

INSTRUCTIONS FOR 2003 KENTUCKY FORM 740-NP NONRESIDENT OR PART-YEAR RESIDENT INCOME TAX RETURN

WHAT'S NEW

DEDUCTION FOR TAXES PAID TO FOREIGN COUNTRIES—

Effective for taxable years beginning after December 31, 2002, and ending before July 1, 2004, no deduction for taxes paid to foreign countries is allowed.

STANDARD DEDUCTION—For 2003, the standard deduction is increased to \$1,830.

RETIREMENT INCOME—For 2003, the retirement income exclusion is increased to \$39,400.

INTERNAL REVENUE CODE—Kentucky's income tax law is based on the Internal Revenue Code (IRC) in effect December 31, 2001, exclusive of any amendments made subsequent to that date, other than amendments that extend provisions in effect on December 31, 2001, that would otherwise expire. Changes to federal income tax law made after the IRC reference date in KRS 141.010(3) do not apply unless specifically adopted by the Kentucky General Assembly.

The following Acts and related provisions **DO NOT** apply to Kentucky returns:

- **Victims of Terrorism Tax Relief Act of 2001** signed on January 23, 2002.
- **Job Creation and Worker Assistance Act of 2002** (JCWAA) signed on March 9, 2002.
- **Trade Act of 2002** signed on August 6, 2002.
 - Reduce health insurance premiums by the amount of Health Coverage Tax Credit claimed on federal Form 8885, Health Coverage Tax Credit, and any advance payments from Form 1099-H, box 1, before deducting on Line 58.
- **Jobs and Growth Tax Relief Reconciliation Act of 2003** (JGTRRA) signed on May 28, 2003.
 - Section 179 expense allowance is limited to \$25,000 and the phase-out threshold is \$200,000 for Kentucky income tax purposes.
 - Depreciate off-the-shelf computer software for Kentucky purposes.
 - The 50 percent special depreciation is not allowable for Kentucky income tax purposes and the luxury auto depreciation cap remains at \$3,060.

Persons moving into Kentucky must report income received from Kentucky sources prior to becoming residents and income received from all sources after becoming Kentucky residents.

Residents moving out of Kentucky during the year must report income from all sources while a resident and from Kentucky sources while a nonresident.

Reciprocal States—Kentucky has reciprocal agreements with specific states. These agreements provide that taxpayers be taxed by their state of residence, and not the state where income is earned. **Reciprocity does not apply to persons who live in Kentucky for more than 183 days during the tax year.** The states and types of exemptions are as follows:

Illinois, Ohio, West Virginia—wages and salaries

Indiana—wages, salaries and commissions

Michigan, Wisconsin—income from personal services (including salaries and wages)

Virginia—commuting daily, salaries and wages

Taxpayers who qualify for this exemption and have no other Kentucky taxable income should file Form 740-NP-R, Kentucky Income Tax Return, Nonresident-Reciprocal State, to obtain a refund. Also, nonresidents who qualify for the exemption should file Form 42A809, Certificate of Nonresidence, with their employer to exempt their future wages from Kentucky withholding.

Gambling income and distributive share income (Schedule K-1) are not exempt under reciprocal agreements. This income is fully taxable. A complete return must be filed if filing requirements are met.

Military Personnel—Members of the Armed Forces are required to file state income tax returns with their state of legal domicile, which usually is the state of residence prior to entering military service. Nonresident military personnel with civilian jobs in Kentucky are required to report this income on Form 740-NP except residents of reciprocal states (see reciprocal states above). Any income from nonmilitary Kentucky sources is also taxable.

Any income earned in a **combat zone** that is exempt for federal tax purposes is also exempt for Kentucky tax purposes.

A **civilian spouse** who lives or works in Kentucky may be required to file as resident, part-year resident or nonresident based on the situation (see above).

Military Personnel Eligible for Combat Zone Extension—Members of the Army, Navy, Marines, Air Force, or Public Health Service of the United States government who serve in an area designated as a combat zone by presidential proclamation shall not be required to file an income tax return and pay the taxes, which would otherwise become due during the period of service, until 12 months after the service is completed. Members of the National Guard or any branch of the Reserves called to active duty to serve in a combat zone are granted the same extension.

WHEN TO FILE—April 15, 2004, is the filing deadline for persons reporting income for calendar year 2003. To avoid penalties and interest, returns must be postmarked no later than April 15.

SSN NEEDED—Put Your Social Security Number on Your Return—To protect your privacy, your Social Security number (SSN) is not printed on the peel-off label. This means that you must enter your SSN in the appropriate boxes on your return. If you are married filing a joint return, also enter your spouse's SSN.

WHO MUST FILE FORM 740-NP

Form 740-NP must be used by full-year nonresidents who had income from Kentucky sources and by part-year residents who had income while a Kentucky resident or from Kentucky sources while a nonresident. These persons must file Form 740-NP if (1) they had **any** income from Kentucky sources and a combined gross income from all sources of \$5,000 or more, or (2) Kentucky gross receipts from self-employment of \$5,000 or more.

Individuals who are residents of Kentucky for the entire tax year must use Form 740-EZ or 740. Persons who maintain a permanent residence in Kentucky (i.e., are domiciled in Kentucky) are considered residents. Persons not domiciled in Kentucky but who live in Kentucky for more than 183 days during the tax year are also considered residents.

Full-year nonresidents must report all income from Kentucky sources (including distributive share income, Schedule K-1), from activities carried on in Kentucky or from the performance of services in Kentucky and from property located in Kentucky.

ADDRESS LABELS—Use the preprinted, bar-coded labels provided. The primary Social Security number has been converted to UPC bar code that can be read by scanners. This will enable us to tell you that your return has been received. If the address is incorrect, draw a line through the incorrect information and print the correct address. If the name is incorrect, discard the labels and print the requested information in the blocks provided.

COMPUTER-GENERATED RETURNS—Most software packages produce a 2-D bar code that contains all of the information needed to process your return. The bar code is printed in the upper right-hand corner of the return. This bar code should not be covered up or marked through. Last minute changes should be entered into the program and the return printed again so that the bar code also contains the correct information. Using the bar code reduces data entry errors for the Cabinet and results in a faster refund for you. A list of vendors whose software has been approved is posted on the Internet at www.revenue.ky.gov.

AMENDED RETURNS—If you discover that you omitted deductions or otherwise improperly prepared your return, you may obtain a refund by filing an amended return within four years of the due date of the original return. You are required to file an amended return to report omitted income.

When filing an amended return, check the box on Form 740-NP and attach a detailed explanation of the changes to income, deductions and tax. Submit a completed Kentucky return and corrected federal schedules, if applicable. If you do not attach the required information, processing of your amended return may be delayed.

CONFIDENTIALITY—Kentucky Revised Statute 131.190 requires the Revenue Cabinet to maintain strict confidentiality of all taxpayer records. No employee of the Revenue Cabinet may divulge any information regarding the tax returns, schedules or reports required to be filed. However, the Revenue Cabinet is not prohibited from providing evidence to or testifying in any court of law concerning official tax records.

Further, the Cabinet may provide official information on a confidential basis to the Internal Revenue Service or to any other governmental agency with which it has an exchange of information agreement whereby the Cabinet shall receive similar or useful information in return.

POLITICAL PARTY FUND DESIGNATION—You may designate that a portion of your taxes will be paid to either the Democratic or Republican parties if you have a tax liability of at least \$2 (\$4 for married persons filing joint returns). *This designation will not increase your tax or decrease your refund.* You may make this designation by checking the applicable box. A husband and wife may each make a designation. Persons making no designation should check the "No Designation" box.

FILING STATUS—*Legal liabilities are affected by the choice of filing methods.* Married persons who file joint returns are jointly and severally liable for all income taxes due for the period covered by the return. If married, you may file separate or joint returns. **Most married persons pay less tax if they file separate returns.**

Filing Status 1, Single—Use this filing status if you are unmarried, divorced, widowed, legally separated by court decree, or if you filed as "Head of Household" or "Qualifying Widow(er)" on your federal return.

Filing Status 2, Married Filing Joint Return—Use this filing status if you and your spouse choose to file a joint return even if one spouse had no income. Jointly means that you and your spouse add your incomes together and report the total in Column B, Lines 36 through 61.

Filing Status 3, Married Filing Separate Returns—If using this filing status, you and your spouse must file two separate tax forms. The husband's income is reported on one tax form, the wife's on the other. When filing separate returns, the name and Social Security number of each spouse must be entered on both returns. Enter the spouse's Social Security number in the block provided, and enter the name on Line 3.

TAX CREDITS—Yourself—You are always allowed to claim a tax credit for yourself (even if your parent(s) can claim a credit for you on their return). On Line 32(a), always check the first box to claim a tax credit for yourself. *If 65 or older*, also check the next two boxes on the line. *If legally blind*, also check the last two boxes on the line.

Your Spouse—Do not fill in Line 32(b) if (1) you are single; (2) you are married and you and your spouse are filing two separate returns; or (3) your spouse received more than half of his or her support from another taxpayer. However, if your spouse died during the taxable year, you may claim a credit for the deceased on Line 32(b).

