

PART II — MODIFICATIONS TO COMPUTE KANSAS ADJUSTED GROSS INCOME OF PARTNERS

9. Total state and municipal interest not specifically exempt from Kansas tax	9	
10. Taxes on or measured by income or fees or payments in lieu of income taxes	10	
11. Other additions to federal ordinary income	11	
12. Interest on obligations of the United States	12	
13. Other subtractions from federal ordinary income	13	
14. Partnership adjustment from other partnerships	14	
15. Fiduciary adjustments	15	

PART III — APPORTIONMENT OF INCOME

This schedule is to be used only by partnerships that derive income or have activities both within and without Kansas.

	WITHIN KANSAS	TOTAL COMPANY	PERCENT WITHIN KANSAS
16. Apportionment fraction:			
a. Average cost of real and tangible personal property owned or rented at the beginning and end of year. (Exclude property not connected with the business and construction in progress, see instructions.)	16a		%
b. Payroll	16b		%
c. Gross sales or revenue	16c		%
17. Total percent (Add lines 16a, 16b, & 16c)			17 %
18. Average percent (Divide line 17 by the number of factors utilized)			18 %

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 of partner or member Date

 Signature of preparer other than partner or member Address Date

TELEPHONE NUMBER: _____ The number you furnish will be confidential and should be one at which you can be reached during our office hours. If you prefer that the department contact your tax preparer in regard to questions about this form, please provide the name and number at which your tax preparer may be reached during our office hours: _____

ENCLOSE A COPY OF YOUR FEDERAL RETURN, PAGES 1, 2, 3 AND 4 TO THIS RETURN. PLEASE DO NOT ATTACH SCHEDULE K-1 TO THE RETURN WHEN FILED. THE DEPARTMENT RESERVES THE RIGHT TO REQUEST ADDITIONAL INFORMATION AS NECESSARY.



2002 KANSAS Partnership Booklet

NEW INFORMATION

The following legislation passed by the Kansas Legislature becomes effective for the 2002 tax year:

- **Withholding Required on Distributions** – Effective June 6, 2002, Kansas withholding tax is required on distributions to nonresident partners and shareholders from partnerships, S corporations, or limited liability companies formed in Kansas. Prize or awards paid to a professional athlete at a Kansas sporting event are also now subject to Kansas withholding tax. If you are not currently registered to withhold Kansas tax, obtain a Business Tax Application, Form CR-16 from our office or Web site: www.ksrevenue.org

WHO MUST FILE A RETURN

A partnership return (K-65) is an informational return and must be completed by any business partnership, syndicate, pool, joint venture or other such joint enterprise to report income from operations. The Kansas partnership return must be completed by every enterprise that has income or loss derived from Kansas sources regardless of the amount of income or loss. Income or loss derived from Kansas sources includes:

- Income or loss attributable to any ownership interest in real property or tangible personal property located in Kansas and intangible property to the extent it is used in a trade, business, profession or occupation carried on in Kansas; and,
- Income or loss attributable to a trade, business, profession or occupation carried on in Kansas.

Any partnership, joint venture, syndicate, etc., which is required to file a partnership return of income for federal purposes is required to file a Kansas partnership return if such enterprise receives income or loss from Kansas sources.

PERIOD TO BE COVERED BY THE RETURN

The Kansas partnership return of income must cover the same period as the corresponding federal partnership return of income.

If filing a return for a taxable year that begins before January 1st, use the form for the calendar year in which the taxable period begins. Indicate clearly at the top of the return the beginning and ending date of the taxable year for which the return is made. If the partnership is required to file on a calendar year basis for federal purposes, it is likewise required to file on a calendar year basis for state purposes.

CHANGE OF ACCOUNTING METHOD OR PERIOD

This return must be filed on the same accounting method used on the federal partnership return. If the partnership's method of accounting is changed for federal purposes, the change applies similarly to the Kansas partnership return.

WHERE TO OBTAIN FORMS AND TAX ASSISTANCE

Kansas tax forms are available by calling the Kansas Department of Revenue voice mail system at 785-296-4937. When requesting forms you will be asked to give your name, address, phone number, and the form(s) you desire. Allow about two weeks for mail delivery of your form(s).

Kansas forms may also be downloaded from the Kansas Department of Revenue webpage at www.ksrevenue.org or you may write or visit the following location:

Taxpayer Assistance Center
Docking State Office Bldg.
915 SW Harrison St.
Topeka, KS 66625-1712

For assistance in completing your partnership return, contact our office at 785-368-8222; outside Topeka call toll-free 877-526-7738.

