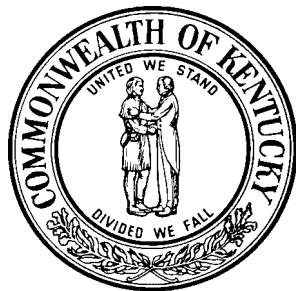




ANNUAL REPORT 1999-2000

Mike Haydon
Secretary
Revenue Cabinet



Paul E. Patton
Governor
Commonwealth of Kentucky



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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.

PAUL E. PATTON
GOVERNOR



MIKE HAYDON
SECRETARY

REVENUE CABINET
OFFICE OF THE SECRETARY
FRANKFORT, KENTUCKY 40620

December 15, 2000

The Honorable Paul E. Patton, Governor
Commonwealth of Kentucky
The State Capitol
Frankfort, Kentucky 40601

Dear Governor Patton:

Pursuant to the provisions of Kentucky Revised Statute 12.110, I am pleased to present the Annual Report of the Kentucky Revenue Cabinet (KRC) for Fiscal Year 1999-2000.

An analysis of General Fund and Road Fund receipts, a summary of major KRC accomplishments for the fiscal year, and a description of KRC *EMPOWER Kentucky* initiatives including revenue projections and receipts are contained in the report.

KRC has entered into a new era in tax administration through the implementation of many state-of-the-art technological innovations. Funding for these innovations has been provided through your *EMPOWER Kentucky* program. As KRC continues to modernize the agency, our employees will continue to demonstrate their commitment to quality service for the citizens of the Commonwealth.

We thank you for your continued support and confidence in our abilities and especially for your outstanding leadership of our great state.

Sincerely,

A handwritten signature in cursive script that reads "Mike Haydon".

F. Michael Haydon, Secretary
Kentucky Revenue Cabinet



AN EQUAL OPPORTUNITY EMPLOYER M/F/D

KRC Mission

The Cabinet's mission, reflected in its philosophy and general strategy, is central to all of its work. All of the Cabinet's actions should reflect its mission and similarly, those actions should be judged by the extent to which they help the Cabinet carry out its mission.

Within this framework, it is the mission of the Kentucky Revenue Cabinet to:

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

To achieve its mission, the Cabinet will:

- Promote voluntary compliance with tax laws through educational programs and quality taxpayer services;
- Inform the public of taxpayer rights and responsibilities;
- Establish and maintain clear, concise, accurate and timely communication to foster positive and constructive relations and a better understanding of tax laws;
- Collect and process receipts and returns as cost effectively and efficiently as possible;
- Develop and implement new and innovative programs to minimize noncompliance with tax laws;
- Utilize information resources and expertise to serve in an advisory role;
- Acquire new technologies to implement and maintain a state-of-the-art tax administration system;
- Enforce compliance when there is an intent to defraud or evade the taxes due the Commonwealth; and
- Educate, train, develop and retain the qualified staff necessary to achieve its goals and objectives.

KRC Philosophy

Recognizing that the administration of Kentucky's tax laws is a challenging and sometimes controversial responsibility, the Revenue Cabinet complements its mission with a tax administration philosophy.

The Cabinet's philosophy, drawn from its strategy and mission, represents the fundamental beliefs that shape the approach to policy and operations within a new framework. **IT IS A COMMITMENT TO SERVICE.**

- **Commitment to High Standards of Service.** The Cabinet is committed to raising the standards of tax administration by providing professional, courteous, accurate and efficient service to taxpayers of the Commonwealth as they try to voluntarily comply with Kentucky's tax laws.

This commitment to service—the core of the Cabinet's tax administration philosophy—is pervasive and long-term, and will be a daily expression of the Revenue Cabinet's value system. The high standards set for the Cabinet on behalf of Kentucky's taxpayers will guide strategies and assist in establishing goals and objectives.

- **Commitment to Employees and the Services they Provide.** The Cabinet recognizes that its employees are its greatest asset and they should be encouraged and empowered to use their creativity and resourcefulness in fulfilling the Cabinet's mission.

Employees must be dedicated to working not only individually but as a team to fully satisfy the service needs of Kentucky's taxpayers. Only through teamwork, training and education can staff ensure adequate response and efficient delivery of service.

- **Commitment to Flexibility and Effectiveness in Serving Taxpayers.** Flexibility is essential to accommodate today's rapidly changing world. Taxpayers expect greater efficiency and responsiveness from government. Budgetary and efficiency needs as well as expectations from executive, legislative and judicial branches of government demand quicker and more accurate research and data as it impacts the tax structure. In addition, the need to effectively interact with federal, state and local government officials is becoming increasingly important.
- **Commitment to Assisting the Taxpayer.** The Cabinet will improve its efforts to educate and inform taxpayers of their responsibilities to timely file and pay tax obligations. Assistance will be given to facilitate easy and accurate reporting. Constantly striving to modernize and enhance Revenue's tax administration system will enable the Cabinet to utilize more effectively its resources to provide a greater depth and breadth of service.
- **Commitment to Fair and Impartial Administration and Enforcement.** The Cabinet is committed to administering the tax laws of the Commonwealth fairly, equitably and impartially without regard to taxpayers' status, wealth, political affiliation, race, color, creed or disability.

In its pursuit of fair tax administration for all taxpayers—particularly the vast majority of taxpayers who timely report and pay their Kentucky taxes—the Cabinet will identify and actively pursue those who do not voluntarily comply with their tax reporting and payment responsibilities.

Thus, in an effort to earn total and absolute confidence of Kentucky's taxpayers regarding its fair administration of the tax laws, the Cabinet will exhibit honesty and integrity in all dealings with taxpayers and avoid any situation or action which could result in the slightest perception of unfair practices or questionable behavior.

Promoting voluntary compliance, educating taxpayers of their responsibilities and quality service will be the Cabinet's daily commitment to Kentucky and its citizens.

The Cabinet will not lose sight of those it serves!

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Revenue Receipts



(Reprinted from the
Finance and Administration Cabinet's 2000
4th Quarter Quarterly Economic & Revenue Report)

As shown in Table 1, combined tax and nontax receipts for the General and Road Funds increased by 4.3 percent over the combined receipts in FY99. Table 2 compares only tax receipts for the two funds which increased by 4.7 percent. Table 3 compares combined nontax receipts, which declined by 1.8 percent over the previous year.

Table 1
Total Receipts
(millions of dollars)

| | FY00 | FY99 | Percent Change |
|-----------------|------------------|------------------|----------------|
| General Fund | \$6,478.4 | \$6,198.4 | 4.5 |
| Road Fund | 1,090.8 | 1,056.6 | 3.2 |
| Combined | \$7,569.2 | \$7,255.0 | 4.3 |

Table 2
Tax Receipts
(millions of dollars)

| | FY00 | FY99 | Percent Change |
|-----------------|------------------|------------------|----------------|
| General Fund | \$6,200.5 | \$5,917.2 | 4.8 |
| Road Fund | 1,031.5 | 991.6 | 4.0 |
| Combined | \$7,232.0 | \$6,908.8 | 4.7 |

Table 3
Nontax Receipts
(millions of dollars)

| | FY00 | FY99 | Percent Change |
|--------------|----------------|----------------|----------------|
| General Fund | \$271.9 | \$272.3 | -0.1 |
| Road Fund | 58.6 | 64.3 | -9.0 |
| Total | \$330.5 | \$336.6 | -1.8 |

General Fund

With strong growth in the fourth quarter, General Fund receipts for the year increased by a moderate 4.5 percent over those reported in FY99. This was due mostly to the increase in individual income tax. Total General Fund receipts of \$6,478.4 million compare to \$6,198.4 million collection in FY 99.

The sales tax growth rate decreased from previous years. The growth rate for FY00 was 4.1 percent. Receipts of \$2,171.4 million compare to prior year receipts of \$2,085.9 million.

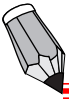
Performance in the individual income tax bounced back from the slower than normal growth rate posted in FY99. The growth rate for FY00 was 6.7 percent and was compared to 4.7 percent in FY99. Receipts totaled \$2,701.6 million and compare to \$2,532.0 million collected last year. This increase comes despite the continued increase of the pension exemption (indexed for inflation) and the increase in the standard deduction.

The corporate income tax declined by 1.8 percent for the year. Receipts of \$306.4 million compared to \$312.1 million collected in FY99. FY99 receipts had decreased 5.7 percent from FY98 collections.

Coal severance tax collections continued their decline, posting a 6.0 percent decrease for the year. Receipts totaled \$145.1 million, compared to \$154.5 million collected during the prior fiscal year.

Total property taxes experienced a moderate increase of 4.5 percent during this fiscal year. Receipts totaled \$387.3 million compared to \$370.4 million collected in FY99.

The growth in lottery receipts increased slightly from the previous year. Receipts of \$156.3 million grew by 1.6 percent over the \$153.8 million remitted to the state last fiscal year.



Revenue Receipts

The *all other* category finished the year with an increase of 3.5 percent. Receipts of \$610.2 million compare to \$589.7 million collected in FY99. Accounts with significant losses in this category include the inheritance tax and interest on investments.

Table 4 compares the growth rates in major General Fund categories and the fund as a whole for the entire year and the four individual quarters.

Table 4
General Fund Growth Rates
for the Four Quarters and Full Year, FY00

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | FY00 |
|-------------|------------------|-------------------|------------------|-------------------|------|
| Total | | | | | |
| Receipts | 2.6% | 4.4% | 4.7% | 6.1% | 4.5% |
| Sales & Use | 5.8 | 1.9 | 5.9 | 2.9 | 4.1 |
| Individual | | | | | |
| Income | 3.7 | 6.5 | 2.3 | 12.5 | 6.7 |
| Corporate | | | | | |
| Income | 0.2 | -2.3 | 136.6 | -15.0 | -1.8 |
| Coal | | | | | |
| Severance | -9.3 | -6.0 | -8.3 | 0.0 | -6.0 |
| Property | -23.3 | 17.3 | 4.7 | -18.8 | 4.5 |
| Lottery | -5.5 | -3.8 | -3.9 | 22.2 | 1.6 |
| All Other | 0.0 | -4.0 | 3.9 | 10.4 | 3.5 |

Road Fund

Total Road Fund receipts grew by 3.2 percent during FY00. Total receipts of \$1,090.8 million compare to \$1,056.6 million collected in this fund during FY99.

The motor fuels taxes slight decline of 0.9 percent compares to a growth rate of 8.0 percent during FY99. This was due to overpayments of the tax made in FY99 that were refunded during FY00. Receipts of \$423.9 million compare to \$427.8 million collected during the previous fiscal year.

Motor vehicle usage tax receipts of \$409.5 million grew by 9.0 percent over the \$375.7 million collected in FY99. This compares to a growth rate of 1.8 percent experienced last year.

The performance of the weight distance tax improved during the year and finished with a growth of 7.1 percent. Growth last year was 5.2 percent. Receipts totaled \$75.1

million and compare to \$70.2 million collected last fiscal year.

The *all other* category declined slightly by 0.3 percent over the previous year. Total receipts in this category were \$182.3 million, which compares to \$182.9 million collected in FY 99.

Table 5 displays the growth rates for the Road Fund and its major tax categories for the year as a whole and the four individual quarters.

Table 5
Road Fund Growth Rates
for the Four Quarters and Full Year, FY00

| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter | FY00 |
|-------------|------------------|-------------------|------------------|-------------------|------|
| Total | | | | | |
| Receipts | 6.4% | -0.3% | 6.4% | -1.7% | 3.2% |
| Motor Fuels | -2.3 | -4.7 | -2.3 | -6.2 | -0.9 |
| Motor | | | | | |
| Vehicle | | | | | |
| Usage | 14.2 | 3.6 | 14.2 | 3.7 | 9.0 |
| Weight | | | | | |
| Distance | 7.4 | 5.9 | 7.4 | 7.5 | 7.1 |
| All Other | 10.7 | -0.8 | 10.7 | -5.1 | 0.3 |

EMPOWER Kentucky

The *EMPOWER Kentucky* revenue enhancement initiatives have continued and expanded during FY00. Collections during the fiscal year are shown in Table 6. *EMPOWER Kentucky* is a program that funds, among other things, specific procedures within the Revenue Cabinet. These procedures are designed to collect certain revenues that are owed to the commonwealth but are not voluntarily paid.

