

## CORRECTION TO 2004 KANSAS PARTNERSHIP INSTRUCTIONS

Please be advised that the instructions for the 2004 Kansas Partnership Return contains inaccurate information for Part II, Line 9. The instructions for this line should read as follows:

LINE 9 – FEDERAL ORDINARY INCOME AND OTHER SEPARATELY STATED INCOME AND EXPENSES: Federal ordinary income with **adjustments** for all other types of income earned by the partnership such as interest, dividends and royalties or other types of business expenses that aren't represented in the ordinary business income line.

When completing your 2004 Form K-65, be sure to use these revised instructions. If you have questions about this revision, please call us at 785-368-8222. A complete copy of the corrected instructions can be found on our website at [www.ksrevenue.org](http://www.ksrevenue.org).



# 2004 KANSAS Partnership Booklet

## WHAT'S NEW FOR 2004

- **NEW AGRITOURISM LIABILITY INSURANCE CREDIT.** This income tax credit is available for Agritourism Operators registered with the Department of Commerce who pay liability insurance directly related to their agritourism operations. The credit is equal to 20% of the cost of liability insurance paid. Consult Credit Schedule K-33.
- **NEW REGIONAL FOUNDATION CONTRIBUTION CREDIT.** This is a refundable credit against the income, privilege or premiums tax for contributions of \$250 or more in cash, services or property (other than used clothing) to an organization designated and approved by the Secretary of Commerce as a Regional Foundation. The credit is 50% of the amount contributed, with a required add-back modification. Consult Credit Schedule K-32.
- **FRANCHISE TAX NOW ADMINISTERED BY KDOR.** For tax years 2004 and after, the Kansas Department of Revenue will administer the Franchise Tax, previously administered by the Secretary of State. Effective with tax year 2004, the franchise tax rate has been reduced from 0.2% to 0.125% of an entity's taxable equity attributable to Kansas, and the maximum tax due increased from \$5,000 to \$20,000. The new Franchise tax return and voucher, Forms K-150 and K-150V, instructions and further information will be posted on the department's web site, [www.ksrevenue.org](http://www.ksrevenue.org), as they become available.
- **SCHEDULE K-64 REQUIRED ENCLOSURES.** If you are claiming the Business Machinery & Equipment Property Tax Credit on Schedule K-64, you need only enclose copies of the paid tax receipts if the credit amount on line 4 of Schedule K-64 is more than \$500.

## 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:

- a. 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,
- b. 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 1, 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

Forms are also available from our web site at [www.ksrevenue.org](http://www.ksrevenue.org) or from our office: Taxpayer Assistance Center, Docking State Office Bldg., 1st Floor, 915 SW Harrison St., Topeka, KS 66625-2007.

Kansas tax forms are also available by calling the 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 two weeks for delivery of your form(s).

For assistance in completing your partnership return, contact our office at 785-368-8222.

## 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 SW Harrison St., Topeka, Kansas 66699-7000.

## REQUIRED ENCLOSURES

**Federal Return:** You must enclose a copy of federal Form 1065, pages 1 through 4 only, with the Kansas return. Please do not attach Schedule K-1 to the return when filed. **Credit Schedules:** If you are claiming an income tax credit, such as the Business Machinery and Equipment Credit on Schedule K-64, you must enclose a copy of the credit schedule with Form K-65.

The department 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 to file a Kansas partnership return. The Department of Revenue honors all federal extensions; 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

Form K-65 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 collection

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:

- 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.
- 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.
- 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.

## NONRESIDENT OWNER WITHHOLDING

For all tax years ending after December 31, 2002, partnerships, S corporations and limited liability companies with nonresident owners are required to withhold Kansas income tax at the rate of 6.45% on the Kansas taxable income (whether distributed or undistributed) of their nonresident partners, members or shareholders. Pass-through entities with nonresident owners must complete Form KW-7S and pay the withheld funds on Form KW-7 on or before the due date of the income tax return for the pass-through entity, including extensions. These forms, and additional information about this requirement, are available from our web site: [www.ksrevenue.org](http://www.ksrevenue.org)

# 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. For line 6, enter the NAICS code from Publication KS-1500, available from our web site.

## PART I—RESIDENT AND NONRESIDENT PARTNERS INFORMATION

Enter the requested information for each partner in Part 1.

## PART II—COMPUTATION OF KANSAS ADJUSTED GROSS INCOME

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—FEDERAL ORDINARY INCOME AND OTHER SEPARATELY STATED INCOME AND EXPENSES:** Enter the amount of federal ordinary income **with adjustments** for all other types of income earned by the partnership; such as interest, dividends and royalties or other types of business expenses that are not represented in the ordinary business income line.

**LINE 10—TOTAL STATE AND MUNICIPAL INTEREST NOT SPECIFICALLY EXEMPT FROM KANSAS TAX:** Enter the 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 11—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 partnership return of income (Form 1065) for the taxable year.

**LINE 12—OTHER ADDITIONS TO FEDERAL ORDINARY INCOME:** Enter the following additions (enclose schedule):

- Community Service Contribution Credit.** The amount of any charitable contribution claimed on your federal return used to compute this credit on Schedule K-60.
- Disabled Access Credit.** The amount of any depreciation deduction or business expense deduction claimed on your federal return used to determine this credit on Schedule K-37.
- Habitat Management Credit.** The amount of any real estate taxes and costs claimed on your federal return used to determine this credit on Schedule K-63.
- Regional Foundation Contribution Credit.** The amount of any contribution claimed on your federal return used to compute this credit on Schedule K-32.
- Small Employer Health Insurance Contribution Credit.** Reduce the amount of expense deduction included in federal income by the dollar amount of the credit claimed on Schedule K-57.
- 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.

