

This is **not** a **current year tax form** and **cannot be used to file a current return**. If you use this form for a tax year other than is intended, it **will not be processed**. Instead, **it will be returned to you** with a request to submit your information on the proper form.

**If you need a current year Kansas tax form**, send your request through email at [forms@kdor.state.ks.us](mailto:forms@kdor.state.ks.us) or call our voice mail forms request line at 785-296-4937. Please allow 2 weeks for delivery.

**FORM LOCATED BELOW, PLEASE SCROLL OR PAGE DOWN.**

2003 KANSAS SMALL BUSINESS CORPORATION

DO NOT STAPLE

For the taxable year beginning \_\_\_\_\_, 2003; ending \_\_\_\_\_, \_\_\_\_\_

TAXPAYER INFORMATION section containing fields for Name, Business Activity Code Number, Date Business Began/Discontinued, Method Used to Determine Income, State and Month/Year of Incorporation, State of Commercial Domicile, Type of Federal Return Filed, and Employer's Identification Numbers.

IF THIS IS AN AMENDED RETURN, MARK THIS BOX [ ]

Table with 21 rows for income and deductions, including Federal ordinary income, total other income, state and municipal interest, taxes, and net income before apportionment.

[ ] I authorize the Director of Taxation or the Director's designee to discuss my return and enclosures with my preparer.

I declare under the penalties of perjury that to the best of my knowledge this is a true, correct, and complete return.

sign here

Signature lines for Officer, preparer, and address.

Enclose a copy of your federal return, pages 1 through 10 including Schedules M-1 & M-2. Also include any federal schedules to support any Kansas modifications.

Mail this return to: Kansas Sub-S Corporate Tax, Kansas Department of Revenue, 915 SW Harrison, Topeka, KS 66699-4000

**PART I - APPORTIONMENT SCHEDULE**

This schedule is to be used only by corporations with nonresident shareholders which derive income from sources within and outside of Kansas.

1. Allocation fraction - Enclose Schedule of Computation:

	WITHIN KANSAS	TOTAL COMPANY	PERCENT WITHIN KANSAS
a. Average cost of real and tangible personal property owned at beginning and end of year plus 8 times the net annual rent. (Exclude property not connected with the business and construction in progress.) Enter % on line 15, block A, page 1. ....	1a		%
b. Payroll. Enter % on line 15, block B, page 1. ....	1b		%
c. Gross sales or revenue. Enter % on line 15, block C, page 1. ....	1c		%

2. a. Total percent (Add lines 1a, 1b, and 1c if utilizing three factors) .....

2a	%
2b	%
3	%

b. Total percent (Add lines 1a and 1c if qualified and utilizing the elective two-factor formula) .....

3. Average percent of either 2a or 2b, whichever is applicable (To line 15, page 1) .....

**PART II - SHAREHOLDER'S DISTRIBUTION OF INCOME**

This schedule must be completed for all shareholders. If you have nonresident partners, you must complete Form KW-7S.

(1) Name and address of shareholder	Check box if nonresident	(2) Social Security Number	(3) Number of shares	(4) Shareholder's applicable percentage
(a) _____	<input type="checkbox"/>			
(b) _____	<input type="checkbox"/>			
(c) _____	<input type="checkbox"/>			
(d) _____	<input type="checkbox"/>			
(e) _____	<input type="checkbox"/>			
(f) _____	<input type="checkbox"/>			
(g) _____	<input type="checkbox"/>			
(h) _____	<input type="checkbox"/>			
(i) _____	<input type="checkbox"/>			
(j) _____	<input type="checkbox"/>			
(k) _____	<input type="checkbox"/>			
(l) _____	<input type="checkbox"/>			
(m) _____	<input type="checkbox"/>			
(n) _____	<input type="checkbox"/>			
(o) _____	<input type="checkbox"/>			

**Continuation of PART II - (See instructions for Nonresident Shareholder's Computation of Columns 6, 7 and 8)**

(5) Income from Kansas sources. Kansas residents multiply column 4 by line 12 page 1. Nonresidents; multiply shareholder's percentage in column 4 by line 12 page 1, or if income is earned inside and outside of Kansas, multiply shareholder's percentage in column 4 by line 18, page 1.	(6) Shareholder's portion of federal ordinary and other income (losses) and deductions. Multiply shareholder's percentage in column 4 by line 3, page 1.	(7) Shareholder's portion of total Kansas income. Multiply the shareholder's percentage in column 4 by line 12, page 1.	(8) Shareholder's modification. See instructions. Enter on Part A of Schedule S, Form K-40.
(a) _____			
(b) _____			
(c) _____			
(d) _____			
(e) _____			
(f) _____			
(g) _____			
(h) _____			
(i) _____			
(j) _____			
(k) _____			
(l) _____			
(m) _____			
(n) _____			

