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MARIAN S. DAVIS
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Robert M. Gillim
EXECUTIVE DIRECTOR

MEMORANDUM

To: Marian S. Davis, Commissioner
Department of Revenue

From: R. Mack Gillim, Executive Director
Office of Processing and Enforcement

Date: November 7, 2006

Subject: Annual Adjustment of Tax Interest Rate Effective January 1, 2007

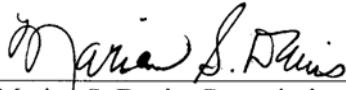
The tax interest rate for January 1, 2007 through December 31, 2007 will be 8.0 percent.

KRS 131.183(1) provides, in part, that “the commissioner of revenue shall adjust the tax interest rate not later than November 15th of any year, ... if the adjusted prime rate charged by the banks during October of that year, rounded to the nearest full percent, is at least one (1) percentage point more or less than the tax interest rate which is then in effect.” Under KRS 131.010(5), the definition of “the adjusted prime rate charged by banks” means “the average predominant prime rate quoted by commercial banks to large businesses, as determined by the board of governors of the federal reserve system.” In compliance with these provisions, an annual survey is conducted of selected banks in Kentucky which charge a prime rate to their preferred customers.

The Wall Street Journal defines “prime rate” as “the base rate on corporate loans posted by at least 75 percent of the nation’s thirty (30) largest banks.”



Banks can have more than one prime interest rate during October and, in such instances, the rate is calculated from weighted averages. However, this year all banks surveyed charged 8.25 percent for the entire month of October, 2006. Therefore, the average prime rate rounded to the nearest full percent is 8.0 percent. Since the average is at least one (1) percentage point above last year's 7.0 percent, the tax interest rate for calendar year 2007 will be changed to 8.0 percent.

Approved: 
Marian S. Davis, Commissioner
Department of Revenue