Table 6
EMPOWER Kentucky Collections During FY00
(millions of dollars)

| Type Tax | Collections During FY00 |
|--------------------|-------------------------|
| Individual Income | \$18.0 |
| Corporation Income | 1.4 |
| Sales and Use Tax | 9.8 |
| Property Tax | 13.2 |
| Other | 1.7 |
| Total | \$44.1 |

Revenue Receipts



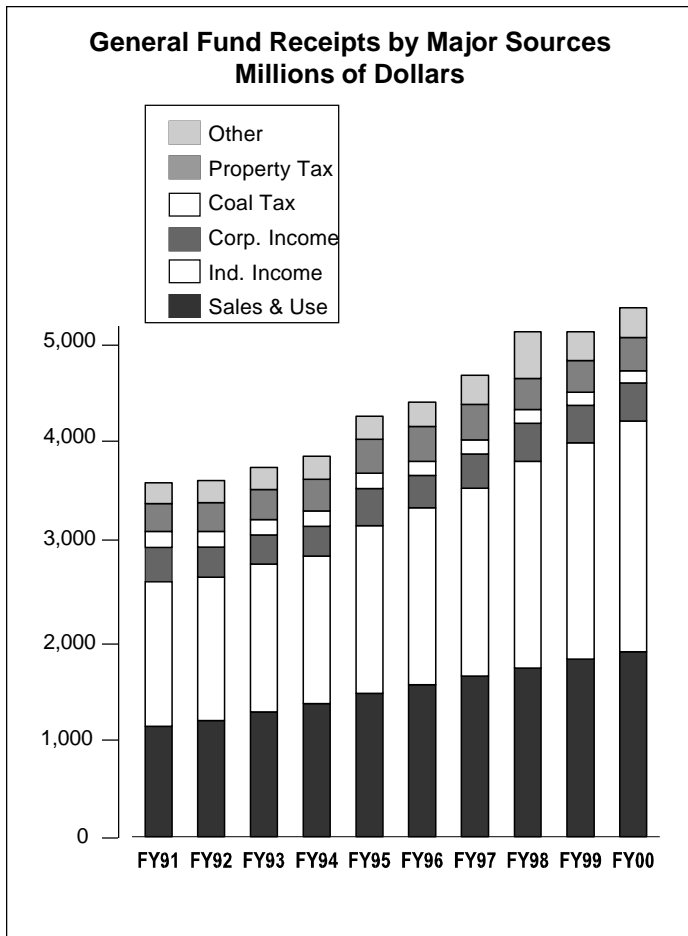
GENERAL FUND

| GENERAL FUND TOTAL RECEIPTS | | |
|--------------------------------|----------------------------|----------------|
| Fiscal Year | Receipts | Percent Change |
| 1999-00 | \$6,478,385,032 | 4.5 |
| 1998-99 | 6,198,387,525 | 3.1 |
| 1997-98 | 6,011,806,561 | 6.1 |
| 1996-97 | 5,663,553,289 | 6.1 |
| 1995-96 | 5,336,883,824 | 3.5 |
| 1994-95 | 5,154,077,980 | 10.9 |
| 1993-94 | 4,647,078,322 | 3.0 |
| 1992-93 | 4,511,721,822 | 3.5 |
| 1991-92 | 4,360,835,365 | 1.1 |
| 1990-91 | 4,311,675,984 ¹ | 21.1 |

ALCOHOLIC BEVERAGE TAXES

| Malt Beverage | | |
|---------------|--------------|----------------|
| Fiscal Year | Receipts | Percent Change |
| 1999-00 | \$38,385,890 | 4.1 |
| 1998-99 | 36,870,323 | 2.6 |
| 1997-98 | 35,937,878 | 3.2 |
| 1996-97 | 34,830,419 | 1.0 |
| 1995-96 | 34,489,349 | 2.0 |
| 1994-95 | 33,812,169 | 3.9 |
| 1993-94 | 32,553,876 | 4.4 |
| 1992-93 | 31,172,541 | 2.5 |
| 1991-92 | 30,404,806 | 4.8 |
| 1990-91 | 29,002,422 | 5.9 |

¹Total corrected by Finance and Administration Cabinet.



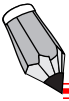
Distilled Spirits

| Fiscal Year | Receipts | Percent Change |
|-------------|--------------|----------------|
| 1999-00 | \$22,349,780 | 4.3 |
| 1998-99 | 21,432,736 | 2.2 |
| 1997-98 | 20,979,849 | 2.1 |
| 1996-97 | 20,548,503 | 0.3 |
| 1995-96 | 20,493,441 | 3.0 |
| 1994-95 | 19,897,599 | -0.3 |
| 1993-94 | 19,960,515 | 0.2 |
| 1992-93 | 19,923,344 | 2.2 |
| 1991-92 | 19,485,739 | 0.9 |
| 1990-91 | 19,314,634 | 2.8 |

Wine

| Fiscal Year | Receipts | Percent Change |
|-------------|------------------------|----------------|
| 1999-00 | \$7,672,648 | 8.8 |
| 1998-99 | 7,049,136 | 7.6 |
| 1997-98 | 6,551,316 | 7.6 |
| 1996-97 | 6,085,828 | 8.5 |
| 1995-96 | 5,610,308 | 15.7 |
| 1994-95 | 4,847,726 ¹ | 7.9 |
| 1993-94 | 4,492,841 | 0.9 |
| 1992-93 | 4,454,161 | 4.2 |
| 1991-92 | 4,273,359 | 4.6 |
| 1990-91 | 4,085,329 | 0.7 |

¹Total corrected by Finance and Administration Cabinet.



Revenue Receipts

CIGARETTE TAX¹

| Fiscal Year | Receipts | Percent Change |
|-------------|--------------|----------------|
| 1999-00 | \$14,184,888 | -3.3 |
| 1998-99 | 14,673,839 | -3.0 |
| 1997-98 | 15,130,443 | -5.7 |
| 1996-97 | 16,044,967 | 2.3 |
| 1995-96 | 15,680,704 | 3.7 |
| 1994-95 | 15,126,270 | 5.9 |
| 1993-94 | 14,285,746 | 2.1 |
| 1992-93 | 13,994,590 | -0.4 |
| 1991-92 | 14,044,608 | -1.6 |
| 1990-91 | 14,278,438 | 2.7 |

¹The cigarette tax is levied at the rate of 3 cents per pack. These totals reflect the 2.5 cents per pack that are deposited into the General Fund. The remaining 0.5 cent per pack is dedicated to tobacco research and is deposited in the Tobacco Research Trust Fund.

CORPORATION LICENSE TAX

| Fiscal Year | Receipts | Percent Change |
|-------------|-------------------------|----------------|
| 1999-00 | \$139,127,819 | 10.5 |
| 1998-99 | 125,912,523 | 11.7 |
| 1997-98 | 112,763,161 | 4.9 |
| 1996-97 | 107,498,746 | 18.8 |
| 1995-96 | 90,515,391 ² | -7.1 |
| 1994-95 | 97,449,950 ¹ | 18.8 |
| 1993-94 | 82,031,324 ¹ | -5.8 |
| 1992-93 | 87,061,523 | 6.3 |
| 1991-92 | 81,926,247 | 0.3 |
| 1990-91 | 81,709,060 | 8.5 |

¹Total corrected by Finance and Administration Cabinet.

²Corrected for posting error by Finance and Administration Cabinet.

COAL SEVERANCE TAX

| Fiscal Year | Receipts | Percent Change |
|-------------|---------------|----------------|
| 1999-00 | \$145,139,909 | -6.0 |
| 1998-99 | 154,476,772 | -5.7 |
| 1997-98 | 163,731,038 | 0.1 |
| 1996-97 | 163,545,844 | -5.3 |
| 1995-96 | 166,101,045 | -7.3 |
| 1994-95 | 179,116,944 | -0.4 |
| 1993-94 | 179,844,327 | -0.2 |
| 1992-93 | 180,117,668 | -2.7 |
| 1991-92 | 185,102,332 | -3.1 |
| 1990-91 | 191,037,171 | -2.3 |

INDIVIDUAL INCOME TAX

| Fiscal Year | Receipts | Percent Change |
|-------------|----------------------------|----------------|
| 1999-00 | \$2,701,613,908 | 6.7 |
| 1998-99 | 2,532,005,348 | 4.7 |
| 1997-98 | 2,418,144,438 | 9.7 |
| 1996-97 | 2,205,022,964 | 6.3 |
| 1995-96 | 2,074,572,167 | 5.6 |
| 1994-95 | 1,964,843,490 | 13.6 |
| 1993-94 | 1,729,182,293 | -0.2 |
| 1992-93 | 1,733,415,059 | 3.3 |
| 1991-92 | 1,678,525,589 | -0.9 |
| 1990-91 | 1,693,338,659 ¹ | 39.9 |

¹Kentucky income tax law was amended to conform to the Internal Revenue Code in effect on December 31, 1989, and the deduction for federal income tax was repealed.

CORPORATION INCOME TAX

| Fiscal Year | Receipts | Percent Change |
|-------------|--------------------------|----------------|
| 1999-00 | \$306,442,050 | -1.8 |
| 1998-99 | 312,066,675 | -6.5 |
| 1997-98 | 333,666,393 | 14.0 |
| 1996-97 | 292,753,126 | 2.8 |
| 1995-96 | 284,732,573 | -16.5 |
| 1994-95 | 340,912,408 | 26.7 |
| 1993-94 | 269,067,231 | 5.6 |
| 1992-93 | 254,775,357 | -6.0 |
| 1991-92 | 271,026,952 | -15.1 |
| 1990-91 | 319,350,654 ¹ | 14.3 |

¹Each tax rate increased one percentage point effective January 1, 1990.

INHERITANCE AND ESTATE TAX

| Fiscal Year | Receipts | Percent Change |
|-------------|-------------------------|----------------|
| 1999-00 | \$ 74,489,981 | -8.5 |
| 1998-99 | 81,483,083 | -22.8 |
| 1997-98 | 105,538,130 | 10.8 |
| 1996-97 | 95,287,282 | 17.0 |
| 1995-96 | 81,441,427 ¹ | 2.4 |
| 1994-95 | 79,511,634 | 4.4 |
| 1993-94 | 76,135,351 | 7.3 |
| 1992-93 | 70,965,470 | -8.3 |
| 1991-92 | 77,354,648 | 12.6 |
| 1990-91 | 68,726,903 | 2.8 |

¹Phase-in of Class A beneficiary exemption began July 1, 1995.