# GENERAL INFORMATION

*If any due date falls on a Saturday, Sunday, or legal holiday, substitute the next regular workday.*

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## Who Must File a Return

A Kansas corporation return must be filed by all corporations doing business within or deriving income from sources within Kansas who are required to file a Federal Income Tax return, whether or not a tax is due. Corporations which elect under subchapter S of the Internal Revenue Code not to be taxed as a corporation must file a Kansas Small Business Corporation Return (Form K-120S). All other corporations must file on Form K-120.

Banks and savings and loan associations allowed to file as a small business corporation at the federal level are **not** allowed to file as a small business corporation at the Kansas level. Those entities are required to file a Privilege Tax return (K-130) to report any income or loss. The federal level shareholders income or loss which is included in their individual federal income tax return is to be subtracted from federal adjusted gross income so as to not allow that income.

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## When to File

**Calendar Year:** If your return is based on a calendar year, it must be filed no later than April 15, 2004.

**Fiscal Year:** If your return is based on a tax year other than a calendar year, it must be filed no later than the 15th day of the fourth month following the end of your tax year.

**Conformity to Federal Due Dates:** Kansas returns are due one (1) month after the federal due date. If the federal original due date is not the 15th day of the third month after the close of a taxable year, the corporation is required to complete item "I" on the front of Form K-120S, and enclose a letter indicating the authorizing federal statute. Do not enter your extended due date.

**Amended Returns:** In general, amended returns must be filed with the Department of Revenue within three (3) years of when the original return was filed. If the amended return will result in a refund, then it must be filed within three (3) years of when the original return was filed, or within two (2) years from the date the tax was paid, whichever is less.

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## Where to File

Use the preaddressed envelope in this tax booklet to mail your return. This envelope is designed for use in our automated mail-opening equipment and will expedite the processing of your return. If you are expecting a refund, place an "X" in the box on the front of the envelope. If your envelope has been misplaced, mail your return to the following address: KANSAS SUB S CORPORATE TAX, KANSAS DEPARTMENT OF REVENUE, 915 SW HARRISON STREET, TOPEKA, KS 66699-4000.

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## If You Need Forms

A tax booklet is mailed each year to the address on the previous year's tax return. Kansas tax forms are available from our Taxpayer Assistance Center or by calling our voice mail forms request line at (785) 296-4937 and from our web site at: [www.ksrevenue.gov](http://www.ksrevenue.gov)

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## Extension of Time to File

If you are unable to complete your return by the filing deadline, you may request an extension of time to file. If you filed federal Form 7004 with the Internal Revenue Service for an extension of time, enclose a copy of that form with your completed K-120S return to automatically receive a six-month extension to file your Kansas return. Kansas does not have a separate extension request form but will accept an approved Federal Extension of Time form.

If you are entitled to a refund, an extension is not required to file the return after the original due date.

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## Copy of Federal Return

Enclose with form K-120S a copy of the following federal return pages as filed with the Internal Revenue Service:

- Pages 1 through 10 of the federal return.
- Federal schedules to support any Kansas modifications claimed on page 1, Form K-120S.

The Kansas Department of Revenue reserves the right to request additional information as necessary.

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## Completing Your Return

All appropriate lines on Form K-120S must be completed as applicable. Be certain to complete all boxes in the "Taxpayer Information" section of the return.

**Nonbusiness Income Claimed:** Any taxpayer that claims nonbusiness income on the Kansas return is required to clearly demonstrate that the transaction or activity which gave rise to the income was unusual in nature and infrequent in occurrence or that the income was earned in the course of activities unrelated to the taxpayer's business operations in Kansas. The taxpayer must also submit a schedule as required by line 13 of the Specific Line Instructions for Form K-120S. If the taxpayer does not demonstrate that the income is nonbusiness and does not submit the required schedules, the income will be considered to be business income by the Department of Revenue and the department will apportion that income as business income.

