresident Withholding**—Enter the amount of **Kentucky** income tax withheld from form PTE-WH, line 9.

**Line 31**—Total of amounts on Lines 30(a) through 30(e).

Compare the amounts on Lines 29 and 31. If Line 31 is larger than Line 29, subtract Line 29 from Line 31. Enter the difference on Line 32. This is the **AMOUNT OVERPAID**.

If Line 31 is smaller than Line 29, you owe additional tax. Subtract Line 31 from Line 29. Enter on Line 40. For instructions on payment, see Line 43, **Amount You Owe**.

**Line 32, Amount Overpaid**—If you have an overpayment on Line 32, you may have all of this amount refunded to you on Line 39, and/or you may credit all or part of it toward your 2013 Kentucky estimated income tax on Line 38. You may also contribute all or a portion of your overpayment to the following funds: (a) on Line 33, the **Nature and Wildlife Fund** for the purpose of acquiring land to preserve habitat for wildlife and natural areas of historic or scenic value; (b) on Line 34, the **Child Victims' Trust Fund** to support local programs designed to prevent sexual abuse and exploitation of children; (c) on Line 35, the **Veterans' Program Trust Fund** which was created solely for the benefit of veterans' programs; or (d) on Line 36, the **Breast Cancer Research and Education Trust Fund** which was created to fund breast cancer research and provide public education about breast cancer. *Amounts contributed on Line 37 and/or credited on Line 38 must be subtracted from the overpayment and cannot exceed it.*

**Line 40, Additional Tax Due**—This is your additional tax due before penalties and interest.

**Penalties and Interest**

**Line 41(a), Underpayment of Estimated Tax and/or Interest**—If the amount owed is more than $500 and more than 30 percent of the income tax liability on Line 26, you may be subject to a penalty of 10 percent of the underpayment of estimated tax.

The amount of the penalty may be calculated on Form 2210-K. Form 2210-K may also be used by qualifying farmers and others to claim exception to the penalty. If paying the penalty or claiming an exemption, complete Form 2210-K, attach it to your return and check the block beside Line 41(a). Enter the amount of the penalty on Line 41(a). The minimum penalty is $25.

Failure to make four equal installment payments timely may result in interest due. See Form 2210-K and instructions.

If your return is filed after April 15, 2013, or any tax due on the return is paid after April 15, 2013; you may be subject to additional penalties and interest.

**Line 41(b), Interest**—Interest will be assessed at the "tax interest rate" from the original due date of the return until the date of payment.

**Line 41(c), Late Payment Penalty**—If the amount of tax due as shown on Line 40 is not paid by the original due date of the return, a penalty of 2 percent of the tax computed due may be assessed for each 30 days or fraction thereof that the tax is past due, not to exceed 20 percent. The minimum penalty is $10. However, if the amount timely paid is 75 percent of the tax determined due by the Department of Revenue, no late payment penalty will be assessed.

**Line 41(d), Late Filing Penalty**—If a return is not filed by the due date or the extended due date, a penalty of 2 percent of the total tax due for each 30 days or fraction thereof that a return is not filed may be assessed, not to exceed 20 percent. The minimum penalty is $10.

**Note**: Penalties but not interest may be reduced or waived if reasonable cause for reduction or waiver can be shown.

**Line 43, Amount You Owe**—Any tax shown due on Line 43 must be paid when the return is filed. Attach a check payable to Kentucky State Treasurer and mail the check and return to Kentucky Department of Revenue, Frankfort, KY 40619-0008. **To help identify your payment write "KY Income Tax—2012" and your Social Security number on the face of the check.**

**Note:** If you cannot pay your tax in full, file your return and pay as much as possible by April 15, 2013. Contact the Department of Revenue for additional payment information.

**ESTIMATED TAX**—If, during 2013, you expect to receive income from Kentucky sources from which no tax will be withheld, you may be required to make estimated tax installment payments. For further information, obtain Form 740-ES from the Department of Revenue.

**Pay by Credit Card or ACH Debit**—Pay your 2012 Kentucky individual income tax by MasterCard, VISA, Discover credit card or by ACH Debit through April 15, 2013. Access the Department of Revenue’s secure Web site (**www.revenue.ky.gov**) to make electronic payments over the Internet. Click on the **KY E–Tax** logo or select **E–Payments—Credit Cards and ACH Debits** link. If you do not have access to the Internet, you may call the Department of Revenue at (502) 564–4581 for assistance with payments.

To make a credit card payment, the following information is needed: credit card type, credit card number, expiration date, and the cardholder's address as it appears on the credit card billing statement. To make an ACH Debit payment, the following information is needed: bank name, bank account number, and bank routing number.