Fill in Line 32(b) if you are married and (1) you and your spouse are filing a joint return, or (2) if your spouse had no income or is not required to file a return. If you meet these criteria, check the first box on Line 32(b) for your spouse. *If your spouse is 65 or older*, also check the next two boxes. *If your spouse was legally blind at the end of the taxable year*, also check the last two boxes on Line 32(b).

Note: If a spouse had income which is taxable for federal purposes but is not taxable to Kentucky, the taxpayer may claim credits for that spouse (and any dependents) only if both spouses' incomes are included in Column A of this return.

Married taxpayers filing separate returns may divide **dependent** credits between them; however, one spouse may use all **dependent** credits and the other none.

Dependents—You are allowed to claim a tax credit for each person defined as a dependent in the Internal Revenue Code. Dependents who qualify for federal purposes also qualify for Kentucky except as noted above.

Use Line 33 to claim tax credits for your dependent children, including stepchildren and legally adopted children.

Use Line 34 to claim tax credits for other persons who qualify as dependents.

Children of Divorced or Separated Parents—Attach a copy of federal Form 8332 filed with your federal return.

Tax Credits for Individuals Supported by More Than One Taxpayer—Attach a copy of federal Form 2120 filed with your federal return.

KENTUCKY NATIONAL GUARD MEMBERS—Persons who were members of the Kentucky National Guard on December 31, 2003, may claim an additional credit on Line 33. Designate this credit with the initials "N.G." Kentucky law specifically restricts this credit to Kentucky National Guard members; military reserve members are not eligible.

REPORTING PERIODS AND ACCOUNTING PROCEDURES—Kentucky law requires taxpayers to report income on the same calendar or fiscal year and to use the same methods of accounting as required for federal income tax purposes. Any federally approved change in accounting period or methods must be reported to the Kentucky Revenue Cabinet. Attach a copy of the federal approval.

Changes to federal income tax law made after the Internal Revenue Code reference date contained in KRS 141.010(3) shall not apply for purposes of Chapter 141 unless adopted by the General Assembly.

2003 FEDERAL/KENTUCKY INDIVIDUAL INCOME TAX DIFFERENCES

Kentucky income tax law is based on the federal income tax law in effect on December 31, 2001. The Revenue Cabinet generally follows the administrative regulations and rulings of the Internal Revenue Service in those areas where no specific Kentucky law exists.

The chart below provides a quick reference guide to the major federal/Kentucky differences. It is not intended to be all inclusive. Items not listed may be referred to the Revenue Cabinet to determine Kentucky tax treatment.

PROVISION	FEDERAL TAX TREATMENT	KENTUCKY TAX TREATMENT
1. Interest from Federal Obligations	Taxable	Exempt
2. Retirement Income from:		
Commonwealth of Kentucky Retirement Systems	Taxable	Partially exempt if retired after December 31, 1997; exempt if retired before January 1, 1998; Schedule P may be required
Kentucky Local Government Retirement Systems	Taxable	
Federal and Military Retirement Systems	Taxable	
3. Pensions and Annuities Starting After 7/1/86 and Before 1/1/90	3-year recovery rule eliminated	3-year recovery rule retained
4. Other Pension and Annuity Income	Taxable	100% excludable up to \$39,400; Schedule P may be required
5. Benefits from U.S. Railroad Retirement Board	May be taxable	Exempt; Schedule P may be required
6. Social Security Benefits	May be taxable	Exempt
7. Capital Gains on Sale of Kentucky Turnpike Bonds	Taxable	Exempt
8. Other States' Municipal Bond Interest Income	Exempt	Taxable
9. Kentucky Local Government Lease Interest Payments	Taxable	Exempt
10. Long-Term Care Insurance Premiums	Limited deduction as self-employed health insurance	100% adjustment to gross income
11. Medical and Dental Insurance Premiums	Limited deduction as self-employed health insurance	100% adjustment to gross income
12. Capital Gains on Property Taken by Eminent Domain	Taxable	Exempt
13. Election Workers—Income for Training or Working at Election Booths	Taxable	Exempt
14. Artistic Contributions	Noncash contribution allowed as itemized deduction	Appraised value allowed as itemized deduction or adjustment to income
15. State Income Taxes	Deductible	Nondeductible
16. Leasehold Interest—Charitable Contribution	May be deductible	Deductible; Schedule HH required
17. Kentucky Unemployment Tax Credit	No credit allowed	\$100 per certified employee; Schedule UTC required
18. Work Opportunity Credit (federal Form 5884)	Tax credit allowed; wage expense reduced by amount of credit	No credit allowed; entire wage expense is deductible
19. Welfare to Work Credit (federal Form 8861)	Tax credit allowed; wage expense reduced by amount of credit	No credit allowed; wage expense reduced by amount of federal credit
20. Child and Dependent Care Credit	Tax credit based on expenses	20% of federal credit
21. Low Income Credit	No credit allowed	Decreasing tax credit allowed
22. Recycling and/or Composting Equipment Tax Credit	No credit allowed	Tax credit allowed; Schedule RC or RC(K-1) required
23. Taxpayer who may be Claimed as Dependent on Another's Return (i.e., full-time student)	May not claim self	May claim self
24. Child's Income Reported by Parent	Permitted; taxed at parent's rate	Not permitted
25. National Tobacco Settlement and TLAP Income	Taxable	Exempt
26. Skills Training Investment Tax Credit	No credit allowed	Tax credit allowed; Schedule TC required
27. Kentucky Investment Fund Tax Credit	No credit allowed	Tax credit allowed; Schedule TC required
28. Employer GED Incentive Tax Credit	No credit allowed	Tax credit allowed; Schedule TC required
29. Bonus Depreciation/Additional Section 179	Deductible	Nondeductible
30. Educator Expenses	Deductible	Nondeductible

DETERMINING YOUR INCOME

Note: These items are reported on page 2, Form 740-NP.

A copy of pages 1 and 2 of your federal income tax return and all supporting schedules must be filed with Kentucky Form 740-NP. Please clearly identify as "Copy."

All entries in Column A should be amounts reported for federal income tax purposes. Include on Line 45, Column A, state income tax refunds, taxable Social Security and other income taxable for federal purposes but not taxable for Kentucky purposes.

Depreciation—Assets Purchased After September 10, 2001

Effective for taxable years ending after September 10, 2001, an individual that for federal income tax purposes elects to utilize the 30 percent or the 50 percent special depreciation allowance or the increased 179 deduction will have a different depreciation and Section 179 deduction for Kentucky purposes than for federal purposes. The differences will continue through the life of the assets. There will be recapture and basis differences for Kentucky and federal income tax purposes until the assets are sold or fully depreciated.

Instructions for Column B amounts are outlined below.

Depreciation, Section 179 Deduction and Gains/Losses From Disposition of Assets—Important: Follow the instructions for Reporting Depreciation and Section 179 Deduction Differences if you have elected for federal income tax purposes to take the 30 percent or the 50 percent special depreciation allowance or the increased Section 179 deduction for property placed in service after September 10, 2001. A copy of the federal Form 4562 filed for federal income tax purposes must be submitted with Form 740-NP to verify that no adjustments are required.

Reporting Depreciation and Section 179 Deduction Differences for property placed in service after September 10, 2001—Create a Kentucky Form 4562 by entering Kentucky at the top center of a federal Form 4562 above Depreciation and Amortization. In Part I replace the \$100,000 maximum amount on Line 1 with the Kentucky limit of \$25,000 and replace the \$400,000 threshold amount on Line 3 with the Kentucky phase-out threshold of \$200,000. In Part II, strikethrough and ignore Line 14, Special depreciation allowance for qualified property placed in service during the tax year. Use the **created Kentucky Form 4562** to compute Kentucky depreciation and Section 179 deduction in accordance with the IRC in effect on December 31, 2001. **Note:** In determining the Section 179 deduction for Kentucky the income limitation on Line 11 is Kentucky net income before the Section 179 deduction instead of federal taxable income. Adjust federal schedules C, E and F for the difference in allowable depreciation and report in Column B the Kentucky income (loss) from business, farming or rental property. **Attach Kentucky Form 4562 and federal Form 4562.**

Line 36—Enter all wages, salaries, tips, bonuses, commissions or other compensation received for personal services from Kentucky sources while a nonresident and from all sources while a resident of Kentucky. Do not include in this amount any reimbursement for moving expenses included in Kentucky wages on your wage and tax statement.

Line 37, Moving Expense Reimbursement—See instructions for Schedule ME.

Line 38, Interest and Dividends—Interest income received while a Kentucky resident must be reported, except for the following: (a) income from bonds issued by the

Commonwealth of Kentucky and its political subdivisions; and (b) income from U.S. government bonds or securities. Interest income from bonds issued by other states and their political subdivisions is taxable to Kentucky and must be included on Line 38. Report dividends received while a resident of Kentucky.

Lines 39 and 44, Profit or (Loss) from Business or Farming—For income taxable to Kentucky, complete and attach federal Schedule C or C-EZ for business income or federal Schedule F for farming and Form 4562, Depreciation and Amortization. Do not adjust wages by the federal work opportunity credit from federal Form 5884. For passive activities, see Form 8582-K. Do not include income from the national tobacco settlement agreement. Adjust income for the difference in allowable depreciation and report in Column B.

Lines 40 and 41, Gain or (Loss) from Sale or Exchange of Assets—Gains (losses) on sales of assets (including installment sales) while a Kentucky resident must be reported on the Kentucky return. Gains (losses) on sales of tangible assets located in Kentucky must be reported regardless of state of residence. Generally, gains (losses) on sales of intangible assets are reported to the state of residence.

Determining and Reporting Differences in Gain or Loss From Disposition of Assets—If during the year you dispose of assets placed in service after September 10, 2001, on which the 30 percent or the 50 percent special depreciation allowance or the increased Section 179 deduction was taken for federal income tax purposes, you will need to determine and report the difference in the amount of gain or loss on the assets as follows:

Create a Kentucky form by entering **Kentucky** at the top center of a federal Schedule D, federal Form 4797 and other applicable federal forms. Compute Kentucky gain or loss from the disposed assets using the Kentucky basis. Enter the Kentucky gain or loss on the appropriate line. **Attach the created Kentucky Schedule D, Kentucky Form 4797 and other forms or schedules to support the deduction.**

Line 42(a), Federally Taxable IRA Distributions, Pensions and Annuities—Enter on line 42(a), Column A, the total of IRA distributions, pensions and annuities received for the entire year. Enter on Line 42(a), Column B, the total of IRA distributions, pensions and annuities received while a resident of Kentucky.

Line 42(b), Pension Income Exclusion—You may exclude up to \$39,400 of pension income reported on **Line 42(a), Column B**. If Line 42(a), Column B, is more than \$39,400 and is from the federal government, Commonwealth of Kentucky or Kentucky local governments, complete Schedule P.

Line 43, Income from Schedule E—Enter income from rents, royalties, partnerships, estates, trusts, S corporations and REMICs. Nonresident individuals receiving a Kentucky Schedule K-1 from a partnership, estate, trust or S corporation must report their distributive share of the income, gains or losses, etc., as reflected on the K-1. Shareholders and partners should multiply their distributive share items by the taxable percentage from Schedules K-1, Forms 720S and 765, Item D(2).

Part-year residents not receiving a Kentucky Schedule K-1, but receiving a federal K-1 from a partnership, estate, trust or S corporation, must report the same amount of distributive income, gains or losses, etc., as reported for federal income tax purposes from entities whose taxable years end during their period of residence.

Do not include in Column B the net income from an S corporation subject to the franchise tax imposed under KRS 136.505 or the capital stock tax imposed under KRS 136.300.

Report income from real estate mortgage investment conduits (REMICs) as follows: (1) if the REMIC is a corporation, include only distributions of cash or property during the taxable year; or (2) if other than a corporation, report the same amount as reported for federal income tax purposes for the taxable year.

Line 45, Other Income—Report income from prizes, awards, lottery winnings, gambling, jury fees, unemployment compensation, etc., received while a Kentucky resident or from Kentucky sources while a nonresident. Also include the portion of a lump-sum distribution on which you have elected the 20 percent capital gains rate for federal income tax purposes (Schedule P and Form 4972-K required).

Retirement Income (For persons moving out of Kentucky)—Include differences in pension (3-year recovery rule) and IRA bases received while a resident of Kentucky (also include differences on Schedule P, Line 2).

Alimony—Generally, alimony payments taxable for federal purposes are also taxable for Kentucky. Only alimony payments allowable as a deduction for the payer are required to be reported as income by the recipient on Line 45. See instructions for Line 57.

Net Operating Loss Deduction—A Kentucky net operating loss deduction (KNOLD) must be computed using Kentucky income and deduction amounts. The federal net operating loss deduction is not allowed. The KNOLD should be included as a negative amount on Line 45. If the loss is from a business outside Kentucky, none of the loss may be used. Kentucky returns must be filed for the year of the loss and for all years for which the loss is utilized. Attach schedule showing computation.

Artistic Charitable Contributions—A deduction is allowed for "qualified artistic charitable contributions" of any literary, musical, artistic or scholarly composition, letter or memorandum, or similar property.

An amount equal to the fair market value of the property on the date contributed is allowable as a deduction. However, the deduction is limited to the amount of the taxpayer's Kentucky artistic adjusted gross income for the taxable year. This amount should be included as a negative amount on Line 45.

The following requirements for a deduction must be met:

- (a) The property must have been created by the personal efforts of the taxpayer at least one year prior to the date contributed. The creation of this property cannot be related to the performance of duties while an officer or employee of the United States, any state or political subdivision thereof.
- (b) A written appraisal of the fair market value of the contributed property must be made by a qualified independent appraiser within one year of the date of the contribution. A copy of the appraisal must be attached to the tax return.
- (c) The contribution must be made to a qualified tax-exempt organization.

ADJUSTMENTS TO INCOME

Line 47, Educator Expenses—The deduction of up to \$250 for teachers and other educators for their out-of-pocket expenses in providing classroom supplies allowed for federal purposes is not deductible for Kentucky tax purposes.

Line 48, Individual Retirement Arrangements (IRAs)—Taxpayers who meet the federal qualifications may deduct up to \$3,000 (\$3,500 if over age 50) of earned income which has been contributed to an IRA. The amount of \$3,000 may also be contributed by a working taxpayer for a nonworking spouse.

Persons moving into Kentucky may deduct the full amount of their IRA contributions provided the contribution was made while they were residents of Kentucky. However, the deduction cannot exceed income earned in Kentucky. Contributions made by full-year nonresidents and persons who moved out of the state during the year are limited to the percentage of their Kentucky earned income to their federal earned income. Use federal worksheets and instructions with the above limitations.

Line 49, Student Loan Interest Deduction—Federal limitations apply. Student loan interest deduction is limited to the percentage of Kentucky total income (Line 46, Column B) to federal total income (Line 46, Column A). Enter in Column A, the total of student loan interest from your federal return. Enter in Column B, the allowable deduction with the above limitation.

Line 50, Tuition and Fees Deduction—Federal limitations apply. The tuition and fees deduction is limited to the percentage of Kentucky total income (Line 46, Column B) to federal total income (Line 46, Column A). Enter in Column A, the tuition and fees deduction from your federal return. Enter in Column B, the allowable deduction with the above limitation.

Line 51, Moving Expenses—Enter allowable moving expense deduction (attach Schedule ME).

Line 52, Deduction for One-half of Self-Employment Tax—You may deduct one-half of the self-employment tax imposed under IRC Section 1401 provided the self-employment income is included in Column B as Kentucky income for the taxable year.

Line 53, Self-Employed Health Insurance Deduction—For Kentucky purposes, see Line 58 for the allowable health insurance deduction.

Line 54, Self-Employed SEP, SIMPLE and Qualified Plans Deduction—Self-employed persons may deduct qualified payments to a Keogh retirement plan, a Simplified Employee Pension (SEP) or a SIMPLE plan. However, Kentucky self-employment earnings must be used to compute the deduction.

Line 55, Penalty for Early Withdrawal of Savings—You may deduct the interest penalty only if the interest income has been reported to Kentucky.

Line 56, Alimony Paid—Persons moving into or out of Kentucky may deduct the amount of alimony paid while a resident of Kentucky. However, the deduction cannot exceed Kentucky income. Alimony paid by full-year nonresidents is limited to the percentage of their Kentucky total income to their federal total income. Enter the recipient's name and Social Security number.

Line 57, Long-term Care Insurance Premiums—Persons moving into and out of Kentucky may deduct the total of long-term care insurance premiums paid while a resident of Kentucky. Long-term care insurance premiums deducted by full-year nonresidents are limited to the percentage of their Kentucky total income (Line 46, Column B) to their federal total income (Line 46, Column A). Do not claim amounts as an itemized deduction.

Line 58, Health Insurance Premiums—Persons moving into and out of Kentucky can deduct 100 percent of medical and dental insurance premiums paid while a resident of Kentucky. Medical and dental insurance premiums deducted by full-year nonresidents are limited to the percentage of their Kentucky total income (Line 46, Column B) to their federal total income (Line 46, Column A). **Note:** This deduction applies to premiums paid with after-tax dollars. Premiums paid with pretax income (cafeteria plans and vouchers already excluded from wage income) are not deductible again. Do not include long-term care insurance premiums deducted on Line 57. If you are

eligible for the Health Coverage Tax Credit, you may not deduct premiums paid on your behalf (advance payments) and you must reduce the amount you paid by the amount of health coverage tax credit. (See federal Form 8885.)

TAXABLE INCOME

Note: These items are reported on page 1, Form 740-NP.

Line 7—Nonitemizers, enter the standard deduction of \$1,830. If filing a joint return, only one \$1,830 standard deduction is allowed.

Line 8(a)—Itemizers, complete Schedule A and enter itemized deductions on Line 8(a). If one spouse itemizes deductions, the other must itemize. See specific instructions for Schedule A.

Line 8(b)—Multiply Line 8(a) by the percentage from page 2, Line 61. If Line 8(b) does not exceed \$1,830 and your filing status is 1 or 2, you should take the standard deduction. Married couples filing separate returns, see special rules under instructions for Schedule A.

Line 9—Subtract either Line 7 or 8(b) from Line 6. This is your Taxable Income.

DETERMINING YOUR TAX

Use the tax table contained in the instructions to compute your tax. Enter this amount on Line 10.

If you had a **lump-sum distribution** from a qualified retirement plan, complete Schedule P and Form 4972-K and attach copies to Form 740-NP. The amount of tax computed on Form 4972-K should be included in the amount on Line 10, Form 740-NP.

Schedule J, Farm Income Averaging—If you elect Farm Income Averaging on your federal return, you may also use this method for Kentucky. Complete and attach Kentucky Schedule J and include tax in the amount on Line 10, Form 740-NP.

Line 13, Other Tax Credits—Within certain limitations, Kentucky residents may claim a credit for nonrefundable income tax paid to other states. You may not claim credit for tax withheld by another state. You must file a return with the other state, and pay tax on income also taxed by Kentucky in order to claim the credit. **A copy of the other state's return must be attached to verify this credit.** *The credit is limited to the amount of Kentucky tax savings had the income reported to the other state been omitted, or the amount of the tax paid to the other state, whichever is less.* If you owe tax in more than one state, the credit for each state must be computed separately.

Kentucky allows an unemployment tax credit for employers hiring qualified unemployed Kentucky residents. This \$100 credit per qualified employee hired is different from the federal work opportunity credit. **To claim this credit, Schedule UTC must be filed with your return.**

Recycling and/or Composting Tax Credit—Enter credit from Schedule RC, Part III or Schedule RC (K-1), Part III. Attach a copy of Schedule RC and/or Schedule RC (K-1) reflecting the amount of credit approved by the Revenue Cabinet. The credit claimed for the taxable year during which the equipment is purchased (installed) is limited to 10 percent of the total allowable credit not to exceed 25 percent of the tax liability less other credits claimed for the year. The unused portion of the total credit may be carried forward to succeeding tax years limited only to 25 percent of the tax liability minus other credits for the taxable year.

Kentucky Investment Fund Tax Credit—For investments before July 1, 2002, the amount of credit that may be claimed in any given year is limited to 25 percent of the total amount certified by the Kentucky Economic Development Finance

Authority (KEDFA). For investments after June 30, 2002, the credit is claimed on the tax return filed for the tax year following the year in which the credit is granted and is limited in any tax year to 50 percent of the initial aggregate credit apportioned to the investor. Attach a copy of the certification by KEDFA in the first year claimed. Any excess credit may be carried forward for 15 years.

Skills Training Investment Tax Credit—Enter the amount of credit certified by the Bluegrass State Skills Corporation. Attach a copy of the certification in the first year claimed. Shareholders and partners should attach a copy of Schedule K-1 showing the amount of credit distributed. The excess credit over the income tax liability in the year approved may be carried forward for three successive taxable years. Contact the Cabinet for Economic Development, Bluegrass State Skills Corporation at (502) 564-2021 for information.

Coal Incentive Tax Credit—Enter the amount of credit certified by the Revenue Cabinet. A copy of the credit certificate issued by the Revenue Cabinet must be attached to the return.

Qualified Research Facility Tax Credit—Enter credit from Schedule QRFTC. Attach a copy of Schedule QRFTC. Any unused credit may be carried forward 10 years.

Employer GED Incentive Tax Credit—Enter the sum of the credits reflected on the attached Form(s) DAEL-31 or Schedule(s) K-1. Attach a copy of the GED-Incentive Program Final Report (Form DAEL-31), for each employee that completed a learning contract during the taxable year. Shareholders and partners should attach a copy of Schedule K-1 showing the amount of credit distributed. For information regarding the program, contact the Cabinet for Workforce Development, Department of Adult Education and Literacy.

Line 15, Low Income Credit—**Full-year nonresidents are not entitled to this credit.** If you were a part-year resident of Kentucky, a low income credit is allowed to single persons and married couples whose **combined Kentucky adjusted gross income** is not over \$25,000. Complete the following worksheet to determine your low income credit.

Low Income Credit Worksheet

- a. Enter the amount from Line 6, but not less than zero. _____
 - b. If you are using Filing Status 3, enter the amount of Kentucky adjusted gross income from your spouse's separate return, but not less than zero. _____ +
 - c. Add Lines a and b. _____
- If over \$25,000, you do not qualify for this credit. Do not complete the worksheet; skip Line 15.*

Computation of Low Income Credit

- d. Enter tax amount from Line 14. _____
- e. Enter decimal amount from table below that applies to adjusted gross income on Line c. _____ X
- f. Multiply amount on Line d by decimal amount on Line e. _____
- g. Enter the percentage from Line 61. _____ X
- h. Multiply amount on Line f by the percentage of Line g. Enter result on Line 15. This is your Low Income Credit. _____

If the amount on Line c above is:		Enter decimal amount on Line e
over	but not over	
—	\$ 5,000	1.00 (100%)
\$ 5,000	\$10,000	.50 (50%)
\$10,000	\$15,000	.25 (25%)
\$15,000	\$20,000	.15 (15%)
\$20,000	\$25,000	.05 (5%)

Line 17, Child and Dependent Care Credit—Full-year nonresidents are not entitled to this credit. Part-year residents may be entitled to a credit for child and dependent care expenses paid while a resident of Kentucky. To determine this credit, complete the following worksheet.

- a. Enter total credit calculated on federal Form 2441, Line 9 (or 1040A, Schedule 2, Line 9) _____
- b. Enter total child and dependent care expenses entered on Form 2441, Line 3 or Form 1040A, Schedule 2, Line 3 _____
- c. Enter the amount included on Line b paid while a Kentucky resident _____
- d. Divide Line c by Line b. Enter result _____
- e. Multiply the amount on Line a by the decimal amount on Line d _____
- f. Percent of allowable credit for Kentucky x .20 _____
- g. Multiply the amount on Line e by the decimal amount on Line f. This is your Child and Dependent Care Credit. Enter on Line 17 _____

Note: If you and your spouse are filing separate Kentucky returns, the child and dependent care credit calculated for Kentucky must be divided based on the percentage of each spouse's adjusted gross income to total Kentucky adjusted gross income (Line 6).

Line 19, Kentucky Use Tax—If, while a Kentucky resident, you made any out-of-state purchases of tangible personal property for use in Kentucky on which sales tax was not charged, you must report Kentucky use tax on those purchases, pursuant to KRS 139.330. Examples include catalog or Internet purchases such as clothing; sporting goods; flower bulbs, seeds and garden supplies; computer hardware and software; photographic equipment and film processing; book, tape, CD and video club purchases; magazine subscriptions; furniture; carpet; boats and boating equipment; etc. From your cancelled checks, invoices, credit card statements, etc., list on the following worksheet out-of-state purchases on which sales tax was not paid (use additional page if necessary).

Note: The items reported for use tax on Form 740-NP should be those purchased strictly for personal use. Any use tax liabilities accruing to a business such as mail-order office supplies must be reported on the sales and use tax return or the consumer's use tax return. The Revenue Cabinet routinely conducts compliance programs with other states regarding out-of-state purchases. Persons not reporting applicable use tax will be liable for the tax plus interest and penalties.

Description of Property Purchased	Date of Purchase	Purchase Price
		\$
a. Total purchase price of property subject to use tax		\$
b. Use tax rate—6%		x .06
c. Use tax (multiply amount on Line a by .06). Enter here and on Line 19. Keep this worksheet for your records ...		\$

Line 21(a), Kentucky Income Tax Withheld—Employers are required to give wage and tax statements to employees to show the amount of tax withheld. To receive credit for Kentucky income tax withheld, you must attach the proper copy (usually Copy No. 2) of your wage and tax statement(s) to your return. The copy must clearly show the amount withheld and that it was withheld for Kentucky. Credit for taxes withheld for other states is not allowable.

Line 21(b), Estimated Tax—If you paid Kentucky estimated tax in installments for 2003, enter amount on Line 21(b). Also include any overpayment of 2002 Kentucky income tax credited to your 2003 account.

Also include on Line 21(b) payments prepaid with extension requests. Identify as "prepaid with extension."

Line 23, Amount Overpaid—You have six choices regarding your overpayment: (a) on Line 24, you may contribute all or a portion of it to the **Nature and Wildlife Fund** for the purpose of acquiring land to preserve habitat for wildlife and natural areas of historic or scenic value; (b) on Line 25, you may contribute all or a portion of it to the **Child Victims' Trust Fund** to support local programs designed to prevent sexual abuse and exploitation of children; (c) on Line 26, you may contribute all or a portion of it to the **Bluegrass State Games and U.S. Olympic Committee Fund** which was created to provide Kentuckians a wholesome avenue for personal development through participation in the Bluegrass State Games and to assist Kentucky's Olympic hopefuls with the funding needed to train for the Olympic Games; (d) on Line 27, you may contribute all or a portion of it to the **Veterans' Program Trust Fund** which was created solely for the benefit of veterans' programs; (e) on Line 29, you may credit an amount toward payment of 2004 Kentucky income tax; or (f) you may receive a refund. *Amounts contributed on Line 28 and/or credited on Line 29 must be subtracted from the overpayment and cannot exceed it.* Any remaining amount will be refunded.

Line 31, Amount You Owe—Any tax shown due on Line 31 must be paid when the return is filed. Attach a check payable to Kentucky State Treasurer and mail the check and return to Kentucky Revenue Cabinet, Frankfort, KY 40619-0008. To help identify your payment write "KY Income Tax—2003" and your Social Security number on the face of the check.

Note: If you cannot pay your tax in full, file your return and pay as much as possible by April 15. Contact the Revenue Cabinet for additional payment information.

Pay by Credit Card—Pay your 2003 Kentucky individual income tax by MasterCard or VISA credit card through April 15, 2004. Access the Revenue Cabinet's Web site (www.revenue.ky.gov) to make credit card payments over the Internet. Click on the **KY E-Tax** logo or choose **Electronic Services** from the menu, then click on **Credit Card**. If you do not have access to the Internet you may call the Revenue Cabinet at (502) 564-4581.

To make a credit card payment, the following information is needed: credit card type and number, expiration date, and the cardholder's address as it appears on the credit card billing statement.

LATE FILING PENALTY—If a return is not filed by the due date or the extended due date, a penalty of 2 percent of the total tax due for each 30 days or fraction thereof that a return is not filed may be assessed, not to exceed 20 percent. The minimum penalty is \$10.

LATE PAYMENT PENALTY—If the amount of tax due as shown on Line 31 is not paid by the original due date of the return, a penalty of 2 percent of the tax computed due may be assessed for each 30 days or fraction thereof that the tax is past due,

not to exceed 20 percent. The minimum penalty is \$10. However, if the amount timely paid is 75 percent of the tax determined due by the Revenue Cabinet, no late payment penalty will be assessed.

UNDERPAYMENT OF ESTIMATED TAX—If the amount owed is more than \$500 and more than 30 percent of the income tax liability on Line 18, you may be subject to a penalty of 10 percent of the underpayment of estimated tax. The minimum penalty is \$25.

The amount of the penalty may be calculated on Form 2210-K, which may be obtained from the Revenue Cabinet. Form 2210-K may also be used by qualifying farmers and others to claim exception to the penalty. If paying the penalty or claiming an exemption, complete Form 2210-K, attach it to your return and check the block below Line 31. Enter the amount of the penalty in the blank space. On Line 31, enter the total of the additional tax due and the penalty amount.

Note: Taxpayers claiming a credit for tax paid to another state on Line 13, must add the credit to Lines 1 and 4, Part II, Form 2210-K, to determine the underpayment and penalty.

INTEREST—Interest will be assessed at the "tax interest rate" from the original due date of the return until the date of payment.

Note: Penalties but not interest may be reduced or waived if reasonable cause for reduction or waiver can be shown.

ESTIMATED TAX—If, during 2004, you expect to receive income from Kentucky sources from which no tax will be withheld, you may be required to make estimated tax installment payments. An underpayment penalty may be assessed if you fail to prepay at least 70 percent of your tax liability. For further information, obtain Form 740-ES from the Cabinet.

WHEN TO FILE—The income tax return for calendar year 2003 must be postmarked no later than April 15, 2004, to avoid penalties and interest. Mail to:

Refund/Other Returns
Kentucky Revenue Cabinet
Frankfort, KY 40618-0006

Pay Returns
Kentucky Revenue Cabinet
Frankfort, KY 40619-0008

EXTENSION OF TIME TO FILE

Taxpayers who are unable to file a return by April 15 may request an extension. Inability to pay is not an acceptable reason. Acceptable reasons include, but are not limited to, destruction of records by fire or flood and serious illness of the taxpayer. The request for the extension must be submitted in writing to the Revenue Cabinet on or before the due date of the return. The request must state a reasonable cause for the inability to file. Extensions are limited to six months. **A copy of the Kentucky extension request must be attached to the return.**

Individuals who receive a federal extension are not required to obtain a separate Kentucky extension. They can meet the requirements by attaching a copy of the application for automatic federal extension or the **approved** federal extension to the Kentucky return.

Kentucky residents who are in the military are often granted extensions for military service when serving outside the United States. Any extension granted for federal income tax purposes will be honored for Kentucky income tax purposes.

Interest at the "tax interest rate" applies to any income tax paid after the original due date of the return. If the amount of tax paid by the original due date is less than 75 percent of the tax due, a late payment penalty may be assessed (minimum penalty is \$10). Interest and late payment penalty charges can be avoided by remitting payment with the Extension Payment Voucher by the due date.

If you wish to make a payment prior to the due date of your tax return, complete Section II of the Application for Extension of Time to File, Form 40A102, and remit with payment. Write "KY Income Tax—2003" and your Social Security number on the face of the check.

Personal Property—Kentucky taxpayers are reminded to report all taxable personal property, except motor vehicles, owned on January 1 to either the property valuation administrator in the county of residence (or location of business) or the Department of Property Valuation in Frankfort. Intangible personal property is to be reported on the Intangible Property Tax Return, Form 62A376, and tangible personal property is to be reported on the Tangible Personal Property Tax Return, Form 62A500. The due date for these returns is May 15.

INSTRUCTIONS FOR SCHEDULE A

FORM 740-NP

You may itemize your deductions for Kentucky even if you do not itemize for federal purposes. Amounts entered on Schedule A should be total deductions for the taxable period. These amounts are prorated on Form 740-NP, page 1. If you do not itemize, a standard deduction of \$1,830 is allowed and does not have to be prorated.

Special Rules for Married Couples—If one spouse itemizes deductions, the other must itemize. Married couples filing a joint federal return and who wish to file separate returns for Kentucky may: (a) file separate Schedules A showing the specific deductions claimed by each; (b) file a joint Schedule A, divide the total deductions between them based on the percentage of each spouse's income to total income, and attach a copy to each return; or (c) each spouse may claim the standard deduction of \$1,830.

Limitations on Itemized Deductions for High-Income Taxpayers—If your adjusted gross income on Form 740-NP, Line 5, exceeds \$139,500 (\$69,750 if married filing separate returns), your itemized deductions are reduced by the lesser of:

- (a) 3 percent of the amount by which your adjusted gross income exceeds \$139,500 (\$69,750 if married filing separate returns), or
- (b) 80 percent of your total itemized deductions except medical and dental expenses, casualty and theft losses, gambling losses and investment interest.

Complete the itemized deductions limitation schedule on the reverse of Schedule A (Form 740-NP).

MEDICAL AND DENTAL EXPENSES

Federal rules apply. You may deduct only your medical and dental expenses that exceed 7.5 percent of Line 5, Form 740-NP. Do not include any expenses deducted on Line 57 or Line 58, Column B, Form 740-NP. Married taxpayers filing separate Forms 740-NP who choose to file one Schedule A and prorate the total must combine the Line 5 amounts from both returns.

TAXES

New for 2003, foreign income tax is not an allowable deduction. Nor may you deduct state income taxes paid or withheld, otherwise federal rules apply.

INTEREST

You may deduct interest that you have paid during the taxable year on a home mortgage. You may not deduct interest paid on credit or charge card accounts, a life insurance loan, an automobile or other consumer loan, delinquent taxes or on a personal note held by a bank or individual.

Interest paid on business debts should be deducted as a business expense on the appropriate business income schedule.

You may not deduct interest on an indebtedness of another person when you are not legally liable for payment of the interest. Nor may you deduct interest paid on a gambling debt or any other nonenforceable obligation. Interest paid on money borrowed to buy tax-exempt securities or single premium life insurance is not deductible.

Line 10—List the interest and points (including "seller-paid points") paid on your home mortgage to financial institutions and reported to you on federal Form 1098.

Line 11—List other interest paid on your home mortgage and not reported to you on federal Form 1098. Show name and address.

Line 12—List points (including "seller-paid points") not reported to you on federal Form 1098. Points (including loan origination fees) charged only for the use of money and paid with funds other than those obtained from the lender are deductible over the life of the mortgage. However, points may be deducted in the year paid if all three of the following apply: (1) the loan was used to **buy, build or improve your main home**, and was secured by that home, (2) the points did not exceed the points usually charged in the area where the loan was made, and were figured as a percentage of the loan amount, and (3) if the loan was used to **buy or build** the home, you must have provided funds (see below) at least equal to the points charged. If the loan was used to **improve** the home, you must have paid the points with funds other than those obtained from the lender.

Funds provided by you include down payments, escrow deposits, earnest money applied at closing, and other amounts actually paid at closing. They do not include amounts you borrowed as part of the overall transaction.

Seller-Paid Points—If you are the buyer, you may be able to deduct points the seller paid in 2003. You can do this if the loan was used to buy your main home and the points meet item 2 above. You must reduce your basis in the home by those points, even if you don't deduct them.

If you are the seller, you **cannot** deduct the points as interest. Instead, include them as an expense of sale on federal Form 2119, Sale of Your Home.

This generally does not apply to points paid to refinance your mortgage. Federal rules apply. See federal Publication 936 for more information.

Line 13, Interest on Investment Property—Investment interest is interest paid on money you borrowed that is allocable to property held for investment. It does not include any interest allocable to a passive activity.

Attach federal Form 4952, Investment Interest Expense Deduction.

Exception. You do not have to file federal Form 4952 if all three of the following apply:

- (a) your investment interest is not more than your investment income from interest and ordinary dividends,
- (b) you have no other deductible investment expenses, and
- (c) you have no disallowed investment interest expense from 2002.

For more details, see federal Publication 550, Investment Income and Expenses.

CONTRIBUTIONS

You may deduct what you actually gave to organizations that are religious, charitable, educational, scientific or literary in purpose. You may also deduct what you gave to organizations that work to prevent cruelty to children or animals. In general, contributions deductible for federal income tax purposes are also deductible for Kentucky.

You are required to maintain receipts, cancelled checks or other reliable written documentation showing the name of the organization and the date and amount given to support claimed deductions for charitable contributions.

Separate contributions of \$250 or more require written substantiation from the donee organization in addition to your proof of payment. It is your responsibility to secure substantiation. A letter or other documentation from the qualifying charitable organization that acknowledges receipt of the contribution and shows the date and amount constitutes a receipt. This substantiation should be kept in your files. Do not send it with your return.

In addition, enter on Line 16 the value of a leasehold interest property contributed to a charitable organization to provide temporary housing for the homeless. Attach Schedule HH.

CASUALTY AND THEFT LOSSES

Use Line 19 to report casualty or theft losses of property that is not trade, business, rent or royalty property. Attach federal Form 4684, Casualties and Thefts, or a similar statement to figure your loss. Enter on Line 19, Schedule A, the amount of loss from federal Form 4684.

Losses You MAY Deduct

You may be able to deduct all or part of each loss caused by theft, vandalism, fire, storm, and car, boat and other accidents or similar causes. You may also be able to deduct money you had in a financial institution but lost because of the insolvency or bankruptcy of the institution.

You may deduct nonbusiness casualty or theft losses only to the extent that:

- (a) the amount of **each** separate casualty or theft loss is more than \$100, and
- (b) the total amount of **all** losses during the year is more than 10 percent of Line 5, Form 740-NP.

Note: Married taxpayers filing separate Forms 740-NP who choose to file one Schedule A and prorate the total must combine the Line 5 amounts from both returns.

Special rules apply if you had both gains and losses from non-business casualties or thefts. See federal Form 4684 for details.

Losses You MAY NOT Deduct

- Money or property misplaced or lost.
- Breakage of china, glassware, furniture and similar items under normal conditions.
- Progressive damage to property (buildings, clothes, trees, etc.) caused by termites, moths, other insects or disease.

Deduct the costs of proving you had a property loss as a miscellaneous deduction on Line 25, Schedule A. (Examples of these costs are appraisal fees and photographs used to establish the amount of your loss.)

For more details, see federal Publication 547, Nonbusiness Disasters, Casualties, and Thefts. It also gives information about federal disaster area losses.

LINES 23 THROUGH 30—MISCELLANEOUS DEDUCTIONS

Most miscellaneous deductions cannot be deducted in full. You must subtract 2 percent of your adjusted gross income from the total. Compute the 2 percent limit on Line 28. Married taxpayers filing separate Forms 740-NP who choose to file one Schedule A and prorate the total must combine the Line 5 (Form 740-NP) amounts from both returns.

Generally, the 2 percent limit applies to job expenses you paid for which you were not reimbursed (Line 23). The limit also applies to certain expenses you paid to produce or collect taxable income (Line 25). See the instructions for Lines 23, 24 and 25 for examples of expenses to claim on these lines.

The 2 percent limit does not apply to certain other miscellaneous expenses that you may deduct. These expenses can be deducted in full on Line 30. The Line 30 instructions describe these expenses. Included are deductible gambling losses (to the extent of winnings) and certain job expenses of disabled employees. See federal Publication 529, Miscellaneous Deductions, for more information.

Expenses Subject to the 2 Percent Limit

Important: The increase in first-year luxury automobile depreciation caps, the 30 percent and the 50 percent special depreciation allowance, the additional New York Liberty Zone Section 179 deduction for property placed in service after September 10, 2001, and the increased Section 179 deduction limits and thresholds for property placed in service after December 31, 2002, are not allowable for Kentucky tax purposes. For passenger automobiles purchased after September 10, 2001, you must compute Kentucky depreciation in accordance with the IRC in effect on December 31, 2001. **Create a Kentucky Form 2106** by entering **Kentucky** at the top center of a federal Form 2106, Employee Business Expenses. Complete Section D—Depreciation of Vehicles in accordance with the IRC in effect on December 31, 2001. **Attach a copy of the federal Form 2106 filed for federal income tax purposes if no adjustments are required.**

Line 23—Use this line to report job-related expenses you paid for which you were not reimbursed. In some cases you **MUST** first fill out Form 2106, Employee Business Expenses, or Form 2106-EZ, Unreimbursed Employee Business Expenses. Fill out Form 2106-EZ if you claim any unreimbursed travel, transportation, meal or entertainment expenses for your job. Fill out Form 2106 if your employer paid you for any of your job-related expenses reportable on Line 23.

Enter the amount of unreimbursed employee business expenses from Form 2106 or 2106-EZ on Line 23 of Schedule A.

If you do not have to fill out Form 2106 or 2106-EZ, list the type and amount of your expenses in the space provided. If you need more space, attach a statement showing the type and amount of the expense. Enter one total on Line 23.

Line 24—Use this line to report tax return preparation fees paid during the taxable year including fees paid for filing your return electronically.

Line 25—Use this line for amounts you paid to produce or collect taxable income and manage or protect property held for earning income. List the type and amount of each expense in the space provided. If you need more space, attach a statement showing the type and amount of each expense. Enter one total on Line 25.

Expenses NOT Subject to the 2 Percent Limit

Line 30—Use this line to report miscellaneous deductions that are NOT subject to the 2 percent adjusted gross income limit. Only the expenses listed below can be deducted on Line 30.

Gambling losses to the extent of gambling winnings. Gambling winnings must be included on Form 740-NP, Line 45. (**Note:** Gambling losses must be verified by supplemental records. These include a diary and unredeemed tickets, payment slips and winning statements.)

Federal estate tax on income in respect of a decedent.

Amortizable bond premium on bonds acquired before October 23, 1986.

Deduction for repayment of amounts under a claim of right if more than \$3,000. See federal Publication 525.

Unrecovered investment in a pension.

Impairment-related work expenses of a disabled person.

List the type and amount of each expense. Enter one total on Line 30. For more information on these expenses, see federal Publication 529.

LINE 31—TOTAL ITEMIZED DEDUCTIONS

If the amount on Form 740-NP, Line 5, exceeds \$139,500 (\$69,750 if married filing separate returns), skip Lines 32 through 35 and complete the limitation schedule.

Dividing Deductions Between Spouses—Married taxpayers combining itemized deductions must divide the itemized deductions if filing separate Kentucky returns or if one spouse is not filing a Kentucky return. Complete Lines 32 through 35, Schedule A.

**Kentucky Revenue Cabinet
Mission Statement**

The mission of the Kentucky Revenue Cabinet is to . . .

Provide courteous, accurate and efficient services for the benefit of the Commonwealth and administer Kentucky tax laws in a fair and impartial manner.

The Kentucky Revenue Cabinet does not discriminate on the basis of race, color, national origin, sex, religion, age or disability in employment or the provision of services.

FORM 740-NP TAX TABLE (Does Not Include Tax Credits)

If Taxable Income Is Over			Enter This Amount on Line 10, 740-NP			If Taxable Income Is Over			Enter This Amount on Line 10, 740-NP			If Taxable Income Is Over			Enter This Amount on Line 10, 740-NP		
But Not Over			But Not Over			But Not Over			But Not Over			But Not Over			But Not Over		
\$ 0	\$ 100	1	\$6,500	\$6,600	208	\$13,000	\$13,100	583	\$19,500	\$19,600	973						
100	200	3	6,600	6,700	213	13,100	13,200	589	19,600	19,700	979						
200	300	5	6,700	6,800	218	13,200	13,300	595	19,700	19,800	985						
300	400	7	6,800	6,900	223	13,300	13,400	601	19,800	19,900	991						
400	500	9	6,900	7,000	228	13,400	13,500	607	19,900	20,000	997						
500	600	11	7,000	7,100	233	13,500	13,600	613	20,000	20,100	1,003						
600	700	13	7,100	7,200	238	13,600	13,700	619	20,100	20,200	1,009						
700	800	15	7,200	7,300	243	13,700	13,800	625	20,200	20,300	1,015						
800	900	17	7,300	7,400	248	13,800	13,900	631	20,300	20,400	1,021						
900	1,000	19	7,400	7,500	253	13,900	14,000	637	20,400	20,500	1,027						
1,000	1,100	21	7,500	7,600	258	14,000	14,100	643	20,500	20,600	1,033						
1,100	1,200	23	7,600	7,700	263	14,100	14,200	649	20,600	20,700	1,039						
1,200	1,300	25	7,700	7,800	268	14,200	14,300	655	20,700	20,800	1,045						
1,300	1,400	27	7,800	7,900	273	14,300	14,400	661	20,800	20,900	1,051						
1,400	1,500	29	7,900	8,000	278	14,400	14,500	667	20,900	21,000	1,057						
1,500	1,600	31	8,000	8,100	283	14,500	14,600	673	21,000	21,100	1,063						
1,600	1,700	33	8,100	8,200	289	14,600	14,700	679	21,100	21,200	1,069						
1,700	1,800	35	8,200	8,300	295	14,700	14,800	685	21,200	21,300	1,075						
1,800	1,900	37	8,300	8,400	301	14,800	14,900	691	21,300	21,400	1,081						
1,900	2,000	39	8,400	8,500	307	14,900	15,000	697	21,400	21,500	1,087						
2,000	2,100	41	8,500	8,600	313	15,000	15,100	703	21,500	21,600	1,093						
2,100	2,200	43	8,600	8,700	319	15,100	15,200	709	21,600	21,700	1,099						
2,200	2,300	45	8,700	8,800	325	15,200	15,300	715	21,700	21,800	1,105						
2,300	2,400	47	8,800	8,900	331	15,300	15,400	721	21,800	21,900	1,111						
2,400	2,500	49	8,900	9,000	337	15,400	15,500	727	21,900	22,000	1,117						
2,500	2,600	51	9,000	9,100	343	15,500	15,600	733	22,000	22,100	1,123						
2,600	2,700	53	9,100	9,200	349	15,600	15,700	739	22,100	22,200	1,129						
2,700	2,800	55	9,200	9,300	355	15,700	15,800	745	22,200	22,300	1,135						
2,800	2,900	57	9,300	9,400	361	15,800	15,900	751	22,300	22,400	1,141						
2,900	3,000	59	9,400	9,500	367	15,900	16,000	757	22,400	22,500	1,147						
3,000	3,100	62	9,500	9,600	373	16,000	16,100	763	22,500	22,600	1,153						
3,100	3,200	65	9,600	9,700	379	16,100	16,200	769	22,600	22,700	1,159						
3,200	3,300	68	9,700	9,800	385	16,200	16,300	775	22,700	22,800	1,165						
3,300	3,400	71	9,800	9,900	391	16,300	16,400	781	22,800	22,900	1,171						
3,400	3,500	74	9,900	10,000	397	16,400	16,500	787	22,900	23,000	1,177						
3,500	3,600	77	10,000	10,100	403	16,500	16,600	793	23,000	23,100	1,183						
3,600	3,700	80	10,100	10,200	409	16,600	16,700	799	23,100	23,200	1,189						
3,700	3,800	83	10,200	10,300	415	16,700	16,800	805	23,200	23,300	1,195						
3,800	3,900	86	10,300	10,400	421	16,800	16,900	811	23,300	23,400	1,201						
3,900	4,000	89	10,400	10,500	427	16,900	17,000	817	23,400	23,500	1,207						
4,000	4,100	92	10,500	10,600	433	17,000	17,100	823	23,500	23,600	1,213						
4,100	4,200	96	10,600	10,700	439	17,100	17,200	829	23,600	23,700	1,219						
4,200	4,300	100	10,700	10,800	445	17,200	17,300	835	23,700	23,800	1,225						
4,300	4,400	104	10,800	10,900	451	17,300	17,400	841	23,800	23,900	1,231						
4,400	4,500	108	10,900	11,000	457	17,400	17,500	847	23,900	24,000	1,237						
4,500	4,600	112	11,000	11,100	463	17,500	17,600	853	24,000	24,100	1,243						
4,600	4,700	116	11,100	11,200	469	17,600	17,700	859	24,100	24,200	1,249						
4,700	4,800	120	11,200	11,300	475	17,700	17,800	865	24,200	24,300	1,255						
4,800	4,900	124	11,300	11,400	481	17,800	17,900	871	24,300	24,400	1,261						
4,900	5,000	128	11,400	11,500	487	17,900	18,000	877	24,400	24,500	1,267						
5,000	5,100	133	11,500	11,600	493	18,000	18,100	883	24,500	24,600	1,273						
5,100	5,200	138	11,600	11,700	499	18,100	18,200	889	24,600	24,700	1,279						
5,200	5,300	143	11,700	11,800	505	18,200	18,300	895	24,700	24,800	1,285						
5,300	5,400	148	11,800	11,900	511	18,300	18,400	901	24,800	24,900	1,291						
5,400	5,500	153	11,900	12,000	517	18,400	18,500	907	24,900	25,000	1,297						
5,500	5,600	158	12,000	12,100	523	18,500	18,600	913	25,000	25,100	1,303						
5,600	5,700	163	12,100	12,200	529	18,600	18,700	919	25,100	25,200	1,309						
5,700	5,800	168	12,200	12,300	535	18,700	18,800	925	25,200	25,300	1,315						
5,800	5,900	173	12,300	12,400	541	18,800	18,900	931	25,300	25,400	1,321						
5,900	6,000	178	12,400	12,500	547	18,900	19,000	937	25,400	25,500	1,327						
6,000	6,100	183	12,500	12,600	553	19,000	19,100	943	25,500	25,600	1,333						
6,100	6,200	188	12,600	12,700	559	19,100	19,200	949	25,600	25,700	1,339						
6,200	6,300	193	12,700	12,800	565	19,200	19,300	955	25,700	25,800	1,345						
6,300	6,400	198	12,800	12,900	571	19,300	19,400	961	25,800	25,900	1,351						
6,400	6,500	203	12,900	13,000	577	19,400	19,500	967	25,900	26,000	1,357						

FORM 740-NP TAX TABLE (Does Not Include Tax Credits)

If Taxable Income Is Over			Enter This Amount on Line 10, 740-NP			If Taxable Income Is Over			Enter This Amount on Line 10, 740-NP			If Taxable Income Is Over			Enter This Amount on Line 10, 740-NP			If Taxable Income Is Over			Enter This Amount on Line 10, 740-NP		
But Not Over			But Not Over			But Not Over			But Not Over			But Not Over			But Not Over			But Not Over			But Not Over		
\$26,000	\$26,100	1,363	\$32,500	\$32,600	1,753	\$39,000	\$39,100	2,143	\$45,500	\$45,600	2,533												
26,100	26,200	1,369	32,600	32,700	1,759	39,100	39,200	2,149	45,600	45,700	2,539												
26,200	26,300	1,375	32,700	32,800	1,765	39,200	39,300	2,155	45,700	45,800	2,545												
26,300	26,400	1,381	32,800	32,900	1,771	39,300	39,400	2,161	45,800	45,900	2,551												
26,400	26,500	1,387	32,900	33,000	1,777	39,400	39,500	2,167	45,900	46,000	2,557												
26,500	26,600	1,393	33,000	33,100	1,783	39,500	39,600	2,173	46,000	46,100	2,563												
26,600	26,700	1,399	33,100	33,200	1,789	39,600	39,700	2,179	46,100	46,200	2,569												
26,700	26,800	1,405	33,200	33,300	1,795	39,700	39,800	2,185	46,200	46,300	2,575												
26,800	26,900	1,411	33,300	33,400	1,801	39,800	39,900	2,191	46,300	46,400	2,581												
26,900	27,000	1,417	33,400	33,500	1,807	39,900	40,000	2,197	46,400	46,500	2,587												
27,000	27,100	1,423	33,500	33,600	1,813	40,000	40,100	2,203	46,500	46,600	2,593												
27,100	27,200	1,429	33,600	33,700	1,819	40,100	40,200	2,209	46,600	46,700	2,599												
27,200	27,300	1,435	33,700	33,800	1,825	40,200	40,300	2,215	46,700	46,800	2,605												
27,300	27,400	1,441	33,800	33,900	1,831	40,300	40,400	2,221	46,800	46,900	2,611												
27,400	27,500	1,447	33,900	34,000	1,837	40,400	40,500	2,227	46,900	47,000	2,617												
27,500	27,600	1,453	34,000	34,100	1,843	40,500	40,600	2,233	47,000	47,100	2,623												
27,600	27,700	1,459	34,100	34,200	1,849	40,600	40,700	2,239	47,100	47,200	2,629												
27,700	27,800	1,465	34,200	34,300	1,855	40,700	40,800	2,245	47,200	47,300	2,635												
27,800	27,900	1,471	34,300	34,400	1,861	40,800	40,900	2,251	47,300	47,400	2,641												
27,900	28,000	1,477	34,400	34,500	1,867	40,900	41,000	2,257	47,400	47,500	2,647												
28,000	28,100	1,483	34,500	34,600	1,873	41,000	41,100	2,263	47,500	47,600	2,653												
28,100	28,200	1,489	34,600	34,700	1,879	41,100	41,200	2,269	47,600	47,700	2,659												
28,200	28,300	1,495	34,700	34,800	1,885	41,200	41,300	2,275	47,700	47,800	2,665												
28,300	28,400	1,501	34,800	34,900	1,891	41,300	41,400	2,281	47,800	47,900	2,671												
28,400	28,500	1,507	34,900	35,000	1,897	41,400	41,500	2,287	47,900	48,000	2,677												
28,500	28,600	1,513	35,000	35,100	1,903	41,500	41,600	2,293	48,000	48,100	2,683												
28,600	28,700	1,519	35,100	35,200	1,909	41,600	41,700	2,299	48,100	48,200	2,689												
28,700	28,800	1,525	35,200	35,300	1,915	41,700	41,800	2,305	48,200	48,300	2,695												
28,800	28,900	1,531	35,300	35,400	1,921	41,800	41,900	2,311	48,300	48,400	2,701												
28,900	29,000	1,537	35,400	35,500	1,927	41,900	42,000	2,317	48,400	48,500	2,707												
29,000	29,100	1,543	35,500	35,600	1,933	42,000	42,100	2,323	48,500	48,600	2,713												
29,100	29,200	1,549	35,600	35,700	1,939	42,100	42,200	2,329	48,600	48,700	2,719												
29,200	29,300	1,555	35,700	35,800	1,945	42,200	42,300	2,335	48,700	48,800	2,725												
29,300	29,400	1,561	35,800	35,900	1,951	42,300	42,400	2,341	48,800	48,900	2,731												
29,400	29,500	1,567	35,900	36,000	1,957	42,400	42,500	2,347	48,900	49,000	2,737												
29,500	29,600	1,573	36,000	36,100	1,963	42,500	42,600	2,353	49,000	49,100	2,743												
29,600	29,700	1,579	36,100	36,200	1,969	42,600	42,700	2,359	49,100	49,200	2,749												
29,700	29,800	1,585	36,200	36,300	1,975	42,700	42,800	2,365	49,200	49,300	2,755												
29,800	29,900	1,591	36,300	36,400	1,981	42,800	42,900	2,371	49,300	49,400	2,761												
29,900	30,000	1,597	36,400	36,500	1,987	42,900	43,000	2,377	49,400	49,500	2,767												
30,000	30,100	1,603	36,500	36,600	1,993	43,000	43,100	2,383	49,500	49,600	2,773												
30,100	30,200	1,609	36,600	36,700	1,999	43,100	43,200	2,389	49,600	49,700	2,779												
30,200	30,300	1,615	36,700	36,800	2,005	43,200	43,300	2,395	49,700	49,800	2,785												
30,300	30,400	1,621	36,800	36,900	2,011	43,300	43,400	2,401	49,800	49,900	2,791												
30,400	30,500	1,627	36,900	37,000	2,017	43,400	43,500	2,407	49,900	50,000	2,797												
30,500	30,600	1,633	37,000	37,100	2,023	43,500	43,600	2,413	Over 50,000 plus 6% of all over 50,000														
30,600	30,700	1,639	37,100	37,200	2,029	43,600	43,700	2,419															
30,700	30,800	1,645	37,200	37,300	2,035	43,700	43,800	2,425															
30,800	30,900	1,651	37,300	37,400	2,041	43,800	43,900	2,431															
30,900	31,000	1,657	37,400	37,500	2,047	43,900	44,000	2,437															
31,000	31,100	1,663	37,500	37,600	2,053	44,000	44,100	2,443															
31,100	31,200	1,669	37,600	37,700	2,059	44,100	44,200	2,449															
31,200	31,300	1,675	37,700	37,800	2,065	44,200	44,300	2,455															
31,300	31,400	1,681	37,800	37,900	2,071	44,300	44,400	2,461															
31,400	31,500	1,687	37,900	38,000	2,077	44,400	44,500	2,467															
31,500	31,600	1,693	38,000	38,100	2,083	44,500	44,600	2,473	Over 50,000 plus 6% of all over 50,000														
31,600	31,700	1,699	38,100	38,200	2,089	44,600	44,700	2,479															
31,700	31,800	1,705	38,200	38,300	2,095	44,700	44,800	2,485															
31,800	31,900	1,711	38,300	38,400	2,101	44,800	44,900	2,491															
31,900	32,000	1,717	38,400	38,500	2,107	44,900	45,000	2,497															
32,000	32,100	1,723	38,500	38,600	2,113	45,000	45,100	2,503															
32,100	32,200	1,729	38,600	38,700	2,119	45,100	45,200	2,509															
32,200	32,300	1,735	38,700	38,800	2,125	45,200	45,300	2,515															
32,300	32,400	1,741	38,800	38,900	2,131	45,300	45,400	2,521															
32,400	32,500	1,747	38,900	39,000	2,137	45,400	45,500	2,527															

YOUR RIGHTS AS A KENTUCKY TAXPAYER

The mission of the Kentucky Revenue Cabinet (KRC) is to provide courteous, accurate and efficient services for the benefit of the Commonwealth and administer Kentucky tax laws in a fair and impartial manner.

As a Kentucky taxpayer, you have the right to expect the KRC to honor its mission and uphold your rights every time you contact or are contacted by the KRC.

RIGHTS OF TAXPAYER

Privacy—You have the right to privacy of information provided to the KRC.

Assistance—You have the right to advice and assistance from the KRC in complying with state tax laws.

Explanation—You have the right to a clear and concise explanation of:

- basis of assessment of additional taxes, interest and penalties, or the denial or reduction of any refund or credit claim;
- procedure for protest and appeal of a determination of the KRC; and
- tax laws and changes in tax laws so that you can comply with the law.

Protest and Appeal—You have the right to protest and appeal a determination of the KRC if you disagree with an assessment of tax or penalty, reduction or a denial of a refund, a revocation of a license or permit, or other determination made by the KRC.

Conference—You have the right to a conference to discuss a tax matter.

Representation—You have the right to representation by your authorized agent (attorney, accountant or other person) in any hearing or conference with the KRC. You have the right to be informed of this right prior to the conference or hearing. If you intend for your representative to attend the conference or hearing in your place, you may be required to give your representative a power of attorney before the KRC can discuss tax matters with your authorized agent.

Recordings—You have the right to make an audio recording of any meeting, conference or hearing with the KRC, or to be notified in advance if the KRC plans to record the proceedings and to receive a copy of any recording.

Consideration—You have the right to consideration of:

- waiver of penalties or collection fees if "reasonable cause" for reduction or waiver is given ("reasonable cause" is defined in KRS 131.010(9) as: "an event, happening, or circumstance entirely beyond the knowledge or control of a taxpayer who has exercised due care and prudence in the filing of a return or report or the payment of monies due the cabinet pursuant to law or administrative regulation");
- installment payments of delinquent taxes, interest and penalties;
- waiver of interest and penalties, but not taxes, resulting from incorrect written advice from the KRC if all facts were given and the law did not change or the courts did not issue a ruling to the contrary;
- extension of time for filing reports or returns; and
- payment of charges incurred resulting from an erroneous filing of a lien or levy by the KRC.

Guarantee—You have the right to a guarantee that KRC employees are not paid, evaluated or promoted based on taxes assessed or collected, or a tax assessment or collection quota or goal imposed or suggested.

Damages—You have the right to file a claim for actual and direct monetary damages with the Kentucky Board of Claims if a KRC employee willfully, recklessly and intentionally disregards your rights as a Kentucky taxpayer.

Interest—You have the right to receive interest on an overpayment of tax, except delinquent property tax, payable at the same rate you would pay if you underpaid your tax.

REVENUE CABINET RESPONSIBILITIES

The KRC has the responsibility to:

- perform audits, conduct conferences and hearings with you at reasonable times and places;
- authorize, require or conduct an investigation or surveillance of you only if it relates to a tax matter;
- make a written request for payment of delinquent taxes which are due and payable at least 30 days prior to seizure and sale of your assets;
- conduct educational and informational programs to help you understand and comply with the laws;
- publish clear and simple statements to explain tax procedures, remedies, your rights and obligations, and the rights and obligations of the KRC;
- notify you in writing when an erroneous lien or levy is released and, if requested, notify major credit reporting companies in counties where lien was filed;
- advise you of procedures, remedies and your rights and obligations with an original notice of audit or when an original notice of tax due is issued, a refund or credit is denied or reduced, or whenever a license or permit is denied, revoked or canceled;
- notify you in writing prior to termination or modification of a payment agreement;
- furnish copies of the agent's audit workpapers and a written narrative explaining the reason(s) for the assessment;
- resolve tax controversies on a fair and equitable basis at the administrative level whenever possible; and
- notify you in writing at your last known address at least 60 days prior to publishing your name on a list of delinquent taxpayers for which a tax or judgment lien has been filed.

The KRC has a Taxpayer Ombudsman's Office which consists of the Ombudsman and a staff whose job is to serve as an advocate for taxpayers' rights. One of the main functions of the office is to ensure that your rights as a Kentucky taxpayer are protected by the KRC.

The Taxpayer Ombudsman's Office may be contacted by telephone at (502) 564-7822 (between 8:00 a.m. and 4:30 p.m. weekdays). From a Telecommunication Device for the Deaf (TDD), call (502) 564-3058. The mailing address is: Office of Taxpayer Ombudsman, P.O. Box 930, Frankfort, Kentucky 40602-0930.

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This information merely summarizes your rights as a Kentucky taxpayer and the responsibilities of the Revenue Cabinet. The Kentucky Taxpayers' Bill of Rights may be found in the Kentucky Revised Statutes (KRS) at Chapter 131.041—131.081. Additional rights and responsibilities are provided for in KRS 131.020, 131.110, 131.170, 131.183, 131.500, 133.120, 133.130, 134.580 and 134.590.