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## Accounting Period

A taxpayer's taxable year is the same as the taxable year for federal tax purposes. If a taxpayer's taxable year is changed, or the method of accounting is changed for federal tax purposes, then the taxable year and method of accounting shall be similarly changed for Kansas tax purposes.

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## Business Income Election

For taxable years beginning after December 31, 1995, a taxpayer may elect to have all income derived from the acquisition, management, use, or disposition of tangible and intangible property treated as business income. The election is effective and irrevocable for the taxable year of the election and the following nine taxable years. The election is binding on all members of a unitary group of corporations.

To make this election, a corporation must file Form K-120EL with the Department within the time limits established by law for its filing situation.

- A corporation not previously doing business in Kansas that intends to make this election for its initial year of business must file Form K-120EL within 60 days after filing the articles of incorporation or application for authority to engage in business with the Kansas Secretary of State.
- For corporations currently doing business in Kansas, the election must be filed on or before the last day of the tax year immediately preceding the tax year for which the election is made.

Form K-120EL must be sent separately from the Small Business Corporate return.

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## Amending Your Return

You must file an amended Kansas return when: 1) an error was made on your Kansas return, 2) there is a change on another state's return (error or adjustment), 3) there is a change on your federal return (error or adjustment).

To amend your Kansas return, you must check the box on the front of the K-120S and insert the changes on the return. You must also include a copy of the other state's amended return or a copy of the IRS amended return or Revenue Agent's Report or adjustment letter showing and explaining the adjustments.

**AMENDED FEDERAL RETURN:** If you are filing an amended federal income tax return, for the same taxable year as your Kansas amended return, you must enclose a complete copy of the amended federal return and full explanations of all changes made on your amended Kansas return. If your amended federal return is adjusted or disallowed, it is necessary to provide the Kansas Department of Revenue with a copy of the adjustment or denial letter.

If you did not file a Kansas return when you filed your original federal return, and the federal return has since been amended or adjusted, use the information on the amended or adjusted federal return to complete your original Kansas return. A copy of both the original and amended federal returns should be enclosed with the Kansas return along with an explanation of the changes.

**FEDERAL AUDIT:** Any taxpayer whose income has been adjusted by the Internal Revenue Service must file an amended return with Kansas and include a copy of the Revenue Agent's Report or adjustment letter showing and explaining the adjustments. These adjustments must be submitted within 180 days of the date the federal adjustments are paid, agreed to, or become final, whichever is earlier. Failure to notify the Department within the 180 day period will cause the statute of limitations to remain open (the Department of Revenue can make adjustments for as many years back as necessary and interest and penalty computations will continue to increase).

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## Confidential Information

Income tax information disclosed to the Kansas Department of Revenue, either on returns or through department investigation, is held in strict confidence by law. The Department of Revenue, Internal Revenue Service and the Multi-state Tax Commission and several other states have an agreement under which some tax information is exchanged. This is to verify accuracy and consistency of information reported on federal and Kansas tax returns.

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## Definitions

**Unitary Business:** A multistate business is unitary when the operations conducted in one state benefit or are benefited by the operations conducted in another state or states. The essential test to be applied is whether or not the operation of the portion of the business within the state is dependent upon or contributory to the operation of the business outside the state. If there is such a relationship, the business is unitary. Stated another way, the test is whether a business' various parts are interdependent and of mutual benefit so as to form one business rather than several business entities and not whether the operating experience of the parts are the same at all places.

**Activity Wholly Within Kansas:** If a particular trade or business is carried on exclusively within Kansas or if the activities outside of Kansas are such that federal Public Law 86-272 prohibits another state from imposing a tax, then the entire net income is subject to the Kansas Income Tax.

If two or more corporations file Federal Income Tax returns on a consolidated basis, and if each of such corporations derive all of their income and expenses from sources within Kansas, they must file a consolidated return for Kansas Income Tax purposes.

**Single Entity Apportionment Method:** Any taxpayer having income from business activity which is taxable both within and without this state, other than activity as a financial organization or the rendering of purely personal services by an individual, shall allocate and apportion net income as provided in the Uniform Division of Income for Tax Purposes Act.

**Qualified Elective Two-Factor Method:** This method may be used by any taxpayer who qualifies and elects to utilize the two-factor formula of property and sales. A qualified taxpayer is any taxpayer whose payroll factor for a taxable year exceeds 200% of the average of the property factor and the sales factor. An election must be made by including a statement with the original tax return indicating that the taxpayer elects to utilize this apportionment method. The election will be effective and irrevocable for the taxable year of the election and the following nine taxable years.