**WHEN AND WHERE TO FILE**—The income tax return for calendar year 2012 must be postmarked no later than April 15, 2013, to avoid penalties and interest. Mail to:

**Refund/Other Returns**
Kentucky Department of Revenue
Frankfort, KY 40618-0006

**Pay Returns**
Kentucky Department of Revenue
Frankfort, KY 40619-0008

**EXTENSION OF TIME TO FILE**

Taxpayers who are unable to file a return by April 15, 2013, may request an extension. Inability to pay is not an acceptable reason. Acceptable reasons include, but are not limited to, destruction of records by fire or flood and serious illness of the taxpayer. The request for the extension must be submitted in writing to the Department of Revenue on or before the due date of the return. The request must state a reasonable cause for the inability to file. Extensions are limited to six months. **A copy of the Kentucky extension request must be attached to the return.**

Individuals who receive a federal extension are not required to obtain a separate Kentucky extension. They can meet the requirements by attaching a copy of the application for automatic federal extension or the **approved** federal extension to the Kentucky return.

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

Interest at the "tax interest rate" applies to any income tax paid after the original due date of the return. If the amount of tax paid by the original due date is less than 75 percent of the tax due, a late payment penalty may be assessed (minimum penalty is $10). Interest and late payment penalty charges can be avoided by remitting payment with the Extension Payment Voucher by the due date.

If you wish to make a payment prior to the due date of your tax return, complete Section II of the Application for Extension of Time to File, Form 40A102, and remit with payment. Write "KY Income Tax—2012" and your Social Security number on the face of the check.

**Personal Property**—Kentucky taxpayers are reminded to report all taxable personal property, except motor vehicles, owned on January 1 to either the property valuation administrator in the county of residence (or location of business) or the Office of Property Valuation in Frankfort. Tangible personal property is to be reported on the Tangible Personal Property Tax Return, Form 62A500. The due date for these returns is May 15.

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**SECTION A—BUSINESS INCENTIVE AND OTHER TAX CREDITS**

**Line 1, Nonrefundable Limited Liability Entity Tax Credit (KRS 141.0401(2))**

An individual that is a partner, member or shareholder of a limited liability pass-through entity is allowed a limited liability entity tax (LLET) credit against the income tax imposed by KRS 141.020 equal to the individual's proportionate share of LLET computed on the gross receipts or gross profits of the limited liability pass-through entity as provided by KRS 141.0401(2), after the LLET is reduced by the minimum tax of $175 and by other tax credits which the limited liability pass-through entity may be allowed. The credit allowed an individual that is a partner, member, or shareholder of a limited liability pass-through entity against income tax shall be applied only to income tax assessed on the individual's proportionate share of distributive income from the limited liability pass-through entity as provided by KRS 141.0401(3)(b). Any remaining LLET credit shall be disallowed and shall not be carried forward to the next year.

Nonrefundable Kentucky limited liability entity tax credit (KRS 141.0401(2))—The credit amount is shown on Kentucky Schedule(s) K-1 from pass-through entities (PTEs) or Form(s) 725 for single member limited liability companies. **Copies of Kentucky Schedule(s) K-1 or Form(s) 725 must be attached to your return.**

**Kentucky Limited Liability Entity Tax Credit Worksheet**

Complete a separate worksheet for each LLE. Retain for your records.

Name ________________________________

Address ________________________________

FEIN ________________________________

**Percentage of Ownership** ...................... ________ %

1. Enter Kentucky taxable income from Form 740-NP, Line 13................ ________
2. Enter LLE income **as shown on Kentucky Schedule K-1 or Form 725** ...................................... ________
3. Subtract Line 2 from Line 1 and enter total here .................................. ________
4. Enter Kentucky tax on income amount on Line 1............................... ________
5. Enter Kentucky tax on income amount on Line 3............................... ________
6. Subtract Line 5 from Line 4. If Line 5 is larger than Line 4, enter zero. This is your tax savings if income is ignored .......................................... ________
7. Enter nonrefundable limited liability entity tax credit **(from Kentucky Schedule K-1 or Form 725)** .............. ________
8. Enter the lesser of Line 6 or Line 7. This is your credit. Enter here and on Form 740-NP, Section A, Line 1 ... ________

**Line 2, Kentucky Small Business Investment Credit**—For taxable years beginning after December 31, 2010, a small business may be eligible for a nonrefundable credit of up to one hundred percent (100%) of the Kentucky income tax imposed under KRS 141.020 or 141.040, and the limited liability entity tax imposed under KRS 141.0401.

The small business development credit program authorized by KRS 154.60-020 and KRS 141.384 was amended to allow the credit to apply to taxable years beginning after Dec. 31, 2010. The definition of base year for purposes of the credit computation was changed to the first full year of operation that begins on or after Jan.1, 2009 and before Jan. 1, 2010.

Small businesses are eligible to apply for credits and receive final approval for these credits one (1) year after the small business:

- Creates and fills one (1) or more eligible positions over the base employment, and that position or positions are created and filled for twelve (12) months; and
- Invests five thousand dollars ($5,000) or more in qualifying equipment or technology.

The small business shall submit all information necessary to the Kentucky Economic Development Finance Authority to determine credit eligibility for each year and the amount of credit for which the small business is approved.

