

INDIANA DEPARTMENT OF REVENUE
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Corporate Taxpayer Assistance
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State of Indiana
S Corporation Income Tax Booklet
2004 Form IT-20S



This booklet contains:



Form IT-20S - Indiana S Corporation Income Tax Return
IT-20S Schedule IN K-1 - Shareholder's Share of Indiana Adjusted Gross Income
Schedule IT-20COMP Shareholders' Composite Adjusted Gross Income Tax Return
Worksheet for S Corporation Distributive Share Income, Deductions and Credits
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Indiana Department of Revenue

2004 IT-20S - Indiana S Corporation Income Tax Booklet

Who Must File and When

Any S Corporation doing business in Indiana and deriving gross income from sources within Indiana must file an annual return, Form IT-20S, and information return IN K-1 with the Department disclosing each shareholder's share of distributed and undistributed income. **These forms are due on or before the fifteenth (15) day of the fourth (4) month following the close of the S Corporation's tax year.** Attach the first four pages of the U.S. Income Tax Return for an S Corporation, Form 1120S. Federal Schedules K-1 should not be attached but must be made available for inspection upon request by the Department.

The following activities occurring in Indiana constitute doing business or deriving income from Indiana sources:

1. Maintenance of an office, warehouse, construction site or other place of business;
2. Maintenance of an inventory of merchandise or material for sale, distribution or manufacture, or consigned goods;
3. The sale or distribution of merchandise to customers directly from company-owned or operated vehicles when the title of merchandise is transferred from the seller or distributor to the customer at the time of sale or distribution;
4. The rendering of a service to customers in Indiana;
5. The ownership, rental, or operation of a business or property (real or personal) in Indiana;
6. Acceptance of orders in Indiana with no right of approval or rejection in another state;
7. Interstate transportation; or
8. Maintenance of a public utility.

S Corporation Defined

Corporations that are permitted to and do file in accordance with Section 1361(a)(1) of the Internal Revenue Code (IRC) are automatically qualified for exemption from the Indiana gross income tax (repealed effective 1-1-2003 HB 1001ss) and adjusted gross income tax for any tax period for which the election is in effect. **NOTE: S elections cannot be made retroactively.** Qualifications under Indiana law for filing 2004 S corporation returns are essentially the same as in the Internal Revenue Code, in effect as of January 1, 2003. However, the corporation must file an Indiana IT-20S return and meet withholding requirements for nonresident shareholders under Indiana Code 6-3-4-13.

To the extent a qualified S corporation is exempt for federal purposes, the adjusted gross and supplemental net income taxes may not be assessed. Effective for tax years beginning after December 31, 1994, an S Corporation failing to withhold, instead of losing its exemption from the mentioned taxes, will be subject to the penalty provided by IC 6-8.1-10-2.1[h]. This penalty is 20% of the amount of tax required to be withheld and paid under IC 6-3-4-13 in addition to a penalty of \$10 for each failure to timely file an information return, Schedule IN K-1.

Corporations filing for the first time must attach a copy of the approval letter from the Internal Revenue Service granting the S election.

References to the Internal Revenue Code

At time of this booklet's publication, the Indiana statute reference that coincides with the Internal Revenue Code (IRC) is PL 105-2003. For tax year 2004, any reference to the Internal Revenue Code and subsequent regulations means the Internal Revenue Code

of 1986, as amended, and in effect on January 1, 2003. *Citation affected: IC 6-3-1-11. Effective: January 1, 2003 (retroactive). HE 1728, SECTION 2.*

Not included in the above reference to the Internal Revenue Code is any provision regarding allowances of depreciation as a result of Public Law 108-27, The Jobs and Growth Tax Relief Reconciliation Act, which was signed by the President on May 28, 2003.

Continuation of Modification to Eliminate Bonus Depreciation and Excess IRC Section 179 Deduction

•**Special (Bonus) Depreciation Allowance** - Add or subtract the amount attributable to bonus depreciation in excess of any regular depreciation that would be allowed had not an election under IRC Section 168(K) been made as applied to property in the year that it was placed into service. Taxpayers that own property for which additional first-year special depreciation for qualified property was allowed in the current taxable year or in an earlier taxable year, must add or subtract an amount necessary to make their adjusted gross income equal to the amount computed without applying any bonus depreciation. The depreciation deduction is to be calculated in the same manner as calculated prior to 2001. Commissioner's Directive #19 explains this required modification that is not dependent on updating to the Internal Revenue Code (*HE 1728-2003 SECTIONS 4 and 5*).

•Additional First-Year Capital Investment (Section 179)

Deduction - Add back your share of the IRC Section 179 deduction claimed for federal tax purposes that exceeds the amount that is allowed for state purposes. Indiana adopted the former expensing limit provided by The Jobs Creation and Workers Assistance Act of 2002.

This Act increased the federal Section 179 deduction amount to \$25,000 (up from \$24,000) beginning with a \$200,000 write-off phase out limit. For businesses in an Enterprise Zone, renewal community, or New York Liberty Zone, up to \$35,000 may be expensed. The basis of the property and the depreciation allowances in the year of purchase and in later years must be adjusted to reflect the additional first-year depreciation deduction until the property is sold. **Caution:** The increase to \$100,000 deduction and a beginning \$400,000 phase-out limitation allowed by 2003 federal legislation is not allowed for purposes of calculating Indiana adjusted gross income. Off-the-shelf computer software may not be expensed for state tax purposes by applying new Section 179 rules.

•**Reporting Adjustments** - On Form IT-20S, use the modification line 2b to reflect certain federal provisions that may not be used to arrive at Indiana adjusted gross income. Attach a statement to the return to explain your bonus depreciation and IRC Section 179 adjustments or any other provisions of The Jobs and Growth Tax Relief Reconciliation Act that effect adjusted gross income for 2004. These deductions must be added back on the Indiana return if deducted on the federal return. To the extent certain federal allowances mentioned above are not added back on a filed Indiana return and the state remains nonconforming in those provision, the Indiana return must be corrected by filing an amended return. Explain any adjustments on an attached statement. Refer to line 2(b) instructions on page 6.

New Utility Receipts Tax

Effective January 1, 2003, a Utility Receipts Tax (Form URT) is imposed at the rate of 1.4% of the taxable receipts from the retail sale of utility services. The utility services subject to tax include: electric energy, natural gas, water, steam, sewage, and telecommunications.

If you have more than \$1,000 in gross receipts from the sale of utility services, you might be required to file Form URT (Utility Receipts Tax), in addition to Form IT-20S. See Commissioner's Directive #18 (PL 192-2002(ss), SECTION 47).

General Filing Instructions

Liability of the S Corporation

S corporations as entities generally are not subject to income or financial institution tax.

- S corporations are considered to be the taxpayer with respect to the payment of amounts withheld at source. See *Withholding Tax Liabilities of S Corporations on page 3*.
- S corporations are subject to the use tax. Use tax is due on the storage, use or consumption of tangible personal property purchased in a transaction in Indiana or elsewhere, unless such transaction is exempted from the sales and use tax by law or the sales tax due and paid on the transaction equals the use tax due. See *instructions for the Sales/Use Tax Worksheet on page 8*.
- An apportionment schedule must be included with the return if the S corporation is doing business both within and outside Indiana and has any shareholders not domiciled in Indiana. See *Instructions for IT-20S Schedule E Apportionment of Income on page 15 and 16*.
- An S corporation may file a composite adjusted gross income tax return on behalf of non-Indiana resident individual shareholders electing to participate in the composite return. See *Filing Procedures for IT-20COMP Composite Return on page 12*.
- Any passive income and built-in gains of an S corporation that is subject to tax under provisions of the Internal Revenue Code will be subject to Indiana adjusted gross income tax. See *instructions for Schedule B on page 7*.

S Corporations whose estimated adjusted gross income tax liability from Schedule B is more than \$1,000 for the tax year are required to file quarterly estimated tax payments. Estimated tax payments are submitted with the Indiana corporation quarterly income tax return, preprinted Form IT-6, or by electronic funds transfer if the average quarterly liability exceeds \$10,000.

If an estimated account needs to be established to pay Schedule B corporate income tax liabilities, contact the Department to request preprinted quarterly estimated IT-6 returns.

The due dates for estimated tax payments for calendar year corporate taxpayers are April 20, June 20, September 20 and December 20 of the tax year. Fiscal year and short tax year corporate filers must remit by the twentieth (20) day of the fourth (4), sixth (6), ninth (9) and twelfth (12) month of their tax period. For further instructions, refer to Income Tax Information Bulletin #11.

To avoid costly penalty and interest charges for delinquent filing of returns, an S Corporation should verify its tax status and withholding responsibilities before commencing business in Indiana.

Withholding Tax Liabilities of S Corporations

The following instances obligate the S corporation to register with the Department and become an Indiana withholding agent on behalf of each of the following:

Withholding on Residents

S corporations making payments of salaries, wages, tips, fees, bonuses, and commissions subject to Indiana state and/or county income taxes and required by the Internal Revenue Code to withhold federal taxes on those types of payments are also required to withhold for Indiana tax purposes. Payment of amounts withheld must be remitted to the Department on the proper WH-1 withholding return by its due date. If a return and/or payment of the proper amount of tax withheld is not paid by the due date, penalty and interest will be added. A shareholder may be personally subject to criminal prosecution if the failure to pay and/or file a withholding return is due to fraud or tax evasion.

