



➤ See instructions.

Taxable Year Ending

➤ Attach to Form 720, 720S, 765, or 765-GP.

\_\_\_\_/\_\_\_\_  
M M Y Y

Name of Entity	Federal Identification Number	Kentucky Corporation/LLET Account Number (if applicable)
_____	_____	_____

Schedule RPC, Related Party Costs Disclosure Statement, must be completed by **an entity that paid, accrued, or incurred intangible expenses, intangible interest expense, or management fees to a related member.**

To be entitled to an exception from the add back of expenses and a corresponding deduction from net income, the taxpayer must complete and attach this schedule to the applicable Kentucky tax return (Form 720, 720S, 765, or 765-GP).

**Failure to complete Schedule RPC and attach all supporting documentation will result in disallowance of the exception(s).**

**PART I – RELATED PARTY COSTS**

1 <b>Total intangible expenses paid to a related member:</b> Do not include any interest expense or costs related to intangible interest expense .....	1	00
2 <b>Total intangible interest expenses paid to a related member</b> .....	2	00
3 <b>Total management fees paid to a related member</b> .....	3	00
4 <b>Total Related Party Costs:</b> Add lines 1 through 3. ....	4	00

**PART II – EXCEPTIONS TO ADD BACK**

**Section A – Exceptions to Expenses**

1 Enter amount from Part III, Section A, line 5.....	1	00
2 Enter amount from Part III, Section B, line 5.....	2	00
3 Enter amount from Part III, Section C, line 14.....	3	00
4 <b>Total Exceptions:</b> Add lines 1 through 3.....	4	00

**Section B – Total Required Related Party Cost Add Back After Exceptions**

1 <b>Total:</b> Part I, line 4 less Part II, line 4. Enter here and on Form 720, Part III, line 6; Form 720S, Part III, line 4; or Form 765 or 765-GP, Part I, line 4.....	1	00
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**PART III – DETAIL OF EXCEPTIONS TO ADD BACK**

**Section A – Exception for intangible expenses, intangible interest expenses, and management fees paid to related members that filed a separate Kentucky return or are included in the same consolidated Kentucky corporation income tax return for this taxable year.**

Name of Related Member	Federal Identification Number	Kentucky Corp./LLET Account Number	Amount Deducted
1.			00
2.			00
3.			00
4.			00
5. <b>Total of lines 1 through 4. Enter here and on PART II, Section A, line 1</b>			00

**DRAFT**  
7/30/18



**Section B – Exception for Related Party Costs per written agreements.**

**Identical Terms**

1	Has the recipient regularly engaged in transactions with one (1) or more unrelated parties on terms identical to that of the subject transaction?	<input type="checkbox"/> Yes <input type="checkbox"/> No
2	Identical Terms—Exception amount enter here	\$

**Alternative Apportionment**

3	Is there a written agreement between the taxpayer and the Department which provides for use of an alternative method of apportionment per KRS 141.120(12)?	<input type="checkbox"/> Yes <input type="checkbox"/> No
4	Alternative Apportionment – Exception amount enter here	\$
5	Total of Line 2 and Line 4: <b>Enter here and on Part II, Section A, Line 2</b>	<b>\$</b>

**NOTE:** If the answer to Line 1 is “Yes,” attach copies of the written agreement between the taxpayer and the recipient and the recipient and the unrelated party. If the answer to Line 3 is “Yes,” attach a copy of the written agreement between the taxpayer and the Department. **Failure to attach written agreements will result in a denial of the exception(s).** If any of the answers are “No,” the taxpayer does not qualify for this exception.

**Section C – Exception for intangible expenses, intangible interest expenses, and management fees paid to related members who are subject to tax in their state of domicile.**

		Domestic	Foreign
1	Were any intangible expenses, intangible interest expenses, or management fees paid, accrued, or incurred to a recipient where the expense or payment was subject to, in the related member’s state of commercial domicile, a net income tax or a franchise tax measured by, in whole or in part, net income?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
2	Is the recipient engaged in substantial business activities separate and apart from the acquisition, use, licensing, management, ownership, sale, exchange, or any other disposition of intangible property, or in the financing of related members, as evidenced by the maintenance of permanent office space and full-time employees dedicated to the maintenance and protection of intangible property?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No
3	Is the transaction giving rise to the intangible expenses, intangible interest expenses, or management fees between the taxpayer and the recipient made at a commercially reasonable rate and at terms comparable to an arm’s length transaction?	<input type="checkbox"/> Yes <input type="checkbox"/> No	<input type="checkbox"/> Yes <input type="checkbox"/> No

If the answers to Questions 1, 2, and 3 above in the **Domestic** column are all “Yes,” complete the following schedule and attach a copy of the pertinent parts of the contract or other documentation that support this exception. **Failure to provide the requested information will result in a denial of the exception.** If any of the answers are “No,” the taxpayer does not qualify for this exception.

**Domestic**

	Name of Related Member	Federal Identification Number	State of Commercial Domicile	Name of Tax	Amount Deducted
4					00
5					00
6					00
7					00
8	<b>Total of lines 4 through 7.</b>				00

**NOTE:** If the Answers to lines 1, 2, and 3 in the **Foreign** column above are all “Yes,” complete lines lines 9 through 12 and attach a copy of all pertinent parts of the contract or other documentation that supports the exception. **Failure to provide the requested information will result in the denial of the exception.** If any of the answers are “No,” the taxpayer does not qualify for the exception.

**Foreign**

	Name of Related Member	Name of Foreign Nation	Description of Treaty	Amount Deducted
9				00
10				00
11				00
12				00
13	<b>Total of lines 9 through 12.</b>			00
14	<b>Add line 8 and line 13. Enter here and on PART II, Section A, line 3</b>			00

**KRS 141.205(1)(l)** states that “**related party costs**” means intangible expense, intangible interest expense, management fees, and any costs or expenses associated with other related party transactions.

**KRS 141.205(1)(h)** states that “**recipient**” means a related member or foreign corporation to whom the item of income that corresponds to the intangible interest expense, the intangible expense, or the management fees, is paid.

**KRS 141.205(1)(b)** states that “**intangible expenses**” includes the following only to the extent that the amounts are allowed as deductions or costs in determining taxable net income before the application of any net operating loss deduction per Chapter 1 of the Internal Revenue Code: (i) Expenses, losses, and costs for, related to, or in connection directly or indirectly with the direct or indirect acquisition, use, maintenance, management, ownership, sale, exchange, or any other disposition of intangible property; (ii) Losses, related to, or incurred in connection directly or indirectly with, factoring transactions or discounting transactions; (iii) Royalty, patent, technical, and copyright fees; (iv) Licensing fees; and (v) Other similar expenses and costs.

**KRS 141.205(1)(c)** states that “**intangible interest expense**” means only those amounts which are directly or indirectly allowed as deduction per IRC §163 for purposes of determining taxable income under that code, to the extent that the amounts are directly or indirectly for, related to, or connected to the direct or indirect acquisition, use, maintenance, management, ownership, sale, exchange, or any other disposition of intangible property.

**KRS 141.205(1)(d)** states that “**management fees**” includes but is not limited to expenses and costs paid for services pertaining to accounts receivable and payable, employee benefit plans, insurance, legal, payroll, data processing, purchasing, tax, financial and securities, accounting, reporting and compliance services, or similar services, only to the extent that the amounts are allowed as a deduction or cost in determining taxable net income before the application of net operating loss deduction for the taxable year per Chapter 1 of the Internal Revenue Code.

#### **PART I—RELATED PARTY COSTS**

**Line 1— Intangible Expenses**—Enter the total of all intangible expenses paid to a related member. Do not include any interest expense or costs related to intangible interest expense.

**Line 2— Intangible Interest Expenses**—Enter the total of all intangible interest expenses paid to a related member.

**Line 3— Management Fees**—Enter the total of all management fees paid to a related member.

**Line 4— Total Related Party Costs**—Enter the total of Lines 1 through 3.

#### **PART II—EXCEPTIONS TO ADD BACK**

##### **Section A—Exceptions to Expenses**

**Line 1**—Enter the amount from Part III, Section A, Line 5.

**Line 2**—Enter the amount from Part III, Section B, Line 5.

**Line 3**—Enter the amount from Part III, Section C, Line 14.

**Line 4**—Enter the total of Lines 1 through 3.

##### **Section B—Total Related Party Cost Add Back After Exceptions**

**Line 1**—Enter the amount from Part I, Line 4 less the amount on Part II, Line 4. Also, enter the amount on Form 720, Part III, Line 6; Form 720S, Part III, Line 4; Form 765, Part I, Line 4; or Form 765-GP, Part I, Line 4.

#### **PART III—DETAIL OF EXCEPTIONS TO ADD BACK**

**Section A—Exception for intangible expenses, intangible interest expenses, and management fees paid to related members that are included in the same consolidated Kentucky corporation income tax return for this taxable year, or related members that filed a separate Kentucky return.**

**Lines 1 to 4**—For each related member, include the name, Federal Identification Number, Kentucky Corporation/LLET Account Number, and the amount deducted by the taxpayer. If there are more than four related members, attach a statement with each member’s information and enter the total on Line 1.

**Line 5**—Enter the total of Lines 1 through 4. Also, enter the total on Part II, Section A, Line 1.

##### **Section B—Exception for Related Party Costs per written agreements.**

**Line 1**—Answer “Yes” or “No” to the identical term question.

**Line 2**—Enter the identical terms exception amount.

**Line 3**—Answer “Yes” or “No” to the alternative apportionment question.

**Line 4**—Enter the alternative apportionment exception amount.

**Line 5**—Enter total of Section B, Lines 2 and 4. Also, enter the total on Part II, Section A, Line 2.

##### **Section C—Exception for intangible expenses, intangible interest expenses, and management fees paid to related members who are subject to tax in their state of domicile.**

**Questions 1 to 3**—Answer the questions 1 through 3. If the answers in the Domestic column are all “Yes”, complete Lines 4 through 7 and for the Foreign column, complete Lines 9 through 12.

**Lines 4 to 12**—For each related member, include the name, Federal Identification Number, state of commercial domicile, name of tax, and the amount deducted by the taxpayer. If there are more than four related members, attach a statement with each member’s information and enter the total on Line 1.

**Line 14**—Enter the total of Section C, Lines 8 and 13. Also, enter the total on Part II, Section A, Line 3.