A small business that is a pass-through entity not subject to the tax imposed by KRS 141.040 and that has tax credits approved under Subchapter 60 of KRS Chapter 154 shall apply the credits against the limited liability entity tax imposed by KRS 141.0401, and shall also distribute the amount of the approved tax credits to each partner, member, or shareholder based on the partner's, member's, or shareholder's distributive share of income as determined for the year during which the tax credits are approved.

The maximum amount of credits that may be committed in each fiscal year by the Kentucky Economic Development Finance Authority shall be capped at three million dollars ($3,000,000).

The maximum amount of credit for each small business for each year shall not exceed twenty-five thousand dollars ($25,000). The credit shall be claimed on the tax return for the year during which the credit was approved. As per KRS 141.0205, individuals entitled to this credit will claim the credit on Line 2, Section A – Business Incentive and Other Tax Credits.

Unused credits may be carried forward for up to five (5) years.

**Line 3, Skills Training Investment Tax Credit**—Enter the amount of credit certified by the Bluegrass State Skills Corporation. A copy of the Kentucky Schedule K-1 for the year the credit was approved must be attached to the return in the first year the credit is claimed. The excess credit over the income tax liability in the year approved may be carried forward for three successive taxable years. For information regarding the application and approval process for this credit, contact the Cabinet for Economic Development, Bluegrass State Skills Corporation at (502) 564-2021, for information.

**Line 4, Nonrefundable Certified Rehabilitation Credit**—This credit is available to owner-occupied residential and commercial preservation projects for structures that are listed in the National Register of Historic Places, or in a National Register historic district, up to $3 million annually. The credit is 30 percent of certified rehabilitation expenses for owner-occupied residential properties, not to exceed $60,000 per project, and 20 percent for commercial and income-producing properties. To qualify, an owner must spend at least $20,000 on rehabilitation.

Individuals or businesses can apply the credit against their state income tax liability, carry the credit forward up to seven years or transfer it to a banking institution to leverage financing. For application submitted on or after April 30, 2010, the credit shall be refundable if the taxpayer makes an election under KRS 171.397(2)(b). For more information regarding this credit, visit the Kentucky Heritage Council's Web site at **www.heritage.ky.gov**, or call (502) 564-7005.

**Line 5, Credit for Tax Paid to Another State**—Kentucky residents are required to report all income received including income from sources outside Kentucky. Within certain limitations, a credit for income tax paid to another state may be claimed. The credit is **limited** to the amount of Kentucky tax savings had the income reported to the other state been omitted, or the amount of tax paid to the other state, **whichever is less**.

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

**You may not claim credit for tax withheld by another state.** You must file a return with the other state and pay tax on income also taxed by Kentucky in order to claim the credit. A copy of the other state's return including a schedule of income sources must be attached to verify this credit. **If you owe tax in more than one state, the credit for each state must be computed separately.**

**Reciprocal States**—Kentucky has reciprocal agreements with specific states. These agreements provide that taxpayers be taxed by their state of residence, and not the state where income is earned. Persons who live in Kentucky for more than 183 days during the tax year are considered residents and reciprocity does not apply. The states and types of exemptions are as follows:

**Illinois, West Virginia**—wages and salaries

**Indiana**—wages, salaries and commissions

**Michigan, Wisconsin**—income from personal services (including salaries and wages)

**Ohio**—wages and salaries. **Note:** Wages which an S corporation pays to a shareholder-employee if the shareholder-employee is a "twenty (20) percent or greater" direct or indirect equity investor in the S corporation shall not be exempt under the reciprocity agreement.

**Virginia**—commuting daily, salaries and wages

Kentucky does not allow a credit for tax paid to a reciprocal state on the above income. If tax was withheld by a reciprocal state, you must file directly with the other state for a refund of those taxes.

**Credit for Taxes Paid to Other State Worksheet**

**Kentucky residents/part-year residents only. Complete a separate worksheet for each state. See instructions for Form 740-NP, Section A, Line 5.**

Name of other state ................................. ______

1. List Kentucky taxable income from Form 740-NP, Line 13 ........................ ______
2. List any gambling losses from Schedule A, Line 31 ........................... ______
3. Add Lines 1 and 2 and enter total here ........................................... ______
4. List income reported to other state included on Kentucky return ............ ______
5. Subtract Line 4 from Line 3 and enter total here ................................. ______
6. Adjusted gambling losses. Compute gambling losses allowed on Kentucky return if income from other state is ignored ............................................. ______
7. Subtract Line 6 from Line 5 and enter total here ................................. ______
8. Enter Kentucky tax on income amount on Line 7............................... ______
9. Enter Kentucky tax on income amount on Line 1............................... ______
10. Subtract Line 8 from Line 9. This is the tax savings on return if other state's income is ignored.................. ______
11. Enter tax paid to other state on income claimed on Kentucky return. ______
12. Enter the lesser of Line 10 or Line 11. This is your credit for tax paid to other state. Carry this total to Form 740-NP, Section A, Line 5......... ______