WHEN AND WHERE TO FILE

The Kansas partnership return is due no later than the 15th day of the 4th month following the close of the taxable year. For partnerships operating on a calendar year basis, the return is due on or before April 15. If any due date falls on a Saturday, Sunday, or legal holiday, substitute the next regular workday. Mail your return to: Kansas Income Tax, Kansas Department of Revenue, 915 S.W. Harrison St., Topeka, Kansas 66699-7000.

COPY OF FEDERAL RETURN

You must enclose a copy of federal Form 1065, pages 1, 2, 3, and 4 only, to the Kansas return. Please do not attach Schedule K-1 to the return when filed. The Department of Revenue reserves the right to request additional information as necessary to audit the return and the returns of the partners.

EXTENSION TO FILE

The Director of Taxation will grant a reasonable extension of time for partnerships to file a Kansas partnership return.

Taxpayers who file Form 8736 with the Internal Revenue Service seeking an automatic three month extension of time to file federal tax returns will automatically receive a three month extension of time to file Kansas partnership returns. If an additional federal extension is requested, the Department will honor that extension as well.

A copy of the federal extension form must be enclosed with the Kansas partnership return when it is filed. A partnership's automatic extension does not extend the time for filing a partner's individual Kansas Income Tax return.

SIGNATURE AND VERIFICATION

A Kansas partnership return must be signed by one of the partners of the partnership or one of the members of the joint venture or other enterprise. Any member, regardless of position, may sign the return.

AMENDED AND/OR FEDERAL ADJUSTMENTS

If you discover an error on your partnership return after it has been filed, an amended Form K-65 should be filed. Please write "Amended" on the face of the return. Any taxpayer whose income has been adjusted by the Internal Revenue Service or by the revenue collections agency of another state is required to report such adjustments to the Kansas Department of Revenue within 180 days of the date the federal or other state adjustments are paid, agreed to or become final, whichever is earlier. Such adjustments are reported by filing an amended Form K-65 for the applicable taxable year and enclosing a copy of the federal or state revenue agent's report detailing such adjustments. Failure to properly notify the Kansas Department of Revenue will cause the statute of limitations to be tolled.

PARTNERSHIP ADJUSTMENTS

Kansas income tax law provides that partners receiving income from a partnership may be required to make certain adjustments to their share of the partnership income included in their individual federal income tax return in order to properly determine their individual Kansas adjusted gross income.

This modification can only be made from information available to the partnership, thus it is necessary that each partnership notify each partner of his share of the partnership adjustments.

In addition to the partnership adjustments explained above, information regarding income not included in ordinary partnership income must be given to each partner. Each partner should be notified of the gross of such income received by the partnership, each partner's share of such income, the total adjustments applicable and each partner's share of such adjustment.

CAPITAL GAINS

Any adjustment, provided by Kansas law, which applies to a capital gain received by the partnership and reported by the individual partners on their individual federal income tax return, is to be made by each partner on his Kansas individual income tax return.

If, during the taxable year, the partnership received a gain from the sale of property or other capital assets for which the tax basis for Kansas is higher than the tax basis for federal, each partner must be notified of his share of the difference in basis and whether the gain qualified as a long or short term capital gain.

Any partnership which has a partner who is a nonresident of Kansas must advise such partner of those capital gains and losses incurred from assets located in Kansas because the nonresident partner is subject to tax on gains realized from the sale or exchange of property located in Kansas.

If such computations result in a net capital loss to Kansas, the loss is limited to \$3,000 (\$1,500 for married individuals filing separate returns) on the partner's Kansas individual income tax return.

Capital transactions from Kansas sources to which the above instructions apply include:

- a. Capital gains or losses derived from real or personal property having an actual situs within Kansas whether or not connected with the trade or business.
- b. Capital gains or losses from stocks, bonds and other intangible property used in or connected with a business, trade or occupation that is carried on within Kansas.
- c. Respective portion of the partnership capital gain or loss from a partnership of which the partnership is a member or partner, or an estate or trust of which the partnership is a beneficiary.

HOW TO PREPARE FORM K-65

HEADER INFORMATION

Enter the beginning and ending dates of the taxable year at the top of the return. Enter the name, address, and zip code of the partnership and complete lines 1 through 8.

PART I—RESIDENT AND NONRESIDENT PARTNERS INFORMATION

Complete PART I by entering the appropriate information for each partner.

PART II—MODIFICATIONS TO COMPUTE KANSAS ADJUSTED GROSS INCOME OF PARTNERS

Complete PART II by entering the following information on the basis of the whole partnership. No adjustment is necessary to determine the Kansas portion or percentage of the modifications.

LINE 9—TOTAL STATE AND MUNICIPAL INTEREST NOT SPECIFICALLY EXEMPT FROM KANSAS TAX: Enter on line 9 interest income received, credited or earned by you, less any related expenses directly incurred in the purchase of those obligations, from any state or municipal obligations during the taxable year except those specifically exempt from income tax by Kansas law such as Kansas Turnpike Authority Bonds, Board of Regents Bonds for Kansas Colleges and Universities, Urban Renewal Bonds, Industrial Revenue Bonds, Electric Generation Bond or Kansas Highway Bonds.

Interest income on obligations of the State of Kansas, or any political subdivision thereof, issued after December 31, 1987, are excluded from computation of Kansas adjusted gross income.

LINE 10—TAXES ON OR MEASURED BY INCOME OR FEES OR PAYMENTS IN LIEU OF INCOME TAXES: Enter on line 10 the taxes on or measured by income or fees or payments in lieu of income taxes which you deducted on your federal partnership return of income (Form 1065) for the taxable year.

LINE 11—OTHER ADDITIONS TO FEDERAL ORDINARY INCOME: Enter on line 11 the following additions (enclose schedule):

- The amount of any depreciation deduction or business expense deduction claimed on your federal partnership return of income (Form 1065) for any capital expenditure in making any building or facility accessible to the disabled for which expenditure you claimed the credit allowed by K.S.A. 79-32,177 and amendments thereto.
- The amount of any charitable contribution claimed on the federal return must be reduced by the amount used as the basis for computing the community service contribution credit.
- Any costs incurred for improvements to a swine facility, claimed as a deduction on your federal return. Complete Schedule K-38 and enclose with your Kansas Income Tax return.
- Any ad valorem taxes and assessments paid and any costs incurred for habitat management or construction and maintenance of improvements to real property claimed as a deduction on your federal return. Complete Schedule K-63 and enclose it with your Kansas Income Tax return.
- Employers claiming the Small Employer Health Insurance Contribution Credit must reduce any expense deduction included in federal income for the tax year by the dollar amount of the credit. Complete and enclose Schedule K-57 with your return.

LINE 12—INTEREST ON OBLIGATIONS OF THE UNITED STATES: Enter on line 12, interest or dividend income on obligations or securities of any authority, commission or instrumentality of the United States and its possessions less any related expenses directly incurred in the purchase of such obligations or securities, to the extent included in federal income but which are specifically exempt from Kansas income taxation under the laws of the state of Kansas.

LINE 13—OTHER SUBTRACTIONS FROM FEDERAL ORDINARY INCOME: See K.S.A. 79-32,117 for other subtractions from federal partnership return of income.

- Include on line 13 dividend income from Kansas Venture Capital, Inc. Dividend income from Kansas Venture Capital, Inc. is exempt from Kansas income tax.
- Include on line 13, to the extent included in federal income, for taxable years beginning after December 31, 1987, 80% of dividends from corporations incorporated outside of the United States or the District of Columbia which are included in federal taxable income.
- Include the contributions deposited in tax year 2002, up to a maximum of \$2,000 per student (beneficiary), for the Learning Quest Education Savings Program.

LINE 14—PARTNERSHIP ADJUSTMENT FROM OTHER PARTNERSHIPS: If during the taxable year the partnership received income from another partnership, joint venture or syndicate, enter on line 14 the amount of the partnership adjustment.

FISCAL YEAR: If the partnership is a partner in another partnership and the taxable year does not coincide with the annual accounting period of the other partnership, include in the return the distributive share of the net profit (or loss) for the accounting period of such other partnership ending within the period for which the return is filed.

LINE 15—FIDUCIARY ADJUSTMENT: If during the taxable year the partnership received income from an estate or trust, enter on line 15 the amount of the fiduciary adjustment.

FISCAL YEAR: If the partnership is the beneficiary of an estate or trust, whose taxable year does not coincide with the annual accounting period of the partnership, include in the return the distributive share of the fiduciary adjustment from the estate or trust whose accounting year ends within the period for which the partnership return is filed.

PART III—APPORTIONMENT OF INCOME

PART III is to be used only by partnerships that derive income or have activities both within and without Kansas.

PARTNERSHIPS THAT ARE RAILROADS AND INTERSTATE MOTOR CARRIERS:

All business income of railroads and interstate motor carriers of persons or property for-hire shall be apportioned to this state by multiplying the business income by a fraction. In the case of railroads, the numerator is the freight car miles in this state and the denominator is the freight car miles everywhere. In the case of interstate motor carriers, the numerator is the total number of miles operated in this state and the denominator is the total number of miles operated everywhere. If your return is based on this method of apportionment, enclose a schedule.

OTHER PARTNERSHIPS:

All business income of any other partnership shall be apportioned to this state by one of the following methods:

- (1) By multiplying the 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 (3); or
 - (2) at the election of a qualifying partnership, by multiplying the business income by a fraction, the numerator of which is the property factor plus the sales factor, the denominator of which is two (2).
- (A) For purposes of this paragraph, a qualifying partnership is any partnership whose payroll factor for a taxable year exceeds 200% of the average of the property factor and the sales factor.

- (B) An election under this paragraph shall be made by including a statement with the original partnership return indicating that the partnership elects to apply the apportionment method under this paragraph. The election shall be effective and irrevocable for the taxable year of the election and the following nine (9) taxable years. Notwithstanding the above, the Secretary of Revenue may upon request of the partnership, grant permission to terminate the election under this paragraph prior to the expiration of the ten (10) year period.

LINE 16(a)—PROPERTY FACTOR: The property factor shall include all real and tangible personal property owned or rented and used during the income year to produce business income. Property shall be included in the property factor if it is actually used or is available for or capable of being used during the income year for the production of business income. Property used in the production of business income shall remain in the property factor until its permanent withdrawal is established by an identifiable event such as its sale.

The numerator (within Kansas) of the property factor shall include the average value of the partnership's real and tangible personal property owned and used in this state during the income year for the production of income, plus the value of rented real and tangible personal property so used. Property owned by the taxpayer in transit between locations of the taxpayer shall be considered to be at the destination for purposes of the property factor. Property in transit between a buyer and seller which is included by a partnership in the denominator of its property factor in accordance with its regular accounting practices shall be included in the numerator according to the state of destination. The value of mobile or movable property, such as construction equipment, trucks and/or leased electronic equipment which are located within and without this State during the income year, shall be determined for purposes of the numerator of the factor on the basis of total time within the State during the income year.

Property owned by the partnership shall be valued at its original cost. As a general rule, "original cost" is deemed to be the basis of the property for federal income tax purposes at the time of acquisition by the partnership and adjusted by subsequent capital additions or improvements thereto and partial disposition thereof, by reason of sale, exchange, abandonment, etc. Property rented by the partnership is valued at eight times the net annual rental rate. As a general rule the average value of property owned by the partnership shall be determined by averaging the values at the beginning and ending of the income year. However, the Director of Taxation may require or allow averaging by monthly values if such method of averaging is required to properly reflect the average value of the partnership's property for the income year.

LINE 16(b)—PAYROLL FACTOR: The payroll factor shall include the total amount paid by the partnership for compensation during the tax period. The total amount "paid" to the employees is determined upon the basis of the partnership's accounting method. If the partnership has adopted the accrual method of accounting, all compensation properly accrued shall be deemed to have been paid. Notwithstanding the partnership's method of accounting, at the election of the partnership, compensation paid to employees may be included in the payroll factor by use of the cash method if the partnership is required to report such compensation under such method for unemployment compensation purposes. The term "compensation" means wages, salaries, commissions and any other form of remuneration paid to employees for personal services. Payments made to an independent contractor or any other person not properly classifiable as an employee are excluded. Only amounts paid directly to employees are included in the payroll factor. The denominator of the payroll factor is the total compensation paid everywhere during the income year.

The numerator of the payroll factor is the total amount paid in this State during the income year by the partnership for compensation. Compensation is paid in this State if any one of the following tests, applied consecutively, are met: (a) The employee's service is performed entirely within this State; (b) The employee's service is performed both within and without this State, but the service performed without this State is "incidental" to the employee's service within the state (the word incidental means any service which is temporary or transitory in nature, or which is rendered in connection with an isolated transaction); (c) If the employee's services are performed both within and without this State, the employee's compensation will be attributed to this State: (i) if the employee's base of operations is in this State; or (ii) if there is no base of operations in any state in which some part of the service is performed, but the place from which the service is directed or controlled is in the State; or (iii) if the base of operations or the place from which the service is directed or controlled is not in any state in which some part of the service is performed, but the employee's residence is in this State. The term "base of operations" is the place from which the employee starts his work and to which he customarily returns in order to receive instructions from the partnership or communications from his customers or other persons, or to replenish stock or other materials, repair equipment, or perform any other functions necessary to the exercise of his trade or profession at some other point or points.

LINE 16(c)—SALES FACTOR: For purposes of the sales factor of the apportionment formula, the term "sales" means all gross receipts derived by the partnership from transactions and activity in the regular course of such trade or business. The following are rules for determining "sales" in various situations.

(a) In the case of a partnership engaged in manufacturing and selling or purchasing and reselling goods or products, "sales" includes all gross receipts from the sales of such goods or products (or other property of a kind which would properly be included in the inventory of the partnership if on hand at the close of the income year) held by the taxpayer primarily for sale to customers in the ordinary course of its trade or business. Gross receipts for this purpose means gross sales, less returns and allowances, and includes all interest income, service charges, carrying charges, or time-price differential charges incidental to such sales. Federal and state excise taxes (including sales taxes) shall be included as part of such receipts if such taxes are passed on to the buyer or included as part of the selling price of the product.

(b) In case of cost plus fixed fee contracts, such as the operation of a government-owned plant for a fee, "sale" includes the entire reimbursed cost, plus the fee.

(c) In the case of a partnership engaged in providing services, such as the operation of an advertising agency, or the performance of equipment service contracts, or research and development contracts, "sales" includes the gross receipts from the performance of such services, including fees, commissions, and similar items.

(d) In the case of a partnership engaged in renting real or tangible property, "sales" includes the gross receipts from the rental, lease, or licensing the use of the property.

(e) In the case of a partnership engaged in the disposition of non-inventory assets and property used or purchased in the regular course of business, "sales" includes the capital gain or ordinary gain realized from such disposition. The term "sales" does not include the return of capital or recovery of basis with respect to non-inventory capital assets.

The numerator of the sales factor shall include gross receipts attributable to this state and derived by the partnership from transactions and activity in the regular course of its trade or business. All interest income, service charges, carrying charges, or time-priced differential charges incidental to such gross receipts shall be included

regardless of the place where the accounting records are maintained or the location of the contract or other evidence of indebtedness.

SALE OF TANGIBLE PERSONAL PROPERTY IN THIS STATE

- (1) Gross receipts from sales of tangible personal property (except sales to the United States Government) are in this state:
 - (A) If the property is delivered or shipped to a purchaser within this state regardless of the f.o.b. point or other conditions of sale;
 - (B) If the property is shipped from an office, store, warehouse, factory, or other place of storage in this state and the partnership is not taxable in the state of the purchaser.
- (2) Property shall be deemed to be delivered or shipped to a purchaser within this state if the recipient is located in this state, even though the property is ordered from outside this state.
- (3) Property is delivered or shipped to a purchaser within this state if the shipment terminates in this state, even though the property is subsequently transferred by the purchaser to another state.
- (4) The term "purchaser within this state" shall include the ultimate recipient of the property if the partnership in this state, at the designation of the purchaser, delivers to or has the property shipped to the ultimate recipient within this state.
- (5) When property being shipped by a seller from the state of origin to a consignee in another state is diverted while en route to a purchaser in this state, the sales are in this state.
- (6) If a partnership whose salesman operates from an office located in this state makes a sale to a purchaser in another state in which the partnership is not taxable and the property is shipped directly by a third party to the purchaser, the following rules apply:
 - (A) if the partnership is taxable in the state from which the third party ships the property, then the sale is in such state;
 - (B) if the partnership is not taxable in the state from which the property is shipped, then the sale is in this state.

Sales to the United States Government: Gross receipts from the sales of tangible personal property to the United States Government are in this state if the property is shipped from an office, store, warehouse, factory, or other place of storage in this state. Only sales for which the United States Government makes direct payment to the seller pursuant to the terms of the contract constitute sales to the United States Government. Thus, as a general rule, sales by a subcontractor to the prime contractor, the party to the contract with the United States Government, does not constitute sales to the United States Government.

LINE 17—TOTAL PERCENT: Add lines 16a, 16b, and 16c.

LINE 18—AVERAGE PERCENT: Divide line 17 by the number of factors used in the formula. For example, if the partnership does not have payroll, divide line 17 by 2.

SIGNATURE

The partnership return must be signed by one of the partners.

TELEPHONE NUMBER

Enter your telephone number in the space provided. If a problem arises, it is helpful to have a telephone number available where you can be reached during office hours.

NOTE: Before you mail your return, be sure it is signed and you have included the appropriate pages of your federal return. See page 1 for more information.