**Common Carrier Method:** All business income of railroads and interstate motor carriers of persons or property for-hire shall be apportioned to this state on the basis of mileage. For railroads, multiply the business income by a fraction, the numerator of which is the freight car miles in this state and the denominator of which is the freight car miles everywhere. For interstate motor carriers, multiply the business income by a fraction, the numerator of which is the total number of miles operated in this state and the denominator of which is the total number of miles operated everywhere.

**Alternative Accounting Method:** If the uniform allocation and apportionment provisions do not represent fairly the extent of the taxpayer's business activity in this state, the taxpayer may petition for, or the Secretary of Revenue may require, in respect to all or any part of the taxpayer's business activity, if reasonable: (a) Separate accounting; (b) the exclusion of one or more of the factors; (c) the inclusion of one or more additional factors; or (d) the employment of any other method to effect an equitable allocation and apportionment of the taxpayer's income. A copy of the letter from the Kansas Department of Revenue granting the use of an alternative method must be enclosed with the return when filed. Enter the amount determined on your separate schedule on line 18, Form K-120S.

**Separate Accounting Method:** The separate method of reporting income to Kansas is allowable only in unusual circumstances and with the permission of the Department of Revenue where the use of the three-factor formula does not fairly represent the taxpayer's business activity. Before a taxpayer engaged in a multistate business may use the separate accounting method, the following requirements shall be satisfied:

- n The books and records are kept by recognized accounting standards to reflect accurately the amount of income of the multistate business which was realized in Kansas during the taxable period;
- n The management functions of the business operations within Kansas are separate and distinct so that in conducting the Kansas business operations the management within Kansas did not utilize or incur centralized management services consisting of operational supervision, advertising, accounting, insurance, financing, personnel, physical facilities, technical and research, sales and servicing or purchasing during the taxable period;
- n The business operations within Kansas are separate and distinct and do not contribute to or depend upon the overall operations of the company, and there are no interstate, intercompany, or interdivisional purchases, sales or transfers during the taxable period.

If all three requirements are not satisfied, the taxpayer shall determine Kansas taxable income by use of the apportionment formula. Enter the amount determined on your separate schedule on line 18, Form K-120S.

# SPECIFIC LINE INSTRUCTIONS FOR FORM K-120S, PAGE 1

## TAXPAYER INFORMATION

If any "Taxpayer Information" has changed from the last original return filed by you, please check the change box "J".

**Label:** If you have a pre-addressed label (located on the back cover of this booklet) and the name and address information is correct, place it on Form K-120S in the space provided **after** you have completed your return.

**Name and Address:** If you do not have a pre-addressed label, or if the information on the label is incorrect, PRINT or TYPE the corporate name and address in the spaces provided.

**Beginning and Ending Dates:** Enter beginning and ending dates of the corporation's tax year, even if your tax year is a calendar year.

**Final Return:** If a final return is being filed and the corporation is being liquidated, please enclose a copy of the federal form that states the federal code section the corporation was liquidated under.

**Information Requested in Boxes A through J:** Complete all requested information. For item A, refer to page 4. For item B, input the NAISC code (see page 2). For items E and F, use the two-letter state abbreviation.

## INCOME

**LINE 1—FEDERAL ORDINARY INCOME:** Enter the federal ordinary income from federal Schedule K. A copy of certain pages of the federal return must be enclosed in all cases. See instructions on page 3.

**LINE 2—TOTAL OTHER INCOME (LOSSES) AND DEDUCTIONS:** Enter all other income (losses) and deductions from federal Schedule K. Do not include those items that would affect the itemized deductions of the shareholders.

**LINE 3—TOTAL:** Add lines 1 and 2 and enter the result on line 3.

**LINE 4—TOTAL STATE AND MUNICIPAL INTEREST:** Enter interest income received, credited, or earned by you during the taxable year from any state or municipal obligations such as bonds and mutual funds. Reduce the income amount by any related expenses (such as management or trustee fees) directly incurred in purchasing these state or political subdivision obligations.

DO NOT include interest income or obligations of the state of Kansas or any Kansas political subdivision issued after December 31, 1987, or the following bonds exempted by Kansas law:

- n Board of Regents Bonds for Kansas Colleges and Universities
- n Electrical Generation Revenue Bonds
- n Industrial Revenue Bonds
- n Kansas Highway Bonds
- n Kansas Turnpike Authority Bonds
- n Urban Renewal Bonds

If you are a shareholder in a fund that invests in both Kansas and other states' bonds, only the Kansas bonds are exempt. Use the information provided by your fund administrator to

determine the amount of taxable (non-Kansas) bond interest to enter here.

**LINE 5—TAXES ON OR MEASURED BY INCOME OR FEES OR PAYMENTS IN LIEU OF INCOME TAXES:** Enter the taxes on or measured by income or fees or payments in lieu of income taxes which you deducted on your federal return in arriving at your federal ordinary income. IRC Section 59A federal environmental tax must be added back to federal ordinary income to the extent it is used as a deduction in arriving at federal ordinary income.

**LINE 6—OTHER ADDITIONS TO FEDERAL INCOME:** Enter on line 6 the following additions to your federal ordinary income:

- **Learning Quest Education Savings Program:** Enter the amount of any "nonqualified withdrawal" from the Learning Quest Savings Program.

A tax credit for the additions below may be claimed on your tax return (schedule required):

- **Disabled Access Credit Modification:** The amount of any depreciation deduction or business expense deduction claimed on your federal return that was used to determine the Disabled Access Credit on Schedule K-37.
- **Small Employer Health Insurance Contribution Credit:** Reduce the amount of expense deduction that is included in federal ordinary income by the dollar amount of the credit claimed. Complete Schedule K-57 and enclose it with your Kansas return.
- **Community Service Contribution Credit:** The amount of any charitable contribution claimed on your federal return used to compute the Community Service Contribution Credit on Schedule K-60.
- **Swine Facility Improvement Credit:** The amount of any costs claimed on your federal return and used as the basis for this credit on Schedule K-38.
- **Habitat Management Credit:** The amount of any real estate taxes and costs claimed on your federal return used to determine the credit on Schedule K-63.

**LINE 7—TOTAL ADDITIONS TO FEDERAL INCOME:** Add lines 4 through 6 and enter the result on line 7.

**LINE 8—INTEREST ON U.S. GOVERNMENT OBLIGATIONS:** Enter any interest or dividend income received from obligations or securities of any authority, commission or instrumentality of the United States and or its possessions that was included in your federal ordinary income. This includes U.S. Savings Bonds, U.S. Treasury Bills, and the Federal Land Bank. You must reduce the interest amount by any related expenses (such as management or trustee fees) directly incurred in the purchase of these securities.

If you are a shareholder in a mutual fund that invests in both exempt and taxable federal obligations, only that portion of the distribution attributable to the exempt federal obligations may be subtracted here.

Enclose a schedule showing the name of each U.S. Government obligation interest deduction claimed.

Interest from the following are taxable to Kansas and may NOT be entered on this line:

- Federal National Mortgage Association (FNMA)
- Government National Mortgage Association (GNMA)
- Federal Home Loan Mortgage Corporation (FHLMC)

**LINE 9—IRC SECTION 78 AND 80% OF FOREIGN DIVIDENDS:** Enter the amount included in federal ordinary income pursuant to the provisions of Section 78 of the Internal Revenue Code and 80% of dividends from corporations incorporated outside of the United States or the District of Columbia which are included in federal ordinary income.

**LINE 10—OTHER SUBTRACTIONS FROM FEDERAL INCOME:** Enter on line 10, a total of the following subtractions from your federal ordinary income (schedule required):

- **Refunds or Credits:** Any refund or credit for overpayment of taxes on or measured by income or fees or payments in lieu of income taxes imposed by this state, or any taxing jurisdiction, to the extent included in federal ordinary income.
- **Jobs and WIN Tax Credit:** The amount of federal targeted jobs and WIN credit.
- **Kansas Venture Capital, Inc. Dividends:** Dividend income received as a result of investing in stock issued by Kansas Venture Capital, Inc.
- **Electrical Generation Revenue Bonds:** Enter the gain from the sale of Electrical Generation Revenue Bonds that was included in your federal ordinary income.
- **Learning Quest Education Savings Program:** Enter the amount of contributions deposited in the Learning Quest Education Savings Program, up to a maximum of \$2,000 per student (beneficiary).
- **Sale of Kansas Turnpike Bonds:** Enter the gain from the sale of Kansas Turnpike Bonds that was included in your federal ordinary income.

**LINE 11—TOTAL SUBTRACTIONS FROM FEDERAL INCOME:** Add lines 8 through 10 and enter the result on line 11.

**LINE 12—NET INCOME BEFORE APPORTIONMENT:** Add line 3 to line 7 and subtract line 11, and enter the result on line 12.

All corporations must complete Part II, page 2, columns 1 through 8.

Corporations with nonresident shareholders and with income derived from sources within and without Kansas are to complete lines 13 through 18, or provide a substitute schedule, and if an alternative or separate accounting method is used, a letter of authorization.

## APPORTIONMENT AND ALLOCATION

**LINE 13—NONBUSINESS INCOME-TOTAL COMPANY:** Enter on line 13 the total amount of nonbusiness net income everywhere that is to be directly allocated.

Any taxpayer that claims nonbusiness income on the Kansas return is required to clearly demonstrate that the transaction or activity which gave rise to the income was unusual in nature and infrequent in occurrence. The taxpayer must also submit a schedule as required below. If the taxpayer does not demonstrate that the income is nonbusiness and does not submit the required

schedule(s), the income will be considered to be business income by the Department of Revenue and the Department will apportion that income as business income.

From the items of income directly allocated, there shall be deducted the expenses related thereto. The term “expenses related thereto”, as used in this paragraph, means any allowable deduction or portion thereof attributable to such income and a ratable part of any other allowable deductions which cannot definitely be allocated to some item or class of income.

A schedule must be submitted with the return showing: (1) the gross income from each class of income being specifically allocated, (2) the amount of each class of related expenses together with an explanation or computations showing how amounts were arrived at, (3) the total amount of the related expense for each income class, and (4) the net income for each income class. The schedules should provide appropriate columns as set forth above for items specifically assigned to Kansas and for nonbusiness items specifically assigned outside Kansas. An explanation must also be enclosed to explain specifically why each item of income arose from unusual and infrequent transactions outside of the regular course of the corporation’s trade or business.

**LINE 14—APPORTIONABLE BUSINESS INCOME:** Subtract line 13 from line 12 and enter the result on line 14.

**LINE 15—AVERAGE PERCENT TO KANSAS:** Enter the applicable percentages in spaces A, B, and C. If you are qualified and utilizing the elective two-factor formula, do not enter a percentage figure in space B. Enter on line 15 the average percent from Form K-120S, Part I, line 3. **Note:** Round percentage to the fourth decimal point only. If your business is wholly within Kansas enter 100.0000.

**LINE 16—AMOUNT TO KANSAS:** Multiply line 14 by line 15 and enter the result on line 16.

**LINE 17—NONBUSINESS INCOME-KANSAS:** Enter the total amount of nonbusiness net income directly allocated to Kansas. Submit a schedule to support the amount shown.

**LINE 18—TOTAL KANSAS INCOME:** Add lines 16 and 17 and enter the result on line 18. This is the amount of Kansas net income determined for use in computing the nonresident shareholder’s share of income derived from Kansas sources. If the alternative or separate accounting method is authorized or required, enter on line 18 the appropriate amount from a separately prepared schedule.

**LINE 19—ESTIMATED TAX PAID AND AMOUNT CREDITED FORWARD:** Enter the total of your 2003 estimated tax payments plus any 2002 overpayment you had credited forward to 2003 .

**LINE 20—OTHER TAX PAYMENTS:** Enter on line 20, any amount of prepaid tax not entered above.

**LINE 21—REFUND:** Add lines 19 and 20 and enter the result on line 21 . Amounts less than \$5.00 will not be refunded. Before mailing, mark an “X” in the refund box on the front of the envelope.

**SIGNATURE AND VERIFICATION:** The return must be signed and sworn to by the president, vice-president, or other principal officer. If the return is prepared by a firm or corporation, the return should be signed in the name of the firm or corporation. Any person or persons who prepare the return for compensation must also sign the return.

# SPECIFIC LINE INSTRUCTIONS FOR FORM K-120S, PAGE 2

## PART I – APPORTIONMENT SCHEDULE

Part I is to be used by corporations with nonresident shareholders which derive income from sources both within and without Kansas for the purpose of allocating and apportioning income. All business income is apportionable to Kansas by one of the following methods:

- The majority of corporations will multiply business income by a fraction, the numerator of which is the property factor plus the payroll factor plus the sales factor, and the denominator of which is three.
- Railroads will multiply business income by a fraction, the numerator of which is the freight car miles in this state and the denominator of which is the freight car miles everywhere.
- Interstate motor carriers will multiply business income by a fraction, the numerator of which is the total number of miles operated in this state and the denominator of which is the total number of miles operated everywhere.
- A qualifying taxpayer may elect to multiply business income by a fraction, the numerator of which is the property factor plus the sales factor, and the denominator of which is two. A qualifying taxpayer is any taxpayer whose payroll factor for a taxable year exceeds 200% of the average of the property factor and the sales factor. For additional information relating to this method and to determine if you are qualified, you may review K.S.A. 79-3279. If you are qualified to use this method, you are still required to complete the payroll information in PART I, line 1b.

The laws applicable to these factors are contained in K.S.A. 79-3280 through 79-3287. The applicable regulations are contained in K.A.R. 92-12-84 through 92-12-103. You may access these laws and regulations in the Kansas Department of Revenue's Policy Library at: [www.ksrevenue.org](http://www.ksrevenue.org)

**LINE 1a, 1b, and 1c—ALLOCATION FRACTION:** Compute the property, payroll, and sales to determine the percentage of each in Kansas.

**LINE 2a—TOTAL PERCENT:** If you are qualified and are utilizing the three-factor formula to apportion income to Kansas, add lines 1a, 1b, and 1c, (percent within Kansas).

**LINE 2b—TOTAL PERCENT:** If you are qualified and are utilizing the elective two-factor formula to apportion income to Kansas, add lines 1a and 1c, (percent within Kansas).

**LINE 3—AVERAGE PERCENT:** Divide line 2a or 2b, whichever is applicable, by the number of factors used in the formula. For example, if you are using the three-factor formula and the corporation does not have payroll anywhere, divide by 2.

## PART II - SHAREHOLDER'S DISTRIBUTION OF INCOME

Part II must be completed for all shareholders.

**COLUMN 1—Name and address of shareholder.** List the name and permanent address of each person who was a shareholder of the corporation during the taxable year. Check box on right side of column 1 if the respective shareholder was a nonresident of Kansas during the year.

**COLUMN 2—Social Security number.** Enter in column 2 the Social Security number of each shareholder listed.

**COLUMN 3—Number of shares.** Enter in column 3 the number of shares owned by each shareholder during the year.

**COLUMN 4—Shareholder's applicable percentage.** Enter in column 4 the applicable percentage of shares owned by each shareholder to the total shares outstanding.

**COLUMN 5—Income from Kansas sources.** Kansas residents must multiply column 4 by line 12, page 1. Nonresidents must multiply shareholder's percentage in column 4 by line 12, page 1 or, if income is earned inside and outside of Kansas, multiply shareholder's percentage in column 4 by line 18, page 1.

**COLUMN 6—Shareholder's portion of federal ordinary and other income (losses) and deductions.** Multiply shareholder's percentage in column 4 by line 3, page 1.

**COLUMN 7—Shareholder's portion of total Kansas income.** Multiply the shareholder's percentage in column 4 by line 12, page 1.

**COLUMN 8—Shareholder's modification.** Subtract column 7 from column 6 and enter the result in column 8. This is the Kansas adjustment to be entered on Schedule S of the Kansas Individual Income Tax return, Form K-40 as S corporation adjustment. If the amount in column 7 is greater than column 6, the amount in column 8 should be shown as an addition modification and entered on line A4 of Schedule S. If the amount in column 7 is less than column 6, the amount in column 8 should be shown as a subtraction modification and entered on line A10, of Schedule S.

## NONRESIDENT SHAREHOLDERS' COMPUTATION

Nonresident shareholders must use the following method to determine the amounts that will be entered in Part B of Supplemental Schedule S, Form K-40.

The shareholder's share of income to be entered on line B10 (Amount from Kansas Sources) is determined by multiplying the shareholder percentage (column 4, Part II, page 2, Form K-120S) by line 12, page 1, Form K-120S, if income is derived totally within Kansas; or line 18, if income is derived within and outside of Kansas.

Since modifications for nonresident income are included in line 18, Form K-120S, a modification relative to the S corporation income is **not** to be entered on line B20, Part B of Schedule S, Form K-40.

**NOTE—**Any difference in the basis of property sold which has a higher basis for Kansas income tax purposes than for federal income tax purposes and which is reported as a long-term capital gain for Kansas purposes, should be computed and reported to the respective shareholder for adjustment of this item on the individual income tax return. If the basis of property sold has a lower basis for Kansas income tax purposes than for federal income tax purposes, no adjustment is necessary.