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# State of Indiana Partnership Return Booklet 2004 Form IT-65



**This booklet contains:**

Sales/Use Tax Worksheet

Form IT-65 - Indiana Partnership Return

IT-65 - Schedule IN K-1 - Partner's Share of Indiana Adjusted Gross Income

Schedule IT-65COMP - Partners' Composite Adjusted Gross Income Tax Return

Worksheet for Partnership Distributive Share Income, Deductions and Credits

Worksheet for Attributing Partnership Income for Unitary Corporate Partners

IT-65 Schedule E Apportionment of Income

Pass-through Tax Credits Available to Partners

Other New Pass-through Credits for 2004

Form DB020W-NR - Indiana Withholding Tax for Nonresidents



## 2004 IT-65 Indiana Partnership Booklet

### Who Must File and When

Partnerships conducting business within Indiana must file an annual return, Form IT-65, and information return IN K-1, with the Department, disclosing each partner'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 partnership's tax year.** Attach the first four pages of the U.S. Partnership Return of Income, Form 1065 or 1065B. Federal Schedules K-1 should not be attached, but must be made available for inspection upon request by the Department.

Any partnership doing business in Indiana or deriving gross income from sources within Indiana is required to file the above return.

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.

The term "partnership" includes a syndicate, group, pool, joint venture, limited liability company, limited liability partnership, or other unincorporated organization that is not, within the meaning of Indiana Code (IC) 6-3-1, a corporation, trust, or an estate. Banks with common trust funds filing U.S. Form 1065 will file partnership Form IT-65 and comply with provisions of Internal Revenue Regulation 1.6032-1 when reporting for Indiana purposes.

### 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-65, 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 provisions, 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 retail receipts from the sale of utility services, you might be required to file Form URT (Utility Receipts Tax), in addition to Form IT-65. See Commissioner's Directive #18 (PL 192-2002(ss), SECTION 47).

## General Filing Instructions

### Liability of the Partnership

Partnerships as entities are not subject to income taxes. However, publicly traded partnerships treated as limited liability companies pursuant to IRC Section 7704 will be classified for Indiana tax purposes in the same manner they are classified for federal tax purposes. A limited liability company classified as a corporation for federal tax purposes should file Form IT-20.

- Partnerships are considered to be the taxpayer with respect to the payment of amounts required to be withheld at source. *See following Withholding Tax Liabilities of Partnerships.*
- Partnerships 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 exempt 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 partnership is doing business both within and outside Indiana and has any partners not domiciled in Indiana. *See instructions for IT-65 Schedule E - Apportionment of Income on page 15 and 16.*
- A partnership may file a composite adjusted gross income tax return on behalf of non-Indiana resident individual partners electing to participate in the composite return. *See Filing Procedures for IT-65COMP Composite Return on page 12.*

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

### Withholding Tax Liabilities of Partnerships

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

#### Withholding on Residents

Partnerships 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 partner 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** - A partnership 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 partnership has locations or is located.

**Individual Partners** - A partnership must withhold state income tax at the rate of three and one-fourth (3.4) percent on the apportioned distributive shares of partnership income (**on current-year earnings derived from Indiana sources**) each time it pays or credits any of its nonresident and part-year resident individual partners. 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 partner 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 partner whose principal place of business or employment on January 1 is located in an Indiana county that has adopted a county income tax.

**Corporate Partners** - Partnerships must withhold on income distributions to all corporate partners, that are not registered with the Indiana Secretary of State, an amount reflecting the ultimate Indiana tax liability due by respective partners because of the partnership's activities.

A corporation is subject to and will pay adjusted gross income tax at the rate of eight and one-half (8.5) percent, effective January 1, 2003.

Partnerships conducting the business of a financial institution which have nonresident corporate partners that transact the business of a financial institution are responsible to withhold and remit the Indiana Financial Institution Tax (FIT).

Financial Institution tax of 8.5% must be withheld on the respective nonresident corporate partner's share of partnership income as computed under IC 6-5.5-4 unless there is a written declaration that the partner is not subject to the financial institution tax. In such instance only, corporate adjusted gross income tax need be withheld from the nonresident corporate partner's distributive share of income apportioned to Indiana.

**Caution:** The withholding provisions on nonresidents do not apply to partners who are any one of the following entities:

1. Indiana-domiciled corporation registered with the Indiana Secretary of State;
2. Non-Indiana domiciliary corporation registered with the Indiana Secretary of State;
3. Nontaxable trust or estate;
4. S Corporation; or
5. Wholly exempt nonprofit organization with no unrelated trade or business partnership income.

A partnership must withhold tax from income distributions to an S corporation, fiduciary or another partnership passing through Indiana income to a nonresident shareholder, beneficiary or partner and designate as a "Nominee" the ultimate recipient as if there were no other intermediary entities. The upper tier partnership passing through Indiana income to its partners 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 partnership's withholding of state and/or county tax from nonresident partners is payable quarterly, if the monthly average is 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).

A partnership having one distribution credited to partners during the year or at the close of the partnership's fiscal year may be permitted to file Form DB020W-NR, which creates a nonresident withholding account if one does not exist, and pay the respective state and county withholding tax amounts on nonresidents all at one time when a nonresident 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 partner's distributive share of income are deemed paid on the last day of the partnership's tax year.