Revenue Receipts



INSURANCE PREMIUMS TAX

| Foreign Life Insurance Companies | | |
|----------------------------------|--------------|----------------|
| Fiscal Year | Receipts | Percent Change |
| 1999-00 | \$35,909,807 | 8.5 |
| 1998-99 | 33,085,292 | -5.8 |
| 1997-98 | 35,116,933 | 6.1 |
| 1996-97 | 33,086,032 | -8.5 |
| 1995-96 | 36,165,049 | 6.5 |
| 1994-95 | 33,966,941 | -10.7 |
| 1993-94 | 38,057,960 | 11.1 |
| 1992-93 | 34,268,972 | 1.7 |
| 1991-92 | 33,703,047 | 15.7 |
| 1990-91 | 29,130,844 | 1.7 |

MINERALS AND NATURAL GAS TAX

| Fiscal Year | Receipts | Percent Change |
|-------------|--------------|----------------|
| 1999-00 | \$22,369,419 | 18.0 |
| 1998-99 | 18,954,883 | -6.1 |
| 1997-98 | 20,192,086 | 0.7 |
| 1996-97 | 20,051,609 | 15.4 |
| 1995-96 | 17,378,785 | 17.6 |
| 1994-95 | 14,783,614 | -11.6 |
| 1993-94 | 16,718,727 | 8.1 |
| 1992-93 | 15,463,902 | 18.0 |
| 1991-92 | 13,105,878 | -16.7 |
| 1990-91 | 15,733,934 | 12.1 |

OIL PRODUCTION TAX

| Insurance Companies Other than Life | | | Fiscal Year | Receipts | Percent Change |
|-------------------------------------|--------------|-----|-------------|-------------|----------------|
| 1999-00 | \$57,000,964 | 4.7 | 1999-00 | \$2,967,395 | 120.6 |
| 1998-99 | 54,431,503 | 3.5 | 1998-99 | 1,344,942 | -37.0 |
| 1997-98 | 52,600,230 | 4.5 | 1997-98 | 2,135,211 | -29.9 |
| 1996-97 | 50,318,931 | 3.4 | 1996-97 | 3,044,497 | 15.1 |
| 1995-96 | 48,687,419 | 7.0 | 1995-96 | 2,644,656 | -5.0 |
| 1994-95 | 45,515,163 | 6.5 | 1994-95 | 2,784,562 | 3.2 |
| 1993-94 | 42,720,970 | 5.1 | 1993-94 | 2,697,560 | -38.9 |
| 1992-93 | 40,631,761 | 2.1 | 1992-93 | 4,413,136 | -7.2 |
| 1991-92 | 39,781,751 | 3.3 | 1991-92 | 4,756,184 | -18.3 |
| 1990-91 | 38,529,132 | 9.6 | 1990-91 | 5,824,523 | 33.5 |

PARI-MUTUEL TAX

| LOTTERY RECEIPTS | | | Fiscal Year | Receipts | Percent Change |
|------------------|---------------|-------|-------------|------------------------|----------------|
| 1999-00 | \$156,300,000 | 1.6 | 1999-00 | \$6,645,098 | -7.4 |
| 1998-99 | 153,800,000 | 0.5 | 1998-99 | 7,179,163 | 48.1 |
| 1997-98 | 153,000,000 | 1.3 | 1997-98 | 4,845,921 | -18.0 |
| 1996-97 | 151,000,000 | 2.7 | 1996-97 | 5,911,958 | -17.3 |
| 1995-96 | 147,000,000 | 8.1 | 1995-96 | 7,148,951 | -1.5 |
| 1994-95 | 136,000,000 | 19.3 | 1994-95 | 7,256,986 | 18.3 |
| 1993-94 | 114,000,000 | 14.0 | 1993-94 | 6,134,317 | -1.8 |
| 1992-93 | 100,000,000 | 0.0 | 1992-93 | 6,247,368 | -8.8 |
| 1991-92 | 100,000,000 | 37.0 | 1991-92 | 6,852,421 | 6.5 |
| 1990-91 | 73,000,000 | -18.9 | 1990-91 | 6,435,598 ¹ | -42.1 |

¹Tax rate and credit system were restructured, effectively reducing the amount of the pari-mutuel tax.



Revenue Receipts

PROPERTY TAXES—REAL ESTATE

| Fiscal Year | Receipts | Percent Change |
|-------------|--------------------------|----------------|
| 1999-00 | \$167,326,472 | 3.5 |
| 1998-99 | 161,723,137 | 4.8 |
| 1997-98 | 154,245,453 | -9.3 |
| 1996-97 | 170,063,059 ¹ | 19.2 |
| 1995-96 | 142,728,406 | 7.2 |
| 1994-95 | 133,200,108 | 0.8 |
| 1993-94 | 132,125,477 | 4.6 |
| 1992-93 | 126,333,184 | 3.4 |
| 1991-92 | 122,146,269 | 5.7 |
| 1990-91 | 115,574,669 | 2.3 |

¹Some tangible property tax receipts were erroneously credited to real property receipts accounts.

PROPERTY TAXES—INTANGIBLE

| Fiscal Year | Receipts | Percent Change |
|-------------|-------------------------|----------------|
| 1999-00 | \$22,721,743 | 25.5 |
| 1998-99 | 18,103,920 | -14.3 |
| 1997-98 | 21,129,328 ¹ | -54.7 |
| 1996-97 | 46,631,437 ¹ | -29.9 |
| 1995-96 | 66,489,089 | -20.4 |
| 1994-95 | 83,479,482 | 7.9 |
| 1993-94 | 77,393,521 | -0.5 |
| 1992-93 | 77,751,342 | 11.1 |
| 1991-92 | 69,961,863 | -2.0 |
| 1990-91 | 71,415,874 | 12.9 |

¹Shares of stock were exempted from property tax.

PROPERTY TAXES—TANGIBLE

| Fiscal Year | Receipts | Percent Change |
|-------------|--------------------------|----------------|
| 1999-00 | \$130,960,896 | 4.3 |
| 1998-99 | 125,564,658 | -0.2 |
| 1997-98 | 125,753,465 | 0.9 |
| 1996-97 | 124,637,468 ¹ | -9.6 |
| 1995-96 | 137,812,773 | 20.8 |
| 1994-95 | 114,122,717 | 9.2 |
| 1993-94 | 104,501,822 | 10.8 |
| 1992-93 | 94,346,047 | 4.5 |
| 1991-92 | 90,281,298 | 7.3 |
| 1990-91 | 84,110,969 | 7.5 |

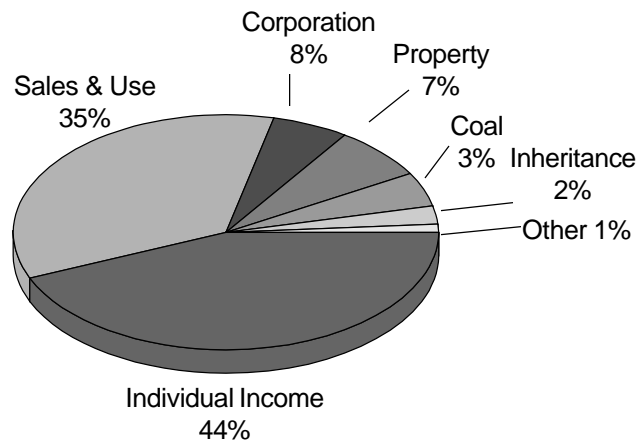
¹Some tangible property tax receipts were erroneously credited to real property receipts accounts.

SALES AND USE TAX

| Fiscal Year | Receipts | Percent Change |
|-------------|----------------------------|----------------|
| 1999-00 | \$2,171,397,969 | 4.1 |
| 1998-99 | 2,085,899,677 | 5.3 |
| 1997-98 | 1,981,297,580 | 5.2 |
| 1996-97 | 1,882,681,995 | 5.5 |
| 1995-96 | 1,783,881,316 | 6.2 |
| 1994-95 | 1,680,520,815 | 7.7 |
| 1993-94 | 1,560,085,519 | 6.7 |
| 1992-93 | 1,462,251,261 | 7.2 |
| 1991-92 | 1,363,690,026 | 5.2 |
| 1990-91 | 1,296,310,445 ¹ | 19.4 |

¹The tax rate was raised from 5 to 6 percent effective July 1, 1990.

Makeup of FY00 General Fund



Revenue Receipts



ROAD FUND

| Fiscal Year | ROAD FUND TOTAL RECEIPTS ¹ | |
|-------------|---------------------------------------|----------------|
| | Receipts | Percent Change |
| 1999-00 | \$1,090,777,822 | 3.2 |
| 1998-99 | 1,056,596,153 | 4.4 |
| 1997-98 | 1,011,789,675 | 5.4 |
| 1996-97 | 960,183,780 | 2.2 |
| 1995-96 | 939,910,490 | 4.4 |
| 1994-95 | 900,619,387 | 4.4 |
| 1993-94 | 862,826,425 | 5.2 |
| 1992-93 | 820,411,480 | 4.9 |
| 1991-92 | 781,808,152 | 2.1 |
| 1990-91 | 765,598,232 ² | 1.5 |

MOTOR FUELS TAXES

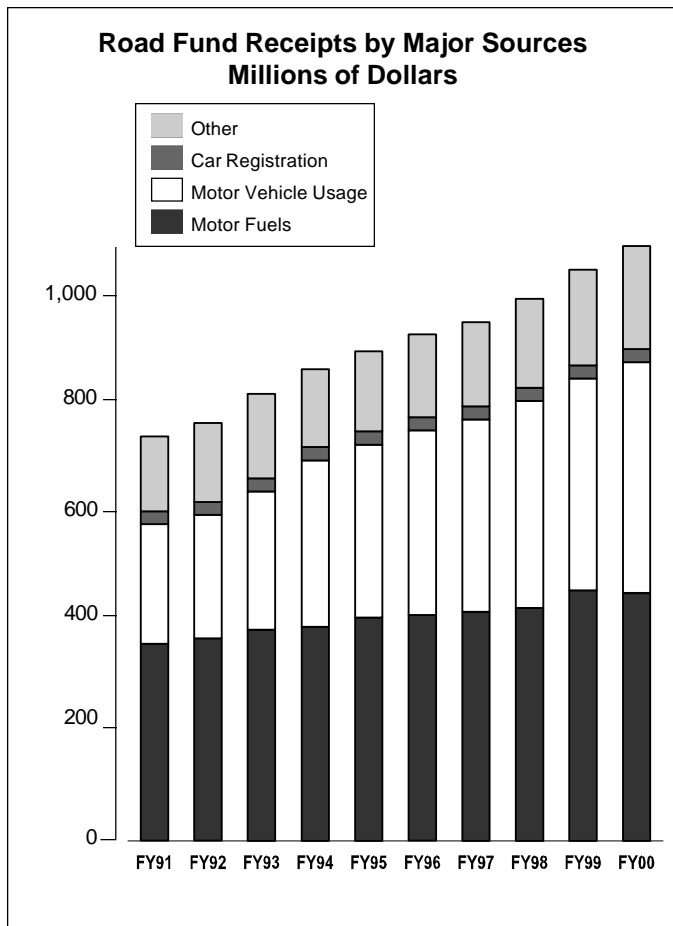
| Fiscal Year | Motor Fuels Normal | |
|-------------|--------------------|----------------|
| | Receipts | Percent Change |
| 1999-00 | \$423,876,351 | -0.9 |
| 1998-99 | 427,848,100 | 8.0 |
| 1997-98 | 396,123,781 | 1.4 |
| 1996-97 | 390,688,336 | 3.3 |
| 1995-96 | 378,142,941 | 1.3 |
| 1994-95 | 373,316,977 | 4.2 |
| 1993-94 | 358,435,307 | 1.4 |
| 1992-93 | 353,651,330 | 4.5 |
| 1991-92 | 338,517,487 | 3.4 |
| 1990-91 | 327,467,484 | -2.7 |

¹Does not include federal grants.

²Motor vehicle usage tax rate was increased to 6 percent effective July 1, 1990.

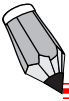
Motor Fuels Normal Use and Surtax

| Fiscal Year | Receipts | Percent Change |
|-------------|--------------|----------------|
| 1999-00 | \$15,905,613 | -5.6 |
| 1998-99 | 16,853,163 | -3.6 |
| 1997-98 | 17,473,744 | 14.1 |
| 1996-97 | 15,316,702 | -32.1 |
| 1995-96 | 22,554,473 | -2.2 |
| 1994-95 | 23,052,951 | 7.7 |
| 1993-94 | 21,399,126 | 3.9 |
| 1992-93 | 20,591,812 | -1.9 |
| 1991-92 | 21,000,948 | -6.0 |
| 1990-91 | 22,331,775 | -2.7 |



MOTOR VEHICLE OPERATOR'S LICENSE

| Fiscal Year | Receipts | Percent Change |
|-------------|-------------|----------------|
| 1999-00 | \$5,689,329 | 5.3 |
| 1998-99 | 5,400,685 | 3.0 |
| 1997-98 | 5,241,595 | -2.1 |
| 1996-97 | 5,355,648 | 4.8 |
| 1995-96 | 5,110,387 | -1.2 |
| 1994-95 | 5,170,423 | -3.5 |
| 1993-94 | 5,358,710 | 6.7 |
| 1992-93 | 5,020,733 | -3.8 |
| 1991-92 | 5,221,356 | 3.6 |
| 1990-91 | 5,038,197 | -6.0 |



Revenue Receipts

MOTOR VEHICLE REGISTRATIONS

| Passenger Car Registration | | |
|----------------------------|--------------|----------------|
| Fiscal Year | Receipts | Percent Change |
| 1999-00 | \$23,485,625 | 0.6 |
| 1998-99 | 23,356,526 | -1.1 |
| 1997-98 | 23,604,679 | 1.4 |
| 1996-97 | 23,276,395 | -0.5 |
| 1995-96 | 23,389,132 | 0.0 |
| 1994-95 | 23,398,303 | -0.3 |
| 1993-94 | 23,473,690 | 1.7 |
| 1992-93 | 23,083,164 | 0.8 |
| 1991-92 | 22,893,363 | 1.6 |
| 1990-91 | 22,528,562 | 0.1 |

MOTOR VEHICLE RENTAL USAGE TAX

| Fiscal Year | Receipts | Percent Change |
|-------------|------------------------|----------------|
| 1999-00 | \$49,957,851 | 12.4 |
| 1998-99 | 44,465,916 | 7.3 |
| 1997-98 | 41,450,720 | 13.3 |
| 1996-97 | 36,593,748 | 25.9 |
| 1995-96 | 29,054,964 | 26.5 |
| 1994-95 | 22,966,441 | 34.7 |
| 1993-94 | 17,055,319 | 40.7 |
| 1992-93 | 12,124,476 | 33.2 |
| 1991-92 | 9,103,767 | 25.3 |
| 1990-91 | 7,264,932 ¹ | 11.5 |

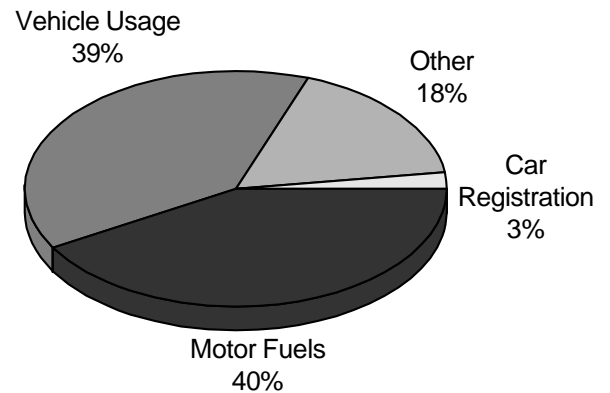
¹The tax rate was increased from 8 percent to 5 percent.

MOTOR VEHICLE USAGE TAX

| Fiscal Year | Receipts | Percent Change |
|-------------|--------------------------|----------------|
| 1999-00 | \$359,437,723 | 8.5 |
| 1998-99 | 331,187,817 | 1.8 |
| 1997-98 | 325,308,554 | 6.7 |
| 1996-97 | 304,868,491 | 2.1 |
| 1995-96 | 298,585,859 | 5.2 |
| 1994-95 | 283,820,829 | 2.0 |
| 1993-94 | 278,157,347 | 19.1 |
| 1992-93 | 233,527,651 | 11.4 |
| 1991-92 | 209,619,192 | 2.2 |
| 1990-91 | 205,055,084 ¹ | 5.8 |

¹The tax rate was increased from 5 percent to 6 percent.

Makeup of FY00 Road Fund





Major KRC Accomplishments in Fiscal Year 1999-2000

Accomplishments during Fiscal Year 1999-2000 reflect employees' commitment to KRC's goals. These accomplishments emphasize the Cabinet's mission—to provide courteous, accurate and efficient services for the benefit of Kentucky and its citizens, and administer the tax laws of the commonwealth in a fair and impartial manner.

Major accomplishments are highlighted in individual narratives in this report. Other specific accomplishments that underscore major progress toward KRC's goals are as follows:

Taxpayer Service

- Offered extended hours during the period April 3-17, 2000, to better accommodate taxpayers with questions regarding individual income, withholding, and sales and use taxes.
- Collaborated with the Secretary of State's Office to create a One-Stop Business Licensing Program that allows potential business owners the opportunity to locate and complete business license applications online.
- Processed 1,171,993 timely and correctly filed individual income tax returns requesting refunds by May 26, 2000.
- Issued 103,293 direct deposit refunds for individual income tax returns, representing a 60 percent increase over the previous year.
- Participated in the Sales Tax Simplification Project for the 21st Century, a multistate effort to simplify the administration of the sales and use tax to enable retailers to collect and remit tax in an efficient manner.



Collection of Tax Revenues

- Worked with the Kentucky State Police on Operation Border Crossing and the Freddie Freeroader vehicle registration compliance programs. Both of these programs are aimed at detecting Kentucky residents who are attempting to avoid motor vehicle taxes. Under these programs 5,360 tax



bills were issued, which generated collections of \$1,423,837 in property tax and \$24,581 in motor vehicle usage tax.

- Collected and distributed over \$27 million in local property tax revenues.
- Set an all-time record for revenue generated through KRC enforced collection programs by collecting \$96,258,106.
- Registered 51 new taxpayers through the Voluntary Disclosure Program, which generated more than \$1.8 million.

Business Practices

- Continued participation as a member in the American Collectors Association to improve the skills and professionalism of KRC collection officers.
- Processed more than 5 million documents, deposited more than \$7.3 billion in receipts, and made timely deposits into all funds.
- Began enterprise-wide projects, including setting up procedures to allow KRC to process UI-3 returns for the Cabinet for Workforce Development, and processed applications for Kentucky's Tobacco Settlement Fund.

Technological Advances

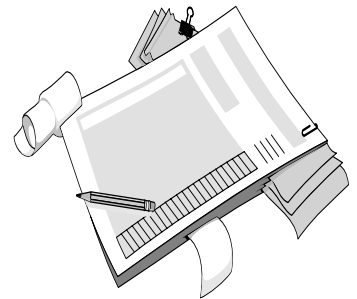
- Converted more than 240 screens of the existing legacy mainframe systems from a 'green screen' mainframe interface to a Web-based user interface called *Jacada*, which allows users to combine data from multiple mainframe screens to one Web screen.
- Participated, along with Indiana, in the second year of the Internal Revenue Service (IRS)/state TeleFile pilot project.
- Implemented the Miscellaneous Tax Registration System (MIX-ERS). This development effort provides a centralized registration process and demographic repository for more than 60 taxes and fees. This system will provide electronic data for these taxes and fees, and improve the conversion needed for the Master Taxpayer Index component of KRC's *EMPOWER Kentucky* Simplified Revenue Systems project.

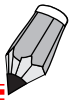




Accomplishments

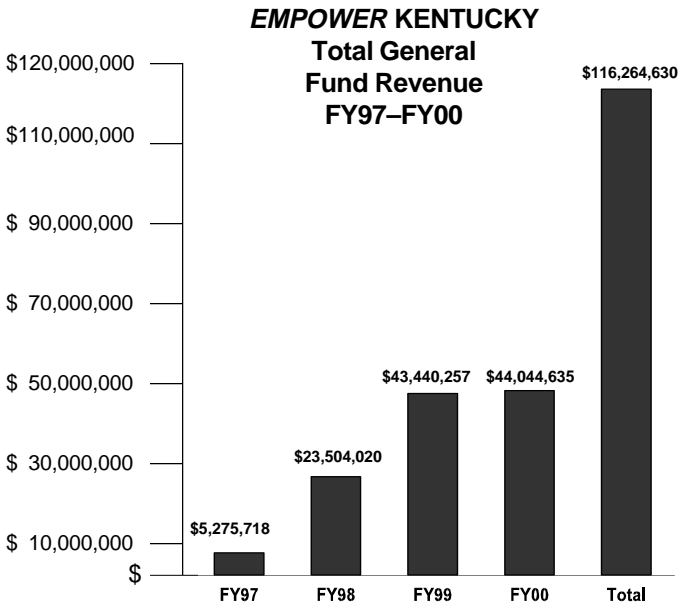
- Ensured there were no Y2K computer-related problems on Jan. 1, 2000.
- Experienced continued growth in electronic filing of individual income tax returns. Participation increased by 21 percent for the 1999 tax year.
- Replaced the entire local area network (LAN) at the Perimeter Park location to meet requirements of the Modernized Front-End (MFE) portion of the *EMPOWER Kentucky* project.
- Added three taxpayer service centers (TSCs)—Ashland, Louisville, and Pikeville—to the Kentucky Information Highway (KIH) network. This allows staff members in these field offices to use a shared application server, e-mail, and Internet access. Also added 17 property valuation administrators' (PVA) offices to the network, with the goal of eventually including all 120 counties.
- Continued a pilot project of leasing computer hardware on a three-year refresh schedule. This pilot project is on schedule with 80 percent of KRC's desktop computers already replaced with leased equipment.
- Began a project to replace the Tax Roll Information Management (TRIM) and the Sheriff's Automated Collection System (SACS) computer software currently in use in most property valuation administrators' and sheriffs' offices. The new tax roll system, as currently envisioned, will interact with a host of new applications, such as digital photography, digital mapping, and computer assisted mass appraisal software. The new collection system will be able to produce a greater variety of reports for the sheriff's use, and will have the capability to download tax bill information to the county clerk's and county attorney's collection systems.
- Assisted the Transportation Cabinet in the development of the new Kentucky Vehicle Information System (KVIS) for motor vehicle registration.
- Instituted a Treasury Offset Program to take advantage of recent changes in federal statutes that allow for the offset of federal tax refunds to state income tax liabilities. As of June 28, 2000, KRC had received \$434,972 from the offset program.
- Put into production a Bankruptcy Data File (BDF). This file contains information on all bankruptcies filed in either the Eastern or Western District Bankruptcy Courts of Kentucky during the past 10 years. This system interfaces with KRC's automated collection system and aids in managing the information necessary to administer the numerous bankruptcy cases in the Division of Collections.
- Processed 54,696 individual income tax returns filed through the joint federal/state TeleFile pilot project, representing a 34 percent increase over the previous year.
- Processed 29,350 individual income tax returns that were filed via the Internet. This was the first year for this program in which taxpayers were able to file their returns online.
- Processed nearly \$2.4 billion in electronic funds transfer (EFT) payments for sales, withholding, and bank franchise taxes, representing a 7 percent increase over the previous year.





KRC Proves *EMPOWER Kentucky* Investment a Success

KRC's General Fund receipts from its *EMPOWER Kentucky* initiatives have topped the \$100 million mark.



KRC reached this milestone in April. As of June 30, KRC's *EMPOWER* initiatives had produced \$116,264,630 for the state's General Fund. This is more than three times the original \$36.1 million investment the General Assembly made in KRC's Simplified Revenue Systems proposals in 1997, even with all projects not yet fully implemented.

In addition, KRC's *EMPOWER* efforts have provided nearly \$50 million for local government entities such as cities, counties, and school districts.

To date, KRC's *EMPOWER* collections have exceeded estimates by 13 percent.

"This milestone represents a significant achievement in Governor Patton's modernization of state government," said KRC Secretary Mike Haydon. "The governor pledged fairer tax collections and enhanced efficiencies in the delivery of services."

"We have been able to use modern technology and new techniques to close the tax gap. We are pleased with the way our employees have responded to this challenge. We know that Kentucky taxpayers deserve the assurance that everyone is being treated fairly," Haydon added.

EMPOWER Kentucky Project Manager Ron Bingham is pleased with the Revenue Cabinet's efforts and results.

"These efforts have proven that *EMPOWER* can be a success," Bingham said. "In fact, the Revenue Cabinet has given the entire *EMPOWER* process credibility. When the project began, Governor Patton stated there would be \$50 million in annually recurring

savings or revenue. The Revenue Cabinet's efforts have single-handedly met that revenue objective. The Cabinet has set aggressive financial projections and has exceeded them every year."

"The Revenue Cabinet has taken great strides in getting equity and fairness in the tax structure," Bingham continued. "These projects have made things simpler and easier for businesses to pay their taxes."

KRC's staff continues to make great strides in implementing those projects which are not already operational and collecting revenue. For those programs requiring a great deal of long-range planning, Fiscal Year 1999-2000 was a period of significant activity in progressing toward establishing these new systems.

EMPOWER Kentucky is Governor Patton's initiative to achieve operational efficiencies, cost reductions, and improved service delivery through new technology and training. The 1996 General Assembly set aside a pool of money to fund major modernization efforts. Agencies developed detailed business cases to present their initiatives to a selection panel and compete for funding. On Jan. 15, 1997, Governor Patton announced that KRC's proposals were approved for full funding.

Five specific KRC projects were funded through *EMPOWER Kentucky*. Foremost is a complete modernization of KRC's tax administration systems. This modernization is referred to as the Kentucky Integrated Tax Entity System (KITES). Also included are the Tax Gap project, an improved Corporate Officer Assessment program, an improved Vendor Offset program, and an expanded Bank Levy Source program. While KITES is the major initiative, all five programs will result in greater processing efficiency, improved service, and significant increases in tax collection.

Following is more detailed information on the progress of each of KRC's *EMPOWER Kentucky* initiatives during Fiscal Year 1999-2000:

Kentucky Integrated Tax Entity System—This project is comprised of four individual components or subprojects: mail processing equipment; Modernized Front-End (MFE); the Master Taxpayer Index (MTI), and the Revenue Evaluation and Decision Support (READS) system. Each of these subprojects is an integral part of the overall KITES project, but each is monitored separately under its own project life cycle. KITES will improve taxpayer service and reduce the cost of taxpayer compliance. It will provide KRC employees efficient and effective access to a complete view of a tax entity's data, thereby improving overall communications with taxpayers as well as improving accounting and audit controls.



EMPOWER Kentucky

KITES will consolidate major KRC business functions into one common database using a commonwealth-standard client server architecture. KITES will provide improved and expanded functionality in areas of registration, accounting, taxpayer assistance, compliance, collection, and research. This improved functionality will provide a much more efficient and effective means of tax administration.

After the vendor evaluations in the summer of 1998 yielded no acceptable solution, it became clear that KRC needed a different approach to its proposed integrated tax system. KRC then designed a project strategy that was sensitive to operational priorities and user needs, the solutions available from the vendor community, and the amount of change KRC could absorb and still maintain adequate service to the public. The new approach phases in the system functions across tax types, beginning with registration and continuing in later phases with accounting and collections. The effect will be to reduce the impact to ongoing operations, avoid the necessity of running both systems in parallel, and leverage existing systems that are highly integrated. The adjustments were necessary to enhance the opportunity for successful vendor partnerships, to reduce project risks, and provide a quicker return of project benefits. With the new approach came a new name: Kentucky Integrated Tax Entity System (KITES). The long-term vision and goals have not changed.

The mail processing equipment strengthens the capacity for sorting incoming mail via custom programming, improves the speed of mixed mail handling and extraction, and provides remittance detection for staging work more efficiently for remittance processing. The equipment was installed in October 1998. It consists of a sorter, which is capable of handling more than 23,000 pieces of mail per hour; an auto-extractor, which automatically opens pieces of mail identified by the sorter as containing only a payment coupon and a check; and 15 rapid extraction desks, which allow for faster opening and processing of mail which cannot be opened by the automated extractor.

The MFE process includes comprehensive hardware and software upgrades that support functions related to electronic data capture (i.e., scanning), workflow for automated data correction/verification (i.e., electronic worklists), electronic remittance processing, and image storage and retrieval. This process provides a much more efficient and effective method of cap-

turing and transmitting data to the appropriate host systems. More dependable and timely data updates reduce the amount of non-value-added activities and improve overall staff efficiencies. Electronic images of paper documents provide immediate desktop access to documents as needed to satisfy, verify, or validate information requests, which will improve overall taxpayer assistance.

Work continued on the modernization of tax return processing. The contract awarded in December of 1998 for a scanning and imaging system was being tested as the fiscal year began. Three key features were expected to greatly increase efficiencies—encoding of checks for deposit, electronic capture of data from returns for posting to tax databases, and availability of the imaged returns at employee desktops.

Unexpected difficulties moved implementation of the new system beyond the planned start date of July 1, 1999. Intermittent testing began in the first quarter and production started late in the second quarter of sales and use and withholding taxes. Processing of unemployment insurance returns for the Cabinet for Workforce Development also began in the second quarter. Processing of sales and use taxes and withholding taxes was suspended while debugging was underway. In June, although the system showed signs of operating at sustained levels, it had not yet operated on peak volume days. Consequently, a complete evaluation of its performance had not been possible as the fiscal year closed.

The vendor selected to develop this system was notified that the contract would be terminated in July. KRC will continue the development of the system in Fiscal Year 2000-01 and determine how best to proceed to add other taxes.

The remaining components of KITES comprise development of two systems, MTI and READS.

KITES is the first project to use the commonwealth's new Strategic Alliance Services procurement method. This method frees agencies to interact with a predetermined stable of information technology vendors in crafting their statement of project work.

Revenue Evaluation and Decision Support

The Revenue Evaluation and Decision Support (READS) system is a data warehouse with decision support software to allow KRC to create information for decision-makers from its vast amounts of data. The READS contract was awarded to Complete



Business Systems, Inc. (CBSI) in December 1999 to build the first iteration of KRC's data warehouse. KRC's data warehouse development strategy is based on an iterative development approach that enables KRC to first discover the potential of a data warehouse solution and to become proficient with its tool sets. The knowledge obtained from the successful implementation of the first decision support application will provide the capacity to add decision support applications to address other business problems. Each additional decision support application will build on, expand, or modify the data model and definitions of its predecessors. This approach allows KRC to grow the system over time into a KRC-wide data warehouse while minimizing implementation risks and challenges.

The READS system will provide the tools with which managers can effectively change the priority of work and eventually the types of work employees perform. Through the use of tax-specific decision support applications and the use of data warehousing and Web-enabled technologies, KRC staff will have easy access to meaningful information. Cases and even programs can be prioritized according to measures that are in line with KRC's mission, targeting assistance to segments of the public with similar compliance challenges or information needs, and allowing automated responses when the complexity of KRC's response is low.


READS seeks to overcome problems associated with the quality of KRC's data, access to KRC's data, and the creation of information from KRC's data, in order to more effectively pursue KRC's mission. KRC expects to go live with the first iteration of the READS Data Warehouse in February 2001.

Master Taxpayer Index

The Master Taxpayer Index (MTI) is the flagship project under the KITES umbrella. MTI will be the foundation for all future system integration at KRC by linking demographic and account data across taxpayer relationships (e.g., partners, subsidiaries, spouses, etc.). This system will establish a common database and perform basic registration functions, which are the foundations for an integrated tax system. A phased development approach will allow KRC the ability to allocate separate pools of resources so that the KITES components, MTI and READS, can progress concurrently. Each additional application will build on the foundation laid in MTI. This strategy allows KRC to grow the system into a fully

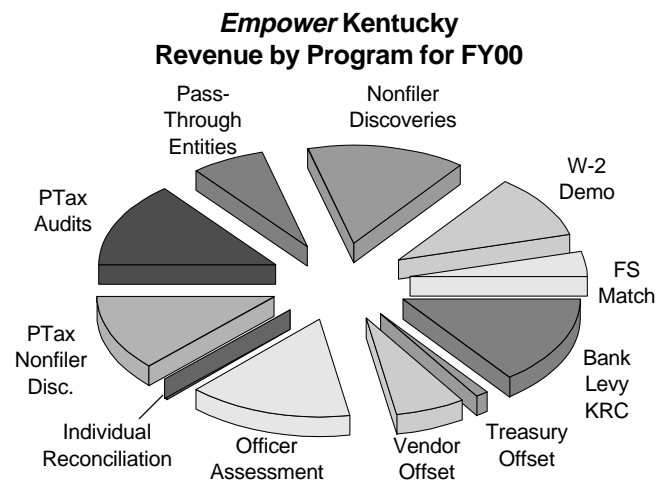
functional integrated tax system while minimizing implementation risks and challenges.

The commonwealth awarded a contract to American Management Systems (AMS) in May 2000 to provide a system based on AMS's ADVANTAGE Revenue application software (client/server version). MTI will consist of two parts: the taxpayer identification core function of ADVANTAGE Revenue and an Internet-based taxpayer registration component. MTI will thus be used by KRC for internal operations as well as by the taxpayers of Kentucky. KRC expects MTI to be available for use in the production environment in November 2001.

 **Tax Gap Project**—The term *tax gap* refers to the difference between the amount of taxes due and the amount actually paid or collected. The program identifies sources of the gap.

The Tax Gap project consists of a new discovery and compliance section for business nonfilers and beneficiaries of income from pass-through entities. Other programs included in the Tax Gap initiative are the Simplified Tax and Wage Reporting system, also known as the W-2 Demonstration project; improvements in the Federal-State Match program, a program to close the tax gap from beneficiaries of partnerships and S corporations (the Pass-Through Entity program); and an expanded property tax compliance program.

The W-2 Demonstration Unit generated \$4,562,180 for the fiscal year which ended June 30, 2000. The total generated is made up of the following programs and revenues as follows: Reconciliation, \$3,866,528; EFT Delinquency, \$83,064; and K-2 Delinquency, \$20,057. Revenue from nonfilers generated from previous year registrants totaled \$592,531.





EMPOWER Kentucky

The Tax Gap Discovery Section, created in 1997 to administer the nonfiler discovery program, registered 461 businesses and collected more than \$6.3 million.

The Federal-State Match program generated \$1.8 million, exceeding revenue projections of \$897,000.

The Pass-Through Entity program generated \$3 million, exceeding revenue projections of \$862,500.

The property tax discovery and compliance programs resulted in more than \$20 million in revenue for local governments and taxing districts, and more than \$12 million in state revenue.

Corporate Officer Assessment Program—KRC has the authority to assess corporate officers personally for past due withholding, sales and use, coal severance, health care provider, controlled substance, and bank franchise taxes. This *EMPOWER Kentucky* initiative was conceived to deal with existing backlogs and to accommodate increasing caseloads.

Due to the ongoing success of the program, the projected revenues for Fiscal Year 1999-2000 were increased from the original estimate of \$5 million to \$6 million. The initiative again exceeded its revenue estimates by collecting \$6.83 million.

Vendor Offset Program—The Vendor Offset program was presented as an initiative designed to enhance General Fund savings by retaining payments to indebted vendors with outstanding tax obligations. The objective could be met by modifying existing commonwealth systems to automate KRC's vendor payment offset process.

The commonwealth invested \$239,500 to implement the Vendor Offset program, which went into production in October 1997. The implementation costs were quickly recouped during the first few months of operation. The process was designed to provide an efficient method by which state debts can be transmitted and matched against the Management Administrative and Reporting System (MARS). Through this process, indebted vendors are identified and any payments that may be issued are matched against KRC's Compliance and Receivables System (CARS).

Payments offset through the automated vendor payment offset process are electronically transferred and applied to CARS. Notification is sent to the indebted vendors when their debts are submitted to the Finance and Administration Cabinet, as well as after an offset occurs.

The Division of Collections administers the program within KRC. The Vendor Offset program was designed so that any state agency that elects to participate may do so by making any necessary system modifications.

The Vendor Offset program retained \$2.8 million during the year in payments that were earmarked for indebted vendors with outstanding tax liabilities.

Bank Levy Source—The Bank Levy Source initiative enables KRC to gather banking data electronically from information supplied by taxpayers. This information is used to identify assets when enforced collection actions become necessary.

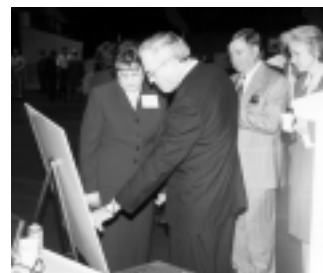
The program again substantially exceeded the projected revenues for Fiscal Year 1999-2000. Revenues were projected to be \$6.1 million, but more than \$6.5 million was actually collected.

KRC continues to share this information with the Cabinet for Workforce Development, which collected over \$30,000 in levies as a result of information provided by KRC.

In January, KRC participated in an *EMPOWER Kentucky* demonstration for elected officials and the general public at the Farnham Dudgeon Civic Center in Frankfort.



Dwight Howard, director of Revenue Operations, showed a video of the scanning and imaging and mail opening equipment to Crit Luallen, Ron Bingham, and Governor Paul Patton.



Jennifer Hays, director of Compliance and Taxpayer Assistance, highlighted Tax Gap accomplishments for Governor Patton, Bingham and Luallen.



Modern Filing Methods Continue to Gain in Popularity

KRC's alternatives to the traditional paper method of filing individual income tax returns continue to gain in popularity among taxpayers.

Both electronic filing and telephone filing of 1999 returns enjoyed significant increases over the previous year. Online filing, a new offering for the 1999 tax year, drew a significant number of participants.

KRC received 331,547 electronically filed 1999 tax returns, as compared with just under 274,000 1998 returns, an increase of 21 percent.

In its second year of offering TeleFile, KRC accepted 54,696 returns filed by phone. The previous year, nearly 41,000 returns were filed. This is an increase of 34 percent.

This year, for the first time, KRC offered online filing of tax returns via partnerships with software developers. A total of 29,350 taxpayers took advantage of this service and filed their 1999 tax returns via the Internet.

All told, KRC received more than 415,000 returns filed via nontraditional means. This represents nearly 25 percent of all individual income tax returns. Filing electronically, via phone, or online allows taxpayers to receive refunds faster and eliminates manual processing of paper returns.

KRC looks forward to the continued success and growth of these programs.



Office of Taxpayer Ombudsman

The primary focus of the Office of Taxpayer Ombudsman is to assist taxpayers with obtaining a fair and equitable resolution of a tax matter pending with KRC. The staff worked on a variety of issues which included:

- coordinating the settlement of delinquent property tax bills with local officials;
- obtaining a waiver of civil penalties when reasonable cause for waiver was demonstrated;
- removing wage and bank levies when the taxpayer would have suffered significant hardship as a result of the levy;
- releasing and removing tax liens from taxpayer records when just cause was presented;
- assisting taxpayers with protests when requested by the taxpayer;
- assisting taxpayers in their requests for a payment plan;
- negotiating with taxpayers in the Offers in Settlement program; and
- assisting taxpayers in resolving issues regarding vendor offsets.



In addition to direct calls from taxpayers or their representatives, the office received frequent referrals on behalf of taxpayers from fellow KRC employees, local officials, and other state or federal agencies. The office also serves as liaison to both the executive and legislative branches of government, routinely works with the Office of Constituent Services in both the Governor's Office and the Legislative Research Commission, and coordinates the responses of correspondence received by the Governor's Office regarding tax matters.

As the advocate for the taxpayer, the staff of the Ombudsman office serves on various cabinet committees to provide input into forms, legislation, training, and educational programs.



KRC Heavily Involved in Tobacco Settlement Program

KRC was heavily involved in the tobacco settlement program brought about as a result of the National Tobacco Growers Settlement Trust, and Kentucky's participation in the program. From developing forms to answering telephone inquiries to processing completed applications using the new scanning and imaging system at Perimeter Park, KRC played a major role in the project.

Kentucky is one of 14 states participating in the settlement, and is the second-largest recipient in terms of the amount of settlement funds distributed to tobacco growers.

KRC personnel designed and typeset the blank forms, then printed the applications. These forms were preprinted with information and mailed to eligible Kentucky tobacco growers.

From mid-September through early December, a number of KRC employees were assigned to assist on a toll-free Tobacco Help Line.

In addition to KRC employees, 22 additional employees from other agencies assisted. During the peak call period, the Help Line was staffed by 20 people from 8 a.m. to 9 p.m.

The Help Line handled approximately 24,000 calls. The most calls received in one week was during Sept. 20-24, when 7,759 calls were answered.

Once the Oct. 8 deadline for applying for a portion of the settlement passed, the Help Line staff was reduced to KRC employees only. These employees assisted the Division of Revenue Operations in processing the settlement applications.

While developing forms, answering telephone inquiries, and processing completed applications for the tobacco settlement program is not regular KRC business, it is not completely out of the ordinary either. The Patton administration, through its *EMPOWER Kentucky* program and the Governor's Office for Technology, is moving rapidly to enhance efficiency in state government. A major part of this efficiency enhancement program is to have KRC become a more centralized processing entity serving other state agencies when such work does not interfere with the Cabinet's all important task of processing General Fund revenues.

"We were pleased to play a significant role in the tobacco settlement program which is so important to the citizens of the commonwealth," said KRC Secretary Mike Haydon. "We are also processing unemployment insurance reports for the Cabinet for Workforce Development. KRC stands ready to assist our sister

agencies in processing documents whenever our own work schedule enables us to do so."

"Everyone who has been involved with this process has been so wonderful to work with," said Jeff Harper, who led the Help Line team. "They all have been willing to do whatever was asked of them."

The National Tobacco Growers Settlement Trust was established by Philip Morris, Inc.; Brown and Williamson Tobacco Corporation; Lorillard Tobacco Company; and RJ Reynolds Tobacco Company to compensate tobacco quota owners and growers for potential reductions in their tobacco production and sales. These reductions are expected to result from the Master Settlement Agreement, a \$206 billion court settlement between the major cigarette manufacturers and 46 state attorneys general. This settlement compensates state governments for the expenses incurred in the treatment of tobacco-related illness through government-sponsored health insurance programs like Medicaid. In order to finance this settlement, the major cigarette manufacturers have implemented steep price increases. They expect these increases to lower demand for their products and consequently to lower demand for American-grown tobacco. In an effort to lessen the economic impact of the Master Settlement Agreement on tobacco quota owners and growers, the cigarette manufacturers agreed to establish the trust.

This \$5.15 billion trust fund was negotiated by the four cigarette companies and the political leadership of tobacco growing states. Kentucky Governor Paul Patton helped lead tobacco state governors in their negotiations, and played a critical role in the establishment of the trust. The participating companies will make annual payments to the trust beginning in 1999 and concluding in 2010.

The trust is divided among tobacco producers in 14 states. Each state's share is determined by its relative share of the total 1998 basic quota for flue-cured and burley tobacco. Kentucky is the second-largest tobacco producing state, and the second-largest recipient of trust proceeds.

Payments from the trust are made directly from the national trustee to eligible tobacco quota owners and growers. The trustee is relying on certification entities in each participating state to determine eligibility criteria and a formula for distribution of the trust proceeds. In Kentucky, the certification entity is known as the Kentucky Tobacco Settlement Trust Corporation.



A Review of Tax Law Changes Enacted by the 2000 Kentucky General Assembly

Following is a brief description of bills enacted by the 2000 General Assembly. Unless noted, the effective date was July 14, 2000. However, the actual implementation date for most property tax bills will be Jan. 1, 2001, which is the beginning of the next assessment cycle.

General Administration

Electronic Funds Transfer—KRS 131.155 was amended to require that all electronic funds transfer payers remit payment to KRC by the debit method or other means as prescribed by the Cabinet. KRC may also require reporting agents whose aggregate payment on behalf of multiple taxpayers is in excess of the threshold or anyone who reports and pays for more than 100 individual accounts, to remit all payments via electronic funds transfer. The current threshold for mandatory electronic funds transfer established by administrative regulation (103 KAR 15:070) is \$25,000. *(HB 536)*



Electronic Commerce—New sections of KRS Chapter 369 were created to adopt the Uniform Electronic Transactions Act (UETA) drafted by the National Conference of Commissioners on Uniform State Laws to provide uniform rules to govern transactions in electronic commerce in every state. The Governor's Office for Technology is designated to set standards for the use of electronic records and signatures that promote consistency and interoperability between governmental agencies. *(HB 571)*

Intentional Unauthorized Browsing—KRC employees or any other person authorized to access confidential state tax information are prohibited from intentionally viewing such information without an official need to view. Penalties of up to \$500 and up to six months in jail are provided. Penalties for divulging state information are increased to \$1,000 and one year in jail. Penalties for intentional unauthorized inspection of federal information continue to be up to \$1,000 and up to one year in jail and penalties for divulging federal information remain at up to \$5,000 and up to five years in jail. Intentional unauthorized inspection or divulging of either state or federal information could result in loss of employment. This legislation is consistent with the Taxpayer Browsing Protection Act which became federal law in August 1997 for the purposes of federal tax information. *(HB 822)*

Child Support—KRC is directed to work with the Cabinet for Families and Children to develop a system for information sharing that would enhance child support collections. *(SB 218)*



Administrative Regulations

Notice to Affected Entities—An administrative body filing an ordinary administrative regulation that establishes or increases fees is now required to notify each state association, organization, or other body representing a person or entity affected by the administrative regulation. KRS 13A.190 was amended to expand authorization for promulgation of an emergency administrative regulation to include the prevention of loss of state funds, as well as federal funds, and KRS 13A.222 was amended to allow administrative regulations to cite popular names of federal or state laws. A new section of KRS Chapter 13A was created to establish a procedure for review of administrative regulations during a legislative session. *(HB 856)*

Notice to Primary Sponsor—An administrative agency promulgating an administrative regulation as the result of a statute enacted by the General Assembly is now required to provide a copy of the notice of intent to the primary sponsor, if still serving, or if not serving, to the chair of the appropriate legislative committee. *(SB 206)*

Income Tax

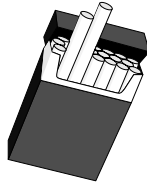
Internal Revenue Code (IRC) Update and Innocent Spouse Relief—(Effective for taxable years beginning after Dec. 31, 1999.) The IRC reference date in KRS 141.010(3) is updated to Dec. 31, 1999. This bill also changes the IRC reference for innocent spouse relief in KRS 141.180 from Sec. 6013(e) to Sec. 6015. *(HB 176)* New laws enacted by Congress and included in this update are as follows:

- Surface Transportation Revenue Act of 1998 (Title IX of H.R. 2400, P.L. 105-178) enacted on June 9, 1998.
- Internal Revenue Service Restructuring and Reform Act of 1998 (H.R. 2676, P.L. 105-206) enacted on July 22, 1998.
- Tax and Trade Relief Extension Act of 1998 (Division J of the Omnibus Consolidated and Emergency Supplemental Appropriations Act, 1999, H.R. 4328, P.L. 105-277) enacted on Oct. 21, 1998.
- Ricky Ray Hemophilia Relief Fund Act of 1998 (Sec. 103(h) of H.R. 1023, P.L. 105-369) enacted Nov. 12, 1998.
- Tax Relief Extension Act of 1999 (Title V of the Ticket to Work and Work Incentives Improvement Act of 1999, H.R. 1180, P.L. 106-170) enacted on Dec. 17, 1999.



2000 General Assembly

Income from Tobacco Settlement—(Effective for tax years beginning after Dec. 31, 1998.) Senate Bill 247 enacted by the 1998 General Assembly provided that amounts received by a producer of tobacco or a tobacco quota owner from a national settlement agreement between the tobacco industry and state attorneys general are excluded from Kentucky adjusted gross income in the case of taxpayers other than corporations. This bill clarifies that exclusion by specifically referring to the Master Settlement Agreement signed on Nov. 22, 1998, and the settlement fund referred to as “Phase II.” The bill extends this exclusion to corporations.



The bill also provides for the exclusion of amounts received from the Tobacco Loss Assistance Program administered by the Commodity Credit Corporation. The program provides funds for reductions in the quantity of the tobacco quota allotments. *(SB 49)*

Unitary Refund Claims and Assessments—(Effective for taxable years ended prior to Dec. 31, 1995.) KRS 141.200 is amended to retroactively prohibit taxpayers or KRC from changing a corporation’s income tax filing status from separate entity basis to a combined return under the unitary business concept. Any claim for refund or credit made after Dec. 22, 1994, based on a change of filing status from separate entity basis to a combined return under the unitary business concept shall not be recognized for any purpose. Also, any assessment of tax after Dec. 22, 1994, based on requiring a change from a separate return basis to a combined return basis under the unitary business concept shall not be recognized for any purpose. *(HB 541)*

Income Tax Credit for the Purchase of Kentucky Coal—(Effective for 10 consecutive years beginning on July 15, 2001.) KRS Chapter 131 is amended to allow a nonrefundable credit against corporation income tax, individual income tax, corporation license tax, and public service company property tax for Kentucky coal purchased and used for the purpose of generating electricity. Only coal that is subject to Kentucky’s coal severance tax qualifies for the credit. The credit is equal to \$2 per ton of Kentucky coal purchased by the company that is above the amount of Kentucky coal purchased during the base year. The base year amount is the amount of coal purchased in 1999 for existing companies. For new entities, the base year amount will be zero. *(HB 805)*

Economic Opportunity Zones—KRS Chapter 154 is amended to allow the Economic Development Cabinet to establish economic opportunity zones to encourage the location and expansion of manufacturing, service, or

technology industries. Kentucky Rural Economic Development Act (KREDA) counties qualify as economic opportunity zones. Approved companies are allowed a credit against the corporation income tax or individual income tax equal to the income tax that would be due from the net income of the project. Approved companies may also impose a wage assessment fee not to exceed 5 percent of the gross wages of qualified employees. The assessment fee is to be deducted from the wages the approved company pays to the qualified employee. The employee shall be entitled to a credit against Kentucky income tax withholding (4 percent maximum) and local occupational license fee (1 percent maximum) equal to the total amount of the assessment fee. The credits may be taken for a period of up to 10 years. *(SB 225)*

Kentucky Industrial Development Act—(Effective April 21, 2000.) KRS 154.28-110 is amended to increase the job assessment fee that an approved company may withhold from its employees from 2 percent to 3 percent. *(HB 330)*

Skills Training Investment Tax Credit—(Effective for taxable years beginning after Dec. 31, 1999.) KRS 141.405 is amended to allow S corporations and partnerships to pass through the skills training investment tax credit to shareholders and partners. Technical corrections were made to the various economic development incentives. *(HB 381)*

Kentucky Industrial Revitalization Act (KIRA) Tax Credits—(Effective for taxable years beginning on or after Dec. 31, 1999.) KRS Chapter 136 and KRS 154.26-010 are amended to expand the KIRA tax credit to apply to corporation license tax in addition to corporation income tax. The license tax credit is calculated based on the capital attributable to the approved industrial revitalization project and is subject to the same credit limits as the corporation income tax KIRA credit. *(HB 996)*

Enterprise Zone Tax Credits—(Effective April 21, 2000.) KRS 154.45-010 is amended to define “employee,” “qualified employee,” “seasonal business,” and “seasonal employee” to enable a business whose workforce is comprised of at least 80 percent seasonal employees to qualify for tax credits and exemptions provided by KRS 154.45-90 to businesses located within an enterprise zone. The tax credits and exemptions are for corporation income tax, sales and use tax, motor vehicle usage tax, and local property tax. *(HB 287)*

Kentucky Rural Economic Development Act (KREDA) Tax Credits—KRS 154.22-100 is amended to allow KREDA approved companies with financing agreements in effect before July 15, 1996, to elect to change the



job development fee rate from 6 percent to 4 percent. Prior law required the election before June 30, 1997. (SB 394)

Tax Credit for Employers Who Assist Employees in Obtaining His or Her High School Equivalency Diploma—A new section of KRS Chapter 151B was created to provide an employer a state income tax credit for a portion of the released time given to the employee to study for the General Educational Development tests. The credit is calculated by multiplying 50 percent of the hours released for study by the student's hourly salary. The credit shall not exceed \$1,250. (SB 1)



Health Care Provider Tax

Health Care Provider Tax—Outpatient Prescription Drugs—KRS Chapter 142 was amended to phase out the provider tax on outpatient prescription drugs by HB 315 and HB 321 enacted during the 1998 session of the General Assembly, with an effective date of July 1, 2000. The phase out was confirmed during the 2000 session. (HB 502)



Severance Tax

Limestone Used in the Manufacturing of Cement—A new section of KRS Chapter 143A is created to provide that limestone used to manufacture cement by an integrated miner and manufacturer of cement shall be taxed at 14 cents per ton. (HB 176)

Thin Seam Coal Tax Credit—A new section of KRS Chapter 143 is created to provide a nonrefundable tax credit against the coal severance tax for coal mined from thin seams or with a high mining ratio. The credit varies between 1.5 percent and 3.75 percent of the gross value of mined coal, depending on coal thickness, mining ratio, and sulfur content. (HB 892)

Motor Fuels Tax

Motor Fuels Tax Exemptions—KRS 138.358 and 138.344 are amended to allow a purchaser of dyed nonhighway special fuels to be exempt from paying the motor fuels excise tax, rather than being required to pay the excise tax and file for a refund. KRS 138.358 is also amended to exempt commercial heating fuel from the special fuels tax. (HB 911)

Insurance Tax

Captive Insurers—New sections of KRS Chapter 304 are created to specify the lines of insurance business authorized for captive insurers. This includes filing requirements for licensure, minimum capital requirements, reporting requirements, examinations and

revocation of licenses, investments authorized, reinsurance procedures, taxes applicable, and the comprehensive regulation of the captive insurer. (SB 245)

Alcoholic Beverage Tax

Small and Farm Wineries—KRS 243.884 is amended to extend the wholesale tax exemption on wine produced from out-of-state products until June 30, 2004. (HB 663)



Pari-Mutuel Racing Tax

Pari-Mutuel Racing Tax Credits and Reduced Rate—KRS 138.510 is amended to provide a tax credit to any track with average daily handle of \$1.2 million or more and requires the credit amount be used for capital improvements and horsemen's incentives. KRS 138.510 is also amended to reduce the excise rate for any licensed track with total annual handle of \$250,000 or less and directs amount of rate difference to promotion of live meets and facilities. (HB 502)



Inheritance Tax

Inheritance and Estate Tax—KRS 132.420, 140.160, 140.190, 140.990, 289.391, and 395.605 are amended to clarify the filing requirements for those estates that are still subject to tax. Also, several sections of the inheritance and estate tax statutes that are no longer needed were repealed due to the phaseout of the tax on Class A beneficiaries enacted by the 1995 second extraordinary session of the General Assembly. (HB 545)

Property Tax

Homestead Exemption—The homestead exemption for totally disabled persons was extended to include qualified individuals who die before the end of the taxable year. (HB 158)

Watershed Conservancy Districts—The language in KRS 262.760 which had limited property tax rates levied by watershed conservancy taxing districts to "five (5) mills per dollar of the fair cash value" was replaced with an unlimited "millage rate or per acre rate." (HB 277)

Manufactured Housing—Owners of manufactured homes which are permanently affixed to real estate may now file an Affidavit of Conversion to Real Estate with the county clerk who is required to file this document in the miscellaneous record book and furnish the property valuation administrator (PVA) with a copy for assessment purposes. (HB 348)





2000 General Assembly

PVA Salaries—KRS 132.385 and 132.590 were amended to change the calculation of compensation for PVAs to match the method used for other county officials. PVAs' salaries will be determined according to a statutory schedule based on annual census estimates adjusted annually by the consumer price index. *(HB 538)*

Installment Payments on Delinquent Real Estate Taxes—County attorneys may now enter into agreements with taxpayers to accept installment payments on delinquent real estate taxes. *(HB 556)*

School District Rate Certification—The Department of Education is now required to certify tax rates of school districts upon the receipt of certifications from KRC. *(HB 668)*

County Attorney's Fee on Certificates of Delinquency—The county attorney's 20 percent fee is now waived if the taxpayer pays the certificate of delinquency within five days of the sheriff's sale. *(HB 719)*

Development Rights—A property tax levy associated with a purchase of development rights/parks maintenance program is now exempted from the recall *(HB 44)* provisions of KRS 132.017. *(HB 742)*

Goods in Transit—Effective Jan. 1, 2000, KRS Chapter 132 exempts goods in transit from the state property tax, and phases out any property tax currently levied on goods in transit by cities, counties, and school districts over a three-year period. However, fire districts and special taxing districts may continue to assess goods in transit. *(HB 749)*

Electronic Certificate of Delinquency—KRS Chapter 134 was amended to provide that county clerks may provide a certified electronic certificate of delinquency in lieu of delivering a certified copy of the certificate of delinquency, and also clarifies some of the language of HB 568 (1998). *(HB 807)*

PVA Deputy Annual Leave and Compensatory Time—PVA deputies may now receive lump-sum payments for accrued annual leave and compensatory time when separated from employment (pending regulation). *(HB 824)*

Tax Increment Financing—Cities and counties may now create development areas for the purpose of stimulating economic development through tax increment financing. *(HB 852)*

Tax Increment Financing—A pilot program for tax increment financing was authorized to be established in Jefferson County, with state and local revenues to be identified and distributed by the sheriff to local development agencies. *(SB 372)*

Floodplain Management—For purposes of floodplain management, all property must be assessed by the PVA at 100 percent of its fair market value. This bill had

an emergency clause which made the provisions effective March 29, 2000. *(HB 957)*

County Budgets—KRS 68.260 now requires the passage of county budgets by July 1. Fiscal courts may amend budgets based on information contained in KRC's certification. *(SB 101)*

Intangible Personal Property Tax—KRS Chapters 132 and 136 were amended to exempt shares of stock from the intangible personal property tax, in order to align the statutes with the Kentucky Supreme Court decision in *St. Ledger v. Revenue Cabinet*. *(SB 336)*

Sales and Use Tax

Modifications to the 1996 Tourism Development Act

Tourism Attraction Definition—Effective Feb. 7, 2000, a "tourism attraction project" eligible for sales tax inducements may now include a lodging facility that involves the restoration or rehabilitation of a structure listed individually in the National Register of Historic Places or that is located in a National Register Historic District and is certified by the Kentucky Heritage Council as contributing to the historic significance of the district, and the rehabilitation or restoration project has been approved in advance by the Kentucky Heritage Council. *(HB 43)*

Advance Tourism Project Sales—The completion date of a "tourism attraction project" may be up to three years from the date of final approval rather than the previous two-year requirement. This bill also allows tax collected on sales occurring before the project completion date but after the final approval of the project to be refundable with the approved company's first fiscal year refund. These changes do not alter the 10-year inducement period that begins on the project completion date. *(HB 811)*

Additional Exemptions

Metal Retail Fixtures—Effective Aug. 1, 2000, metal retail fixtures (check stands and belted and nonbelted checkout counters) manufactured in Kentucky and purchased for storage, use, or other consumption outside this state and delivered by the seller's own vehicle, postal service, common carrier, or contract carrier to a location outside this state will not be subject to the Kentucky sales tax. This exemption applies regardless of whether the carrier is selected by the buyer or seller or an agent or representative of the buyer or seller, or whether the F.O.B. is seller's shipping point or buyer's destination. *(HB 660)*

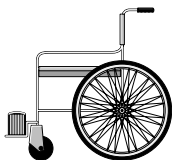
Cervid Exemption—Effective July 1, 2000, members of the genus cervidae (deer and elk) used in an agricultural pursuit for the production of hides, breeding stock,



meat, and cervid by-products will be exempt from sales and use tax. Feed and feed additives, insecticides, fungicides, herbicides, rodenticides, and other chemicals used in this pursuit will also be exempt. In addition, equipment, machinery, attachments, repair and replacement parts, and any materials incorporated into the construction, renovation, or repair of the on-site facilities will be exempt from the sales and use tax. *(HB 502)*

Wheelchair Parts and Certain Ostomy Supplies—

Effective Aug. 1, 2000, wheelchair repair and replacement parts and urostomy and ileostomy supplies will be classified as physical aids exempt from sales and use tax when purchased by an individual for private use. *(SB 86)*



Other Provisions

Aviation Jet Fuel—During the 1998 General Assembly, HB 444 was enacted to change the credit certificated air carriers are allowed against Kentucky sales and use tax paid on aircraft fuel, including jet fuel, for fiscal years beginning after June 30, 2000. Effective July 1, 2000, certificated air carriers shall pay tax up to \$1 million on their purchases of aircraft fuel, including jet fuel. Prior to this legislation, the cap was set at \$4 million. HB 502, recently enacted by the 2000 General Assembly, increased the \$1 million cap in certain circumstances to reflect the Kentucky sales and use tax due on aviation fuel attributable to any other company purchased, merged, acquired, or otherwise combined with the certificated air carrier after the base period. The increase in the cap shall be the amount of Kentucky sales and use tax applicable to such aviation fuel purchased during the 12-month period immediately preceding the purchase, merger, or other acquisition by or combination with the certificated air carrier. *(HB 502)*



Transient Room Tax—Two bills provide for an increase in the local transient room tax imposed on motels, hotels, inns, or similar accommodations providers. HB 584 provides for the levy of an additional 1 percent room tax to finance the construction or operation of a governmental or nonprofit convention center or fine arts center useful to the promotion of tourism located in the central business district of a city of the second class. HB 656 provides for the levy of an additional 2 percent room tax by urban county governments to defray the operating costs of the Lexington Center Corporation. This bill also deletes the sunset provisions of the transient room tax for the retirement of bonds used to finance the Lexington Center Corporation. All affected parties need to be aware that the transient room tax, including the additional rates above, is a license tax imposed on the accommodations provider rather than on the ultimate consumer or purchaser of accommodations services. Therefore, any cost for the transient room tax passed on to customers is part of gross receipts subject to sales tax. *(HB 584, HB 656)*

Communications Services—Effective Jan. 1, 2001, sales tax will be due on local and interstate long distance charges in addition to intrastate long distance charges. This bill also extends the meaning of “tangible personal property” to include prepaid calling arrangements such as prepaid telephone calling cards. Therefore, sales tax will be due at the time these prepaid calling arrangements are sold rather than at the time the arrangement is utilized for a communications service.



In addition, this law will provide a refundable credit to any business whose annual communications service costs exceed 5 percent of the business's Kentucky gross receipts. *(HB 996)*



Legal Issues

Legal Developments and Court Decisions

KRC's Division of Legal Services handles a substantial number of cases presenting a variety of issues arising under or relating to Kentucky's tax laws. The division continues to experience an increase in both the complexity of the issues and amounts of money at stake in these cases.



The division represents KRC in all cases and appeals other than bankruptcy, collection, and criminal cases. In performing this function, the division's attorneys appear before the Kentucky Board of Tax Appeals (KBTA) and other administrative tribunals of this state and before the state and federal courts. This representation of KRC embraces the handling of all phases and levels of the litigation process, including discovery, trials, motion practice, hearings, and appeals.

In addition to its litigation responsibilities, the division performs a number of other duties and functions. These duties and functions include providing legal advice, rendering written legal opinions, participating in protest conferences, review and drafting of proposed legislation and regulations, and assisting with the implementation and administration of the tax laws of this state.

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

Kentucky-American Water Company v. Revenue Cabinet, Ky., 997 S.W.2d 2 (1999)

In this sales and use tax case, the Kentucky Supreme Court reversed decisions of the Kentucky Court of Appeals and Fayette Circuit Court and reinstated a KBTA decision in KRC's favor. The issue in the case was whether the machinery for new and expanded industry exemption (KRS 139.480(10)) applied to the taxpayer water company's purchases of items such as service mains, lines, and meters for use in its 1,197 mile-long water distribution system from its water treatment plant to private consumers. Also at issue was the application of the energy exemption (KRS 139.480(3)) to energy purchased by the taxpayer for use in this distribution system.

The Supreme Court held that for the machinery for new and expanded industry exemption to apply, the machinery in question must be:

- (1) used directly in a manufacturing or processing production process, and
- (2) installed in a plant facility.

Neither requirement was met in this case, the court ruled.

The manufacturing process in question was water purification, which ended with the generally accepted saleable product being deposited in the clear well or storage tank of the water company's water treatment plant. Water was in fact withdrawn from the clear well and sold to customers such as water haulers and bulk customers. Thus, the water distribution system was not part of the manufacturing process and the items in question were consequently not used directly in a manufacturing process.

In addition, the Supreme Court reaffirmed the precedential value of *Kentucky Electric Co. v. Buechel*, 146 Ky. 660, 143 S.W.58 (1912) and *Covington Gas-Light Co. v. City of Covington*, 84 Ky. 94, 8 K.L.R. 442 (1886), which held that electricity and gas distribution systems were not part of the manufacturing plant for purposes of the ad valorem tax exemption for manufacturing now found in KRS 132.200(4). Because of the common purpose behind this ad valorem tax exemption and the machinery for new and expanded industry sales and use tax exemption, these precedents were applicable here to warrant a holding that the taxpayer's water distribution system was separate from its manufacturing (i.e., water treatment) plant facility. On this point, the court also noted that the purpose of any pressurization used in the distribution system was for movement of the water, not manufacturing, and that water treatment plants are regulated by the Public Service Commission and Natural Resources and Environmental Protection Cabinet separately from water distribution systems.

The court further noted that KRC had consistently interpreted the machinery for new and expanded industry exemption as not applying "to pipes, valves, fittings and meters for both water distribution systems and local utilities that deliver gas." Such a longstanding administrative construction should be honored by a reviewing court, the court declared.

The Supreme Court also held that the courts below erred in overturning findings of fact by the KBTA that were supported by substantial evidence. Specifically, the KBTA had found that the purpose of the pressurization of the water in the distribution system was to transport the water and maintain its quality and not manufacturing.

Finally, the court held that the energy exemption did not apply because the water distribution system was not engaged in manufacturing and the distribution system did not constitute one location, as required by KRS 139.480(3).



Inland Container Corporation v. Mason County Board of Education, Ky., 6 S.W.3d 374 (1999)

In this case, the taxpayer had sought a refund or credit of a local school utility tax authorized by KRS 160.613 from the Mason County Board of Education. The taxpayer's request was based upon subsection 1 of KRS 160.613, which provides that taxable gross receipts "shall not include amounts received for furnishing energy or energy-producing fuels, used in the course of manufacturing, processing, mining, or refining to the extent that the cost of the energy or energy-producing fuels used exceeds three percent (3%) of the cost of production." The taxpayer contended that it paid local utility tax in excess of this 3 percent cap.

The Kentucky Supreme Court held in this case that the taxpayer was entitled to a refund of its overpayment of local school utility taxes under common law principles. The taxpayer's payment of the tax was involuntary, as there were mandatory penalties for failure to make utility tax payments in a timely manner. Moreover, the Mason County Board of Education regulation governing the tax was invalid in that it denied the 3 percent cap to taxpayers without a sales and use tax energy direct pay authorization from KRC, notwithstanding their entitlement to the cap regardless of their eligibility for the energy direct pay authorization. The regulation was therefore legally deficient in not allowing a refund of excess tax paid prior to the time a taxpayer became eligible to obtain the energy direct pay authorization from KRC.

The board of education had also filed a cross claim against KRC seeking indemnification for the refund sought by the taxpayer. The Supreme Court held that KRC had only provided truthful information concerning the energy direct pay authorization and this was "hardly the type of behavior which would result in civil liability."

Camera Center, Inc. d/b/a Murphy's Camera and Video v. Revenue Cabinet, 99-SC-00283, Kentucky Supreme Court

The issue in this case is whether purchases of machinery for use in the taxpayer's photo processing operations qualified for the machinery for new and expanded industry sales and use tax exemption provided for in KRS 139.480(10), 139.170, and Regulation 103 KAR 30:120. The Kentucky Court of Appeals, Jefferson Circuit Court, and KBTA have all held that the *plant facilities* requirement of the exemption was not met, as the machinery in question was used in locations that were retail establishments not predominantly dedicated to manufacturing. Thus, the items purchased by the taxpayer were not incorporated in a plant facility and the exemption could, therefore, not apply.

The Kentucky Supreme Court has granted the taxpayer's motion for discretionary review of the Court of Appeals' decision. Briefs have been filed and oral argument held before that court. Accordingly, the parties are currently awaiting the rendition of a decision by the Supreme Court in this case.

(Subsequent to Fiscal Year 2000, the Supreme Court rendered its decision in this case. The court held that as photo processing took place at the taxpayer's locations and as photo processing constitutes manufacturing, these locations were therefore plant facilities for purposes of the exemption's application. A plant facility, the court ruled, consisted of any land, building or factory at which manufacturing operations take place.

Three of the seven justices of the Supreme Court dissented. KRC has filed a petition for rehearing, which is now pending.)

Revenue Cabinet v. Hubbard d/b/a Stone Age Dental Laboratory, 99-SC-000171, Kentucky Supreme Court

At issue in this case is whether a dental laboratory's sales to a dentist of such items as dentures, crowns, inlays, and bridges were exempt from sales tax under KRS 139.472 as prosthetic devices. The Kentucky Court of Appeals held that these sales were exempt under KRS 139.472. It rejected the Cabinet's longstanding interpretation of KRS 139.472, as reflected in Regulation 103 KAR 26:080, that dental items were not embraced by this exemption and declared that Regulation 103 KAR 26:080 was void insofar as it subjects dental items to sales tax.

Another issue in this case was whether the taxpayer was entitled to a refund despite having failed to file its refund claim timely in accordance with KRS 134.580. The Court of Appeals rejected the taxpayer's argument that it should nevertheless receive a refund on the theory that KRC should be collaterally estopped from asserting the refund claim's untimeliness by a previous decision of the Harlan Circuit Court involving the Cabinet and another taxpayer and the application of KRS 139.472 in a use tax situation. The doctrine of collateral estoppel or issue preclusion could not apply here, the Court of Appeals ruled, because the issues in this case and the previous Harlan Circuit Court action, while similar, were not identical as required for this doctrine to apply.

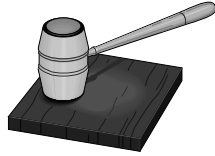
The Kentucky Supreme Court has granted KRC's motion for discretionary review of the Court of Appeals' decision. After having filed briefs and presented oral argument, the parties are presently awaiting a decision from that court.



Legal Issues

Revenue Cabinet v. Lazarus, