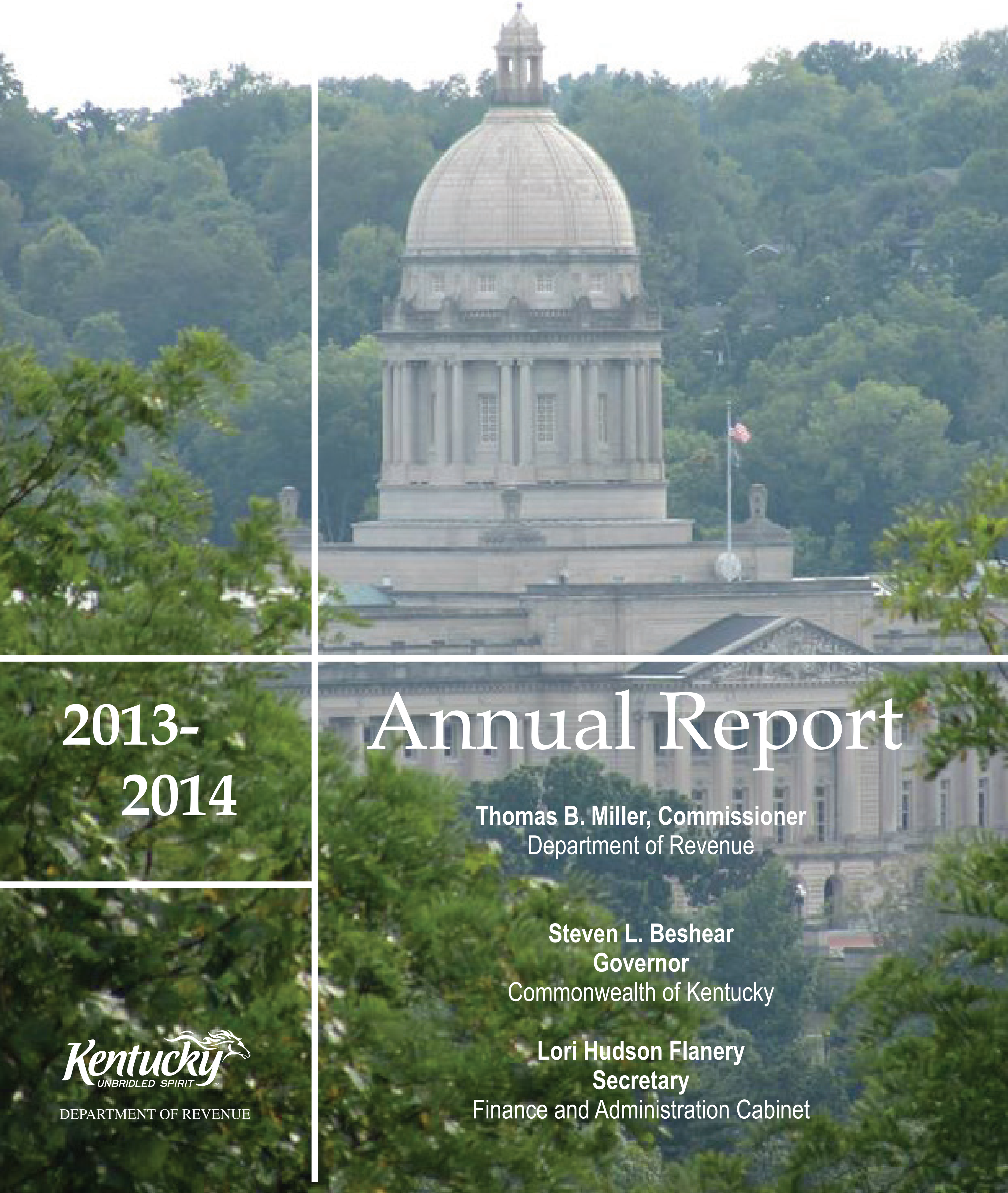

2013-
2014

# Annual Report

**Thomas B. Miller, Commissioner**
Department of Revenue

**Steven L. Beshear**
**Governor**
Commonwealth of Kentucky

**Lori Hudson Flanery**
**Secretary**
Finance and Administration Cabinet

Kentucky
UNBRIDLED SPIRIT
DEPARTMENT OF REVENUE

**Kentucky Department of Revenue**
**Mission Statement**

*As part of the Finance and Administration Cabinet, the mission of the Kentucky Department of Revenue is to administer tax laws, collect revenue, and provide services in a fair, courteous, and efficient manner for the benefit of the Commonwealth and its citizens.*

* * * * * * * * * * * * *

*The Kentucky Department of Revenue does not discriminate on the basis of race, color, national origin, sex, age, religion, disability, sexual orientation, gender identity, veteran status, genetic information or ancestry in employment or the provision of services.*

The cost of printing this report was paid by the Kentucky Department of Revenue.

**Steven L. Beshear**
Governor

**FINANCE AND ADMINISTRATION CABINET**
**DEPARTMENT OF REVENUE**

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**Lori Hudson Flanery**
Secretary

**Thomas B. Miller**
Commissioner

December 1, 2014

The Honorable Steven L. Beshear
Commonwealth of Kentucky
The State Capitol
Frankfort, Kentucky 40601

Dear Governor Beshear:

I am pleased to present the Annual Report of the Department of Revenue for the Fiscal Year Ending (FYE) June 30, 2014. This report reflects the dedicated work of the many fine professionals who comprise the Department of Revenue workforce.

The DOR continued working on and testing an upgraded version of its award winning automated collection system. The new system is the result of a collaborative effort between CGI Group, Inc (CGI), the Department of Revenue (DOR), and the Commonwealth Office of Technology (COT). This upgrade project included an Early Wins component wherein new technology was used in conjunction with the existing collection system to achieve some automation of collections processes. By the time the new system rolls out, nearly $40 million will have been collected as a result of this initiative.

In January 2014, Modernized Electronic Filing (MeF) was enhanced to accept electronic payments of estimated tax at the time the taxpayer electronically files their individual income tax return. In May 2014, the Form 720 – Kentucky Corporation Income Tax and LLET Return and supporting schedules and forms were added to MeF. Development of electronic processing of two additional forms, Form 720S and Form 765, are underway for tax year 2014.

Electronic filing continued to grow during FYE June 30, 2014, representing 84.2 percent of individual income tax returns filed. There were 1,591,171 electronically filed individual income tax returns, an increase of 8.9 percent over the previous year.

The Department continues to place a greater emphasis on training its employees during the FYE June 30, 2014. The training emphasis is greatly needed to ensure the most productive return on the investment the Commonwealth made in granting additional compliance positions to the Department.

Thank you for your support of the Department of Revenue and its employees.

Very truly yours,

Thomas B. Miller

Thomas B. Miller
Commissioner

# Contents

# Revenue Receipts

*Reprinted from the Governor's Office for Economic Analysis*

## Quarterly Economic & Revenue Report
## Fourth Quarter, FY2014

### General Fund

General Fund receipts in the fourth quarter of FY14 totaled $2,586.7 million compared to $2,573.0 million in the fourth quarter of FY13, an increase of 0.5 percent.

Among the major accounts, sales and use, corporation income, property and lottery taxes posted the largest increases. On the other hand, the largest declines occurred in the LLET, coal severance, and other taxes, which were $19.1 million, $7.0 million and $19.4 million below FY13 levels, respectively.

The sales and use tax posted an increase of 5.1 percent in the fourth quarter of FY14. Receipts of $812.6 million compare to the $773.0 million collected in the fourth quarter of FY13.

Property tax collections increased 72.9 percent in the fourth quarter of FY14. Collections of $62.1 million compare to $35.9 million received in the fourth quarter of the prior fiscal year.

Corporation income collections rose 19.9 percent in the fourth quarter of FY14. Receipts totaled $183.3 million and were $30.4 million more than collected a year earlier.

Individual income tax receipts fell 3.1 percent in the fourth quarter of FY14 compared to collections in the fourth quarter of FY13. Receipts of $1,124.3 million were $35.5 million less than collected in the fourth quarter of the previous fiscal year. All components of the tax: withholding, declarations, net returns and fiduciary decreased in FY14 compared to the same time last year.

In terms of the "April Surprise," the effects clearly depressed both estimated payments and final payments in FY14 due to the partial acceleration of capital gains and declarations of one-time income in FY13.

Coal severance tax receipts continued to decrease in the fourth quarter as receipts fell 12.6 percent. Receipts of $48.7 million compare to $55.7 million collected in the fourth quarter of FY13.

Cigarette taxes decreased in the fourth quarter. Receipts of $59.1 million were 6.6 percent less than collected in the fourth quarter of FY13.

### General Fund Receipts Composition
### Fourth Quarter, FY14

The LLET receipts have declined sharply in the last three quarters. Fourth quarter collections declined 21.7 percent. Fourth quarter collections were $68.9 million compared to $88.0 million last fiscal year.

Lottery receipts increased 4.8 percent, or $2.9 million, in the fourth quarter of FY14 with revenues of $62.9 million. Despite the large percentage increase, lottery receipts were $4.5 million short of the official estimate.

The "Other" category represents the remaining accounts in the General Fund and combine for $164.9 million in receipts, a decline of 10.5 percent from FY13.

The next-largest source of revenue was the corporation income category at 7 percent followed by the "Other" which accounted for 6 percent. The largest components in this category include the insurance premium tax, the bank franchise tax, telecommunications tax, beer wholesale tax, and the inheritance tax. Lottery receipts and LLET accounted for 3 percent each. Finally, property, cigarette and coal severance taxes accounted for 2 percent each.

### Road Fund

Road Fund receipts fell 2.7 percent in the fourth quarter of FY14. Receipts totaled $398.3 million compared to the $409.5 million received in the fourth quarter of FY13. Collections for this quarter are notable for the fact that both motor fuels and motor vehicle usage tax receipts declined. While it has not been unusual for one of the major accounts to fall, this is the first time since the first quarter of FY09 that both have declined during the same quarter.

Motor fuels tax receipts decreased 1.8 percent during the fourth quarter of FY14. Receipts were $217.3 million and compare to $221.2 million collected during the fourth quarter last year. The decrease is predominately a function of a decline in taxable gallons of motor fuels sold. The tax rate for the quarter was only 0.2 cents per gallon higher than for the same period in FY13.

Fourth quarter motor vehicle usage tax receipts posted their weakest rate of growth in FY14, declining 3.8 percent. Despite the decline, motor vehicle usage receipts of $117.3 million was still the largest quarter of the fiscal year.

Motor vehicle license tax receipts decreased 17.1 percent during the fourth quarter of FY14. Receipts of $31.8 million compare to $38.4 million received during the fourth quarter of FY13.

Motor vehicle operators' license fees totaled $4.0 million, a 1.5 percent decrease compared to the level observed a year ago.

# Revenue Receipts

Weight distance tax receipts totaled $19.2 million, an increase of 3.1 percent from the fourth quarter of last year.

Investment income was higher in the fourth quarter of FY14, yielding $1.9 million. The remainder of the accounts in the Road Fund combine for a decrease of 22.3 percent.

Receipts for the “Other” category totaled $6.8 million during the fourth quarter, compared to $8.8 million in the fourth quarter of FY13.

Here are fund revenues by tax type in the fourth quarter of FY14. Motor fuels taxes and motor vehicle usage taxes comprised 87 percent of Road Fund revenues in the fourth quarter. The next-largest source of revenue was the motor vehicle license tax with 8 percent, followed by weight distance taxes with 5 percent.

The “Other” category accounted for 2 percent, and motor vehicle operators accounted for 1 percent. Income on investment accounted for a negligible amount of the total Road Fund receipts.

# Revenue Receipts

**GENERAL FUND TOTAL RECEIPTS**

| Fiscal Year | Receipts | Percent Change |
|---|---|---|
| 2013-14 | $9,462,035,017 | 1.2 |
| 2012-13 | 9,348,326,000 | 2.8 |
| 2011-12 | 9,090,954,645 | 3.8 |
| 2010-11 | 8,759,442,646 | 6.5 |
| 2009-10 | 8,225,127,620 | -2.4 |
| 2008-09 | 8,426,351,594 | -2.7 |
| 2007-08 | 8,664,336,663 | 1.1 |
| 2006-07 | 8,573,819,250 | 2.4 |
| 2005-06 | 8,376,083,216 | 9.6 |
| 2004-05 | 7,645,046,634 | 9.6 |

**ALCOHOLIC BEVERAGE TAXES—Distilled Spirits**

| Fiscal Year | Receipts | Percent Change |
|---|---|---|
| 2013-14 | $45,790,472 | 6.0 |
| 2012-13 | 43,874,351 | 9.4 |
| 2011-12 | 41,050,705 | 9.5 |
| 2010-11 | 38,885,318 | 1.0 |
| 2009-10 | 38,689,977 | 0.1 |
| 2008-09 | 38,670,484 | 4.2 |
| 2007-08 | 37,110,587 | 5.0 |
| 2006-07 | 35,332,563 | 6.0 |
| 2005-06 | 33,518,873 | 8.2 |
| 2004-05 | 27,432,580 | 5.4 |

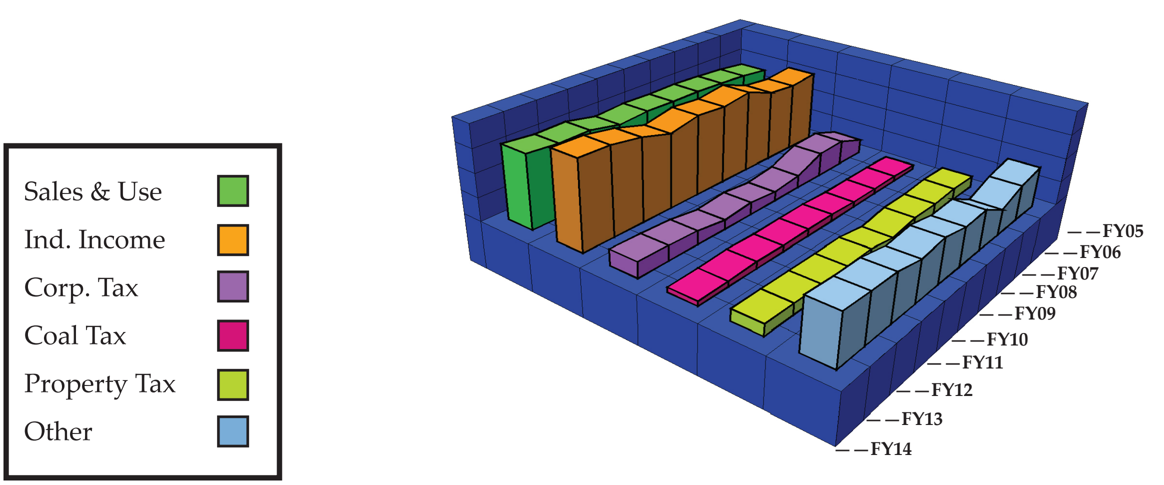
**ALCOHOLIC BEVERAGE TAXES—Malt Beverage**

| Fiscal Year | Receipts | Percent Change |
|---|---|---|
| 2013-14 | $64,196,065 | 9.4 |
| 2012-13 | 59,940,130 | -0.7 |
| 2011-12 | 60,265,153 | 9.7 |
| 2010-11 | 58,033,262 | 0.5 |
| 2009-10 | 57,761,760 | -1.0 |
| 2008-09 | 58,175,089 | 3.8 |
| 2007-08 | 56,066,611 | 5.5 |
| 2006-07 | 53,150,265 | 3.0 |
| 2005-06 | 51,600,592 | 8.6 |
| 2004-05 | 44,203,035 | 1.0 |

**ALCOHOLIC BEVERAGE TAXES—Wine**

| Fiscal Year | Receipts | Percent Change |
|---|---|---|
| 2013-14 | $18,417,146 | 9.7 |
| 2012-13 | 17,815,623 | 9.5 |
| 2011-12 | 16,819,928 | 9.8 |
| 2010-11 | 16,332,735 | 12.5 |
| 2009-10 | 14,524,249 | -1.0 |
| 2008-09 | 14,748,769 | 2.9 |
| 2007-08 | 14,330,732 | 4.5 |
| 2006-07 | 13,718,442 | 10.0 |
| 2005-06 | 12,456,900 | 8.2 |
| 2004-05 | 10,115,015 | 8.6 |

**General Fund Receipts by Major Sources**
**Millions of Dollars**



# Revenue Receipts

**CIGARETTE TAX**

| Fiscal Year | Receipts | Percent Change |
|---|---|---|
| 2013-14 | $228,076,834 | -4.4 |
| 2012-13 | 238,669,895 | -6.3 |
| 2011-12 | 254,798,018 | -2.8 |
| 2010-11 | 262,220,720 | -5.7 |
| 2009-10 | 278,159,743 | 48.9 |
| 2008-09 | 186,756,010 | 10.1 |
| 2007-08 | 169,547,927 | 0.5 |
| 2006-07 | 168,778,213 | -2.0 |
| 2005-06 | 172,069,493[1] | 589.2 |
| 2004-05 | 24,966,880 | 45.7 |

[1] *Rate increase $0.27 surtax.*

**COAL SEVERANCE TAX**

| Fiscal Year | Receipts | Percent Change |
|---|---|---|
| 2013-14 | $197,525,899 | -14.3 |
| 2012-13 | 230,540,150 | -22.7 |
| 2011-12 | 298,263,637 | 0.8 |
| 2010-11 | 295,836,611 | 8.8 |
| 2009-10 | 271,943,100 | -7.1 |
| 2008-09 | 292,591,094 | 25.6 |
| 2007-08 | 232,977,827 | 5.0 |
| 2006-07 | 221,952,516 | -1.1 |
| 2005-06 | 224,490,111 | 21.7 |
| 2004-05 | 184,436,935 | 25.0 |

**CORPORATION INCOME TAX**

| Fiscal Year | Receipts | Percent Change |
|---|---|---|
| 2013-14 | $475,120,319 | 18.6 |
| 2012-13 | 400,752,175 | 7.0 |
| 2011-12 | 374,423,779 | 24.5 |
| 2010-11 | 300,782,364 | 26.4 |
| 2009-10 | 237,867,392 | -11.2 |
| 2008-09 | 267,984,858 | -38.4 |
| 2007-08 | 435,222,566 | -56.0 |
| 2006-07 | 988,064,957 | -1.4 |
| 2005-06 | 1,001,618,543 | 109.3 |
| 2004-05 | 478,504,505 | 57.8 |

**CORPORATION LICENSE TAX**

| Fiscal Year | Receipts | Percent Change |
|---|---|---|
| 2013-14 | $814,539 | - - |
| 2012-13 | ($294,874) | - - |
| 2011-12 | 5,330,573 | -50.0 |
| 2010-11 | 10,654,547 | 94.7 |
| 2009-10 | 5,470,951 | -40.2 |
| 2008-09 | 9,154,338 | 224.4 |
| 2007-08 | 2,822,279 | -75.9 |
| 2006-07 | 11,734,452 | -73.0 |
| 2005-06 | 43,516,942 | -67.6 |
| 2004-05 | 134,149,794 | 9.3 |

**INDIVIDUAL INCOME TAX**

| Fiscal Year | Receipts | Percent Change |
|---|---|---|
| 2013-14 | $3,749,257,830 | 0.7 |
| 2012-13 | 3,722,963,791 | 6.0 |
| 2011-12 | 3,512,075,128 | 2.8 |
| 2010-11 | 3,417,778,504 | 8.3 |
| 2009-10 | 3,154,488,000 | -4.9 |
| 2008-09 | 3,315,368,217 | -4.8 |
| 2007-08 | 3,483,137,317 | 14.5 |
| 2006-07 | 3,041,535,604 | 4.2 |
| 2005-06 | 2,918,610,982 | -3.9 |
| 2004-05 | 3,036,230,706 | 8.6 |

**LIMITED LIABILITY ENTITY TAX (LLET)**

| Fiscal Year | Receipts | Percent Change |
|---|---|---|
| 2013-14 | $199,344,400 | -19.0 |
| 2012-13 | 246,123,181 | 22.6 |
| 2011-12 | 200,740,356 | -7.0 |
| 2010-11 | 215,741,157 | 47.8 |
| 2009-10 | 145,948,432 | 20.0 |
| 2008-09 | 121,650,092 | 23.6 |
| 2007-08 | 98,407,313 | N/A |

# Revenue Receipts

### INHERITANCE AND ESTATE TAX

| Fiscal Year | Receipts | Percent Change |
|---|---|---|
| 2013-14 | $45,843,849 | 10.9 |
| 2012-13 | 41,326,220 | 0.0 |
| 2011-12 | 41,312,904 | -0.1 |
| 2010-11 | 41,350,929 | 11.2 |
| 2009-10 | 37,201,611 | -9.8 |
| 2008-09 | 41,234,240 | -19.2 |
| 2007-08 | 51,001,299 | 17.0 |
| 2006-07 | 43,578,107 | -5.2 |
| 2005-06 | 45,990,266 | -27.2 |
| 2004-05 | 63,174,866 | -4.4 |

### LOTTERY RECEIPTS

| Fiscal Year | Receipts | Percent Change |
|---|---|---|
| 2013-14 | $219,500,743 | 2.0 |
| 2012-13 | 215,266,568 | 2.1 |
| 2011-12 | 210,800,122 | 5.1 |
| 2010-11 | 200,500,000 | 0.3 |
| 2009-10 | 200,000,000 | 3.4 |
| 2008-09 | 193,500,000 | 3.2 |
| 2007-08 | 187,461,591 | 0.4 |
| 2006-07 | 186,625,113 | -1.8 |
| 2005-06 | 190,000,000 | 17.8 |
| 2004-05 | 161,252,000 | -7.2 |

### MINERALS AND NATURAL GAS TAX

| Fiscal Year | Receipts | Percent Change |
|---|---|---|
| 2013-14 | $31,334,688 | 22.0 |
| 2012-13 | 27,972,010 | -7.8 |
| 2011-12 | 35,830,626 | -9.4 |
| 2010-11 | 38,195,264 | 1.5 |
| 2009-10 | 37,639,344 | -31.5 |
| 2008-09 | 54,963,206 | 9.6 |
| 2007-08 | 50,155,157 | 6.3 |
| 2006-07 | 47,161,910 | -7.0 |
| 2005-06 | 50,701,858 | 7.7 |
| 2004-05 | 38,801,666 | 7.1 |

### OIL PRODUCTION TAX

| Fiscal Year | Receipts | Percent Change |
|---|---|---|
| 2013-14 | $13,128,040 | 19.6 |
| 2012-13 | 10,974,127 | -8.2 |
| 2011-12 | 11,955,961 | 44.3 |
| 2010-11 | 8,287,566 | 9.6 |
| 2009-10 | 7,564,121 | -10.3 |
| 2008-09 | 8,430,228 | -17.4 |
| 2007-08 | 10,201,113 | 64.6 |
| 2006-07 | 6,198,342 | -2.9 |
| 2005-06 | 6,386,501 | 35.6 |
| 2004-05 | 4,710,832 | 39.1 |

### PARI-MUTUEL TAX

| Fiscal Year | Receipts | Percent Change |
|---|---|---|
| 2013-14 | $2,421,099 | -50.0 |
| 2012-13 | 4,842,847 | 34.5 |
| 2011-12 | 3,600,911 | -21.8 |
| 2010-11 | 4,607,322 | ----- |
| 2009-10 | (82,480) | ----- |
| 2008-09 | 4,387,515 | -17.6 |
| 2007-08 | 5,327,540 | -3.0 |
| 2006-07 | 5,489,552 | -2.4 |
| 2005-06 | 5,626,849 | 19.5 |
| 2004-05 | 4,710,111 | 29.8 |

### PROPERTY TAXES—REAL ESTATE

| Fiscal Year | Receipts | Percent Change |
|---|---|---|
| 2013-14 | $258,284,309 | 0.1 |
| 2012-13 | 257,970,441 | 2.7 |
| 2011-12 | 251,285,063 | 1.7 |
| 2010-11 | 247,034,036 | -0.7 |
| 2009-10 | 248,756,857 | 3.2 |
| 2008-09 | 241,008,338 | 1.6 |
| 2007-08 | 237,153,330 | 3.9 |
| 2006-07 | 228,282,174 | 6.0 |
| 2005-06 | 215,351,439 | 6.5 |
| 2004-05 | 202,182,555 | 5.0 |

# Revenue Receipts

**PROPERTY TAXES—TANGIBLE**

| Fiscal Year | Receipts | Percent Change |
|---|---|---|
| 2013-14 | $223,393,888 | 3.0 |
| 2012-13 | 216,942,082 | 4.4 |
| 2011-12 | 207,739,436 | 11.3 |
| 2010-11 | 186,665,683 | -3.4 |
| 2009-10 | 193,234,982 | -5.2 |
| 2008-09 | 203,783,916 | -1.0 |
| 2007-08 | 205,763,426 | 7.0 |
| 2006-07 | 192,343,695 | 16.1 |
| 2005-06 | 165,622,948 | 3.6 |
| 2004-05 | 159,883,091 | 7.2 |

**PROPERTY TAXES—INTANGIBLE**

| Fiscal Year | Receipts | Percent Change |
|---|---|---|
| 2013-14 | ----- | ----- |
| 2012-13 | ----- | ----- |
| 2011-12 | ----- | ----- |
| 2010-11 | ----- | ----- |
| 2009-10 | ----- | ----- |
| 2008-09 | ----- | ----- |
| 2007-08 | ----- | ----- |
| 2006-07 | 48,841 | -99.8 |
| 2005-06 | 30,955,124 | 15.0 |
| 2004-05 | 26,912,813 | -2.3 |

**SALES AND USE TAX**

| Fiscal Year | Receipts | Percent Change |
|---|---|---|
| 2013-14 | $3,131,126,876 | 3.6 |
| 2012-13 | 3,021,794,387 | -1.0 |
| 2011-12 | 3,052,236,048 | 5.4 |
| 2010-11 | 2,896,251,816 | 3.7 |
| 2009-10 | 2,794,057,329 | -2.2 |
| 2008-09 | 2,857,665,168 | -0.7 |
| 2007-08 | 2,877,814,014 | 2.1 |
| 2006-07 | 2,817,652,253 | 2.5 |
| 2005-06 | 2,749,765,011 | 6.0 |
| 2004-05 | 2,594,966,373 | 6.0 |

**BANK FRANCHISE TAX**

| Fiscal Year | Receipts | Percent Change |
|---|---|---|
| 2013-14 | $102,857,446 | 3.9 |
| 2012-13 | 98,971,258 | 5.1 |
| 2011-12 | 94,158,966 | 6.5 |
| 2010-11 | 88,400,971 | 28 |
| 2009-10 | 69,085,922 | -5.8 |
| 2008-09 | 73,339,144 | 1.9 |
| 2007-08 | 71,976,055 | 12.6 |
| 2006-07 | 63,912,315 | 7.2 |
| 2005-06 | 59,603,147 | -6.6 |
| 2004-05 | 63,837,587 | 15.1 |

**ROAD FUND TOTAL RECEIPTS**

| Fiscal Year | Receipts | Percent Change |
|---|---|---|
| 2013-14 | $1,560,441,246 | 4.6 |
| 2012-13 | 1,491,623,669 | 3.3 |
| 2011-12 | 1,443,773,845 | 7.8 |
| 2010-11 | 1,338,811,926 | 11.0 |
| 2009-10 | 1,206,622,639 | 1.2 |
| 2008-09 | 1,191,982,894 | -5.6 |
| 2007-08 | 1,262,798,750 | 3.0 |
| 2006-07 | 1,225,943,515 | 5.2 |
| 2005-06 | 1,165,409,505 | 3.4 |
| 2004-05 | 1,126,554,402 | 0.9 |

**MOTOR FUELS TAXES—Motor Fuels Normal**

| Fiscal Year | Receipts | Percent Change |
|---|---|---|
| 2013-14 | $886,161,042 | 5.7 |
| 2012-13 | 838,344,373 | 6.1 |
| 2011-12 | 790,229,379 | 7.8 |
| 2010-11 | 732,826,112 | 11.8 |
| 2009-10 | 616,967,780 | 5.3 |
| 2008-09 | 585,871,307 [2] | 2.4 |
| 2007-08 | 571,983,920 [1, 2] | 6.1 |
| 2006-07 | 539,147,756 [1, 2] | 7.3 |
| 2005-06 | 502,494,550 [1, 2] | 7.0 |
| 2004-05 | 469,621,779 [1, 2] | 6.4 |

[1] *Figures reflect annual rate increase capped at 10% of average wholesale prices.*
[2] *Reflects correction in reporting method.*

# Revenue Receipts

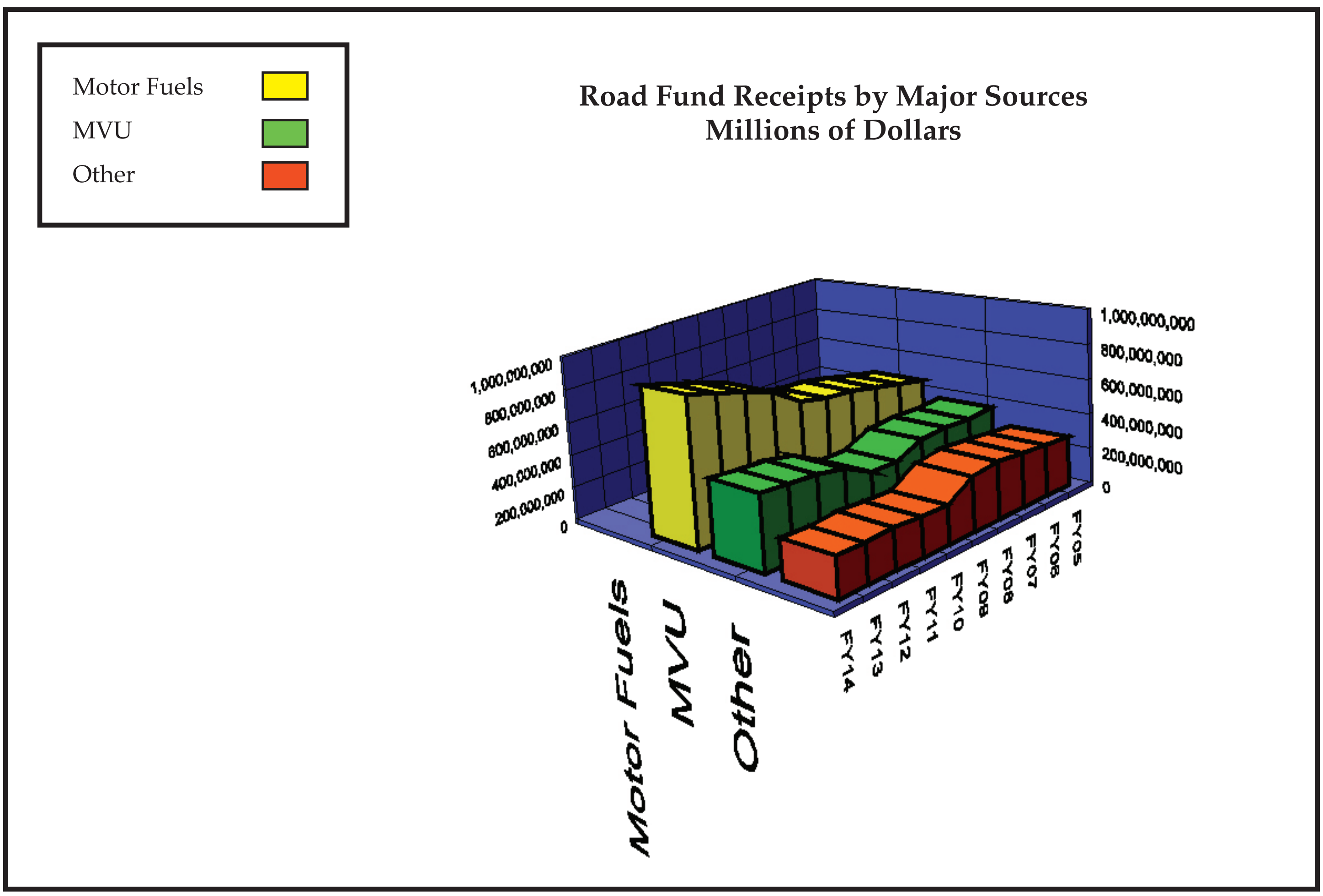
**MOTOR VEHICLE OPERATOR'S LICENSE FEE**

| Fiscal Year | Receipts | Percent Change |
|---|---|---|
| 2013-14 | $16,150,032 | 0.6 |
| 2012-13 | 16,049,755 | 2.0 |
| 2011-12 | 15,737,651 | 0.0 |
| 2010-11 | 15,736,805 | -1.3 |
| 2009-10 | 15,941,488 | 2.7 |
| 2008-09 | 15,521,191 | 1.0 |
| 2007-08 | 15,372,618 | -2.8 |
| 2006-07 | 15,811,880 | 8.6 |
| 2005-06 | 14,553,623 | 146.7 |
| 2004-05 | 5,899,247 | 4.9 |

**MOTOR VEHICLE USAGE TAX**

| Fiscal Year | Receipts | Percent Change |
|---|---|---|
| 2013-14 | $443,047,087 | 3.8 |
| 2012-13 | 426,830,826 | 2.4 |
| 2011-12 | 416,852,951 | 9.2 |
| 2010-11 | 381,767,869 | 14.7 |
| 2009-10 | 295,190,610 | -1.0 |
| 2008-09 | 296,062,866[1] | -18.2 |
| 2007-08 | 361,723,956[1] | -2.5 |
| 2006-07 | 370,943,429[1] | 1.9 |
| 2005-06 | 363,976,577[1] | -2.4 |
| 2004-05 | 373,034,898[1] | -4.6 |

[1] *Reflects correction in reporting method.*



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# Accomplishments

**MAJOR ACCOMPLISHMENTS**
**IN FISCAL YEAR 2013-2014**

**OFFICE OF THE COMMISSIONER**

The Commissioner's Office participated in the review and approval of 126 formal protest settlements that resulted in $31,873,000 in additional revenues being collected.

The Division of Special Investigations had 31 cases indicted in this fiscal year, involving 168 felony and two misdemeanor charges, and has opened 34 new cases. It brought in $287,178.08 in restitution paid to the Department, saved another $1,132,796 by identifying and stopping 988 fraudulent income tax refunds, and receiving $1,189,063.12 in payments to bills, for a total of $2,609037.20, or approximately 1.6 times the amount for the prior fiscal year. During the fiscal year the courts ordered defendants to pay $332,338.89 in restitution to the DOR over time.

The Commissioner's Office provided new employee orientation and computer security set-up for 118 new employees. The Security Office successfully added physical security for the Barrett Warehouse Building to the Velocity server so that building access for Central Files can be controlled from the State Office Building. The Security Office assisted with the deployment of the New Modernized Electronic Filing (MEF).

The Department of Revenue offered Tax Amnesty between October 1 and November 30, 2012. All taxes administered by the Department were eligible for periods December 1, 2001 through October 1, 2011. A full media campaign was employed, utilizing television, newsprint, trade publications, radio, billboards and Internet social media advertisements. Tax Amnesty netted $59.5 million, which was $2.8 million over the budgeted amount of $56.7 million.

**OFFICE OF PROCESSING AND ENFORCEMENT**

**Division of Collections**

Delinquent tax collections for FY 2014 totaled approximately $176 million. Total collections for the Division of Collections were $221 million.

Under authority created by KRS 131.130(11), the Division of Collections collects delinquent child support obligations for the Cabinet for Health and Family Services. For fiscal year 2013, collections totaled $23 million. Since January 2003, collections for child support totaled $170 million.

As mandated by KRS 45.237 et.seq, the Division of Collections collects debt due other state agencies. The Enterprise Collections System allows agencies referring their debt to submit it either electronically or online. Participating agencies at this time include the following:

- Board of Nursing
- Crime Victims Compensation Board
- Department of Financial Institutions
- Department of Insurance
- Department of Parks
- KCTCS (Kentucky Community and Technical College System)
- Kentucky Labor Cabinet
- Kentucky Lottery Corporation
- Kentucky Motor Vehicle Commission
- KHEAA (Kentucky Higher Education Assistance Authority)
- Medicaid Services
- Morehead State University
- Northern Kentucky University
- University of Kentucky Healthcare
- Western Kentucky University
- Kentucky State University (testing)
- CHFS Legal Services (testing)
- University of Kentucky (testing)
- Murray State University (testing)

For FY14, collections totaled $20.3 million. Since May 2007, collections total $67.3 million. Of this total, $52.3 million has been distributed back to participating agencies.

**Division of Operations**

The following represents the number of returns, for various type taxes, electronically filed in FY14:

The Division of Operations processed 1,591,171 individual income tax returns, representing 84.2 percent of the total number of current year returns filed, an increase of 8.9 percent from the previous year. In addition, 61,742 2D barcode returns and 298,252 paper returns were filed. There were 1,169,270 electronically filed returns requesting refunds. Direct deposit requests from the taxpayer totaled 827,490, which is approximately 71 percent of the total refunds requested. The Division of Operations processed over 67,000 prior year/amended individual income tax returns during FY14.

The Division of Operations and the Commonwealth Office of Technology are continuing to update the modernized electronic filing system (MeF), adapting to the tax changes made by the Internal Revenue Service and Kentucky Legislature.

In January 2014, MeF was enhanced to accept electronic payments of estimate tax at the time the taxpayer electronically files their individual income tax return. For tax year 2014, MeF is being enhanced to accept the electronic filing of Form 40A102 – Application for Extension of Time to File Individual, General Partnership, and Fiduciary Income Tax Returns for Kentucky. The taxpayer may schedule an electronic payment of tax prior to the filing due date with the submission of the application through MeF. For tax year 2014, the electronic submission of Form 40A102 will be applicable for the Form 740 and Form 740-NP. The electronic application will be available for the Form 765-GP and Form 741 as they are added to MeF.

In May 2014, the Form 720 – Kentucky Corporation Income Tax and LLET Return and supporting schedules and forms were added to MeF. Development of electronic processing of two additional forms, Form 720S and Form 765, are underway for tax year 2014.

**Division of Registration and Data Integrity**

The Division of Registration and Data Integrity answered 27,681 taxpayer assistance calls relating to registration inquiries and made 15,905 telephone calls requesting additional information in FY14.

The division received and processed 29,508 Kentucky tax registration applications. The Kentucky Business One Stop portal received 33 percent of the applications submitted. There were 5,676 update/cancellation forms received and processed and 1,921 additional pieces of taxpayer correspondence related to business registration and data cleansing. The division completed 59,731 business tax account maintenances.

The Division of Registration and Data Integrity completed a review of over 53,000 possible noncompliant businesses; 17,564 were determined to be unregistered and were contacted for registration. Approximately 5,771 of the total noncompliant possibilities did not respond and were administratively registered.

Registrations from compliance efforts resulted in approximately $97.3 million in business tax revenues.

**Division of Protest Resolution**

During FY 2014 the Protest Resolution Division resolved 1,105 protested tax assessments in the amount of $121 million.

**OFFICE OF SALES AND EXCISE TAXES**

The Revenue Enhancement Initiative and Tobacco Compliance employees yielded compliance revenues of $15,919,915.

The training branch conducted eight courses for Office and Department staff, including various program training for Microsoft Access and Excel along with Protest and Appeals procedures, OSCAR navigation and the annual Sales & Use Tax School.

Maintained participation in the national Streamlined Sales and Use Tax Agreement (SSUTA), which continues to yield benefits. For FY14, there were approximately 1,000 registered SST filers who remitted tax returns to Kentucky. The total paid by all SST filers for the fiscal year was over $20.9 million.

Received 158,622 electronically filed sales and use tax returns, approximately a 12 percent increase over FY13.

Received 12,596 electronically filed returns for utility gross receipts license (UGRL) tax.

Received 11,888 electronically filed motor fuels tax returns.

Received 4,350 electronically filed telecommunications tax returns.

**Division of Sales & Use Taxes**

Answered 76,000 phone calls relating to sales and use tax inquiries.

Presented a sales and use tax overview for Auctioneers at three of their continuing education seminars. Also conducted seminars for sales and use tax application to the construction industry and interior design and decorating.

Made 12 distributions of the telecommunications tax totaling $36,407,917 to over 1,300 local political subdivisions.

Verified and transferred $12,180,902 to the Kentucky Horse Racing Authority from the sales tax on equine breeding fees.

Transferred $12,526,890 to the Road Fund from motor vehicle supplementary schedules.

Collected $3,055,449 in county clerk's use tax transfers, including compliance of affidavits forwarded by the clerks.

Verified and issued 29 refunds totaling $3,302,908 in response to requests relating to completed Kentucky Enterprise Initiative Act (KEIA) projects.

Verified and issued 12 approved tourism project refunds totaling $5,320,099.12.

Prepared and mailed two *Kentucky Sales Tax Facts* newsletters during the year with sales and use tax returns. Information included legislative updates, updates on business-specific issues and filing tips. The newsletters are also archived on the DOR website for future reference.

Verified and issued five TIF refunds totaling $9,086,396.

Received 33 applications for the Disaster Relief Sales and Use Tax Refund program, totaling $92,102. Of those applications received, 25 were approved by the end of the fiscal year for a total refund amount of $84,392.38.

Instituted e-file for consumer's use tax returns. Consumer use tax account holders may now file their returns via KY E-Tax. This new feature was implemented to provide a quicker and more efficient way for use tax account holders to file.

Reorganization of the division resulted in five sections instead of four, and a Branch Manager position was added.

**Division of Miscellaneous Tax**

Administered the utility gross receipts license (UGRL) tax and distributed $232,899,089 to 157 local school districts throughout the Commonwealth, a 4 percent increase over the previous fiscal year.

Answered 37,890 phone calls relating to Miscellaneous Tax inquiries.

Performed 152 retail cigarette inspections for compliance with the Master Settlement Agreement.

Reorganization of the division resulted in six sections instead of five, and an Assistant Director position was added.

Assisted in development of first ever Federation of Tax Administrators (FTA) tobacco audit class and participated in initial class rollout in New Hampshire.

Revised Kentucky Regulation 103 KAR 43:330 regarding conversion factors for compressed natural gas (CNG) and liquefied natural gas (LNG) in response to industry input and further development in alternative fuel technology.

## OFFICE OF INCOME TAXATION

**Division of Individual Income Tax**

Answered 134,210 telephone inquiries for individual income tax and 53,596 telephone inquiries for withholding tax for a total of 187,806 telephone inquiries received by the Division of Individual Income Tax.

Responded to 984 Live Chat conversations and 6,337 webmaster inquiries from individuals requesting individual income tax or withholding tax assistance.

Collected a total of $52,743,478 through compliance initiatives for the division.

**Division of Corporation Tax**

Completed the implementation of electronic capture of all filed 2013 corporation income and pass-through entity tax returns for the purpose of compliance and taxpayer assistance programs.

Completed the review of 6,586 requests for letters of good standing submitted by entities needing reinstatement with the Secretary of State.

The Division of Corporation Tax received 22,682 telephone inquiries.

Due to technological advances in electronic processing and data capture of corporate return information, the Division of Corporation Tax billed $58.6 million in compliance initiatives.

Responded to 336 web inquiries for corporation income and pass-through entities.

**Communications and Training Branch**

Conducted 20 training classes for DOR employees and 21 external training classes for Kentucky tax practitioners, CPAs, attorneys, insurance adjusters, realtors and other interested parties.

Continued the partnership with the University of Kentucky and the IRS; and the University of Louisville's Louis A. Grief Tax Institute in presenting up-to-date income tax information for Kentucky tax practitioners, CPAs, attorneys, insurance adjusters, realtors and other interested parties.

## OFFICE OF PROPERTY VALUATION

The Office of Property Valuation was reorganized during the 2013-14 fiscal year. This reorganization reinstated the three Divisions that previously existed within this Office and replaced the "sections" with branches. These Divisions and branches are:

**Division of Local Support:** Education and Compliance Branch; PVA Administrative Support Branch; Northern Field Branch; Southern Field Branch; and Western Field Branch.

**Division of State Valuation:** Personal Property Branch; Personal Property Compliance Branch; Public Service Branch; and the Motor Vehicle Branch.

**Division of Minerals Taxation and GIS Services:** Unmined Coal Property Tax Branch; Mineral Resource Valuation Branch; Cartography/GIS Branch; Mineral Severance Tax Branch; and the Mineral Information Branch.

**Division of Local Support**

A concentrated effort was made to complete the 2013-2014 performance audits of Property Valuation Administrator's offices during the fiscal year. These audits are utilized as one tool to evaluate how well a PVA is meeting the fair cash value standards of assessing real property in his or her county. Discussions are held with PVAs if there are any assessment issues that need to be addressed, and an action plan is developed to assist the county. All county assessments were certified and local property tax collections began on schedule. The 2013 state property tax rate was 12.2 cents per $100 of assessment. It has been the same since 2008.