The partnership shall be liable for any delinquent penalty and interest in addition to the amount withheld or required to be withheld and paid to the Department.

**Note:** Compliance with the act of withholding will not relieve any non-Indiana domiciled partner 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 partners 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 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 partnership pays or credits amounts to its nonresident partners 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 partners. 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 partnership's taxable year.

If payment is made for any composite tax due on Form IT-65 and is filed past the due date of the withholding return, the partnership 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 Tax Form Order Request Line at (317) 615-2581 to obtain Form BT-1, Business Tax Application and withholding registration. Also see [www.in.gov/dor/taxforms/](http://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 partnership'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 partner 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 partners.)

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

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

The partnership 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 partnership. 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 also be completed online at [www.in.gov/dor/](http://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.

### Partner's Liability and Filing Requirements

A partner's share of profit or loss from a partnership will be included in the partner's calculation of federal adjusted gross income and is generally subject to the same rules for arriving at Indiana adjusted gross income. Therefore, a partner's distributive share, before any modifications required by Indiana statutes, is the same ratio and amount as determined under I.R.C. Section 704 and its prescribed regulations. The partners will include their share of all partnership income, whether distributed or undistributed, on their separate or individual Indiana income or franchise tax returns. Each partner's distributive share of income will be adjusted by modifications provided for in IC 6-3-1-3.5(a) or (b).

#### Individual Partners

**Residents** - A resident partner reports the entire distributive share of partnership income (loss) as adjusted, no matter where the partnership'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 partners.

**Nonresidents** - Part-year and full-year nonresident partners report their share of partnership 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 a partnership has a nonresident partner and conducts business within and outside Indiana, the partnership must include the apportionment worksheet with Form IT-65. Form IT-40PNR, Indiana Part-Year or Nonresident Individual Income Tax Return, will be completed by the partner. Credit must be claimed on that return for amounts withheld by the partnership from the partner's distributive share of income. Form WH-18, copy C, is required to be attached to the return to verify any such withholding credit amount.

Nonresident partners are exempt from the filing requirements of an Indiana Individual Income Tax Return only if they are properly included as members of a composite return.

A part-year nonresident partner 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 partner's investment, see IRC Section 704.

**Corporate Partners**

Corporate partners report their distributive share of the partnership income (loss) on Form FIT-20, IT-20, IT-20S, IT-20NP, or IT-41. All distributions are fully taxable for adjusted gross income, tax purposes. Taxable partnership income (loss) will include pro rata Indiana modifications; however, losses may not exceed the limits imposed by IRC Section 704.

Corporate partners doing business within and outside Indiana must also determine their taxable adjusted gross income from Indiana sources through the use of the allocation and apportionment provisions contained in IC 6-3-2-2(b)-(h). These generally follow the Uniform Division of Income for Tax Purposes Act so that a multi-state corporation must first determine what part of its adjusted gross income, which includes all partnership income, constitutes business income and what part is nonbusiness income.

The relationship between the business of the corporate partner and the partnership will control the classification. Non-unitary partnership income distributions attributed at the partnership level to Indiana will be treated as allocated income on the corporate partners' Indiana return.

If the corporate partner's activities and the partnership's activities constitute a unitary business under established standards, disregarding ownership requirements, the business income of the unitary business attributable to Indiana is determined by a three-factor apportionment formula. The formula consists of property, payroll, and sales of the corporate partner and its actual share of the partnership's factors for any partnership year ending within or with the corporate partner's taxable year.

The partner's proportionate share of all of the partnership's (unapportioned) state income and charitable contributions deducted in arriving at partnership income is to be added back in determining adjusted gross income.

If the corporate partner's activities and the partnership's activities do not constitute a unitary business under established standards, the corporate partner's share of the partnership income attributable to Indiana will be determined as follows: (1) If the partnership derives income from sources within and outside Indiana, the income derived from sources within Indiana is determined by a three-factor apportionment formula consisting of property, payroll, and sales of the partnership; (2) If the partnership derives income from sources entirely within Indiana, or entirely

outside Indiana, such income will not be subject to formula apportionment. See 45 IAC 3.1-1-153 for reporting requirements.

For non-unitary partners, taxable partnership distributions included in federal taxable income are deducted on the nonbusiness and non-unitary income adjustment line of the corporation's return. Non-unitary partnership income attributed to Indiana, including apportioned pro rata modifications, is added back on the adjustment line used to report Indiana allocated nonbusiness income and Indiana non-unitary partnership income. Apportioned business income, including unitary partnership income and non-unitary partnership income attributed to Indiana, plus corporate partner's other nonbusiness income allocated to Indiana (plus modifications required by IC 6-3-1-3.5(b) for adjusted gross income) equals the corporate taxpayer's taxable income for Indiana.

Corporate partners subject to the Indiana financial institution franchise tax will include the corporation's percentage of partnership adjusted gross or apportioned income, as computed under IC 6-5.5-4, on Form FIT-20.

Use the worksheets on page 10 for attributing unitary partnership income and for computing partnership income subject to tax under the Adjusted Gross Income Tax Act.

**Basis of Partner's Interest in Partnership**

For Indiana income tax purposes, the basis of the partnership interest 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 basis of the partner's interest.

**Example - Indiana Partnership Income for Individuals**

Taxpayer A, a resident of Indiana, and Taxpayer B, a nonresident of Indiana, each have a 50% interest in ABC Company, an Indiana partnership doing business both within Indiana and outside Indiana.

ABC Company has income from operations of \$530,000 and expenses of \$500,000. Of these expenses, \$35,000 is an expense for state income tax. Taxpayers A and B each received a guaranteed payment of \$10,000.

*Computations for ABC Company for a Taxable Period:*

ABC Company computes its adjusted partnership income as follows:

Income from operations	\$530,000
Expenses	(500,000)
Add back modification	+35,000
Partnership income	\$65,000

Using the three-factor apportionment formula under IC 6-3-2-2(b), ABC Company 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 partnership income to Indiana regardless of whether or not the partnership apportions its income. As a general rule, if tax is paid to another state on a portion of partnership income by Taxpayer A, a credit can be taken on the individual return.

Indiana adjusted partnership income for Taxpayer A is computed as follows:

Guaranteed payment	\$10,000
Distributive share (50% x \$65,000)	+32,500
Indiana adjusted distributive share of income	\$42,500

Taxpayer B, as a nonresident of Indiana, reports only their own share of partnership income and guaranteed payment 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 ABC Company, a credit cannot be taken on the Indiana return but must be claimed from the state of residence.

Indiana adjusted partnership income for Taxpayer B is computed as follows:

Guaranteed payment	\$10,000
Distributive share (50% x \$65,000)	+32,500
Total partnership share of income	\$42,500
Multiply by apportionment percentage	x 60%
Apportioned Indiana distributive share of income	\$25,000

### Accounting Periods and Methods

The accounting period for Form IT-65 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 partnership's tax year.

The Department normally recognizes the Internal Revenue Service application for automatic extension of time to file (Form 8736 or Form 8800). 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 federal extension form will be filed timely.

In the event a federal extension is not needed, a partnership 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 payment made after the original due date must include penalty and interest. Caution:** The filing due date for the partnership return is different than the payment due date of income tax withholding and composite adjusted gross income tax on nonresident partners.

### Amended Returns

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

Adjustments made by the Internal Revenue Service affecting the reportable Indiana income must be followed with an amended partnership return within 120 days after the adjustment becomes final. Use Form IT-65 - clearly mark "amended" at the top.

### Instructions for Completing Form IT-65

File a 2004 partnership 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 partnerships filing Form IT-65 must complete the top portion of the form including questions K through S. Please use the correct legal name of the partnership 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 (9) 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. Partnership return. A link to a list of these codes is available through the Department's Internet address: [www.in.gov/dor/business/forms.html](http://www.in.gov/dor/business/forms.html)

If you are registered as a collection agent for the State of Indiana for sales and/or withholding tax, enter your 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.

### Aggregate Partnership Distributive Share Income

**Line 1.** Enter the amount from the U.S. Partnership 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, guaranteed payments and other income.

The Section 179 deduction and that portion of investment expenses included in federal Schedule K, part of line 13 and line 20 relating to investment portfolio (royalty) income, flowing to federal Schedule E, may be tentatively deducted. Do not deduct other expenses treated as federal itemized deductions.

*Use Worksheet for Partnership Distributive Share Income, Deductions and Credits on page 13 to assist in the calculation of this figure. You must use the income worksheet if this partnership received any distributive income from an owned partnership interest, estate or trust. If filing federal Form 1065-B by an electing large partnership, use amounts from line 1 through 8 of Schedule K. Convert distributive share of income items into a Form 1065 Schedule K format. Carry figures to IT-65 and IT-65 IN K-1.*

### Required Indiana State Modifications

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

**2(a).** Add back all state taxes based on income levied by any state deducted on the 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.*

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

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

**Line 3.** Add lines 1 and 2e.

**Line 4.** Enter on line 4 the Indiana apportionment percentage if the partnership 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 partners, non-unitary corporations and other member partnerships that pass-through as a result of the partnership's activities everywhere. See IT-65 Schedule E instructions beginning on page 15.

Before continuing to lines 5 through 15, also complete IT-65 Schedule IN K-1 on the reverse side of the form for each partner.

<p style="text-align:center"><b>IT-65 Schedule IN K-1</b> <b>Partner's Share of Indiana Adjusted Gross Income, Deductions, Modifications, and Credits</b></p>
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Attach a copy of IN K-1 to Form IT-65 or provide a complete summary of all information, from the IN K-1 for each partner, with the return.

**Partner's Identification Section**

Complete a separate IT-65 IN K-1 to identify each partner.

- (a) Enter the name of partner.
- (b) Enter the social security or federal identification number of partner.
- (c) Enter partner's state of residence.
- (d) Enter the amount of tax withheld on income distributions derived from Indiana sources for any nonresident partner 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 partner's Indiana individual composite, or corporation income tax return.
- (e) Enter the applicable pro rata percentage of partner's interest in the partnership. The percentage should be adjusted to an annual rate if necessary.

**Distributive Share Amounts**

Complete lines 1 through 16 for the partner. Also provide the partner a statement showing the partner's share of income, credits and modifications. If filing federal Form 1065-B, convert taxable income distributions to federal Form 1065 Schedule K-1 format.

**Line 1 through Line 13.** For full year Indiana resident partners, complete these lines as shown on the federal Schedule K-1, Form 1065.

For most corporate partners and all nonresident individual partners, the federal Schedule K-1 amounts should be multiplied by the apportionment percentage calculated on the IT-65 Schedule E. See instructions on page 15. The apportioned figures should be entered on lines 1 through 14. *Investment interest expenses attributed to royalty income and all other federal deductions (excluding those treated as itemized deductions) should be included on lines 13A or 13B. No other type of investment interest expense, itemized deduction, or carryover loss should be reported on this line.*

**Note:** If the partnership has received any distributions from other entities having income previously apportioned to Indiana, use the following methodology to report distributive share income for IT-65 IN K-1.

**Alternative Completion of IT-65 Schedule IN K-1 Information**

An alternative application of IT-65 Schedule IN K-1 must be used for members who are nonresident individuals, corporate partners or other partnerships if the partnership had income from outside Indiana. Use the following method for completion of Schedule IN K-1 when the partnership 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 by recalculating the pro rata share of total partnership income (with required Indiana modifications to adjusted gross income) reported on line 1 of Form IT-65. Use pro rata amount, from line 14A, **Worksheet for Partnership 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 14B and line 15B of the Worksheet.

**Step 2.** Multiply the result by the Indiana apportionment percent reported on line 4 of Form IT-65, (from Schedule E, line 4c, if present). This amount should reflect the partner's proportionate share of this partnership's activity in Indiana.

**Step 3.** Add to the above amount the pro rata share of any other (entity) source income received by this partnership that was previously apportioned, or allocated as distributive share income derived from Indiana (line 16C of the Worksheet). The result is the modified Indiana partnership income from Indiana sources to be reported on the appropriate lines of Schedule IN K-1 of nonresident individuals, corporations and partnerships for adjusted gross income purposes.

Also use the following **Worksheet for Attributing Partnership Income to Unitary Corporate Partners**, on page 13, to compile additional information for reporting distributive share income. Certain corporate partners will require these additional income figures from the partnership to properly report its own distributive share income and to compute its Indiana state income tax liability as a result of the partnership's activity in Indiana.

**Line 15.** Enter the Indiana modifications from the front of Form IT-65, line 2e, as percentage applied, or apportioned in the case of nonresident individuals and non-unitary partners. For corporate partners that are unitary partners, enter only their pro rata share of modifications (unapportioned).

**Line 16.** If the partnership has available any eligible Indiana credits flowing through to the partners, enter the pro rata amount allowed for the partner and indicate type of credit(s) allotted. You must also attach a completed credit schedule to Form IT-65 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.

**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 below to compute any sales/use tax liability. For more 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, 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-65.

**Line 5.** Enter the use tax due from the completed Sales/Use Tax worksheet.

**Line 6.** Enter the total tax liability of the nonresident members included in the Composite Adjusted Gross Income Tax Return, columns D plus E. Attach composite Schedule IT-65COMP.

**Line 7.** Total tax: Add tax shown on lines 5 and 6.

**Line 8.** Enter the total credits for all nonresident members included in the composite return as reflected on Schedule IT-65COMP, column F plus 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 partners.

**Line 9.** Enter any other payments/credits belonging to the partnership such as EDGE credit (not passed-through to partners). A detailed explanation must be attached for any credits claimed on this line.

**Line 10.** Subtotal: Subtract lines 8 and 9 from line 7. If a balance due remains, proceed to lines 11, 12 and 13.

**Line 11.** Enter total interest due.

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

- Interest is computed on net amount of composite tax on line 10 paid after the fifteenth (15) day of the third (3) month following the end of the partnership'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-65 return.

- Interest on use tax is calculated on the amount of use tax on line 10 which is paid after the original due date of the IT-65 return.

**Contact the Department for the current rate of interest charged.**

**Line 12.** Enter total penalty due. Penalty is ten (10) percent of the amount (but not less than \$5) of any composite tax due on line 10 paid after the fifteenth (15) day of the third (3) month following the end of the partnership's taxable year. (See caution note on line 11 above.) Penalty, which equals the greater of 10% of the amount of use tax on line 10 or \$5, is still due on use tax paid after the original due date of the return.

If a return showing no liability on line 7 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.

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

**Line 13.** Amount due: If line 10 is greater than zero, add lines 10, 11, and 12, and attach a separate remittance for total amount owed for each Form IT-65 filed.

**Line 14.** Overpayment: If the total of lines 8 and 9 exceeds line 7, subtract the total of lines 11 and 12 from line 10. If the result is less than zero, this is your net overpayment. **Note:** If penalties and interest are due because of a delinquent filing or payment, the overpayment must be reduced by these charges. If the result is a balance due, enter the difference on line 13.

**Line 15.** Enter the same amount from line 14 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 your return, you may authorize the Department to discuss your return with the preparer by checking the [yes] authorization box above the signature line.

Please mail completed returns with a filled-in 2-D barcode 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**

<b>Sales/Use Tax Worksheet for Line 5, Form IT-65</b>			
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 offset use tax, attach explanation .....	3		
4. Total amount due: Subtract line 3 from line 2. Carry to Form IT-65, line 5. If the amount is negative, enter zero and put no entry on line 5 of the IT-65 .....	4		



**Indiana Department of Revenue**  
**Indiana Partnership Return**  
 for Calendar Year Ending December 31, 2004

or Other Tax Year Beginning AA /      / 2004 and Ending BB /      /     

**Form IT-65**

State Form 11800 (8-04)

(Please Do not write above)

Name of Partnership <b>B</b>		Federal Identification Number <b>A</b>	
		Principal Business Activity Code <b>H</b>	
Number and Street <b>C</b>		Indiana County or O.O.S. <b>D</b>	Indiana Taxpayer Identification Number <b>I</b>
City <b>E</b>	State <b>F</b>	Zip Code <b>G</b>	Telephone Number <b>J</b> (    )

- K.** Date of organization 1 \_\_\_\_\_  
 In the State of 2 \_\_\_\_\_
- L.** State of commercial domicile \_\_\_\_\_
- M.** Year of initial Indiana return \_\_\_\_\_
- N.** Accounting method:  
 Cash  Accrual  Other \_\_\_\_\_
- Check all boxes that apply to entity:*     Initial Return     Final Return     In Bankruptcy  
 Composite Return
- P.** Number of non-Indiana resident partners?
- Q.** Is an extension of time to file attached?  Yes  No
- R.** Are you a limited liability company electing partnership treatment on your federal return?  Yes  No
- S.** Is this partnership a member of any other partnership(s)?  Yes  No

**Aggregate Partnership Distributive Share Income** (See worksheet on page 13)

1. Total net income (loss) from U.S. Partnership return, Form 1065 Schedule K, lines 1 through 11 less line 12, and a portion of line 13 related to investment income (see instructions) .....	<b>1</b>		
2. Add back: a) All state income taxes (taxes based on income deducted on the federal return) .....	<b>2a</b>		<b>2004 IT-65</b>
b) Net bonus depreciation allowance and excess IRC Section 179 deduction .....	<b>2b</b>		
Deduct: c) Interest on U.S. Government obligations .....	<b>2c</b>		
Deduct: d) Indiana lottery prize money .....	<b>2d</b>		
2e. Total state modifications to distributive share of partnership income (line 2a and 2b minus lines 2c and 2d) .....	<b>2e</b>		
3. Total partnership income, as adjusted (add lines 1 and 2e) .....	<b>3</b>		
<i>Partnerships deriving income from sources within and outside Indiana and having non-Indiana domiciled partners or non-unitary corporate partners must complete line 4 below. Enter distributive share, as apportioned, on IT-65 Schedule IN K-1 and attach IT-65 Schedule E, Apportionment of Income.</i>			
4. Enter average percentage for Indiana apportioned adjusted gross income from IT-65 Schedule E line (4c), if applicable .....	<b>4</b>	_____ %	

*CONTINUE BY COMPLETING A COPY OF IT-65 IN K-1 (ON REVERSE SIDE) FOR EACH PARTNER*

**Summary of Calculations**

5. Sales/use tax due on purchases subject to use tax from Sales/Use Tax worksheet (from page 8) .....	<b>5</b>		
6. Total composite tax from completed Schedule IT-65COMP (D+E). Attach schedule .....	<b>6</b>		
7. Total tax (add lines 5 and 6) <b>Caution:</b> If line 7 is zero, see line 12 late file penalty .....	<b>7</b>		
8. Total composite tax return credits (attach schedule and WH-18 statement(s) for composite members) .....	<b>8</b>		
9. Other payments/credits belonging to the partnership (attach documentation) .....	<b>9</b>		
10. Subtotal (line 7 minus lines 8 and 9). If total is greater than zero, proceed to lines 11, 12, and 13 .....	<b>10</b>		
11. <b>Interest:</b> Enter total interest due; see instructions. (Contact the Department for current interest rate) .....	<b>11</b>		
12. <b>Penalty:</b> If paying late enter 10% of line 10. If line 7 is zero, enter \$10 per day filed past the due date, see instructions .....	<b>12</b>		
13. <b>Total Amount Due</b> (add lines 10, 11 and 12). If less than zero, enter on line 14 ..... <b>Pay in U.S. Funds</b> ➤	<b>13</b>		
Please pay the sum on line 13, make check payable to: <b>Indiana Department of Revenue</b>			
14. <b>Overpayment</b> (line 8 plus line 9, minus lines 7, 11, and 12) .....	<b>14</b>		
15. <b>Refund:</b> Amount from line 14 to be refunded. Enter as a positive figure .....	<b>15</b>		

**Certification of Signatures and Authorization Section**

I authorize the Department to discuss my return with my tax preparer.  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.

Do not write in line 20 or in Box DD. Reserved for Department's use only.

<b>20</b>	
<b>DD</b>	

Partnership's e-mail address		<b>EE</b>
Signature of Partner	Date	Print or Type Name of Partner <b>LL</b>
Print or Type Paid Preparer's Name <b>FF</b>	Preparer's FID, SSN, or PTIN Number    Check Box: <b>OO</b> <input type="checkbox"/> Federal I.D. Number	
Street Address <b>GG</b>	<input type="checkbox"/> Social Security Number	
City <b>HH</b>	State <b>II</b>	Zip+4 <b>JJ</b>
Preparer's Signature		<input type="checkbox"/> PTIN Number

VN

Please mail forms to: Indiana Department of Revenue, 100 N. Senate Avenue, Indianapolis, Indiana 46204-2253

Name of Partnership B	Federal Identification Number A
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**Pro Rata Distributions** - Provide IN K-1 information for each partner. Attach IN K-1 to IT-65 return.

Pro rata amounts for lines 1 through 13 of any non-resident partners must be multiplied by the Indiana apportionment percent, if applicable from IT-65, line 4.

Identification Section of Partner:	
(a) Name of Partner:	
(b) Social Security Number or Federal Identification Number:	
(c) Partner's State of Residence:	
(d) Indiana Tax Withheld for Nonresident Partner:	\$
(e) Partner's Federal Pro Rata Percentage:	%
<b>Distributive Share Amounts</b>	<b>(Omit Cents)</b>
1. Ordinary income (loss) from trade or business activities .....	
2. Income (loss) from rental real estate activities .....	
3c. Other net rental income (loss) .....	
4. Guaranteed payments to partner .....	
5. Interest income .....	
6a. Ordinary dividends .....	
7. Royalties .....	
8. Net short-term capital gain (loss) Schedule D, Form 1065 .....	
9a. Net long-term capital gain (loss) Schedule D, Form 1065 .....	
10. Net IRC Section 1231 gain (loss) Form 4797 .....	
11. Other income (loss) .....	
12. IRC Section 179 expense deduction .....	
13A. Portion of expenses related to investment portfolio income, including investment interest expense and other (federal non-itemized) deductions .....	
13B. Other information from line 20 of federal K-1 related to investment interest and expenses not listed elsewhere .....	
14. <b>Total pro rata distributions</b> (add lines 1 through 11, subtract lines 12 and 13 when applicable).	
15. <b>State modifications</b> to distributive share income for Indiana adjusted gross income (pro rata share from line 2e on front of Form IT-65, (see instructions) .....	
16. <b>Pro rata share of Indiana pass-through income tax off-set credits</b> from partnership (indicate type _____) .....	

**Schedule IT-65COMP**

State Form 49180  
(8-04)

Indiana Department of Revenue

Name of Partnership <b>B</b>	Federal Identification Number <b>A</b>
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**Partners' Composite Indiana Adjusted Gross Income Tax Return**

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

See instructions on reverse side. Attach to Form IT-65 (Use additional sheets if necessary).

**PART I** - List name and address of each nonresident partner *not* 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 partner.**

(a) Name	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 14	Indiana modifications from IN K-1, line 15	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 partner's withholding credit as shown on Form WH-18	Enter pro rata credits from IN K-1, line 16 (may not exceed D)
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-65, line 6.			Enter total credit on Form IT-65, Line 8.	

## Filing Procedure for IT-65COMP Composite Return

A partnership may file a composite adjusted gross income tax return on behalf of qualifying non-Indiana resident individual partners. Nonresident partners 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-65COMP, shall be filed with and have the same due date as the partnership return. If the Internal Revenue Service allows the partnership 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 partner'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 partnership'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 partners 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 partners 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 partner electing to be included in the composite return authorizes the partnership to file on his or her behalf. This election, once made, is irrevocable for that tax year.

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

The following limitations and conditions will apply to each partner 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 partner is allowed, subject to any "passive activity" loss limitations pursuant to IRC Section 469 and capital loss limitations imposed on noncorporate 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 partners on a pro rata basis are limited to the partner's state income tax liability. See list of Pass-through Tax Credit on pages 17 and 18.

The partnership 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 partnership.

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

## Instructions for Completing Composite Return

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

**PART II** - Indicate the name of each partner 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 partner.

**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 partners included in the composite return to the appropriate lines on Form IT-65.

**Note:** A federal Schedule K-1 for each partner 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 contact the Corporate Income Tax Section: (317) 615-2662.**

## Worksheet for Partnership Distributive Share Income, Deductions and Credits

Use this worksheet to compute the entry for line 1 of Form IT-65 and to assist in computing amounts reported on IT-65 Schedule IN K-1. Enter the total distributive share of income from each item as reportable on Form 1065, Schedule K. Do not complete Column B and C entry lines unless the partnership received distributive share or tiered income from other entities.

	<b>A. Partnership Income All Sources</b>	<b>B. Distributions from Partnerships/ Estates/Trusts Everywhere</b>	<b>C. Distributions Attributed to Indiana</b>
<b>Distributive Share Amounts:</b>			
<b>Partnership's Distributive Share of Items</b>			
1. Ordinary income (loss) from trade or business activities .....		Enter for line 14B below total distributive share income received by the partnership from all other non-unitary partnerships, estates and trusts. Enter for line 15B an amount equal to required state modifications for Indiana Adjusted Gross Income (see page 6 instructions).	Enter for line 14C below, total distributive share income received by the partnership from other partnerships, estates and trusts that were derived from or allocated to Indiana. Enter for line 15C an amount equal to the Indiana modifications to Adjusted Gross Income attributed to Indiana.
2. Net income (loss) from rental real estate activities .....			
3c. Other net rental income .....			
4. Guaranteed payments to partners .....			
5. Interest Income .....			
6a. Ordinary dividends .....			
7. Royalties .....			
8. Net Short-term capital gain (loss) Schedule D, Form 1065 .....			
9a. Net long-term capital gain (loss) Schedule D, Form 1065 .....			
10. Net IRC Section 1231 gain (loss) Form 4797 .....			
11. Other income (loss) .....			
<b>Less allowable deductions for state tax purposes:</b>			
12. IRC Section 179 expense deduction .....			
13A. Portion of expenses related to investment portfolio income including investment interest expense and other (federal non-itemized) deductions .....			
13B. Other information from line 20 of federal K-1 related to investment interest and expenses not listed elsewhere .....		↓	↓
14. <b>Carry total on line 14A to Form IT-65 line 1, on front page of return</b> .....	14A	14B	14C
15. Total of Indiana State modifications to distributive share income (see line 2, Form IT-65) .....		15B	15C
16. Net other Indiana adjusted gross income distributions from partnerships, estates and trusts (add line 14C and 15C) .....			16C
17. Enter amount of Indiana pass-through credits attributed from other partnerships, estates and trusts, if any .....			17C

See page 9 for instructions on completing the Composite Adjusted Indiana Gross Income Tax Return. A list of pass-through credits appears on pages 17 and 18.

## Worksheet for Attributing Partnership Income for Unitary Corporate Partners

Use the worksheet whenever partnership income is being distributed to a corporate partner having a unitary relationship with the partnership. A unitary business relationship means maintaining business activities or operations that are of mutual benefit, dependent upon, or contributory to one another in transacting business between a corporate partner and the partnership. Unity may be established whenever there is unity of operation and use evidenced by centralized management or executive force, centralized purchasing, advertising, accounting, or other controlled interaction between a corporate partner and the partnership.

If a corporate partner and a partnership maintain a unitary business relationship as described above, the partnership distribution shall be distributed to the partner without any apportionment by the partnership. If the partner derives income from sources both within and outside Indiana and is required to apportion its income, the partner's apportionment factor's shall include the partner's proportionate share of the partnership apportionment factors.

Use the following table to show apportionment factor's values from the partnership assigned to the unitary corporate partner. Partnerships deriving income from sources both within and outside Indiana or having any corporate partners must complete the IT-65 Apportionment Schedule E.

Enter partner's pro rata amounts as determined by the partnership entity's completed IT-65 Apportionment Schedule E. Duplicate this worksheet for each corporate partner. (These amounts are to be included with the corporate partner's own apportionment factors).

IT-65 Apportionment Schedule E:	Property Factors		Payroll Factors		Receipts Factors	
Total from Indiana Sources	Line 1A		Line 2A		Line 3A	
Total from All States	Line 1B		Line 2B		Line 3B	

Name of Partnership	Federal Identification Number
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**B** The following information must be submitted by all partnerships having income from sources both within and outside Indiana. (Interstate transportation entities must use Schedule E-7). Read detailed instructions on page 15. Omit Cents. Round to two decimals for Column C.

**Part I - Apportionment of Adjusted Gross Income**

	Column A Total Within Indiana	Column B Total Within and Outside Indiana	Column C Indiana Percentage
<b>1. Property Factor</b> - Average value of owned property from the beginning and the end of the tax year. (Value of real and tangible personal property at original cost).			
(a) Property reported on federal return (average value for tax year) .....			
(b) Fully depreciated assets still in use at cost (average value for tax year) .....			
(c) Inventories, including work in progress (average value for tax year) .....			
(d) Other tangible personal property (average value for tax year) .....			
(e) Rented property (8 times the annual net rental) .....			
<b>Total Property Values:</b> Add lines 1(a) through 1(e) .....	<b>1A</b>	<b>1B</b>	<b>1C</b> _____ %
<b>2. Payroll Factor</b> - Wages, salaries, commissions, and other compensation of employees included in the return. If the amount reported in column A does not agree with the total compensation reported for unemployment insurance purposes, attach a detailed explanation.			
<b>Total Payroll Value:</b> .....	<b>2A</b>	<b>2B</b>	<b>2C</b> _____ %
<b>3. Receipts Factor</b> (less returns and allowances) - Include all non-exempt apportioned gross business income. Do not use non-unitary partnership income or previously apportioned income that must be separately reported as allocated income.			
Sales delivered or shipped to Indiana:			
(a) Shipped from within Indiana .....			
(b) Shipped from outside Indiana .....			
Sales shipped from Indiana to:			
(c) The United States Government .....			
(d) Purchasers in a state where the taxpayer is not subject to income tax (under P.L. 86-272) .....			
(e) Interest income and other receipts from extending credit attributed to Indiana ..			
(f) Other gross business receipts not previously apportioned .....			
<b>Total Receipts:</b> Add column A lines 3 (a) through 3 (f) and enter in line 3A; enter all receipts in line 3B, column B .....	<b>3A</b>	<b>3B</b>	
<b>4. Summary - Apportionment of Income for Indiana</b>			
(a) <b>Receipts Percentage</b> for factor 3 above: Divide 3A by 3B, enter result here: <span style="border: 1px solid black; padding: 2px;">4(a) _____ %</span> X 200% (2.0) double-weighted adjustment ....			<b>4a</b> _____ %
(b) <b>Total Percents:</b> Add percentages entered in lines 1C, 2C and 4a of column C. Enter sum .....			<b>4b</b> _____ %
(c) <b>Indiana Apportionment Percentage:</b> Divide line 4b by 4 if all three factors are present (enter here and carry to line 4 on Form IT-65) .....			<b>4c</b> _____ %

NOTE: If either property or payroll factor for column B is absent, divide line 4b by 3. If the receipts factor (3B) is absent, you must divide line 4b by 2. See instructions on page 15.

**Part II - Business / Other Income Questionnaire**

1. List all business locations where the partnership has operations/other partnership interests and indicate type of activities. This section must be completed - attach additional sheets listing business activities and locations in other states.

(a) Location City and State	(b) Nature of Business Activity at Location	(c) Accepts Orders?		(d) Registered to do Business?		(e) Files Returns in State?		Property in State			
		Yes	No	Yes	No	Yes	No	(f) Leased?	(g) Owned?		
		Yes	No	Yes	No	Yes	No	Yes	No	Yes	No

2. Briefly describe the nature of Indiana business activities, including the exact title and principal business activity of any other partnership in which this partnership has an interest:

3. Indicate any other partnership in which you have a unitary or general partnership relationship: \_\_\_\_\_

4. Briefly describe the nature of activities of sales personnel operating and soliciting business in Indiana: \_\_\_\_\_

5. Do Indiana receipts for line 3A include all sales shipped from Indiana to (1) the U.S. Government; or (2) locations where this partnership's only activity in the state of the purchaser consists of the mere solicitation of orders?  Yes  No  
If no, please explain: (a) \_\_\_\_\_

6. List here source of any directly allocated income from other partnerships, estates and trusts not in this partnership's apportioned tax base:

**Instructions for IT-65 Schedule E**  
**Apportionment of Income for Indiana**

Complete the apportionment of income schedule whenever the partnership has income derived from sources both within and outside Indiana and has any nonresident or corporate partners. 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. Also see 45 I.A.C. 3.1-1-153, adjusted gross tax treatment for unitary corporate partners. *Note: Interstate transportation companies should consult Schedule E-7 for details concerning apportionment of income.*

**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 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 + 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 the state 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 this state. 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 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 partnership in Indiana during the tax year. The denominator is the total receipts of the partnership everywhere during the tax year. **This factor is double-weighted in the apportionment formula.** All gross receipts of the partnership 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 partnership 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 partnership has economic presence in Indiana 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 this state 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 this state. If such services are performed partly within and partly outside 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 IC 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.

Other gross receipts under (f) Other, report other gross business receipts not included elsewhere, and pro rata gross receipts from unitary-partnership(s), excluding from the factor that portion of distributive share income derived from a previously apportioned partnership source.

#### **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 the 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 (round to the nearest second decimal place) on line 4c and carry to line 4 of Form IT-65.

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 for 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 partnership 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-65 Schedule E, Apportionment of Income to your return.

### **Reminders**

1. Complete the partnership'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. Partnerships filing on a fiscal year basis must enter their tax year beginning and ending dates.
4. Composite return must be filed on Schedule IT-65COMP.
5. Attach the first four pages of the U.S. Partnership Return of Income, Form 1065 or Form 1065-B.
6. Use Form DB020W-NR (for an initial payment) or designated Form WH-1 to pay withholding tax on income distributions to nonresident partners.

### **For other Indiana Department of Revenue Forms:**

**Internet Web Address** - [www.in.gov/dor/](http://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**

#### **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 partner is allowed a pro rata share of the income tax credits available to the partnership. Each partner's share of an available credit is reported on IT-65 Schedule IN K-1, line 14, and must be supported by attaching the properly completed tax credit schedule or form to the partnership's return. The partners 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** - A partnership 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/](http://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.

Credit is calculated on Schedule EZ - Part 2, which is available upon request from the Department. Attach the completed schedule to Form IT-65. Report each partner's pro rata share of the credit on line 16 of Schedule IN K-1.

**Enterprise Zone Loan Interest Tax Credit** - A pass-through entity (partnership 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.

Credit is calculated on Schedule LIC, which is available upon request from the Department. Attach the completed schedule to Form IT-65. Report each partner's pro rata share of the credit on line 16 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** - A partnership may be 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 9.*

### **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.