**LINE 13—INTEREST ON OBLIGATIONS OF THE UNITED STATES:** Enter the 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



**PART II — COMPUTATION OF KANSAS ADJUSTED GROSS INCOME**

|   |    |  |
|---|----|--|
| 9. Federal ordinary income. . . . .   | 9  |  |
| 10. Total state and municipal interest not specifically exempt from Kansas tax . . . . .          | 10 |  |
| 11. Taxes on or measured by income or fees or payments in lieu of income taxes . . . . .          | 11 |  |
| 12. Other additions to federal ordinary income. . . . .   | 12 |  |
| 13. Interest on obligations of the United States . . . . .  | 13 |  |
| 14. Other subtractions from federal ordinary income . . . . .                                     | 14 |  |
| 15. Partnership adjustment from other partnerships . . . . .                                      | 15 |  |
| 16. Fiduciary adjustments . . . . .   | 16 |  |
| 17. Kansas income (Add lines 9 through 12 and subtract the total of lines 13 through 16). . . . . | 17 |  |

**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.

| 18. Apportionment fraction:   |     | WITHIN KANSAS | TOTAL COMPANY | PERCENT WITHIN KANSAS |
|---|-----|---------------|---------------|-----------------------|
| 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.) . . . . . | 18a |               |               | %                     |
| b. Payroll . . . . .  | 18b |               |               | %                     |
| c. Gross sales or revenue . . . . .   | 18c |               |               | %                     |
| 19. Total percent (Add lines 18a, 18b, & 18c) . . . . .   |     |               | 19            | %                     |
| 20. Average percent (Divide line 19 by the number of factors utilized) . . . . .  |     |               | 20            | %                     |

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.**



**PART II — COMPUTATION OF KANSAS ADJUSTED GROSS INCOME**

|   |    |  |
|---|----|--|
| 9. Federal ordinary income. . . . .   | 9  |  |
| 10. Total state and municipal interest not specifically exempt from Kansas tax . . . . .          | 10 |  |
| 11. Taxes on or measured by income or fees or payments in lieu of income taxes . . . . .          | 11 |  |
| 12. Other additions to federal ordinary income. . . . .   | 12 |  |
| 13. Interest on obligations of the United States . . . . .  | 13 |  |
| 14. Other subtractions from federal ordinary income . . . . .                                     | 14 |  |
| 15. Partnership adjustment from other partnerships . . . . .                                      | 15 |  |
| 16. Fiduciary adjustments . . . . .   | 16 |  |
| 17. Kansas income (Add lines 9 through 12 and subtract the total of lines 13 through 16). . . . . | 17 |  |

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| 18. Apportionment fraction:   |     | WITHIN KANSAS | TOTAL COMPANY | PERCENT WITHIN KANSAS |
|---|-----|---------------|---------------|-----------------------|
| 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.) . . . . . | 18a |               |               | %                     |
| b. Payroll . . . . .  | 18b |               |               | %                     |
| c. Gross sales or revenue . . . . .   | 18c |               |               | %                     |
| 19. Total percent (Add lines 18a, 18b, & 18c) . . . . .   |     |               | 19            | %                     |
| 20. Average percent (Divide line 19 by the number of factors utilized) . . . . .  |     |               | 20            | %                     |

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.**

in the purchase of such obligations or securities, to the extent included in federal income but which are specifically exempt from Kansas income taxation by Kansas law.

**LINE 14—OTHER SUBTRACTIONS FROM FEDERAL ORDINARY INCOME:** See K.S.A. 79-32,117 for other subtractions from federal partnership return of income.

- Include the dividend income from Kansas Venture Capital, Inc. Dividend income from Kansas Venture Capital, Inc. is exempt from Kansas income tax.
- Include, to the extent included in federal income, 80% of dividends from corporations incorporated outside of the United States or the District of Columbia which are included in federal taxable income.
- Include contributions deposited in tax year 2004, up to a maximum of \$2,000 per student (beneficiary), for the Learning Quest Education Savings Program.

**LINE 15—PARTNERSHIP ADJUSTMENT FROM OTHER PARTNERSHIPS:** If during the taxable year the partnership received income from another partnership, joint venture or syndicate, enter 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 16—FIDUCIARY ADJUSTMENT:** If during the taxable year the partnership received income from an estate or trust, enter 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.

**LINE 17—KANSAS INCOME:** Add lines 9 through 12, and subtract the total of lines 13 through 16.

### **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.

#### **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 18(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 18(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 Kansas during the income year by the partnership for compensation. Compensation is paid in Kansas if any one of the following tests, applied consecutively, are met: (a) The employee's service is performed entirely within Kansas; (b) The employee's service is performed both within and without Kansas, but the service performed outside Kansas is "incidental" to the employee's service in Kansas (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 inside and outside Kansas, the employee's compensation will be attributed to Kansas: (i) if the employee's base of operations is in Kansas; 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 Kansas; 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 Kansas. 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, 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 18(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 KANSAS

- (1) Gross receipts from sales of tangible personal property (except sales to the US Government) are in Kansas if the property is:
  - (A) delivered or shipped to a purchaser in Kansas regardless of the f.o.b. point or other conditions of sale;
  - (B) shipped from an office, store, warehouse, factory, or other place of storage in Kansas 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 in Kansas 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 in Kansas if the shipment terminates in Kansas, even though the property is subsequently transferred by the purchaser to another state.
- (4) The term "purchaser in Kansas" 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 Kansas 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 Kansas.

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

**LINE 19—TOTAL PERCENT:** Add lines 18a, 18b, and 18c.

**LINE 20—AVERAGE PERCENT:** Divide line 19 by the number of factors used in the formula. For example, if the partnership does not have payroll anywhere, divide line 19 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.