Withholding on Nonresidents

Employees - An S corporation must withhold Indiana state and/or county income taxes from employees who work in Indiana but are not residents of Indiana. However, withholding on compensation of nonresident team members of certain professional sports organizations is based on duty days performed in Indiana. Refer to Income Tax Information Bulletin #88. There is an exception from withholding if an employee resides in one of the states that has entered into a reciprocal agreement with Indiana, but this does not affect county taxation. For purposes of withholding county income taxes, the term "nonresident" refers to a nonresident of the county where the S corporation is located.

Individual Shareholders - An S corporation must withhold state income tax at the rate of three and four-tenth (3.4) percent on the amount it pays or credits any of its nonresident and part-year nonresident individual shareholders as dividends or as their share of the corporation's undistributed taxable income (on current-year earnings) derived from Indiana sources. This does not apply to residents of reverse credit states (Arizona, California - see note, Oregon, District of Columbia) who are subject to and pay income taxes at rates of 3.4% or higher to their resident state.

Note: *Indiana state withholding is required whenever a California resident shareholder is included in an Indiana composite adjusted gross income tax return.*

Withholding at the appropriate adopting county's nonresident tax rate is required on each non-Indiana resident shareholder whose principal place of business or employment on January 1 is located in an Indiana county that has adopted a county income tax.

Trusts and Estates - An S corporation must withhold on income distributions to all non-Indiana domiciled trusts, estates, and nonprofit organizations an amount reflecting the ultimate tax liability due Indiana by the respective member or beneficiary because of the S corporation's activities.

Note: The withholding provisions do not apply to nonresident shareholders who are nontaxable trust or estate entities.

An S corporation must withhold tax from income distributions to a fiduciary passing through Indiana income to a nonresident beneficiary and designate as a "Nominee" the ultimate recipient as if there were no other intermediary entities. The upper tier S corporation passing through Indiana income to its shareholders must withhold tax for nonresident nominees on a final pro rata basis without reapportioning the income at the lower level. See Income Tax Information Bulletin #85.

The S corporation's withholding of state and/or county tax from nonresident shareholders is payable quarterly, if monthly average equals less than \$50, on Form WH-1. This form must be filed by the last day of the month following the end of each quarter where a distribution was made (e.g. if a current distribution is made on June 17, 2005, the withholding tax is remitted with Form WH-1 for June, and is due on August 1, 2005).

However, an S corporation having one distribution credited to shareholders during the year or at the close of the S corporation's fiscal year may be permitted to file Form DB020W-NR, which creates a nonresident withholding account if one does not already exist, and pay the respective state and county withholding tax amounts on nonresidents all at one time when a nonresident withholding account that is separate from the payroll withholding account is established. This withholding return, a copy of which is included in this booklet, is due by the fifteenth day of the third month following the end of the taxable year (e.g., if a single annual distribution for a calendar year is made on December 31, 2004, the withholding tax is due March 15, 2005). Advances or drawings against a shareholder's distributive share of income are deemed paid on the last day of the S corporation's tax year.

The S corporation shall be liable for any delinquent penalty (twenty (20) percent penalty for failure to withhold, effective beginning July 1, 1994) and interest in addition to the amount withheld or required to be withheld and paid to the Department. If a distribution to nonresident shareholders is made with property other than money or a gain is realized without the payment of money, the corporation may not release the property or credit the gain until it has funds sufficient to enable it to pay the withholding tax due. If necessary, the corporation will obtain such funds from the shareholders.

Note: Compliance with the act of withholding will not relieve any non-Indiana domiciled shareholder from annual filing requirements (except individuals included in a composite return) or the payment of any unpaid tax, penalties and interest.

How to Submit the Withholding Payment

Form WH-1 - The periodic payment of amounts withheld from nonresident shareholders and corporate contractors should be included in the remittance with Form WH-1. This form is also used to remit amounts withheld on employees. Withholding agents assigned to an annual, quarterly, or monthly filing status will be mailed a voucher packet containing the employer's Withholding Tax Returns to be used for this purpose. Each return needs to be completed and mailed (postmarked) by its due date and should include the total amount withheld for that period. By law, the withholding return must be filed even when no withholding amount has been collected.

If the S corporation pays or credits amounts to its nonresident shareholders only one time each year, it may be permitted to file a designated nonresident withholding return to pay the withholding tax from income distributions made to the nonresident shareholders. The initial use of Form DB020W-NR (included in this booklet), filed with WH-18 copies, will result in the creation of a separate withholding account aside from any existing payroll withholding account. The payment's due date on this type of account is automatically extended to the fifteenth day of the third month following the end of the S corporation's taxable year.

If payment is made for composite tax due on Form IT-20S and is filed past the due date of the withholding return, the S corporation will owe penalty and interest. Penalty charges may

be avoided by timely paying withholding tax liabilities.

If you need to establish a withholding account with the Department, you should contact the Taxpayer Services Division at (317) 233-4016, or the Tax Forms Order Line at (317) 615-2581 to obtain Form BT-1, Business Tax Application, and withholding registration. Also see www.in.gov/dor/taxforms/

Form WH-3 - An annual Withholding Tax Reconciliation Return, Form WH-3, must be completed by the withholding agent and filed by the end of February following the close of each calendar year. The Taxpayer Identification Number (TID), the S corporation's name, and the calendar year must be included. This form is used to reconcile the monthly, quarterly or annual WH-1 returns with the W-2 and WH-18 reports submitted with the WH-3. Although magnetic tape may be used to transmit W-2 information, paper copies of Form WH-18 must be attached to the WH-3 when it is submitted.

On Form WH-3, the withholding agent enters the total annual amount of state and county income taxes or other taxes withheld from employees and nonresidents receiving income subject to Indiana withholding as listed on federal Form W-2 and Indiana Form WH-18. The amount of county tax withheld during the year is separated according to the amounts withheld for each county. If the withholding agent has overpaid the withholding liability for the year, he is entitled to a refund. Enter the amount to be refunded on Form WH-3 and provide an explanation. If the withholding agent has underpaid the payroll or nonresident shareholder withholding liability for the year, do not submit the payment with Form WH-3; instead, complete Form WH-1U included with the WH-3 packet and submit the payment under separate cover. The Indiana taxpayer identification number and the period to which the payment should be applied must also be indicated. (Form DB020W-NR on page 19 is for use in making an initial payment of the withholding tax due on once-a-year income distributions to nonresident shareholders).

Specific instructions for completing Form WH-18 are found on the reverse side of that form. A supply of these forms is available from the Department upon request.

How to Register as a Withholding Agent

An S corporation with any withholding liability as described above is required to register as an Indiana withholding agent. The Department assigns an Indiana taxpayer identification number (TID) consisting of a ten-digit number exclusive to the taxpayer and a three digit number for the location being registered.

The S corporation has two options in registering as a withholding agent. The first option is to request and to file the Indiana Department of Revenue Business Tax Application, Form BT-1, for the corporation. Request Form BT-1 and Instructions for Withholding Registration by calling the Taxpayer Services Division at (317) 233-4016. It takes approximately two to three weeks to process an application that has been mailed to the Indiana Department of Revenue; however, any initial withholding payments can be remitted with the application. The BT-1 can be completed online at www.in.gov/dor/.

The second option is to visit either the downtown Indianapolis office of the Department or one of the district offices located throughout the state to be registered the same day.

Shareholders' Liability and Filing Requirements

A shareholder's share of profit or loss from an S corporation will be included in the shareholder's calculation of federal adjusted gross income and is generally subject to the same rules for arriving at Indiana adjusted gross income. Therefore, a shareholder's distributive share, before any modifications required by Indiana statutes, is the same ratio and amount as determined under IRC

Section 704 and its prescribed regulations. The shareholders will include their share of all S corporation income, whether distributed or undistributed, on their separate or individual Indiana income tax returns. Each shareholder's distributive share of income will be adjusted by modifications provided for in IC 6-3-1-3.5(a) or (b).

Individual Shareholders

Residents - A resident shareholder reports the entire distributive share of S corporation income (loss) as adjusted, no matter where the S corporation's business is located or in which states it does business. Form IT-40, Indiana Individual Income Tax Return, will be completed by the individual shareholders.

Nonresidents - Part-year and full-year nonresident shareholders report their share of S corporation income (loss) as adjusted, derived from or attributed to sources within Indiana as determined by the use of the apportionment formula described in IC 6-3-2-2(b). Whenever an S corporation has a nonresident shareholder and conducts business within and outside Indiana, the S Corporation must include the apportionment worksheet with Form IT-20S. Form IT-40PNR, Indiana Part-Year or Nonresident Individual Income Tax Return, will be completed by the shareholders. Credit must be claimed on that return by attaching state Form WH-18 for amounts withheld by the S corporation from the shareholder's distributive share of income. **Nonresident shareholders are exempt from the filing requirements of an Indiana Individual Income Tax Return only if they are included as members of a composite return.**

A part-year nonresident shareholder will be required to file Form IT-40PNR reporting the total amount of income (loss) received while residing in Indiana and that part of Indiana source income received while a nonresident. Apportioned Indiana income (loss), as modified, received by a nonresident of Indiana is also reported on Form IT-40PNR. **Note:** Passive losses may not exceed the limits imposed by IRC Section 469. Losses may not exceed the shareholder's investment, see IRC Section 704.