In November 2013, the statewide exam for the office of Property Valuation Administrator (PVA) was held. The exam qualifies individuals for candidacy in the general election in 2014. Two hundred and fifty-four people took the exam. Given once every four years, this was the second time the statewide exam was held in one central location which has helped to decrease state expenses in conducting the exam.

As part of the Governor's Internet technology initiative, the Technical Support Section of the Office of Property Valuation was consolidated into the Commonwealth Office of Technology. Because COT has service representatives throughout the state, any PVA that uses COT's desktop services should be able to receive support within a short amount of time.

**Division of State Valuation**

Locally assessed tangible personal property assessments for calendar year 2013 totaled $65.667 billion. These assessments yielded an estimated $90.6 million in state taxes.

Omitted personal property tax assessments for FY14 totaled $12.5 billion, and approximately $38.7 million in state and local property taxes were collected on these omitted assessments.

State and local motor vehicle property tax collections for FY13 were approximately $120.7 million and 226.3 million, respectively.

Public Service Company assessments (Public Service Companies, Telecoms, Railroad Car Lines, Commercial Watercraft and Distilled Spirits in Bonded Warehouses) for calendar tax year 2013 were set at $31.8 billion and were expected to yield approximately $70.0 million in state tax revenues and approximately $180.0 million in local tax revenues.

In FY2014, the Freddie Freeroader Program targeted Kentucky residents with out-of-state license plates with an assessment totaling $90,735 along with proper registration of hundreds of vehicles.

Combined state and local motor vehicle property tax collections for FY14 were $124.5 million and $233.3 million, respectively.

**Division of Unmined Minerals, GIS Services**

**Cartography/GIS Section**

The Cartography Section helps counties that do not have GIS software update their parcel file with new changes counties have made on their paper maps, print new maps for the office and store their digital parcel files on our server for future use. This section also prints PVA maps for sale from scans, prints PVA maps from digital parcel files and prints large posters for all of the Department of Revenue as needed.

**Map Sales:** Sale of PVA maps to the public and governmental agencies

80 percent of money received returns to county PVA

Assist PVA offices with data sales when needed—All monies go to PVA office

Total maps sale receipts for FY 2014 = $840.28

The Cartography/GIS Section personnel continued their training efforts with PVA offices in five mapping classes and one administrative class.

**Minerals Severance Section**

Severance tax receipts for FY14 totaled $240,934,725. One half of these receipts are distributed back to counties with mining activity.

| | |
|---|---|
| Coal: | $197,727,593 |
| Gas: | 17,882,562 |
| Oil: | 13,113,766 |
| Minerals: | 12,210,804 |

The Coal Severance Tax system allows coal severance taxpayers to file their monthly returns and make payments over the Internet. There are several companies using the program and more improvements are being made to the system to expand its use to more taxpayers.

**Division of Minerals Taxation and GIS Services**

Total unmined minerals 2014 tax receipts (2013 tax year):

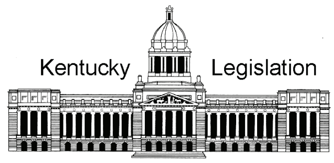
| | |
|---|---|
| Total: | $36,668,827 |
| Gas: | 7,150,787 |
| Oil: | 4,454,778 |
| Limestone: | 507,823 |
| Clay: | 4,892 |
| Coal: | 24,550,547 |

**OFFICE OF FIELD OPERATIONS**

During FY14, in-state audits were performed with net assessments of $31,171,485 and out-of-state audits generated net assessments of $34,194,612.

During FY14, collections totaled over $15 million through various tax compliance programs.

# 2014 General Assembly




**A Review of Tax Law Changes**

Enacted by the 2014 General Assembly

## 2014 Legislation Affecting Kentucky Department of Revenue


*NOTE: This 2014 legislative summary presents only general information concerning the major tax provisions the General Assembly has enacted and does not represent a complete analysis or specific interpretations of the law changes. The Department of Revenue (DOR) will provide more specific information as it implements these changes. Full text of enacted bills is available on the legislative home page, www.lrc.ky.gov*

**A REVIEW OF TAX LAW CHANGES**

Enacted by the 2014 Regular Session of the General Assembly.

**CORPORATION TAX**

**Endow Kentucky Tax Credit–**For fiscal years beginning on or after July 1, 2016, House Bill (HB) 208 amends KRS 141.438 to increase the total amount of tax credit that may be awarded from $500,000 to $1 million for each fiscal year.

**Small Business Tax Credit Program–**HB 301 amends KRS 154.60-010 and 154.60-020 to simplify and streamline the provisions of the Small Business Tax Credit Program which is administered by the Kentucky Economic Development Finance Authority (KEDFA). Some key definitions in the law were amended, including "small business," which is now defined in KRS 154.60-010(7) as: "any business entity organized for profit, including a sole proprietorship, partnership, corporation, limited liability company, joint venture, association, or cooperative, that has 50 or fewer full-time employees at the time it applies."

The small business tax credit program changes are effective July 15, 2014. The maximum credit amount for each small business for each year remains at $25,000 and the total credit allowed for each fiscal year remains at $3 million. Nothing in the Act affects the DOR's administration and compliance of the tax credit.

**Kentucky Jobs Retention Act–**Effective July 15, 2014, HB 396 amends KRS 154.25.010 to include as eligible companies those that are engaged in household appliance, or household appliance parts or supplies manufacturing.

Eligible companies must agree to undertake a jobs retention project resulting in the employment of a minimum of 1,000 full-time workers in Kentucky. The taxpayer must also invest at least $100 million for new manufacturing equipment and the construction or modification of facilities to house the new equipment.

A taxpayer may recover, through credits, up to 50 percent of the investment and construction costs. A supplemental project may be approved, which may increase the recovery percentage to 75 percent. The annual credit is equal to the lesser of the project costs that the taxpayer has not yet recovered under the agreement or 100 percent of tax liability attributable to the project, plus up to 5 percent of wages withheld from employees whose jobs were preserved or created by the project.

**Internal Revenue Code Update–**HB 445 updates the Internal Revenue Code (IRC) reference date from Dec. 31, 2006, to Dec. 31, 2013, for purposes of computing corporation and personal income tax. However, taxpayers who placed property into service after Sept. 10, 2001, are required to compute Kentucky depreciation under IRC Section 168 and the expense deduction under IRC Section 179 according to the provision in effect on Dec. 31, 2001. Therefore, taxpayers must continue to adjust Federal taxable income to Kentucky taxable income. The Code update applies to taxable years beginning on or after Jan. 1, 2014.

**Distilled Spirits Tax Credit–**HB 445 created a nonrefundable and nontransferable credit that may be claimed by income taxpayers who pay Kentucky property tax on distilled spirits. If the taxpayer is a pass-through entity, such as a partnership or limited liability company classified as a partnership for Kentucky income tax purposes, the taxpayer may apply the credit against the LLET and pass the credit through to its members, partners, or shareholders in the same proportion as the distributive share of income or loss is passed through.

*Credit amount:* The distilled spirits credit is equal to:
- 20 percent of the property tax assessed and timely paid for taxable years beginning on or after Jan. 1, 2015;

- 40 percent of the property tax assessed and timely paid for taxable years beginning on or after Jan. 1, 2016;
- 60 percent of the property tax assessed and timely paid for taxable years beginning on or after Jan. 1, 2017;
- 80 percent of the property tax assessed and timely paid for taxable years beginning on or after Jan. 1, 2018; and
- 100 percent of the property tax assessed and timely paid for taxable years beginning on or after Jan. 1, 2019.

Taxpayers computing the credit cannot include delinquent taxes, interest, fees, or penalties paid to Kentucky.

The amount of the credit is contingent on the costs associated with the following capital improvements at the premises of the distiller:
- construction, replacement, or remodeling of warehouses or facilities;
- purchases of barrels and pallets used for the storage and aging of distilled spirits in maturing warehouses;
- acquisition, construction, or installation of equipment for the use in the manufacture, bottling, or shipment of distilled spirits;
- addition or replacement of access roads or parking facilities; and
- construction, replacement, or remodeling of facilities to market or promote tourism, including but not limited to a visitor's center.

*Recapture provisions:* The distilled spirits credit is subject to recapture if the capital improvement associated with the credit is sold or otherwise disposed of prior to the exhaustion of the useful life of the asset for Kentucky depreciation purposes. The amount of recapture is prorated if only a portion of the capital improvements are sold or disposed of by the taxpayer.

**New Markets Development Program Tax Credit–**Under the provisions of HB 445, the annual statewide cap for the new markets development program credit, which is available to investors in long-term debt securities issued by a qualified community development entity for financing businesses in Kentucky low-income communities, is increased from $5 million to $10 million.

*Refundable performance fee:* A qualified community development entity that seeks to have an equity investment or long-term debt security certified as a qualified equity investment and eligible for the New Markets Development Program tax credit must, as part of the application, pay a refundable performance fee in an amount equal to 0.5 percent of the amount of the equity investment or long-term debt security for which the entity is seeking certification, up to a maximum of $500,000. The performance fee is refundable, at the written request of the entity, if the certification application is denied or the amount of the investment that is certified is less than requested. An application must also include a $1,000 nonrefundable application fee.

*Recapture provisions:* Any portion of the New Markets Development Program tax credit may be recaptured if the qualified community development entity fails to invest at least 100 percent of the purchase price of the equity securities in businesses located in Kentucky low-income communities within 12 months of the issuance of the securities and fails to maintain the level of investment until the last credit allowance date. The recapture threshold for tax years before 2014 was 85 percent of the purchase price of the securities and the time allowed for the investment threshold was 24 months. In addition to credit recapture, the application performance fee is subject to forfeiture for failure to meet the investment requirements. However, there is a 90-day cure period.

The DOR began accepting applications for the credit on July 15, 2014. Applications received prior to July 15, 2014, were considered as being received on July 15, 2014. The application for the credit is available on DOR's website.

**Certified Rehabilitation Credit–**Effective for taxable years beginning on or after Jan. 1, 2014, HB 445 allows a taxpayer to claim an income tax or LLET credit for completing a certified rehabilitation to a certified historic structure that is located (1) within the jurisdiction of a consolidated local government or urban-county government, and (2) within one-half mile of a tax increment financing development area that has received at least preliminary approval. The minimum investment is $15 million and rehabilitation of the structure must begin before July 1, 2015. The total approved credit is available over a four-year period.

*Credit amount:* The refundable and transferable historic structure rehabilitation credit, which is limited to the first $30 million of qualified rehabilitation expenses, is equal to:
- 30 percent of the qualified rehabilitation expenses in the case of owner-occupied residential property; and
- 20 percent of the qualified rehabilitation expenses in the case of all other property.

The maximum credit that may be claimed in a taxable year is 25 percent of the total approved credit; however, the total statewide credit is not subject to an annual cap.

*Application procedures:* A taxpayer seeking the Kentucky historic structure rehabilitation credit must file an application for a preliminary determination of maximum credit eligibility. An application for a final determination of credit must be submitted by the taxpayer upon completion of the project. Both applications must be filed with the Kentucky Heritage Council.

**Film Production Incentives–**HB 445 eliminated the Jan. 1, 2015, expiration date for the film industry tax credit. All other requirements remain the same.

**Tax Increment Financing (TIF)–**HB 542 amends KRS 154.30-060 to expand the parameters for certain projects in consolidated local governments to qualify as mixed use projects. Mixed use means a project within any consolidated local government if the project includes at least three of the qualified uses, one of which must be at least 20 percent of the total finished square footage of the proposed project or represent 20 percent of the total capital investment, and the other uses must jointly comprise at least 20 percent of the total finished square footage of the proposed project or 20 percent of the total capital investment. This provision is effective July 14, 2014.

**Kentucky Industrial Revitalization Act–**Effective Aug. 1, 2014, Senate Bill (SB) 74 amends KRS 154.26-010 to allow companies with approved economic revitalization projects qualifying for incentives under the Kentucky Industrial Revitalization Act (KIRA) to undertake supplemental projects during or within 24 months following the term of the initial project and to qualify for additional incentives.

During the initial term of an agreement, or within 24 months after the expiration of the term, an eligible company may apply for, and the authority may approve, a supplemental project when the applicant:

1. Has expended approved costs of at least $50 million on an approved economic revitalization project;
2. Employs a minimum of 750 employees at the site of the economic revitalization project;
3. Agrees to incur at least $10 million in additional eligible costs for improvements to a blast furnace that is located at the economic revitalization project, and that has burned at least one million tons of Kentucky coal during the initial term of the agreement; and
4. Is at risk of closure and carries a significant net loss carry forward for the last three tax years as certified by the approved company.

## INDIVIDUAL INCOME TAX

**Internal Revenue Code Update–**HB 445 updates the definition of “Internal Revenue Code” to mean the Internal Revenue Code (IRC) in effect on Dec. 31, 2013, exclusive of any amendments made to the IRC subsequent to that date, other than amendments that extend provisions in effect on Dec. 31, 2013, that would otherwise terminate, and as modified by KRS 141.0101.

The itemized deductions limitation established in 26 U.S.C. Sec. 68 shall be determined using the applicable amount from 26 U.S.C. Sec. 68 as it existed on Dec. 31, 2006. This means the method used to calculate the limitation on itemized deductions used in 2013 applies equally to tax years 2014 and beyond. The applicable amount (as adjusted for inflation) for a taxable year beginning in calendar year 2013 is $178,150 ($89,075 in the case of a separate return by a married individual). The applicable amount (as adjusted for inflation) for taxable years beginning in calendar year 2014 is $181,150 ($90,575 in the case of a separate return by a married individual).

Depreciation calculations for Kentucky did not change. HB 445 provides, “For property placed in service after September 10, 2001, only the depreciation and expenses deductions allowed under Sections 168 and 179 of the Internal Revenue Code in effect on December 31, 2001, exclusive of any amendments made subsequent to that date, shall be allowed.” Therefore the taxpayer will continue to make adjustments on their tax returns for the differences in depreciation allowed for Federal taxable income and Kentucky taxable income.

**Angel Investor Tax Credit–**Effective for taxable years beginning on or after Jan. 1, 2015, HB 445 makes available a nonrefundable personal income tax credit under the Kentucky angel investment credit program to individuals who invest a minimum of $10,000 in certain Kentucky small businesses with high-growth potential that are engaged in knowledge-based activities, such as bioscience, environmental and energy technology, health and human development, information technology and communications, and materials science and advanced manufacturing, that will further the establishment or expansion of small businesses, create additional jobs, and foster the development of new products and technologies.

*Eligibility:* A small business is qualified to participate in the program if at the time it requests certification, the business:

- has a net worth of $10 million or less or net income after federal income taxes for each of the two preceding fiscal years of $3 million or less;
- is actively and principally engaged in a qualified activity within Kentucky, or will be actively and principally engaged in a qualified activity within the state after the receipt of a qualified investment by a qualified investor;
- has no more than 100 full-time employees;
- has more than 50 percent of its assets, operations, and employees located in Kentucky; and
- has at no time received an aggregate amount of qualified investments that has allowed qualified investors to receive more than $1 million in angel investor credits.

Individual investors must demonstrate to the KEDFA that the investor:

- is an individual natural person;
- qualifies as an accredited investor under the U.S. Securities and Exchange Commission’s Regulation D as of the date the individual investor requests certification;
- does not hold a more than 20 percent ownership interest in, and is not employed by, the qualified small business prior to making the investment;
- is not the parent, spouse, or child of an individual who holds a more than 20 percent ownership interest in, or who is employed by, the qualified small business prior to making the investment; and

- seeks a financial return from the investment in the qualified small business.

The investment must be offered and executed in compliance with applicable state and federal securities laws and regulations. In addition, the investment must be exchanged for consideration in the form of an equity interest in the qualified small business.

*Credit amount:* The amount of Kentucky angel investment credit is equal to:

- 40 percent of the investment, if the principal place of business of the qualified small business is outside a designated enhanced county; or
- 50 percent of the amount of the investment, if the principal place of business of the qualified small business is in an enhanced incentive county (i.e., certain counties that are designated as economically depressed).

The maximum annual credit that may be awarded to each angel investor is $200,000. The maximum credit that can be claimed in any taxable year shall not exceed 50 percent of the total credit awarded or transferred to the taxpayer. The credit is subject to an annual cap of $3 million that is available to all angel investors. The total amount of credits awarded under the angel investment program, together with credits awarded under the Kentucky Investment Fund Act, cannot exceed a lifetime cap of $40 million.

*Carryforward provisions:* Unused Kentucky angel investment credits may be carried forward for up to 15 years.

*Forfeiture provisions:* The angel investment must be made no later than the earlier of:

- 60 days, including weekends and holidays, following the date of credit approval; or
- Dec. 31 of the calendar year of credit approval.

The angel investor must provide proof of the investment to the KEDFA within 20 days, including weekends and holidays, of making the investment. If the investor either fails to make the investment prior to the deadline or fails to provide the required proof of the investment, the award of credit approval is null and void.

*Transfer provisions:* An angel investment credit may be transferred by a qualified investor to any individual taxpayer who also meets investor qualification requirements. Written notice of the transfer must be provided to the DOR.

*Reporting requirements:* A qualified small business that has received a qualified investment must file an annual report with the KEDFA by Feb. 1 of the calendar year following the year in which a credit was awarded and each of the four years thereafter. The report must demonstrate that the business continues to meet the original small business qualification requirements. In addition, the report must include the following information:

- new jobs created;
- increased sales or other economic activity conducted;
- the degree of other private investment attracted; and
- any other information requested by the KEDFA.

*Recapture provisions:* If the business fails to submit a report during any year or fails to satisfy the small business qualification requirements during the reporting period, the full amount or any portion of the credit is subject to recapture by the DOR from the qualified investor that received the credit award or any taxpayer receiving the credit through a valid transfer.

**Additional Tax Credits–**The following credits were enacted in the 2014 Regular Session of the General Assembly for individual income tax and corporate taxes: (See explanation of credits in the corporation tax section.)

Certified Rehabilitation credit,

Distilled Spirits income tax credit,

New Markets Development Program income tax credit, and

Film Industry tax credit.

**Local History Trust Fund–**Effective for taxable years beginning Jan. 1, 2015, HB 445 provides that any taxpayer required to file a return under KRS 141.180 who is entitled to an income tax refund and who desires to contribute to the local history trust fund may designate an amount, not to exceed the amount of the refund, to be paid to the trust fund. Look for the check-off box for local history trust fund on the 2015 individual income tax return.

**SALES AND USE TAX**

**Automated Business Record Falsification Devices–**Effective July 15, 2014, HB 69 made it illegal to own, operate, or distribute an automated business record falsification device in Kentucky. Possession of these devices is a Class D felony and the device is considered to be contraband subject to seizure and forfeiture to the Commonwealth. These devices are sometimes referred to as "zappers," and are used to avoid sales tax by altering or deleting sales transactions within a retailer's point of sales software. The DOR will work with law enforcement agencies to administer this change.

**Blast Furnace Exemption–**SB 74 amended the sales and use tax exemption language for blast furnaces provided in KRS 139.480(21). The previous exemption was applicable through June 30, 1994. The law change provides that the new exemption will apply to the construction, rebuilding, modification or expansion of a blast furnace or any of its component or appurtenant equipment or structures effective for sales made on and after July 1, 2016. The extended blast furnace exemption is only for supplemental projects approved under the Kentucky Industrial Revitalization Act as amended by SB 74.

**Exemption for Federally Chartered Corporations–**Sales tax will not apply to sales of tangible personal property made by a federally chartered corporation at the corporation's annual national convention held in the Commonwealth. The exemption applies to sales of tangible personal property made on or after Oct.1, 2014, but before Dec.31, 2021. A "federally chartered corporation" is a corporation chartered under Title 36 of the United States Code. HB 488 enacted this exemption.

**Tourism Development Act Tax Incentives–**HB 493 lowered the eligibility threshold for investments to qualify for tourism attraction projects in enhanced incentive counties. The minimum threshold for eligible costs in enhanced incentive counties was reduced from $1 million to $500,000 for new applications received on or after Aug. 1, 2014, and before May 2, 2018. In addition, the sales tax incentive potential is increased from a maximum of 25 percent to 30 percent of approved costs for these new projects. KRS 148.853(3) was amended to include tourism attraction projects located in an enhanced incentive county as eligible for a sales tax incentive allowed to an approved company for a ten-year period.

**UTILITY GROSS RECEIPTS LICENSE TAX**

Effective July 15, 2014, HB 170 made several changes to the utility gross receipts license tax to clarify the determination of the correct tax due and how refunds are administered. This tax is commonly referred to as "school tax." HB 170 clarifies how energy direct pay holders compute their school tax liability when qualifying for the partial tax exemption on their energy purchases. The energy direct pay holder must pay school tax directly to the DOR for energy purchases that do not exceed a 3 percent cost of production threshold. The statute of limitations for refunds of school tax was clarified, and a 30-day appeal period to circuit court for denied refunds was established.

**MISCELLANEOUS TAX CHANGES**

**Alcoholic Beverage Tax Rates–**Effective July 1, 2015, the following alcoholic beverage tax rates apply to wholesalers of wine and beer: 10.75 percent for wholesale sales made on or after July 1, 2015, and before June 1, 2016; 10.5 percent for wholesale sales made on or after June 1, 2016, and before June 1, 2017; 10.25 percent for wholesale sales made on or after June 1, 2017, and before June 1, 2018; and 10 percent for wholesale sales made on or after June 1, 2018. The rate changes were enacted in 2014 HB 445.

**Horse Racing Taxes–**Effective Aug. 1, 2014, an excise tax will be imposed on all advance deposit account wagering licensees at a rate of 0.5 percent of all amounts wagered through the licensees by Kentucky residents. Beginning on April 1, 2014, a 1.5 percent tax is imposed on tracks conducting pari-mutuel wagering on historical horse races in Kentucky. The enacted provisions relating to historical horse racing have a retroactive effect to Sept. 1, 2011. The racing tax changes were enacted in 2014 HB 445.

**Waste Tire Fee–**The sunset date for the $1 per tire waste tire fee was changed from June 30, 2014 to June 30, 2016.

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# Legal Issues

**Office of Legal Services for Revenue**

The Office of Legal Services for Revenue (OLS) represents the DOR in judicial actions and in administrative proceedings before such tribunals as the Kentucky Board of Tax Appeals (KBTA) and Board of Claims. Its representation of the DOR extends to all levels of the state and federal court systems.

The OLS performs a wide range of other services and functions, which include: rendering advice and written legal opinions to DOR personnel and other government personnel and officials as well as taxpayers; reviewing and drafting proposed statutes and regulations; interpreting and analyzing the Commonwealth's tax laws and assisting with their implementation and administration; assisting with the preparation of DOR informational publications; providing advice and assistance on open records and disclosure matters; and providing assistance and advice in connection with audits, protest conferences, and other stages of the enforcement and administration of the tax laws. The OLS is not responsible for personnel, bankruptcy, collection and criminal matters, which are handled elsewhere in the DOR or the Finance and Administration Cabinet.

During this past year, the OLS has continued to handle a substantial caseload presenting a variety of legal issues affecting the DOR and requiring work at all levels of the court system and administrative appeals process. The cases that the OLS handles frequently have a substantial fiscal impact or precedential value.

**Office of Legal Services for Revenue**
**Legal Developments and Court Decisions**

The OLS represents the DOR in all cases and appeals other than personnel, bankruptcy, collection, and criminal cases. In fulfilling this role, the Division's attorneys appear on behalf of the DOR before the KBTA and Board of Claims and at all levels of the state and federal court systems. This representation of the DOR embraces the handling of all phases of the litigation process, including discovery, trials, oral argument, motion practice, briefing, hearings, and appeals.

During this past year, the OLS again handled a number of cases having a significant fiscal impact or precedential value. These cases presented a wide range of issues and involved a number of the taxes administered by the DOR. The OLS continues to experience an increase in both the complexity of the issues and amounts of money at stake in the cases it handles.

The cases handled by the OLS address issues, or have resulted in precedents, of significant importance and interest to taxpayers and the Commonwealth. A number of these cases are discussed below.

**Appalachian Racing, LLC, et al v. The Family Trust Foundation of Kentucky, Inc., 423 S.W.3d 726 (Ky. 2014).**

The Kentucky Horse Racing Commission, DOR and several racetracks brought an agreed case before the Franklin Circuit Court, seeking a ruling on the validity of various regulations promulgated by the Racing Commission and DOR with respect to wagering on previously run horse races, otherwise referred to as "historic horse racing." Specifically, the Racing Commission had promulgated several regulations that allowed pari-mutuel wagering on historic horse racing. In conjunction with those regulations, DOR amended its regulation so that pari-mutuel wagering on historical horse racing, like other types of pari-mutuel wagering would be subject to the excise tax set forth in KRS 138.510(1). The Family Trust Foundation was allowed to intervene as a defendant.

On Feb. 20, 2014, the Kentucky Supreme Court affirmed in part and reversed in part earlier decisions of the Franklin Circuit Court and the Kentucky Court of Appeals. The Kentucky Supreme Court held that discovery was not warranted with respect to the regulations, and reversed the Kentucky Court of Appeals on that point. However, the Kentucky Supreme Court held that the Family Trust Foundation was entitled to discovery with respect to whether the wagering operations conducted pursuant to the new regulations would violate the gambling prohibitions of KRS Chapter 528.

The Kentucky Supreme Court went on to address the validity of the regulations. The Court first held that the Racing Commission had the authority to license and regulate pari-mutuel wagering on historical horse racing under the statutory authority provided to it pursuant to KRS Chapter 230. However, the Court then held that the regulation promulgated by DOR was invalid, as it concluded that the term "live racing" did not apply to historical horse races.

The Supreme Court's decision in this case is now final.

**Department of Revenue v. Roanoke Cement Company, LLC, 2013-CA-00471 (Ky. App. 2014).**

The issue in this case was whether Roanoke Cement is entitled to a credit against the mineral severance tax. Specifically, KRS 143A.035 allows a credit when limestone is "sold to a purchaser outside of this state" by a taxpayer "who sells in interstate commerce not less 60 percent" of the limestone it severs. A dispute arose over Roanoke Cement's entitlement to the credit, as the majority of its purchasers were located out of state, but the sales of the limestone had been consummated in Kentucky.

In denying Roanoke's credit, DOR relied upon numerous sales and use tax cases that held a sale completed entirely within the state is not a sale in interstate commerce, as well as a sales and use tax regulation, 103 KAR 30:190, Section 2(1), which provided:

> A sale is not presumed to be made in interstate commerce if the purchaser or his representative receives physical possession of such property in this state. This is true notwithstanding the fact that the purchaser may after receiving physical possession of the property in this state transport or send the property out of the state for use outside of the state or for use in the conduct of interstate commerce.

The KBTA and the Franklin Circuit Court both held in favor of the taxpayer, concluding that as long as the purchasers were out-of-state, for purposes of the tax credit, it did not matter where the sale was consummated.

The Kentucky Court of Appeals, in a decision rendered on Feb. 21, 2014, agreed with the KBTA and the Franklin Circuit Court. The Court held that the severance tax imposed pursuant to KRS 143A.020 is different than sales and use tax, and therefore, the regulation was not material. The Court further held that, just as "within the state" in the *Rohm and Haas* decision modified purchaser, and not the mode of transportation, similarly, "outside of this state" should modify purchaser, and not the method of delivery. Based upon those conclusions, the Court held that the circuit court did not err in affirming the order of the KBTA.

DOR has filed a motion for discretionary review with the Kentucky Supreme Court, which is still pending.

**HPCKAL, LLC v. Department of Revenue, Franklin Circuit Court, Division I, Opinion and Order (Civil Action No. 11-CI-1417, November 14, 2013).**

At issue in this case was net operating losses, which were passed through by the taxpayer to its members. In 2005, the legislature enacted a law which, in effect, taxed pass-through entities, such as HPCKAL, LLC at the entity level, and income and losses no longer passed through to the members. In 2005 and 2006, HPCKAL attempted to use the NOLs it had previously passed through to its members to reduce the amount of corporation income tax it owed at the entity level. DOR rejected this position, as the NOLs belonged to the members, not HPCKAL, and assessed HPCKAL for additional tax. Because the NOLs belonged to the members prior to January 1, 2005, HPCKAL had no NOLs to carry forward for the 2005 and 2006 years pursuant to KRS 141.011(4) and 103 KAR 16:250.

The Franklin Circuit Court agreed with the KBTA in its decision dated Nov. 14, 2013, holding that HPCKAL did not have a vested right to deduct the NOLs in question, as the NOLs remain with the members. The Court further held that nothing in tax modernization authorized a transfer of the NOLs from the members back to HPCKAL. Finally, the Court held that the KBTA applied the correct standard, as deductions, such as the NOL deduction, are narrowly construed, and any ambiguities must be construed against the taxpayer. The taxpayer did not appeal this decision, which is now final.

**Rent-A-Center East v. Department of Revenue, KBTA Order No. K-2457**

At issue in this case was the valuation of Rent-A-Center's property for the tax years 2002-2005. Rent-A-Center rents items such as computers, TVs, furniture and appliances to its customers. The average length during this time period for the rental agreement is 18-20 months.

Rent-A-Center argued that a different valuation should be used and cited a settlement agreement, which applied to tax years 1997-2001 as authority for that valuation. The taxpayer argued that this earlier settlement agreement was a "going forward" agreement because the agreement was silent on this point. DOR argued that the agreement had no express "going forward" language.

At the hearing, the KBTA excluded Rent-A-Center's proposed expert witness because he was not named until after the discovery deadline had closed. Moreover, the expert witness would not have provided testimony relevant or material to the value of the property. The KBTA also held that the prior settlement agreement was "clear and unambiguous and speaks for itself." As a result, the KBTA concluded that the prior settlement agreement was not a "going forward" agreement.

The KBTA also held that the evidence provided by the taxpayer was merely conclusory, without any supporting information to establish that the property was overvalued. The taxpayer introduced no evidence that could not be considered hearsay. As a result, the KBTA granted a directed verdict in favor of DOR, and upheld the assessment of tax and penalties.

The taxpayer has appealed this decision to Franklin Circuit Court.

**Sprint Communications Company, L.P. v. Department of Revenue, KBTA Order No. K-24654**

This case involved the sale of access services. Sprint argued that the sale of access services made in 2005 were not subject to sales or use tax because it had properly completed resale certificates.

However, DOR assessed Sprint for sales tax on the sale of the access services, pursuant to 103 KAR 28:140, which was promulgated in 2001. Section 1 of this regulation expressly provided that:

> Communication service providers are the consumers of all tangible personal property and services, including access services, used to provide communication services to their

> own customers. Purchasers of access services shall not claim the access services purchased are exempt as being for resale.

In 2005, KRS 139.195 was specifically amended so that tax was not imposed upon access revenue, with the change in the law to be effective on January 1, 2006. Sprint argued that this amendment clarified existing law, and that the regulation was contrary to statute. DOR responded by saying that the regulation was promulgated in connection with a 2000 statutory amendment, and that the amendment to KRS 139.195, effective 2006, was a change in the law.

Sprint also argued contemporaneous construction, but the KBTA noted that no evidence was provided on whether DOR held a contrary position prior to the 2001 regulation. The KBTA also held that the regulation was clear and unambiguous, and that a resale certificate for access services could not be accepted in good faith after the regulation was promulgated. As a result, the DOR's assessment was upheld.

Sprint has appealed this decision to Franklin Circuit Court.

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# DOR Administration

## DOR Offices, Divisions and Their Duties

### OFFICE OF THE COMMISSIONER

The Office of the Commissioner is responsible for the overall management of the Department of Revenue including administering the Taxpayer Bill of Rights, the Department's budget and legislative initiatives. The Office of the Commissioner consists of a Commissioner, Deputy Commissioner and support staff. This Office also has a **Division of Special Investigations** that is responsible for investigating alleged violations of the tax laws and recommending criminal prosecution of the laws as warranted. The Office of the Commissioner also has a **Security and Disclosure Branch** responsible for oversight of the Department's physical security, data security, and exchange of information agreements.

### OFFICE OF PROCESSING & ENFORCEMENT

The Office of Processing and Enforcement is responsible for promoting the enterprise services available to the Commonwealth related to document processing, depositing of funds and collecting debt. Additionally, the Office is responsible for coordinating, planning and implementing a data integrity strategy. The office consists of the following four divisions:

1. The Division of Collections has the responsibility of maintaining a professional and well-trained staff that can provide courteous, accurate and efficient services to taxpayers. The division's primary goal is to assist taxpayers in resolving their tax liability/debts in the most expeditious manner, while considering their ability to pay. However, in instances where taxpayers willfully attempt to evade their tax obligations, the Division of Collections has the responsibility to utilize all administrative and legal actions available to enforce in a fair and equitable manner, the collection of all taxes owed the Commonwealth. These enforcement actions may, but are not limited to, seizure of bank accounts, wages, accounts receivables, real property and personal property. The division may also deny or revoke a driver's license, vehicle registration or professional license.

2. The Division of Operations is responsible for opening all incoming tax returns, preparing the returns for data capture, coordinating the data capture process, depositing receipts and maintaining the tax data. Additionally, the division assists other agencies with similar operational aspects as negotiated with that agency.

3. The Division of Registration and Data Integrity is responsible for registering taxpayers and ensuring that the data entered into the tax systems is accurate and complete. The Registration Branch processes all business tax applications and assists registrants as needed. This branch also ensures that all taxpayers who may have overlooked their tax registration obligations are contacted and brought into compliance. The Program Improvement/Data Quality Branch is responsible for maintaining data integrity for DOR processes and prepares requested reports and statistics for Department, Cabinet and legislative inquiries. Both branches assist the taxing areas in proper procedures to make sure that data remains accurate over time.

4. The Division of Protest Resolution is responsible for arbitrating cases where the taxpayer has protested an action of the DOR, including assessments, refund denials and exemption denials.

### THE OFFICE OF PROPERTY VALUATION

The Office of Property Valuation supervises and assists Kentucky's 120 Property Valuation Administrators (PVAs) in the valuation of real and personal property throughout the Commonwealth; values the property of public service companies; values unmined coal and other mineral resources; values motor vehicles; and supervises the collection of delinquent taxes. It consists of three divisions:

1. **Local Support Division,** which oversees the real property tax assessment and collection process throughout the state in each county's property valuation administrator's, sheriff's and county clerk's office.

2. **State Valuation Division,** which administers all state-assessed taxes, including public service property tax, motor vehicle property tax, and the tangible and intangible tax program.

3. **Minerals Taxation and GIS Services Division,** which is responsible for administering the taxes related to severance tax and the unmined minerals property tax. It also coordinates the DOR's GIS mapping efforts.

The **PVA Administrative Support Branch** is found within the Local Support Division. The branch oversees budget, fiscal, personnel, payroll, and timekeeping administration for PVAs in all counties and more than 600 deputies throughout the Commonwealth. It also coordinates open enrollments for Health and Life insurance plans. The branch teaches property tax educational courses and conducts workshops and roundtable discussions during property assessment conferences. It provides information to the Division of Local Government Services, Governor's Office of Local Development, and the Auditor of Public Accounts. While PVA employees serve as nonmerit unclassified state employees, the Branch has the responsibility to see that PVA employees are treated fairly within the grade classification system and must ensure the integrity of the classification system among PVAs.

### OFFICE OF SALES AND EXCISE TAXES

The Office of Sales and Excise Taxes is responsible for administering all matters related to sales and use tax and the miscellaneous excise taxes. This includes technical tax research, compliance, taxpayer assistance, tax-specific training, public announcements, publications, forms, and any other matter related to those taxes. It includes the Division of Sales and Use Tax, Division of Miscellaneous Taxes, and the office of the executive director.

The **Division of Sales and Use Tax** is responsible for administering the sales and use tax, telecommunications excise, and gross revenue taxes. It has two branches: Program Compliance and Taxpayer Assistance. The branches are responsible for conducting office audits, administering various exemption and refund incentive programs, initiating compliance activities, assisting taxpayers, verifying and preparing refunds and discovery of nonfiler populations.

The **Division of Miscellaneous Taxes** is responsible for administering the following taxes: affordable housing trust fund fee; alcoholic beverage taxes; cigarette enforcement fee; license, excise tax and surtax; other tobacco products and snuff taxes; gasoline tax; liquefied petroleum gas; special fuels taxes; petroleum storage tank environmental assurance fee; health care provider tax; inheritance and estate tax; insurance premiums and insurance surcharge taxes; bank franchise tax; legal process; marijuana and controlled substance; motor vehicle tire fee; motor vehicle usage taxes; loaner-rental program; PSC annual assessment; pari-mutuel excise, racing license and admissions taxes; RECC and RTCC; transient room tax; and utility gross receipts license tax. It consists of two branches: Road Fund Branch and Miscellaneous Tax Branch.

## OFFICE OF INCOME TAXATION

The Office of Income Taxation was established pursuant to KRS 131.020(1)(f). The Office is responsible for administering all matters related to the individual income, withholding, corporation income, corporation license, non-resident withholding, and limited liability entity taxes. Those responsibilities include but are not limited to: technical tax research, compliance, taxpayer assistance, tax-specific training, public announcements, publications, creating and updating forms, and analyzing and drafting legislation and regulations. The Office is comprised of the Division of Individual Income Tax, the Division of Corporation Tax, and the Office of the Executive Director.

The **Division of Individual Income Tax** is comprised of the individual income tax branch, withholding tax branch, and the director's office. The Division has the primary responsibility of providing taxpayer assistance for individual income and individual income withholding taxes, including handling taxpayer inquiries received over the telephone, by written correspondence, via email, and via live chat. The Division is also responsible for compliance programs for individual income and individual withholding taxes and assisting the Office of Processing and Enforcement in the processing of returns.

The **Division of Corporation Tax** is comprised of the Corporate Income and License Tax Branch, Pass-through Entity Branch, Communications and Training Branch, and director's office. The Division is responsible for the administration of corporation income and license taxes, limited liability entity tax, pass-through entity withholding, economic development income tax credits, and other types of income tax incentives. The Corporation Income and License Tax Branch and the Pass-through Entity Branch perform the same basic functions for taxpayer assistance and compliance, but for different types of corporation and pass-through entity tax returns.

The Communications and Training Branch is responsible for tax-specific training, public announcements, and publications.

## OFFICE OF FIELD OPERATIONS

"Service is our Role, Compliance is our Goal"

The mission of the Office of Field Operations is to support the DOR in administering tax laws, collecting revenue and providing services in a fair, courteous and efficient manner for the benefit of the Commonwealth and its citizens.

The Office of Field Operations consists of approximately 200 employees located at ten Taxpayer Service Centers across the Commonwealth. These service centers are a link between taxpayers and the DOR employees located in Frankfort. Multiple issues involving various taxes can be resolved in these service centers. In essence, these service centers are mini-DORs that provide one-stop tax resolutions for taxpayers.

The Field Compliance duties are aimed at assistance and taxpayer education. Services include: filing individual income tax returns for taxpayers; contacting new sales tax permit holders to improve education in sales and use tax law and filing procedures; and issuing temporary permits for transient vendors selling in the Commonwealth of Kentucky.

The Audit Program is an essential part of the DOR's compliance efforts. This program ensures fair and equitable tax treatment to all businesses operating in the Commonwealth. Audits are performed in the areas of sales and use tax, corporation income and license tax, and property tax, to name a few. Audits are conducted in all 120 counties of Kentucky and across the United States from California to Rhode Island as appropriate.

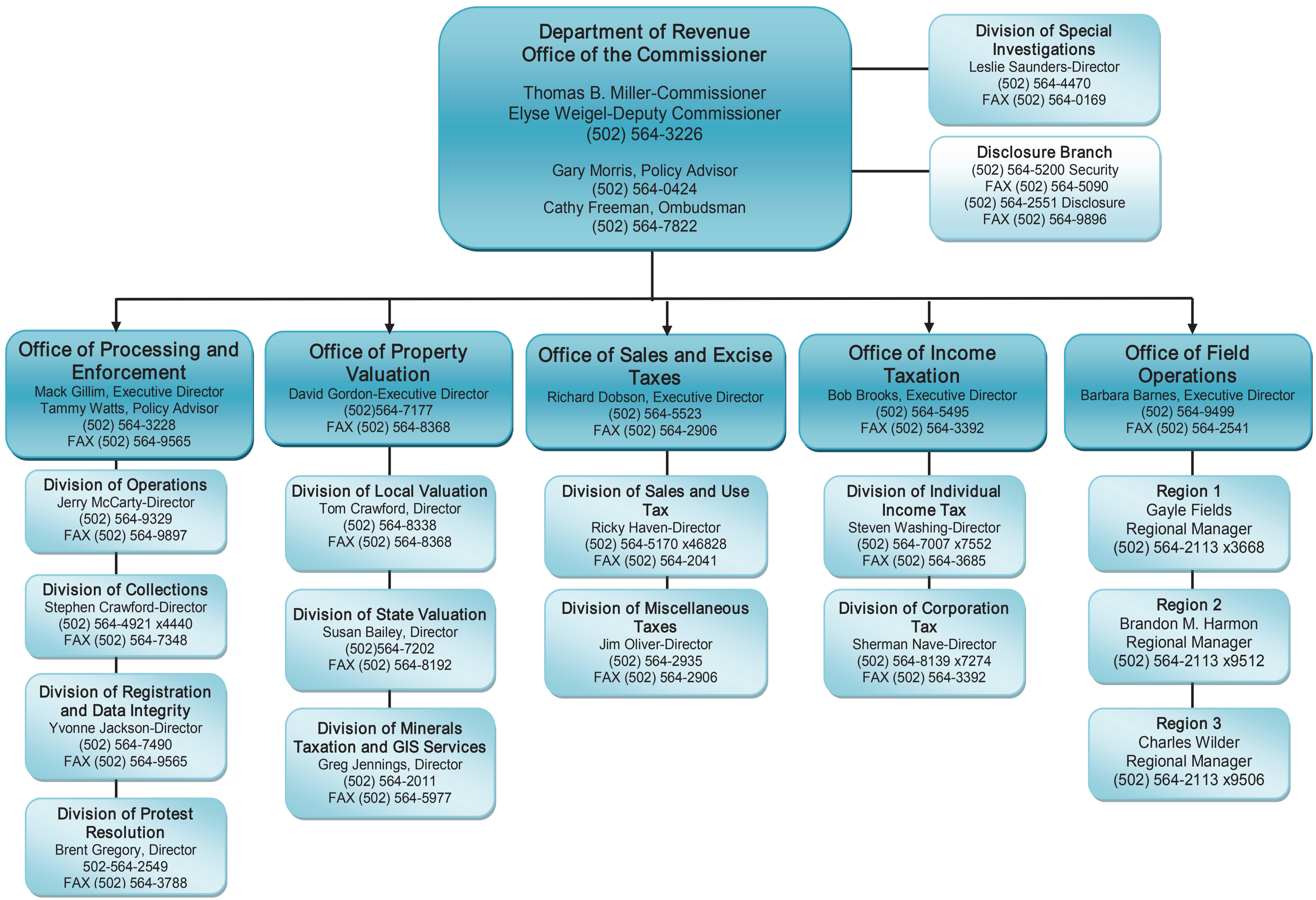
## Department of Revenue

## Expenditures for FY2014 - All Funds

**(Excluding PVAs)**

| Expenditure Category | General Fund | Road Fund | Agency Fund | Tobacco Settlement Fund | Total |
|---|---|---|---|---|---|
| Salaries And Wages | 33,281,286.40 | 1,596,778.57 | 2,171,590.40 | 31,704.60 | 37,081,359.97 |
| Fringe Benefits | 17,477,787.23 | 551,894.02 | 1,399,382.53 | 107,116.00 | 19,536,179.78 |
| Other Personnel Costs | 241,583.06 | | 540.00 | | 242,123.06 |
| Pro Contract (Inc Per Serv) | 236,171.12 | | 2,600.00 | | 238,771.12 |
| Non Pro Contract | 3,944,438.20 | | 1,096,442.08 | | 5,040,880.28 |
| Utilities And Heating Fuels | 1,104,884.08 | | | | 1,104,884.08 |
| Rentals | 2,884,666.09 | 2,103.12 | 100,107.62 | | 2,986,876.83 |
| Maintenance And Repairs | 1,473,445.38 | | 54,437.75 | | 1,527,883.13 |
| Postage And Related Services | 4,492,386.69 | | 1,020.88 | | 4,493,407.57 |
| Miscellaneous Services | 866,632.94 | | 17,887.80 | 104,279.40 | 988,800.14 |
| Telecommunications | 111,567.23 | | 77,518.72 | | 189,085.95 |
| Internal Computer Services | 16,626,771.78 | 6,200.00 | 3,724,601.21 | | 20,357,572.99 |
| Items For Resale | 4,895.00 | | | | 4,895.00 |
| Supplies | 117,497.97 | 13.24 | 44,726.82 | | 162,238.03 |
| Commodities | 231,551.39 | 422,821.92 | 542.43 | - | 654,915.74 |
| Travel Exp & Exp Allowances | 119,432.53 | 14,925.25 | 205,355.49 | | 339,713.27 |
| Misc Commodities & Other Exp | 457,364.88 | 110,788.00 | 295,742.34 | | 863,895.22 |
| Claims | 219.65 | | | | 219.65 |
| Furn/Fixt & Office Equip > 500 | | 14,797.30 | | | 14,797.30 |
| Computer Equipment | | | 30,635.00 | | 30,635.00 |
| Operating Transfer Out | 402.39 | | 1,507,600.00 | | 1,508,002.39 |
| **Total Expenditures** | **83,672,984.01** | **2,720,321.42** | **10,730,731.07** | **243,100.00** | **97,367,136.50** |

# Finance and Administration Cabinet
# Department of Revenue



# Taxes Administered

**Affordable Housing Trust Fund Fee (KRS 64.012)** ***(Effective Aug. 1, 2006)***—Collected by agreement between DOR and the Kentucky Housing Corporation, $6 of each $12 fee imposed on the recording with the county clerk of a 1) Deed of trust or assignment for the benefit of creditors; 2) Deed; 3) Real estate mortgage; 4) Deed of assignment; 5) Real estate option; 6) Power of attorney; 7) Revocation of power of attorney; 8) Lease which is recordable by law; 9) Deed of release of a mortgage or lien under KRS 382.360; 10) United States lien; 11) Release of a United States lien; 12) Release of any recorded encumbrance other than state liens; 13) Lis pendens notice concerning proceedings in bankruptcy; 14) Lis pendens notice; 15) Mechanic's and artisan's lien under KRS Changer 376; 16) Assumed name; 17) Notice of lien issued by the IRS; 18) Notice of lien discharge issued by the IRS; 19) Original, assignment, amendment, or continuation financing statement; 20) Making a record for the establishment of a city, recording the plan or plat thereof, and all other service incident; 21) Survey of a city, or any part thereof, or any addition to or extensions of the boundary of a city; 22) Recording with statutory authority for which no specific fee is set, except a military discharge; and 23) Filing with statutory authority for which no specific fee is set shall be paid to the affordable housing trust fund established in KRS 198A.710 and shall be remitted by the county clerk.

**Agricultural Products**

- In Hands of Producer or Agent **(KRS 132.020(1)(e), 132.200(6))—**1.5 cents (per $100 of assessment). State rate only.

- Tobacco Not at Manufacturer's Plant (Storage)–**(KRS 132.020(1)(d), 132.200(6))—**1.5 cents (per $100 of assessment). Also subject to county and city rates.

- Other Agricultural Products Not at Manufacturer's Plant (Storage) **(KRS 132.020(1)(e), 132.200(6))—**1.5 cents (per $100 of assessment). Also subject to county and city rates.

**Aircraft**

- Not used in the Business of Transporting Person or Property for Compensation or Hire **(KRS 132.020(1)(p), 132.200(18))—**1.5 cents (per $100 of assessment). Local option.

- For Hire Nonpublic Service Company **(KRS 132.020(1)(r))—**45 cents (per $100 of assessment). Subject to full local rates.

- Public Service Company Aircraft **(KRS 136.120, KRS 136.180(3))—**Subject to annual adjustment. Multiplier applied to local rates and subject to annual adjustment. 4-R Rates apply.

**Alcoholic Beverage Wholesale Sales Tax (KRS 243.884)—**11 percent of wholesale sales of distilled spirits, wine and malt beverages. The rate for wine and malt beverages effective July 1, 2015 will be 10.75% and be reduced each year in July by a quarter percent until at a rate of 10%. A wholesale sales tax on alcoholic beverage wholesalers/distributors to be reported monthly. There are statutory exemptions.

**Bank Franchise Tax (KRS 136.500 et seq.)—**1.1 percent of net capital. Minimum tax is $300 per year. Tax is imposed on every financial institution regularly engaged in business in Kentucky at any time during the calendar year. A financial institution is presumed to be regularly engaged in business in Kentucky if during any taxable year it obtains or solicits business with 20 or more persons within Kentucky, or if receipts attributable to sources in Kentucky equal or exceed $100,000. Tax is in lieu of all city, county and local taxes except for the real estate transfer taxes, real property and tangible personal property taxes upon users of utility services and the local deposit franchise tax.

**Beer Consumer Tax (KRS 243.720 et seq.)—**$2.50 per barrel of 31 gallons. An excise tax imposed on distributors or retailers of malt beverages who purchase malt beverages directly from a brewer. There are statutory exemptions and credits. There is a 50 percent discount for domestic brewers up to 300,000 barrels per annum.

**Cigarette Enforcement and Administration Fee (KRS 365.390)—**0.003 cent per pack (rate subject to change annually). Fee paid by cigarette wholesalers to provide for the expenses of the DOR in administering the cigarette tax law.

**Cigarette Excise Tax (KRS 138.130 et seq.)—**3 cents per 20 cigarettes, proportioned for other quantities. An excise tax on cigarettes paid by resident and nonresident wholesalers and unclassified acquirers. The tax is paid by purchasing stamps within 48 hours after cigarettes are received by a resident wholesaler. The unclassified acquirer pays the tax by purchasing and affixing stamps within 24 hours of receipt of the cigarettes. A nonresident wholesaler must affix the tax stamps prior to importing them into Kentucky.

**Cigarette Inventory Floor Stocks Tax (KRS 138.143) —**$0.30 per 20 cigarettes. A one-time surtax on cigarette inventory on hand at 11:59 p.m. on March 31, 2009.

**Cigarette Licenses (KRS 138.195)—**Resident wholesaler—$500; Nonresident wholesaler—$500; Subjobber—$500; Vending machine operator—$25; Transporter—$50; Unclassified acquirer—$50. Annual license fee imposed upon various dealers and handlers of cigarettes. More than one license may be required by the DOR for any dealer or handler depending upon the diversity of his business and the number of established places of business.

**Cigarette Surtax (KRS 138.140)—**$0.57 per 20 cigarettes, proportioned for other quantities. A surtax on cigarettes paid concurrently with the cigarette excise tax at the time of stamp purchases. A portion is allocated to cancer research.

**Coal Severance Tax (KRS 143.010, 143.020 et seq.)—**50 cents per ton minimum or 4.5 percent of gross value. (the minimum tax shall not apply to a taxpayer who only processes coal.) Tax is based on the gross value of coal severed and/or processed in Kentucky. Partial exemptions from the tax may apply to newly permitted production from thin seam.

**Corporation Tax/Limited Liability Entity Tax (KRS 141.010 et seq.)**—An annual limited liability entity tax (LLET) as provided by KRS 141.0401(2) shall be paid by every corporation and every limited liability pass-through entity doing business in Kentucky on all Kentucky gross receipts or Kentucky gross profits. The LLET is the greater of $175 or the lesser of $0.095 per $100 of a corporation's or limited liability pass-through entity's Kentucky gross receipts or $0.75 per $100 of a corporation's or limited liability pass-through entity's Kentucky gross profits.

A small business exclusion from the LLET is provided to a corporation or a limited liability pass-through entity, if gross receipts or gross profits from all sources are $3 million or less. Also, marginal LLET relief is provided to a corporation or a limited liability pass-through entity, if gross receipts or gross profits from all sources are in excess of $3 million but less than $6 million. The small business exclusion cannot reduce the LLET below the $175 minimum.

A corporation is also subject to corporation income tax provided by KRS 141.040. Corporate income tax rates: first $50,000 of net income – 4 percent; next $50,000 – 5 percent; and all over $100,000 – 6 percent. A corporation is allowed a tax credit against its corporation income tax equal to its LLET liability reduced by $175. A corporation that is a partner or member of a limited liability pass-through entity is allowed a tax credit against its corporation income tax equal to its proportionate share of the LLET of the limited liability pass-through entity after the subtraction of any credits identified in KRS 141.0205 and the minimum tax of $175; however, the tax credit cannot exceed the corporation income tax assessed on the corporation's share of distributive income from the limited liability pass-through entity, and any remaining tax credit shall be disallowed.

An individual that is a partner, member or shareholder of a limited liability pass-through entity is allowed a tax credit against the individual's income tax provided by KRS 141.020 equal to the individual's proportionate share of the LLET of the limited liability pass-through entity after the subtraction of any credits identified in KRS 141.0205 and the minimum tax of $175; however, the tax credit cannot exceed the income tax assessed on the individual's share of distributive income from the limited liability pass-through entity, and any remaining tax credit shall be disallowed.

Every pass-through entity, except publicly traded partnerships as defined in KRS 141.0401(6)(r), is required to withhold Kentucky income tax at the maximum rate provided in KRS 141.020 or KRS 141.040 on the distributive income, of each: (i) nonresident individual partner, member or shareholder; and (ii) corporate partner or member that is doing business in Kentucky only through its ownership interest in a pass-through entity. Effective for taxable years beginning on or after Jan. 1, 2012, every pass-through entity required to withhold Kentucky income tax on partners, members or shareholders shall make a declaration and payment of estimated tax for the taxable year if: (i) for an individual partner, member or shareholder, the estimated tax liability can reasonably be expected to exceed $500; or (ii) for a corporate partner or member, the estimated tax liability can reasonably be expected to exceed $5,000.

**Distilled Spirits and Wine Consumer Taxes (KRS 243.720 et seq.)—**Distilled spirits containing over 6 percent alcohol by volume: per gallon—$1.92; per liter—0.5069; distilled spirits containing 6 percent or less alcohol by volume: per gallon—$0.25; per liter—0.0660; wine—per gallon—$0.50; per liter—0.1320.

(Proportionate amount charged on smaller quantities, but not less than 4 cents on any retail container of wine.)

Excise tax imposed upon the use, sale or distribution by sale or gift of distilled spirits and wine. There are statutory exemptions.

**Distilled Spirits Case Sales Tax (KRS 243.710)—**5 cents per case. Excise tax on distilled spirits sold by wholesalers to retailers in Kentucky.

**Distilled Spirits in Bonded Warehouses (KRS 132.020(1)(n), 132.097, 132.099 132.180 and 132.200(4))—**Except for inventories qualifying for goods in transit to an out-of-state destination within six months and certain products in course of manufacture, subject to 5 cents (per $100 of assessments) state rate and full local rates.

**Farm Machinery Used in Farming (KRS 132.020(1)(f))—** .1 cent (per $100 of assessment). State rate only.

**Goods Held for Sale in the Regular Course of Business (KRS 132.020(1)(n))—**5 cents (per $100 of assessment). Subject to local rates.

**Goods in Transit—Out-of-state destination within six months. (KRS 132.097, 132.099)—**Exempt from state, county, school and city tax. Special taxing districts only may levy a rate.

**Health Care Provider Tax (KRS 142.301 to 142.359) *(Effective July 1, 2013)*—**2.5 percent of gross receipts for hospital services **for facilities not in operation during FY06. For facilities in operation during FY06, the monthly tax is one-twelfth of the total paid during FY06;** 2 percent of gross receipts for home health agency services; 5.5 percent of gross receipts for Medicaid managed care services, ICF/MR services, and support for community living services; $1.82-$12.85 per non-Medicare patient bed day for nursing facilities services.

**Individual Income Tax (KRS 141.010 et seq.)—**First $3,000—2 percent; Next $1,000—3 percent; Next $1,000—4 percent; Next $3,000—5 percent; next $67,000—5.8 percent. In excess of $75,000—6 percent.

Graduated tax upon an individual's taxable income. Residents must pay on their entire taxable income. Nonresidents must pay on that portion of their income attributable to Kentucky sources. Fiduciaries must pay on that portion of income of an estate or trust not distributed or distributable to beneficiaries.

The tax base is the federal adjusted gross income adjusted for differences in Kentucky and federal laws, including U.S. government bond interest, limited pension/retirement income exclusion, Social Security benefits and Railroad Retirement Board benefits and deductions for long-term care and health insurance premiums. Taxable income is computed by using the standard deduction or Kentucky itemized deductions. Tax credits include personal credits of $20, child and dependent care, family size and various business credits. Standard deduction: 2013—$2,360 and 2014—$2,400

**Inheritance and Estate Taxes (KRS 140.010 et seq.)—**

Inheritance tax— 4–16 percent; The Kentucky inheritance tax is a tax on the right to receive property upon the death of another person. The rate of tax and the exemptions allowed depend on the legal relationship of the beneficiary to the decedent. If the date of death is after June 30, 1998, the following list of beneficiaries are exempt from paying inheritance tax: (1) Surviving spouse, parent; (2) Child (adult or infant)—child by blood, stepchild, child adopted during infancy, or a child adopted during adulthood who was reared by the decedent during infancy; (3) Grandchild—issue of child by blood, stepchild, child adopted during infancy, or of a child adopted during adulthood who was reared by decedent during infancy; (4) Brother, sister (whole or half).

Estate tax— Beginning in 2005, the state death tax credit was replaced by a deduction for state death taxes paid and this change is set to expire on Dec. 31, 2013. Therefore, the Kentucky estate tax is effectively repealed for the estates of decedents who die after Dec. 31, 2004.

**Insurance Premium Surcharge (KRS 136.392)—**1.5 percent of premiums, prior to April 1, 2010. Since April 1, 2010 the rate is 1.8 percent of premiums. An insurance premium surcharge on insured Kentucky risks. There are statutory exemptions.

**Insurance Premium Taxes (KRS 136.320, 136.330 to 136.390, 299.530, 304.3-270, 304.4-030, 304.11-050, 304.49220)—**All domestic and foreign life companies 1.5 percent tax rate. Annuities are exempt from tax. All other insurance companies 2 percent tax rate. Fire insurance*—0.75 percent.

*Represents additional tax on applicable premiums.

Annual tax imposed on insurance companies and risk retention groups based upon premium receipts on business done. There are statutory exemptions.

**Leasehold Interest (KRS 132.020(1)(b), 132.200(2))—**Privately owned leasehold interest in industrial buildings. 1.5 cents (per $100 of assessment). State rate only.

**Livestock and Poultry (KRS 132.020(1)(g))—**.1 cent (per $100 of assessment). State rate only.

**Legal Process Taxes (KRS 142.010 et seq.)*(Effective Jan. 1, 2007)*—**Conveyances of real property (deeds) - $4; mortgages, financial statements and security agreements - $4; marriage licenses* - $4.50; powers of attorney to convey real or personal property - $4; lien or conveyance of coal, oil, gas or other mineral right or privilege - $4. Taxes imposed on the filing of an instrument subject to tax or the issuance of a marriage license. Collected by county clerk.

* A $10 Spouse Abuse Shelter Fund fee levied on marriage licenses by KRS 209.160 is, by agreement between the DOR and the Cabinet for Health and Family Services, also reported and paid to the DOR by county clerks as part of the monthly report of legal process taxes due.

**Loaner-Rental Tax (KRS 138.460 & KRS 138.4605)—**Loaner-Rental tax is paid by a dealer who is regularly engaged in the servicing or repair of motor vehicles and loans or rents a motor vehicle to a retail customer while the customer's motor vehicle is at the dealership for repair or service. Dealers must make application to be in the program. Upon acceptance into the program, the dealer will be required to file a monthly return and remit $25 per vehicle for as long as the vehicle is used as a Loaner-Rental. A vehicle log must be maintained by the dealer; loan/rental dates, mileage in and out, customer names and description of repairs completed for the customer.

**Manufacturing Machinery (KRS 132.020(1)(i), 132.200(4))—**15 cents (per $100 of assessment). State rate only.

**Marijuana and Controlled Substance Tax (KRS 138.870 et seq.)—**$3.50 per gram on marijuana, loose. $1,000 per marijuana plant. $200 per gram controlled substance by weight. $2,000 per 50 dosage units of controlled substance. Growers, sellers, dealers, buyers and manufacturers must obtain a tax stamp to affix to the product. Commonwealth's or county attorneys who obtain a conviction of, or guilty or Alford plea from an offender must notify the DOR if the product that was the subject of the conviction or plea does not bear the tax stamp.

**Motor Fuels Tax—Gasoline (KRS 138.210 et seq.)—** 9 percent of average wholesale price of gasoline, but not less than 16.1 cents per gallon. Rate is determined quarterly. A 5 cent per gallon Supplemental Highway User Motor Fuel Tax also applies. It is an excise tax paid by licensed dealers on all gasoline received in this state. There are statutory provisions for tax credits and partial or full tax refunds for designated users.

**Motor Fuels Tax—Liquefied Petroleum Gas (KRS 234.310 to 234.440)—**Variable rate same as gasoline. The 5 cent per gallon supplemental tax also applies to liquefied petroleum gas. An excise tax paid by licensed dealers on all liquefied petroleum motor fuel withdrawn to propel motor vehicles on the public highways, unless the carburetion system has been approved by the Environmental and Public Protection Cabinet.

**Motor Fuels Tax—Petroleum Storage Tank Environmental Assurance Fee (KRS 224.60-145)—**1.4 cents per gallon. A petroleum storage tank environmental assurance fee is levied on all taxable gasoline and special fuel reported in this state by licensed dealers. There are provisions for exemptions or refunds for qualifying gasoline or special fuels not to be used on the public highways.

**Motor Fuels Tax—Special Fuels (KRS 138.210 et seq.)—**Variable rate same as gasoline. A 2-cent per gallon Supplemental Highway User Motor Fuel Tax also applies. An excise tax is levied on all special fuels received in this state by licensed dealers. There are statutory provisions for tax credits and partial or full tax refunds for designated users.

**Motor Vehicle Tire Fee (KRS 224.50-868)—**$1 per tire sold at retail. Applies to the retail sale of new motor vehicle tires sold in Kentucky. Does not apply to new cars brought into the state for sale or use. Sales of recapped tires are exempt from the fee.

**Motor Vehicle Usage Tax (KRS 138.450 et seq.)—**6 percent of the consideration given or retail value as defined in KRS 138.450. Value is dependent on the type of transaction. Optional tax payment method available for U-Drive-It operators based on 6 percent of the gross rental or lease charges. Tax imposed on new and used motor vehicles when registered for the first time in this state and when ownership is transferred. There are statutory exemptions and credits. Regular usage tax payments are made to the county clerk and forwarded to the DOR. U-Drive-It usage tax payments are made directly to the Transportation Cabinet on a monthly basis.

**Other Tobacco Products Tax (KRS 138.140(4))*(Effective April 1, 2009)*—**15 percent of the gross receipts from the wholesale sale of other tobacco products.

**Pollution Control Facilities (KRS 132.020(1)(k), 132.200(8)—**15 cents (per $100 of assessment) on tangible personal property only. State rate only.

**Public Service Commission Assessment (KRS 278.130 et seq.)—** 1.583 mills (subject to change annually up to 2 mills). Maximum assessment—2 mills; Minimum assessment—$50. Assessment imposed annually on utility companies under the jurisdiction of the Public Service Commission based on proportionate share of gross intrastate revenues by each company.

**Public Warehouses—**Goods held for sale except goods in transit. **(KRS 132.020(1)(n))—**5 cents (per $100 of assessment). Subject to local rates.

**Racing Taxes**

| Average Daily Mutuel Handle (for preceding year) | Tax Rate Per Day |
|---|---|
| $ 0 — $ 25,000 | $ 0 |
| 25,001 — 250,000 | 175 |
| 250,001 — 450,000 | 500 |
| 450,001 — 700,000 | 1,000 |
| 700,001 — 800,000 | 1,500 |
| 800,001 — 900,000 | 2,000 |
| 900,001 and above | 2,500 |

**Race Track License Tax (KRS 137.170 et seq.)—**License tax imposed upon the operation of a track at which horse races are run under the jurisdiction of the Kentucky Horse Racing Authority. Reported and paid within 30 days of end of each race meeting. An annual recapitulation report is due on or before Dec. 31 each year for the race year ended Nov. 30.

**Admission Tax (KRS 138.480 et seq., 139.100(2)(c))—**Tracks under jurisdiction of the Kentucky Horse Racing Authority (KHRA)—15 cents/person. Excise tax on each paid admission to race track. There are statutory exemptions. Reported and paid within 30 days of end of each race meeting. Race track admission tax is in lieu of sales tax.

**Pari-Mutuel Tax (KRS 138.510 et seq.)—**3.5 percent of total wagered at all thoroughbred tracks under KHRA jurisdiction with average daily handle of $1.2 million or more; 1.5 percent if average daily handle is less than $1.2 million.

3.75 percent of total wagered at all standardbred tracks under KHRA jurisdiction with average daily handle of $1.2 million or more; 1.75 percent if average daily handle is less than $1.2 million.

3 percent of telephone account wagering and the total wagered at receiving tracks.

Excise tax is imposed on every person, corporation or association that operates a horse race track at which betting is conducted.

Excise tax is also imposed on receiving tracks participating in intertrack wagering on simulcast races.

Average daily handle is computed from the amount wagered at the host track, excluding money wagered at receiving tracks and all telephone account wagering.

A portion of the pari-mutuel tax is allocated to the following:

- Equine Drug Research;
- Equine Industry Program;
- Higher Education Equine Trust and Revolving Fund;
- Thoroughbred Development Fund; and
- Standardbred, Quarterhorse, Appaloosa and Arabian Development Fund.

Reported and paid weekly.

**Radio and Television Equipment (KRS 132.020(1)(j), 132.200(5))—**15 cents (per $100 of assessment). State rate only.

**Railroads–Interstate (KRS 136.120, 136.180(4))—**Subject to annual adjustment. Multiplier applied to local rates and subject to annual adjustment. 4-R Rates apply.

**Railroads–Intrastate (KRS 136.120, 136.180(4), 132.020(1)(o))—** 10 cents (per $100 of assessment). Multipliers applied to local rates and subject to annual adjustment. 4-R Rates apply.

**Raw Materials and Products in Course of Manufacture (KRS 132.020(1)(n), 132.200(4)—**5 cents (per $100 of assessment). State rate only.

**Real Estate Not Elsewhere Specified (KRS 132.020(1)(a))—** Adjusted annually (by July 1) per KRS 132.020(4). The state real estate rate was 12.8 cents (per $100 assessment) for 2006, 12.4 cents for 2007, 12.2 cents for 2008, 2009, 2010 and 2013. Full local rates.

**Recreational Vehicles (KRS 132.485(1)(b), 132.730. 132.751)—** Classification depends on permanency of location. 45 cents (per $100 of assessment). Full local rates.

**Recycling Machinery (KRS 132.020(1)(r), 132.200(15))—**45 cents (per $100 of assessment). State rate only.

**Rural Cooperative Annual Tax (KRS 279.200, 279.530)—**$10. Annual payment by corporations (RECCs and RTCCs) formed under KRS Chapter 279 in lieu of certain taxes.

**Sales and Use Taxes (KRS 139.010 et seq.)—**Sales tax—6 percent; Sales tax is imposed on the retailer for the privilege of making retail sales of tangible personal property, digital property or taxable services within Kentucky. (KRS 139.200)

Use tax—6 percent; Use tax is imposed on the use, storage or other consumption in the state of tangible personal property or digital property purchased for use, storage or other consumption in this state. (KRS 139.310)

Vendor's compensation is allowed up to $1,500 per timely filed and paid return. Deduct 1.75 percent of the first $1,000 and 1 percent of the amount in excess of $1,000.

There are statutory exemptions.

**Snuff Tax—(KRS 138.140(5))—**Effective April 1, 2009, $0.19 per unit of snuff sold. A unit is defined as a hard container containing no more than 1 1/2 ounce of snuff. This tax is paid by the wholesaler.

**Tangible Property Not Elsewhere Specified (KRS 132.020(1)(r))—**45 cents (per $100 of assessment). Full local rates.

**Telecommunications Tax (KRS 136.600–136.600)—**The telecommunications excise and gross revenues tax became effective Jan. 1, 2006. The telecommunications excise tax is imposed at the rate of 3 percent on the retail purchase of multi-channel video programming services. The telecommunications gross revenues tax is imposed at the rate of 2.4 percent of gross revenues received for the provision of multi-channel video programming services and at the rate of 1.3 percent of gross revenues received for the provision of communications services. The rates and tax computations are reported on one return that is due by the 20th day of the month following the end of the reporting period.

Vendor's compensation is allowed up to $1,500 per timely filed and paid return for the excise tax portion of the telecommunications tax return. Deduct 1.75 percent of the first $1,000 and 1 percent of the amount in excess of $1,000.

**Transient Room Tax (KRS 142.400 et seq.)—**1 percent of rent. A tax on every occupancy of any suite, room, rooms or cabins charged by all persons, companies, corporations, groups or organizations doing business as motor courts, motels, hotels, inns, tourist camps or like or similar accommodations businesses. The receipts from this tax are used for the tourism, meeting and convention marketing fund.

**Trucks and Tractors-Interstate (KRS 136.188, 132.487, 132.760)—**Subject to annual ad valorem fee as of Jan. 1, 2007. Fee subject to annual adjustment. State and local fees are collected by Department of Transportation and distributed by the DOR. Buses and nonapportioned Kentucky registered vehicles are subject to KRS 132.487. Semi-trailers of interstate motor carriers are exempt.

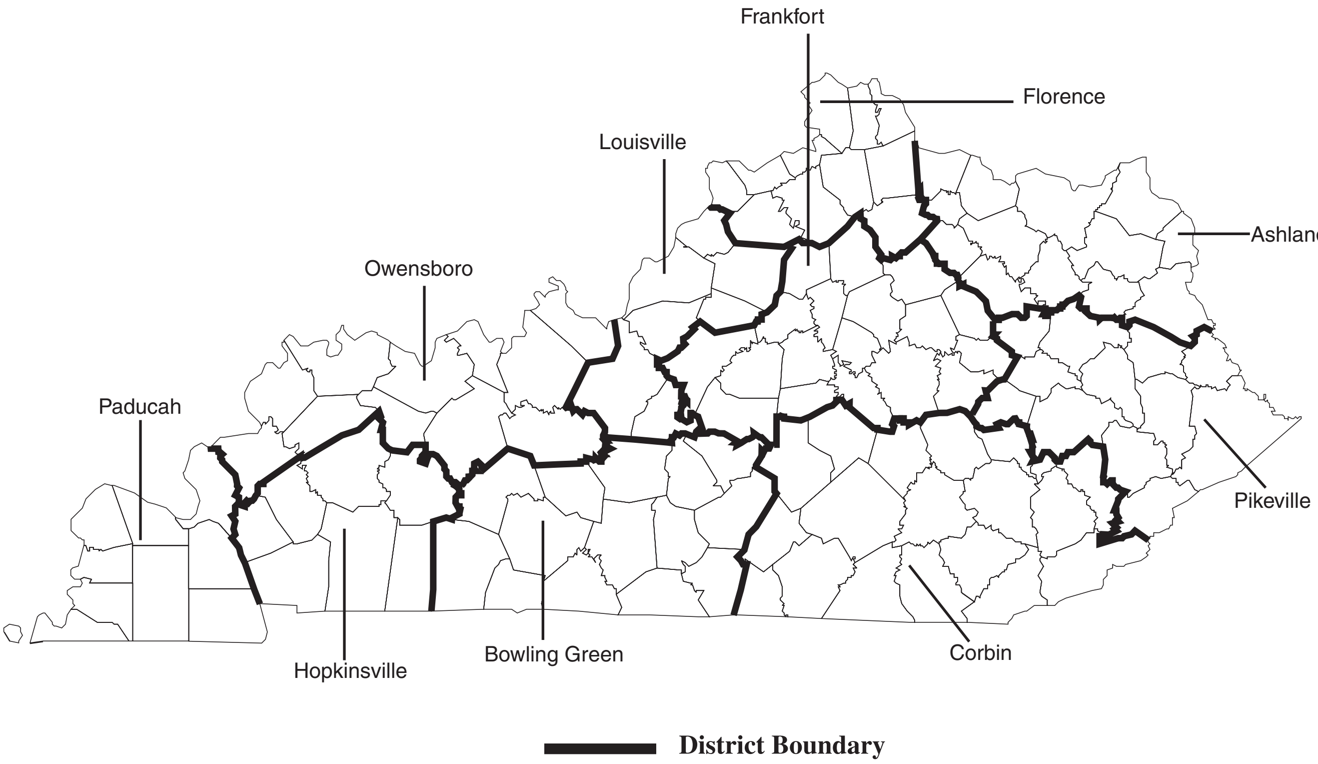
**Unmined Coal, Oil and Gas Reserves and Other Mineral or Energy Resources** held separately from Surface Real Property (KRS 132.820)—Same tax rates as shown for real estate.

**Utility Gross Receipts License Tax—(KRS 160.613, 160.6131, 160.614, 160.6145, 160.615, 160.6151, 160.6152, 160.6153, 160.6154, 160.6155, 160.6156, 160.6157, 160.6158, 160.617)—**The rate is determined by each school district, but cannot exceed 3 percent. Utility gross receipts license tax for schools is assessed on gross receipts derived from the furnishing of utility services and/or cable and direct broadcast satellite services within a school district. The service provider collects the tax based on the rate established by the local authority. The service provider or Energy Direct Pay holder submits payment to the DOR with a breakdown of the tax collected by school district. The DOR captures the district information and the corresponding tax collections and distributes the amount to the appropriate school district.

**Watercraft**

- Commercial **(KRS 138.1801–136.1806)—**45 cents (per $100 of assessment). Full local rates.
- Individual **(KRS 132.020(1)(r), 132.488)—**45 cents (per $100 of assessment). Full local rates.
- Federally Documented **(KRS 132.020(1)(q), 132.200(19))—** 1.5 cents (per $100 of assessment). Local option.

# KENTUCKY TAXPAYER SERVICE CENTERS

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Fax: (606) 920-2039

**Bowling Green, 42104–3278**
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**Louisville, 40202–2310**
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