Other Shareholders

Other shareholders that are trusts or estates will report their distributive shares of the S corporation income (loss) on Form IT-41. All distributions are fully taxable for income tax purposes. For adjusted gross income, taxable S corporation income will include pro rata Indiana modifications; however, losses may not exceed the limits imposed by IRC Sections 469 and 704.

Shareholders doing business both within and outside Indiana must also determine their taxable income from Indiana sources through the use of the allocation and apportionment provisions contained in IC 6-3-2-2(b)-(h). See the three factor apportionment schedule.

Business income, including all S corporation income, apportioned to Indiana plus nonbusiness income allocated to Indiana (plus modifications required by IC 6-3-1-3.5(a) for adjusted gross income tax) equals the taxpayer's net taxable income for Indiana tax purposes.

Basis of Stock in an S Corporation

For Indiana income tax purposes, the basis of the shareholder's stock in an S corporation will generally be the same as its basis for federal income tax purposes. Special adjustments to income and loss under the Indiana Adjusted Gross Income Tax Act (for the add back of income taxes and the deduction from income for U.S. Government obligations) are limited to current reporting but may also affect the shareholder's basis.

Example - Indiana S Corporation Income for Individual Shareholders

Taxpayer A, a resident of Indiana, and Taxpayer B, a nonresident of Indiana, each have a 50% stock interest in XYZ, Inc., an Indiana S corporation doing business both within and outside of Indiana.

XYZ, Inc. has income from operations of \$530,000 and expenses of \$500,000. Of these expenses, \$35,000 is an expense for state income tax.

Computations for XYZ, Inc.:

XYZ, Inc. computes its adjusted S corporation income as follows:	
Income from operations	\$530,000
Expenses	(500,000)
Add back modifications	+35,000
S corporation income	\$65,000

Using the three factor apportionment formula under IC 6-3-2-2(b) XYZ, Inc. determines its apportionment percentage as follows:

Property factor	80.00%
Payroll factor	+40.00%
Sales factor (double-weighted)	+120.00%
	240.00%
Divide by factors present	+4
Indiana apportionment percentage	60.00%

Computations for Taxpayers A and B:

Taxpayer A, as a resident of Indiana, must report their own entire share of S corporation income to Indiana regardless of whether or not the S corporation apportions its income. As a general rule, if tax is paid to another state on a portion of S corporation income by Taxpayer A, a credit can be taken on the individual return.

Indiana adjusted S corporation income for Taxpayer A is computed as follows:

S corporation income	\$65,000
Distributive share (50% X \$65,000)	32,500
Indiana adjusted distributive share of income	\$32,500

Taxpayer B, as a nonresident of Indiana, reports only their own share of S corporation income that is apportioned to Indiana. As a general rule, if Taxpayer B is required to pay tax to another state on a portion of the income from XYZ, Inc., a credit cannot be taken on the Indiana return, but must be claimed from the state of residence.

Indiana adjusted S corporation income for Taxpayer B is computed as follows:

S corporation income	\$65,000
Distributive share (50% x 65,000)	\$32,500
Multiply by apportionment percentage	x 60%
Apportioned Indiana distributive share of income	\$19,500

Accounting Periods and Methods

The accounting period for Form IT-20S and the method of accounting adopted must be the same as used for federal income tax purposes.

Extended Due Date

The initial due date for filing is the fifteenth (15) day of the fourth (4) month following the close of the S corporation's tax year. The Department normally recognizes the Internal Revenue Service application for automatic extension of time to file (Form 7004). **Do not file a separate copy of this form with the Department to request an Indiana extension. Instead, the federal extension form must be attached when the Indiana return is filed.**

Returns postmarked within thirty (30) days after the last date indicated on the extension form will be timely filed.

In the event a federal extension is not needed, an S corporation may request a separate Indiana extension of time to file by writing the Indiana Department of Revenue, Corporate Income Tax Section, Returns Processing Center, 100 N. Senate Ave., Indianapolis, Indiana 46204-2253.

Any payments made after the original due date must include penalty and interest. Caution: The filing due date for the S corporation return is different than the payment due date of income tax withholding and composite adjusted gross income tax on nonresident shareholders.

Amended Returns

If the S corporation files an amended federal return and the change(s) affects the Indiana income or the taxable income reportable by the shareholders, both the S corporation and the shareholders must file amended Indiana returns within 120 days after the filing of the amended federal return.

An adjustment made by the Internal Revenue Service affecting the reportable Indiana income must be followed with an amended S corporation return within 120 days after the adjustment becomes final. Use Form IT-20S - clearly mark "amended" at the top.

Instructions for Completing Form IT-20S

File a 2004 corporation return for a tax year ending December 31, 2004, a short tax year beginning and ending in 2004 or a fiscal year beginning in 2004 and ending in 2005. For a fiscal or short tax year, fill in both the beginning month, day, and ending month, day, and year at the top of the form.

Identification Section

All S corporations filing Form IT-20S must complete the top portion of the form including questions *K* through *T*. Use the correct legal name of the S corporation and current mailing address. List the name of the county in Indiana where you have a primary business location. Place "O.O.S." in the county box for an address outside Indiana.

Enter the nine digit federal identification number in the box at the upper right-hand corner of the return. Enter your principal business activity code number in the designated block of the return under the Federal ID Number. Use the six (6)-digit activity code as reported on the U.S. Income Tax Return for an S corporation. A link to a list of these codes is available through the Department's Internet address at: www.in.gov/dor/business/forms.html

If the corporation is registered as a collection agent for the State of Indiana for sales and/or withholding tax enter the assigned Indiana Taxpayer Identification (TID) number as ten (10) digits by dropping the trailing three digits. This number should always be referenced on all returns and correspondence filed with the Department.

Schedule A - S Corporation Adjusted Gross Income

Line 1. Enter the amount from the U.S. S Corporation Return Schedule K: net ordinary income, net income from real estate activities from Form 8825, other rental income activities, portfolio income and deductions, royalties, capital gains and losses and other income. The Section 179 deduction and that portion of investment expenses included in federal Schedule K, part of line 12, and line 17 relating to investment portfolio (royalty) income, flowing through to federal Schedule E, may be tentatively deducted. Do not deduct other expenses treated as federal itemized deductions.

Use the Worksheet for S corporation Distributive Share of Income, Deductions and Credits on page 13 to assist in the calculation of this figure. You must use the income worksheet if the corporation received any distributive income from an owned partnership interest, estate or trust.

Required Indiana State Modifications

Lines 2(a)(b)(c) and (d).

2(a) Add back all state taxes based on income levied by any state deducted on federal return;

2(b) Adjustment is required for any provision claimed under The Jobs and Growth Tax Relief Reconciliation Act of 2003 in addition to the limits imposed on the amount of IRC Section 179 deduction and any bonus depreciation that affects adjusted gross income. See Internal Revenue Code reference on page 2.

- Add or subtract an amount necessary to make the adjusted gross income of any taxpayer that owns property for which additional first-year special depreciation allowance (bonus depreciation) for qualified property was allowed in the current taxable year or in earlier taxable year equal to the amount of adjusted gross income that would have been computed had an election not been made under Section 168(k) of the Internal Revenue Code to apply bonus depreciation. *See Commissioner's Directive #19, issued August, 2003 for information on the allowance of depreciation for state tax purposes.*

- Add back your share of the IRC Section 179 deduction claimed for federal tax purposes that exceeds the amount that is recognized for state tax purposes.

Attach a statement explaining any adjustment.

2(c) Deduct interest income, less related expenses, from certain obligations of the United States Government included as income on the federal return (request Income Tax Information Bulletin #19 for a listing of eligible items); and

2(d) Deduct Indiana lottery prize money - A portion of prize money received from the purchase of a winning Indiana lottery game or ticket included in federal taxable income should be excluded. Beginning after June 30, 2002, the proceeds of up to \$1,200 are deductible from each winning lottery game or ticket paid through the Hoosier State Lottery Commission. *Explain deduction on an attached statement.*

Note: Entries made on federal Form 8825 should also be considered when completing entries on line 2.

Line 3. Enter total Indiana modifications (add line 2a and 2b, deduct lines 2c and 2d).

Line 4. Add lines 1 and 3.

Line 5. Enter on line 5 the Indiana apportionment percentage if the corporation has any multi-state business activities. Under the Adjusted Gross Income Tax Act, taxable income from a trade or business carried on within and outside Indiana is computed using a three-factor formula consisting of property, payroll and double weighted the sales factor. Generally, apportioned income is determined by taking the total percentage of the three (3) factors and dividing by four (4). The resulting apportionment percentage will determine the Indiana net income of the nonresident individual shareholders, trusts and estates that pass-through as a result of the S corporation's activities everywhere. See IT-20S Schedule E instructions beginning on page 15.

Before continuing to lines 6 through 24, also complete IT-20S Schedule IN K-1 on the reverse side of the form for each shareholder.

**IT-20S Schedule IN K-1 Shareholder's
Share of Indiana Adjusted Gross Income,
Deductions, Modifications and Credits**

Attach IN K-1 to Form IT-20S or provide a complete summary, of all information from the IN K-1 for each shareholder, with the return.

Shareholder's Identification Section

Complete IT-20S IN K-1 to identify each shareholder.

- (a) Enter the name of shareholder.
- (b) Enter the social security or federal identification number of shareholder.
- (c) Enter shareholder's state of residence.
- (d) Enter the amount of tax withheld on income distributions derived from Indiana sources for any nonresident shareholder for the taxable year. Do not include any penalty or interest paid on delinquent withholding tax. If no withholding tax was paid or if additional withholding tax is due, see instructions for filing Form DB020W-NR. Credit for any amount withheld is to be claimed on the shareholder's Indiana individual, composite, or fiduciary income tax return.
- (e) Enter the applicable pro rata percentage of shareholder's interest in the S corporation. The percentage should be adjusted to an annual rate if necessary.

Distributive Share Amounts

Complete lines 1 through 15 for the shareholder. Also provide the shareholder with a statement showing the shareholder's distributive share of income, credits and modifications.

Line 1 through Line 12. For full year Indiana resident shareholders, complete these lines as shown on the federal Schedule K-1, Form 1120S.

For most nonresident shareholders, the federal Schedule K-1 amounts should be multiplied by the Indiana apportionment percentage calculated on the IT-20S Schedule E. See instructions on page 15. The apportioned figures should be entered on lines 1 through 12.

Investment interest expenses attributed to royalty income and all other federal deductions (excluding those treated as itemized deductions) should be included on line 12. No other type of investment interest expense, itemized deduction, or carryover loss should be reported on this line. Note: If the corporation has received any distributions from other entities having income previously apportioned to Indiana, use the following methodology to report distributive share income for IT-20S IN K-1.

Alternative Completion of IT-20S Schedule IN K-1 Information

An alternative application of IT-20S Schedule IN K-1 must be used if a shareholder is a nonresident individual, fiduciary or trust and the corporation had income from outside Indiana. Use the following method for completion of Schedule IN K-1 when the corporation had any apportioned income from outside Indiana or is otherwise required to complete the Indiana apportionment schedule:

Modify each required Schedule IN K-1 line entry by recalculating the pro rata share of total S corporation income with required Indiana modifications to adjusted gross income reported on line 1 of Form IT-20S. Use pro rata amount from line 13A, **Worksheet for S Corporation Distributive Share Income, Deductions and Credits** by applying these steps:

Step 1. Deduct from the above pro rata share the respective pro rata amount of line 13B and line 14B of the Worksheet.

Step 2. Multiply the result by the Indiana apportionment percent reported on line 5 of Form IT-20S, from Schedule E, line 4c, if present. This amount should reflect the shareholder's proportionate share of this S corporation's activity in Indiana.

Step 3. Add to the above amount the pro rata share of any other (entity) source income received by the corporation that was previously apportioned, or allocated as distributive share income derived from Indiana (line 15C of the Worksheet). The result is the modified Indiana S corporation income from Indiana sources to be reported on the appropriate lines of Schedule IN K-1 of nonresident individuals, trust and estates for adjusted gross income purposes.

Line 14. Enter the Indiana modifications from the front of Form IT-20S, line 3, as percentage applied, or apportioned in the case of nonresident individuals.

Line 15. If the corporation has available any eligible Indiana credits flowing through to the shareholders, enter the pro rata amount allowed for the shareholder and indicate type of credit(s) allotted. You must also attach a completed credit schedule to Form IT-20S to support this credit distribution. See list of Pass-through Tax Credits on pages 17 and 18. For further information request Income Tax Information Bulletin #59.

Form IT-20S Schedule B

Tax on Excess Net Passive Income and Built-in Gains

To the extent that the S corporation's excess net passive income and built-in capital gains are subject to income tax under the Internal Revenue Code, the Indiana adjusted gross income tax is imposed upon such income of the corporation derived from Indiana sources. Use the following guidelines to calculate the corporation's tax liability. Quarterly estimated tax payments are required if the Indiana tax liability exceeds \$1,000. *All references are from the federal forms. Use updated versions where applicable.*

Line 6. Enter the excess net passive income tax reported on federal Form 1120, line 22a.

Line 7. Enter the tax from federal Schedule D reported on Form 1120S, line 22b.

Line 8. Enter the lesser amount of excess net passive income from line 8, or taxable income from line 9, as calculated on the federal excess net passive income tax worksheet. Attach the worksheet to the return.

Line 9. Enter net amount: Line 16 from federal Schedule D, Part III reduced by the portion of Section 1374 (b)(2) deduction, if any, from line 17 that is attributable to Indiana. If zero or less, enter -0- on Line 9. Attach Schedule D (1120S) to the return.

Line 11. If the taxable amounts on line 10 are not or cannot be wholly allocated to Indiana, use the apportionment percentage from line 5 to attribute the business income to Indiana. Attach the IT-20S Schedule E, Apportionment of Income for Indiana to the return.

Multiply the amount on line 10 by the Indiana apportionment percentage on line 5. If apportionment of income is not applicable, enter the total amount from line 10.

Line 13. Multiply the amount on line 11 by the corporate adjusted gross income tax rate of eight and one-half (8.5) percent, effective January 1, 2003. If tax exceeds \$1,000, attach completed Indiana Schedule IT-2220 to compute any underpayment of estimated tax or to show an exception to the penalty.

Summary of Calculations

Sales/Use Tax Worksheet

IC 6-2.5-3-2 imposes a use tax at the rate of six percent (.06) upon the use, storage or consumption of tangible personal property in Indiana that was purchased or rented in a retail transaction, wherever located, and sales tax was not paid.

Examples of taxable items include magazine subscriptions, office supplies, electronic components and rental equipment. Also, any property purchased free of tax by use of an exemption certificate or from out-of-state, and converted to a nonexempt use by the business will be subject to the use tax. Complete the Sales/Use Tax Worksheet on page 13 to compute any sales/use tax liability. For further information regarding use tax, call (317) 233-4015.

Note: If you are a registered retail sales or out-of-state use tax agent for Indiana you must report your nonexempt purchases used in your Indiana business on Form ST-103, Indiana annual, quarterly or monthly Sales and Use Tax Voucher.

Interest is added if the use tax was not timely paid by the original due date of the return. A ten (10) percent penalty or \$5.00, whichever is greater, is charged on each unpaid use tax liability. Caution: Do not report your totals from Form ST-103 on this worksheet or on Form IT-20S.

Line 14. Enter the use tax due from the completed Sales/Use Tax worksheet on page 13.

Line 15. Enter the total tax liability of the nonresident members included in the Composite Adjusted Gross Income Tax Return, column D and E. Attach composite Schedule IT-20COMP.

Line 16. Total tax: Add the tax shown on lines 13, 14 and 15.

Line 17. Enter the total credits for all nonresident members included in the composite return as reflected on Schedule IT-20COMP, column F and other credits, column G. (Attach copy C of Form WH-18 for each composite member.) Do not take any credit for individual or separate estimated tax payments made by the shareholders.

Line 18. Enter any other payments/credits belonging to the corporation such as estimated payments for passive income and built-in gains tax or EDGE credit (not passed-through to shareholders). A detailed explanation must be attached for any credits claimed on this line.

Line 19. Subtotal: Subtract lines 17 and 18 from line 16. If a balance due remains, proceed to lines 20, 21 and 22.

Line 20. Enter total interest due.

Caution: Two separate calculations of interest and penalty may be required:

1. Interest is computed on the net amount of composite tax, on line 19, paid after the fifteenth (15th) day of the third (3rd) month following the end of the corporation's taxable year. Interest is calculated from the day following the due date for payment of composite tax to the actual date the balance is paid with the IT-20S return.
2. Interest on use tax and Schedule B tax is calculated on the remaining amount of tax on line 19 that is paid after the original due date of the IT-20S return.

Contact the Department for the current rate of interest charged.

Line 21. Enter total penalty due. Penalty is ten (10) percent of the amount (but not less than \$5) of any composite tax due on line 19 paid after the fifteenth (15) day of the third (3) month following the end of the corporation's taxable year. If a composite tax is due because of failure to withhold on income distributions to nonresident shareholders, a penalty of twenty (20) percent will be

added. (See caution note on line 20 above.) Penalty, which equals the greater of: ten (10) percent of the amount of use tax and Schedule B tax on line 19, or \$5, is still due on those taxes paid after the original due date of the return.

If a return showing no liability on line 22 is filed late, penalty for failure to file by the due date will be \$10 per day the return is past due, up to a maximum of \$250. If tax on line 19 exceeds \$1000, add any underpayment of estimated tax penalty computed on Schedule IT-2220 or attach completed schedule to show exception to this penalty.

There is also a separate \$10 penalty for filing IT-20S Schedule IN K-1 information return late.

Line 22. Amount due: If line 19 is greater than zero, add lines 19, 20, and 21, and attach a separate remittance for total amount owed for each Form IT-20S filed. Payment to the Department of Revenue must be made in U.S. funds.

Line 23. Overpayment: If the total of lines 17 and 18 exceeds line 16, subtract lines 20 and 21 from line 19. If the result is less than zero, this is your net overpayment. **Note:** If penalties and interest are due because of delinquent filing or payment, the overpayment must be reduced by these charges. If the result is a balance due, enter the difference on line 22.

Line 24. Enter the amount from line 23 to be refunded.

Certification of Signatures and Authorization Section

Be sure to sign, date, and print your name on the return. If a paid preparer completes the return, you may authorize the Department to discuss your tax return with the preparer by checking the [yes] Authorization Box above signature line.

Please mail completed returns with a filled-in 2-D bar code to:

**Indiana Department of Revenue
P.O. Box 7231
Indianapolis, IN 46207-7231**

All other prepared returns must be mailed to:

**Indiana Department of Revenue
100 N Senate Ave.
Indianapolis, IN 46204-2253**

For Other Indiana Department of Revenue Forms:

Internet Address - www.in.gov/dor/

Our homepage provides access to forms, information bulletins and directives, tax publications, e-mail, and various filing options.

Indiana TaxFax - (317) 233-2329

Call TaxFax using the telephone portion of your fax machine or computer to obtain the Department's catalog of available Indiana tax forms.

Tax Forms Order Line - (317) 615-2581



Indiana Department of Revenue
Indiana S Corporation Income Tax Return

for Calendar Year Ending December 31, 2004

or Other Tax Year Beginning AA MO. / DA. / 2004 and Ending BB MO. / DA. / YYY (Do not write above)

Form IT-20S
State Form 10814 (8-04)

Form header section containing fields for Federal Identification Number, Name of Corporation, Number and Street, City, State, Zip Code, Telephone Number, and Indiana County or O.O.S.

- K. Date of incorporation
L. State of commercial domicile
M. Year of initial Indiana return
N. Accounting method
O. Date of election as S corporation
P. Check all that apply to entity
Q. Number of non-Indiana resident shareholders
R. Is an extension of time to file attached?
S. Did the corporation file as a C corporation for the prior tax period
T. Is this corporation a member of any partnerships?

Schedule A - S Corporation Adjusted Gross Income (See worksheet on page 13)

Table for Schedule A with rows 1-5 and columns for amounts and percentages. Includes sub-rows 2a, 2b, 2c, 2d.

CONTINUE SCHEDULE A BY COMPLETING A COPY OF IT-20S IN K-1 (ON REVERSE SIDE) FOR EACH SHAREHOLDER

Schedule B - Excess Net Passive Income & Built-In Gains

Table for Schedule B with rows 6-13 and a large box for '2004 IT-20S' with a tax rate of .085.

Summary of Calculations

Table for Summary of Calculations with rows 14-24 and a box for 'Make Payment in U.S. Funds'.

Certification of Signatures and Authorization Section

I authorize the Department to discuss my return with my tax preparer. CC [] Yes
Under penalties of perjury, I declare I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief it is true, correct and complete.

Signature and preparer information section with fields for Signature of Corporate Officer, Date, Print or Type Name of Corporate Officer, Title, Print or Type Paid Preparer's Name, Preparer's FID, SSN, or PTIN Number, Street Address, Daytime Telephone Number of Preparer, City, State, Zip+4, and Preparer's Signature.

Name of Corporation B	Federal Identification Number A
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Pro Rata Distributions - Provide IN K-1 information for each shareholder. Attach IN K-1 to IT-20S return.

Pro rata amounts for lines 1 through 12 of any non-resident shareholders must be multiplied by the Indiana apportionment percent, if applicable from IT-20S, line 5.

Identification Section of Shareholder:	
(a) Name of Shareholder:	
(b) Social Security Number or Federal Identification Number:	
(c) Shareholder's State of Residence:	
(d) Indiana Tax Withheld for Nonresident Shareholder:	\$
(e) Shareholder's Federal Pro Rata Percentage:	%

Distributive Share Amounts	(Omit Cents)
1. Ordinary income (loss) from trade or business activities	
2. Income (loss) from rental real estate activities	
3c. Other net rental income (loss)	
4. Interest income	
5a. Ordinary dividends	
6. Royalties	
7. Net short-term capital gain (loss) Schedule D, Form 1120S	
8a. Net long-term capital gain (loss) Schedule D, Form 1120S	
9. Net IRC Section 1231 gain (loss) Form 4797	
10. Other income (loss)	
11. IRC Section 179 expense deduction	
12A. Portion of expenses related to investment portfolio income, including investment interest expense and other (federal non-itemized) deductions	
12B. Other information from line 17 of federal K-1 related to investment interest and expenses not listed elsewhere	
13. Total pro rata distributions (add lines 1 through 10, subtract lines 11 and 12 when applicable).	
14. State modifications to distributive share income for Indiana adjusted gross income (pro rata share from line 3 on front of Form IT-20S, (see instructions)	
15. Pro rata share of Indiana pass-through income tax off-set credits from corporation (indicate type _____)	

Name of Corporation B	Federal Identification Number A
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Shareholders' Composite Indiana Adjusted Gross Income Tax Return

For S Corporation's Tax Year 2004 *or* Fiscal Year Beginning AA / / 2004 and Ending BB / /

See instructions on reverse side. Attach to Form IT-20S (Use additional sheets if necessary).

PART I - List name and address of each nonresident shareholder <i>not</i> included in composite return. (Attach additional sheets if necessary.)				
(a) Name	(b) Street	(c) City	(d) State	(e) Zip Code
1.				
2.				
3.				
4.				
5.				
6.				
7.				
8.				

PART II - List name, distributive amount, composite tax and credits for each composite return member. (Omit Cents)							
Attach WH-18, copy C for each nonresident composite shareholder.	Enter pro rata share		Composite Adjusted Gross Income Tax			Credits	
	A	B	C	D	E	F	G
	Apportioned distributive income attributed to Indiana from IN K-1, line 13	Indiana modifications from IN K-1, line 14	Adjusted gross income Add A + B	State tax multiply C x 3.4% (cannot be less than zero)	County tax multiply C by nonresident county tax rate (if applicable)	Enter shareholder's withholding credit as shown on Form WH-18	Enter pro rata credits from IN K-1, line 15 (may not exceed D)
(a) Name							
1.							
2.							
3.							
4.							
5.							
6.							
7.							
8.							
9.							
10.							
11.							
12.							
13.							
14.							
15.							
16.							
17.							
18.							
19.							
20.							
Carryover totals from additional sheets:.....							
Subtotals for columns D, E, F and G:.....							
Add above total taxes and total credits:.....							
Carry total tax and credits to Summary of Calculations:.....							
			Tax: Add D and E		Credit: Add F and G		
			Enter total tax on Form IT-20S, line 15.		Enter total credit on Form IT-20S, Line 17.		

Filing Procedure IT-20COMP Composite Return

An S corporation may file a composite adjusted gross income tax return on behalf of qualifying non-Indiana resident individual shareholders. Nonresident shareholders properly electing to participate in the composite return will be relieved of the obligation to file an Indiana individual adjusted gross income tax return.

The composite return, Schedule IT-20COMP, shall be filed with and have the same due date as the S corporation return. If the Internal Revenue Service allows the S corporation an extension to file its income tax return, the due date for its Indiana return is automatically extended for the same period, plus thirty (30) days.

Composite income means each nonresident shareholder's distributive share of income derived from sources within Indiana as determined by the use of the apportionment formula described in IC 6-3-2-2(b) plus Indiana modifications.

Composite filing does not negate the S corporation's requirement to file on a monthly, quarterly or annual basis Form WH-1 (Employer's Withholding Tax Return), used for submitting withholding tax payments for all nonresident shareholders along with any withholding for employees. However, withholding is not required on residents of reverse credit states (Arizona, California, Oregon, District of Columbia) except when a California resident is included on the Indiana composite return.

The amount of tax withheld on shareholders is shown as a credit on Form WH-18, (Indiana Miscellaneous Withholding Tax Statement for Nonresident). Copy A of Form WH-18 must be filed with the Department of Revenue together with Form WH-3, Annual Withholding Reconciliation, on or before the last day of February.

Filing Requirements for Composite Return

The shareholder electing to be included in the composite return authorizes the S corporation to file on his or her behalf. This election, once made, is irrevocable for that tax year.

However, any shareholder within the following categories must, in all cases, be excluded from the composite return: (a) Any partnership or fiduciary; (b) Any shareholder who received a distribution(s) during the year in excess of his or her distributive share of net income from the S corporation; (c) Any shareholder who sold any portion of his or her interest in the corporation during the year; (d) Any shareholder receiving income during the year from an Indiana source other than the corporation; and (e) Any shareholder who for a portion of the year was a resident of Indiana.

The following limitations and conditions will apply to each shareholder included as a member in the composite return: (a) Any short term capital gain (loss) plus any long term capital gain (loss) specifically allocated for a shareholder is allowed, subject to any "passive activity" loss limitations pursuant to IRC Section 469 and capital loss limitations imposed on non-corporate taxpayers by IRC

Section 1211; (b) No deduction is permitted for interest paid on investment indebtedness under IRC Section 163(d) (limitation on interest investment indebtedness); (c) No deduction is permitted for carryover of net operating losses or capital losses; (d) No personal exemption is permitted; (e) No deduction is allowed for charitable contributions allowed or allowable pursuant to IRC Section 170; (f) No credit is permitted for taxes paid to other states; (g) No credit carryovers are permitted; and (h) All other credits which flow through to shareholders on a pro rata basis are limited to the shareholder's state income tax liability. See list of Pass-through Tax Credits on pages 17 and 18.

The S corporation filing a composite return is liable not only for the tax shown on the return but also for any additional tax, interest, and penalty as a result of a subsequent audit or examination. Any refund of state or county tax as a result of filing a composite return shall be remitted directly to the S corporation.

The S corporation should send a copy of general Indiana filing requirements to each nonresident shareholder. The S corporation must determine shareholders electing to be included in the composite return and shareholders not electing to be included. See Income Tax Information Bulletin #72 for more information.

Instructions for Completing Composite Return

PART I - The S corporation must disclose the name and complete address of its nonresident shareholders who are excluded from this composite return. These shareholders are required to file separate Indiana income tax returns.

PART II - Indicate the name of each shareholder electing to be a member included in this composite return. Subject to the limitations and conditions specified in the filing requirements, separately compute the state tax liabilities and credits on the composite return attributable to each shareholder.

Column E. If a nonresident individual engaged in principal work activity in an adopting county on January 1, the county tax should be calculated. Multiply column C by the applicable nonresident county tax rate. Use Departmental Notice #1 to determine if a composite member is subject to a county tax and call the Department to verify the county's tax rate.

Column G. The amount of pro rata pass-through credit available to each composite member is limited to the respective amount of tax calculated in column D.

Insert only the total state and county liabilities and pass-through credits of those nonresident shareholders included in the composite return to the appropriate lines on Form IT-20S.

Note: A federal Schedule K-1 for each shareholder is not required to be attached but must be made available for inspection upon request by the Department.

If you have any questions you may call the Corporate Income Tax Section: (317) 615-2662

Worksheet for S Corporation Distributive Share Income, Deductions and Credits

Use this worksheet to compute the entry for line 1 of Form IT-20S and to assist in computing amounts reportable on or for IT-20S Schedule IN K-1. Enter the total distributive share of income from each item reportable on Form 1120S, Schedule K. Do not complete column B and C entry lines unless the corporation received distributive share or tiered income from other entities.

Distributive Share Amounts:	A. S Corporation Income All Sources	B. Distributions from Partnerships/ Estates/Trusts	C. Distributions Attributed to Indiana
S Corporation's Distributive Share of Items			
1. Ordinary income (loss) from trade or business activities		Enter below for line 13B total distributive share income received by the corporation from all non-unitary partnerships, estates and trusts. Enter for line 14B an amount equal to required state modifications for Indiana Adjusted Gross Income. (See page 6 for instructions.)	Enter below for line 13C total distributive share income received by the corporation from partnerships, estates and trusts that were derived from or allocated to Indiana. Enter on line 14C an amount equal to the Indiana modifications for Adjusted Gross Income attributed to Indiana.
2. Net income (loss) from rental real estate activities			
3c. Other net rental income (loss)			
4. Interest income			
5a. Ordinary dividends			
6. Royalties			
7. Net short-term capital gain (loss) Schedule D, Form 1120S			
8. Net long-term capital gain (loss) Schedule D, Form 1120S			
9. Net IRC Section 1231 gain (loss) Form 4797			
10. Other income (loss)			
Less allowable deductions for state tax purposes:			
11. IRC Section 179 expense deduction		↓	↓
12A. Portion of expenses related to investment portfolio income, including investment interest expense and other (federal non-itemized) deductions		↓	↓
12B. Other information from line 17 of federal K-1 related to investment interest and expenses not listed elsewhere		↓	↓
13. Carry total on line 13A to Form IT-20S line 1, on front page of return	13A	13B	13C
14. Total of Indiana State modifications to distributive share income (see line 2, Form IT-20S) ..		14B	14C
15. Net Indiana adjusted gross income distributions from partnerships, estates and trusts (add lines 13C and 14C)			15C
16. Enter amount of Indiana pass-through credits attributed from partnerships, estates and trusts, if any			16C

Sales/Use Tax Worksheet for Line 14, Form IT-20S

List all purchases made during 2004 from out-of-state companies.



Column A	Column B	Column C
Description of personal property purchased from out-of-state	Date of Purchase(s)	Purchase Price
Magazine subscriptions:		
Mail order purchases:		
Internet purchases:		
Other purchases:		
1. Total purchase price of property subject to the sales/use tax	1	
2. Sales/use tax: Multiply line 1 by .06 (6%)	2	
3. Sales tax previously paid on the above items (up to 6% per item) plus other tax credits that off-set use tax, attach explanation	3	
4. Total amount due: Subtract line 3 from line 2. Carry to Form IT-20S, line 14. If the amount is negative, enter zero and put no entry on line 14 of the IT-20S	4	

Instructions for IT-20S Schedule E
Apportionment of Income for Indiana

Complete the apportionment of income schedule whenever the corporation has income derived from sources both within and outside Indiana and has any nonresident shareholders.

The income attributed to Indiana must be determined by a three-factor apportionment formula. The Department will not accept returns filed for adjusted gross income tax purposes on the separate accounting method.

This apportionment formula must be used unless written permission from the Department is granted.

Note: *Interstate transportation corporations should consult Schedule E-7 for details concerning apportionment of income. Contact the Department to obtain this schedule.*

Part I - Apportionment of Adjusted Gross Income

1. Property Factor: The property factor is a fraction. The numerator is the average value during the tax year of real and tangible personal property used within Indiana, plus the value of rented property, and the denominator is the average value during the tax year of such property everywhere.

The average value of property shall be determined by averaging the values of the beginning and the end of the tax period. (Beginning value plus ending value divided by 2 = "average value.") If the values have fluctuated, the averaging of monthly values may be necessary to reflect the average value of the property for the tax period. If, in the calculation of the property factor, the average values of properties are composed of a combination of values, attach a schedule showing how these average values were calculated. For example, the use of original cost for owned properties plus the value of rental or leased facilities based upon a capitalization of rents paid, which cannot be checked against the balance sheet or the profit and loss statement, must be supported. Property owned by the taxpayer is valued at its original cost. Property rented by the taxpayer is valued at eight (8) times the net annual rental rate.

Total Property Values

Complete appropriate lines for both within Indiana and everywhere. Add lines (a) through (e) in columns A and B. Divide sum on line 1A by the sum from line 1B. Multiply by 100 and enter the percent on line 1C. Round the percentage to the nearest second decimal place (e.g., 16.02%).

2. Payroll Factor: The payroll factor is a fraction. The numerator is the total wages, salaries, and other compensation paid to employees in Indiana, and the denominator is the total of such compensation for services rendered for the business everywhere. Normally, the Indiana payroll will match the unemployment compensation reports filed with the state as determined under the Model Unemployment Compensation Act. Compensation is paid in Indiana if: (a) the individual's service is performed entirely within Indiana; (b) the individual's service is performed both within and outside Indiana, but the service performed outside Indiana is incidental to the individual's service within Indiana; or (c) some of the service is performed in Indiana and (1) the base of operations, or if there is no base of operations, the place where the service is directed or controlled is in Indiana; or (2) the base of operations or the place where the service is directed or controlled is not in any state in which some part of the service is performed, but the individual's residence is in Indiana. Payments to independent

contractors and others not classified as employees are not included in the factor. That portion of an employee's salary directly contributed to a Section 401K plan should be included in the factor; however, the employer's matching contribution should not be included.

Total Payroll Value

Enter payroll values on lines 2A and 2B. Divide the total on line 2A by the total from line 2B. Multiply by 100 and enter the percent on line 2C. Round the percentage to the nearest second decimal place.

3. Receipts Factor: The receipts factor is a fraction. The numerator is the total receipts of the corporation in Indiana during the tax year. The denominator is the total receipts of the corporation everywhere during the tax year. **This factor is double-weighted in the apportionment formula.** All gross receipts of the corporation which are not subject to allocation are to be included in this factor. Do not include any previously apportioned income or any partnership distribution. The numerator of the receipts factor must include all sales made in Indiana, sales made from Indiana to the U.S. Government, and sales made from Indiana to a state not having jurisdiction to tax the activities of the seller. The numerator will also contain intangible income attributed to Indiana, including interest from consumer and commercial loans, installment sales contracts, and credit and debit cards as prescribed under IC 6-3-2-2.2.

Total receipts include gross sales of real and tangible personal property less returns and allowances. Sales of tangible personal property are in Indiana if the property is delivered or shipped to a purchaser within Indiana, regardless of the f.o.b. point or other conditions of sale, or the property is shipped from an office, store, warehouse, factory, or other place of storage in Indiana, and the corporation is not subject to tax in the state of the purchaser.

Sales or receipts not specifically assigned above shall be assigned as follows: (1) gross receipts from the sale, rental, or lease of real property are in Indiana if the real property is located in Indiana; (2) gross receipts from the rental, lease, or licensing the use of tangible personal property are in Indiana if the property is in Indiana. If property was both within and outside Indiana during the tax year, the gross receipts are considered in Indiana to the extent the property was used in Indiana; (3) gross receipts from intangible personal property are in Indiana if the corporation has economic presence in this state and such property has not acquired a business situs elsewhere. Interest income and other receipts from loans or installment sales contracts that are primarily secured by or deal with real or tangible personal property are attributable to Indiana if the security or sale property is located in Indiana; consumer loans not secured by real or tangible personal property are attributable to Indiana if the loan is made to an Indiana resident; and commercial loans and installment obligations not secured by real or tangible personal property are attributable to Indiana if the proceeds of the loan are to be applied in Indiana. Interest income, merchant discounts, travel and entertainment credit card receivables and credit card holder's fees are attributable to the state where the card charges and fees are regularly billed.

Receipts from the performance of fiduciary and other services are attributable to the state where the benefits of the services are consumed. Receipts from the issuance of traveler's checks, money orders, or United States savings bonds are attributable to the state where those items are purchased. Receipts in the form of

dividends from investments are attributable to Indiana if the commercial domicile is in Indiana; and (4) gross receipts from the performance of services are in Indiana if the services are performed in Indiana. If such services are performed partly within and partly outside of Indiana, a portion of the gross receipts from performance of the services shall be attributed to Indiana based upon the ratio the direct costs incurred in Indiana bear to the total direct costs of the services, unless the services are otherwise directly attributed to Indiana according to I.C. 6-3-2-2.2.

Sales to the United States Government

The United States Government is the purchaser when it makes direct payment to the seller. A sale to the United States Government of tangible personal property is in Indiana if it is shipped from an office, store, warehouse, or other place of storage in Indiana. See above rules for sales other than tangible personal property if such sales are made to the United States Government.

Under (f) Other, report other gross business receipts not included elsewhere, and pro rata gross receipts from all unitary-partnership(s), excluding from the factors the portion of distributive share income derived from a previously apportioned partnership source [45 I.A.C. 3.1-1-153(b)].

Total Receipts

Complete all lines as indicated. Add receipt factor lines 3(a) through 3(f) in column A, enter total on line 3A. Enter total receipts everywhere on line 3B. See line 4(a) for calculation of the percentage. Round percentage to the nearest second decimal place.

4. Summary: Apportionment of Income for Indiana

- (a) Divide sum on line 3A by the total from line 3B. Multiply by 100 to arrive at a percentage rounded to the nearest second decimal place. Enter the quotient on the 4(a)1 space provided and multiply by the 200% (2.0) double weight adjustment. Enter the product on line 4a of column C.
- (b) Add entries on lines 1C, 2C and 4a of column C. Enter the sum of the percentages on line 4b.
- (c) Divide the total percentage entered on line 4b by 4. Enter the average Indiana apportionment percentage (rounded to the nearest second decimal place) on line 4c and carry to Schedule A, line 5 of Form IT-20S.

The property and payroll factors are each valued as a factor of 1 in the apportionment of income formula. The receipts factor is valued as a factor of 2. The combined three-factor denominator equals 4. When there is a total absence of one of these factors in column B, you must divide the sum of the percentages by the number of the remaining factor values present in the apportionment formula.

Part II - Business/Other Income Questionnaire

Complete all applicable questions in this section. If income is apportioned, list (a) all business locations where the corporation has operations. Indicate (b) the nature of the business activity at each location, including whether a location (c) accepts orders in that state, (d) is registered to do business in that state, or (e) files income tax returns in other states, and whether property in the other states is (f) owned or (g) leased.

You must attach the completed IT-20S Schedule E, Apportionment of Income to your return.

Reminders

1. Complete the S corporation's identification section.
2. List name of the Indiana county; place O.O.S. in the county box to indicate an out-of-state business operation.
3. S corporations filing on a fiscal year basis must enter their tax year beginning and ending dates.
4. Answer questions K through T at the top of Form IT-20S.
5. Complete Schedule A and IT-20S IN K-1 for each shareholder.
6. Composite return must be filed on Schedule IT-20COMP.
7. Attach IT-20S Schedule E-Apportionment of Income, if applicable.
8. Attach copies of the first four pages of the U.S. Income Tax Return for an S Corporation, Form 1120S.
9. Use Form DB020W-NR (for an initial payment) or designated Form WH-1 to pay withholding tax on income distributions to nonresident shareholders.

2-D Barcode Filing of Corporate Forms Continues for S Corporation Returns in 2004

Since 2001, taxpayers using computerized tax preparation software may notice a "2-D bar code" in the upper right-hand corner of the corporate tax form. The tax data that would normally have to be manually entered is encoded into a 2-D Barcode, effectively eliminating data entry errors and allowing returns to be processed in a fraction of the time required for a traditional paper return.

The 2-D Barcode option is also available for Form IT-20S by using I-File, the Department's Internet Filing program. Through I-File, taxpayers can complete an entire return using a personal computer with Internet access. When taxpayers print out the return, it will be complete with the 2-D Barcode and can be mailed to the Department. I-File is available at: www.in.gov/dor/electronicervices/

Annual Public Hearing

In accordance with the Indiana Taxpayer Bill of Rights, the Indiana Department of Revenue will conduct an annual public hearing on Tuesday, June 7, 2005. Please come and share your ideas on how the Department can better administer Indiana tax laws. The hearing will be held at 9 a.m., in the Indiana Government Center South, Conference Center - Room 1, 402 West Washington Street, Indianapolis, Indiana. If you are unable to attend, please submit your concerns in writing to: Indiana Department of Revenue, Commissioner's Office, 100 North Senate Avenue, Indianapolis, Indiana, 46204.

Pass-through Tax Credits

Each shareholder is allowed a pro rata share of the income tax credits available to the S corporation. Each shareholder's share of an available credit is reported on IT-20S Schedule IN K-1, line 13, and must be supported by attaching the properly completed tax credit schedule or form to the corporation's return. The shareholders may claim their allowable portion of Indiana credits on their respective annual income tax returns: Form IT-40, IT-40PNR or IT-41.

Note: *Enterprise zone credits may not be applied against the S corporation's withholding, composite or use tax liabilities on Form IT-20S.*

Historic Rehabilitation Tax Credit - An S corporation is entitled to an income tax credit, provided under IC 6-3.1-16-7.5(b), on qualified expenditures made for rehabilitation of historic property. If the corporation has no state income tax liability, then the shareholders are entitled to claim, as a pass-through, their share of credit. The Division of Historic Preservation and Archeology administers this program and may be contacted at 402 W. Washington St., Room W274, Indianapolis, Indiana 46204, or call (317) 232-1646.

Indiana Research Expense Tax Credit - Effective for tax years beginning after December 31, 2002, Indiana qualified research expense credit is equal to ten (10) percent of the remainder of the corporation's Indiana qualified research expense for the tax year minus the federal base period amount. Schedule IT-20REC must be attached.

Neighborhood Assistance Tax Credit - Enter the allowable income tax credit from pre-approved Form NC-20. For further information, refer to Income Tax Information Bulletin #22. Attach Form NC-20 if claiming this credit.

Prison Investment Tax Credit - An income tax credit is allowed under IC 6-3.1-6 for amounts invested in Indiana prisons to create jobs for prisoners. The amount is limited to fifty (50) percent of the investment in a qualified project approved by the Department of Corrections, plus twenty-five (25) percent of the wages paid to inmates. Effective January 1, 2002, pass-through entities are eligible for the credit.

For information regarding the definitions, procedures, and qualifications for the following credits, contact: Indiana Department of Commerce, One North Capitol, Suite 600, Indianapolis, Indiana, 46204, or call (317) 232-8911; Web address: www.in.gov/doc/

Capital Investment Tax Credit - Effective January 1, 2001, a pass-through entity is eligible for a capital investment cost tax credit provided by IC 6-3.1-13.5 based on certain qualified capital investments made in Shelby County. The credit, if certified by the Indiana Department of Commerce, is equal to fourteen (14) percent of the amount of the approved qualified investment and is ratable over a seven (7) year period. Contact: Economic Development Division, (317) 232-5297.

Community Revitalization Enhancement District Credit - Effective January 1, 2003, pass-through entities are eligible for a state and local income tax liability credit for a qualified investment for redevelopment or rehabilitation of property within a community revitalization enhancement district. The expenditure must be approved by the Indiana Department of Commerce before it is made. The credit is equal to twenty-five (25) percent of the qualified investment made by the taxpayer during the taxable year.

The taxpayer can assign the credit to a lessee who remains subject to the same requirements. The assignment must be in writing and any consideration may not exceed the value of the part of the credit assigned. Both parties must report the assignment on their state income tax return for the year of assignment.

Enterprise Zone Employment Expense Tax Credit - A pass-through entity corporation located in a zone is eligible, under PL 120 (1999), for the enterprise zone credit for increased wages in the zone. The credit is

equal to the lesser of ten (10) percent of the cost of wages paid only to those newly hired (after December 31, 1998) employees who live in a zone during the tax year, or product of \$1,500 times the number of new qualified employees who live in a zone.

If the pass-through entity does not have a state adjusted gross income tax liability (Schedule B tax computation) against which the enterprise zone credit must be applied, then the shareholders of the pass-through entity are entitled to a pro rata share of the computed available credit. Credit is calculated on Schedule EZ - Part 2, which is available upon request from the Department. Attach the completed schedule to Form IT-20S. If no part of the credit is applied against the state income tax liability of the S corporation, then report each shareholder's pro rata share of the credit on line 15 of Schedule IN K-1.

Enterprise Zone Loan Interest Tax Credit - A pass-through entity (S corporation doing business in a zone) is eligible, under PL 120 (1999), for the Enterprise Zone Loan Interest Tax Credit. The credit is equal to five (5) percent of the interest earned from qualified loans during the tax year made to entities that use the proceeds for conducting business activities located in enterprise zones. However, PL 73 (2000) further requires that the taxpayer (pass-through entity) claiming a loan interest tax credit pay a registration fee, provide additional assistance to urban enterprise associations required of zone businesses, and meet requirements adopted by the Enterprise Zone Board.

If the pass-through entity does not have a state adjusted gross tax liability (Schedule B tax computation) against which the enterprise zone credit must be applied, then the shareholders of the pass-through entity are entitled to a pro rata share of the computed available credit. Credit is calculated on Schedule LIC, which is available upon request from the Department. Attach the completed schedule to Form IT-20S. If no part of the credit is applied against the state income tax liability of the S corporation, then report each shareholder's pro rata share of the credit on line 15 of Schedule IN K-1.

Individual Development Account Tax Credit - A tax credit is available equal to fifty (50) percent of the contribution, if not less than \$100 and not more than \$50,000, which is made to a community development corporation participating in an Individual Development Account program.

The amount of total credits allowed per fiscal year is limited to \$200,000 per state fiscal year. Applications for the credit are filed through the community development corporation using Form IDA-10/20.

Investment Cost Credit - An S corporation is entitled to an enterprise zone investment cost credit provided under IC 6-3.1-10-4 for a qualified investment made in a designated zone *located in Vigo County, Indiana*. If the corporation has no adjusted gross income tax liability then individual shareholders are entitled to claim, as a pass-through, their share of the credit.

Military Base Recovery Tax Credit - A state tax credit is available for rehabilitation of real property located in military base facilities designated by the state Enterprise Zone Board. A claimant may also be a lessee of property in a military base recovery site and assigned part of the tax credit based upon the owner's or developer's qualified investment within a military recovery site.

Rerefined Lubricated Oil Facility Tax Credit - A pass-through entity may be eligible, as determined by the Indiana Department of Commerce, for a state tax credit against its income and sales and use tax liabilities. The credit is based on a percentage of the real and personal property taxes paid by an entity that processes rerefined lubrication oil as defined in IC 6-3.1-22.2. If the business entity has no adjusted gross income or sales and use tax liabilities the shareholders are entitled to claim, as a pass-through, their share of the credit. Contact: Economic Development Division, (317) 232-5297.

Other New Pass-through Tax Credits for 2004

Blended Biodiesel Tax Credits (Form BD-100)

PL 224-2003 created a tax credit for a taxpayer that produces biodiesel at a facility located in Indiana. The credit is equal to one dollar (\$1) per gallon of biodiesel produced in Indiana and used to produce blended biodiesel. Any subsidy or credit that the taxpayer is entitled to receive from the federal government will reduce the credit.

A second credit is provided for a producer of blended biodiesel at a facility located in Indiana. The credit is equal to two cents (\$.02) per gallon of blended biodiesel produced in Indiana. The credit shall be reduced by the amount of any federal subsidy or credit that the taxpayer receives from the federal government.

A tax credit is also provided for a dealer that operates a service station and sells blended biodiesel through a metered pump. The amount of the credit is one cent (\$.01) per gallon of blended biodiesel sold through the metered pumps. The credit must be computed separately for each service station operated by the taxpayer.

The total amount of credits for all taxpayers for all taxable years may not exceed one million dollars (\$1,000,000) for each of these credits. The credits may be applied against liabilities for sales tax, adjusted gross income tax, financial institutions tax, and insurance premium tax.

The unused amount of all three credits can be carried forward to subsequent taxable years.

Coal Combustion Product Tax Credit

PL 215-2003 created the Coal Combustion Product Tax Credit. A coal combustion product is the byproduct resulting from the combustion of coal in a facility located in Indiana. The term includes boiler slag, bottom ash, fly ash, and scrubber sludge.

A manufacturer that obtains and uses coal combustion products for the manufacturing of recycled components and is a new business is eligible for the credit. An existing business that manufactures recycled components, and increases the acquisitions of coal combustion products by ten (10) percent over the average amount obtained in the previous three years is also eligible for the credit. Recycled components include aggregates, fillers, cementitious materials, or any combination thereof that are used in the manufacture of masonry construction products, concrete blocks, bricks, pavers, pipes, prestressed concrete products and other products approved by the Center for Coal Technology Research.

The credit is equal to two dollars (\$2) per ton of coal combustion products used by the manufacturer if the manufacturer is a new manufacturer. The credit for an existing manufacturer only applies to the additional amount of coal combustion products used by the manufacturer. The maximum credit for all taxpayers in a fiscal year may not exceed two million dollars (\$2,000,000).

To obtain the credit, the taxpayer must file with the Department information that the Department determines is necessary for the calculation of the credit. The Department is required to keep a list that includes the name of each manufacturer that receives a credit and the amount of each credit for the taxpayer in the taxable year.

A taxpayer that obtains a property tax deduction for investment property purchased by a manufacturer of coal combustion products is not eligible for the income tax credit.

EDGE Program Job Retention Credit

PL 178-2002 provides that the Economic Development for a Growing Economy (EDGE) program includes projects that are for job retention and not just job creation in Indiana. The job retention criteria require that the applicant employ at least 200 employees. The average compensation must exceed the county average by five (5) percent, and the local communities affected must contribute \$1.50 of incentives for every \$3 of tax credit provided. The job retention credit is capped at \$5,000,000 per year in fiscal years 2004 and 2005. An agreement for awarding job retention credits must be approved by the State Budget Agency.

PL 81-2004, effective January 1, 2004, adds a trust, limited liability company, and limited liability partnership in the definition of a pass-through entity for purposes of the EDGE tax credit. It also provides for pass-through entities that are wholly or partially owned by an electric cooperative to claim a refundable EDGE credit.

Approved EDGE credit is claimed as a refundable credit on line 18.

Ethanol Production Tax Credit

PL 224-2003 created an Ethanol Production Tax Credit for a facility located in Indiana, with a capacity to produce forty million (40,000,000) gallons of ethanol per year, and the facility increases its capacity by at least forty million (40,000,000) gallons per year. A taxpayer is entitled to a credit of twelve and one-half cents (\$.125) per gallon of ethanol produced at the Indiana facility.

If the amount of the credit exceeds the taxpayer's liability, the excess may be carried forward. The taxpayer is not entitled to a carry back or refund of any unused credit. To receive the credit, the taxpayer must submit to the Department proof of information for credit calculation and a copy of Certificate of Qualified Facility issued by the Indiana Recycling and Energy Development Board under IC 4-23-5.5-17.

Hoosier Business Investment Tax Credit

PL 105-2003 created the Hoosier Business Investment Tax Credit administered by the EDGE Board. The credit is for qualified investments, which include the purchase of new telecommunications, production, manufacturing, fabrication, processing, refining, or finishing equipment. It also includes costs associated with the modernization of the above equipment. Qualified investments include onsite infrastructure improvements, construction costs, retooling existing machinery and equipment, and costs associated with special purpose buildings and foundations. The term does not include property that can be readily moved out of Indiana.

The credit is the lesser of thirty (30) percent of the amount of the qualified investment made by the taxpayer in Indiana, or the taxpayer's state tax liability growth. The taxpayer must carry a credit forward for nine (9) years.

The credit shall only be granted for the amount of the qualified investment that is directly related to expanding the workforce in Indiana. The Board is required to enter into an agreement with the taxpayer before the taxpayer is eligible for any credits.

The taxpayer is required to submit to the Department a copy of the certificate verifying the amount of tax credit for the taxable year.

Venture Capital Investment Tax Credit

PL 192-2002(ss), SECTION 119, created a Venture Capital Investment Tax Credit. A taxpayer that provides qualified investment capital to a qualified Indiana business is entitled to a credit. The Department of Commerce must certify that the Indiana business is qualified to receive the investment based on six different criteria established in the statute. The Department of Commerce may impose an application fee of \$200.

The maximum amount of credit is equal to the lesser of twenty (20) percent of the qualified investment or \$500,000. The total amount of credits that may be allowed in a calendar year may not exceed \$10,000,000. The credit can be carried forward but there is no provision for carry back or refund of an unused credit.

PL 192-2002(ss) was amended by PL 214-2003 (January 1, 2003, retroactive) effective for tax years beginning after December 31, 2003. It provides that a pass through entity is eligible for the Venture Capital Investment Tax Credit.

For a taxpayer to receive the credit, the investment capital must be provided to the qualified business within two (2) years after the certification of the investment plan. A copy of the certificate issued by the Department of Commerce for the Venture Capital Investment Tax Credit must be submitted to the Department of Revenue when filing taxpayer's tax return.

Voluntary Remediation Tax Credit

PL 109-2001 provides a credit for qualified investments involving the remediation of a brownfield. The credit is limited to the lesser of a taxpayer's state tax liability, \$100,000, or ten (10) percent of the qualified investment per project. The local legislative body is required to approve the credit. The Department of Environmental Management shares administrative duties with the Indiana Development Finance Authority.

IC 6-3.1-23-3 is amended to extend the five (5) year carry forward of any unused Voluntary Remediation Tax Credit to allow a taxpayer to carry a credit back to the immediately preceding taxable year before the credit is initially claimed.

Form VRTC-10/20 is used to file an application for approval of this credit following certification of the project by the Indiana Department of Environmental Management.

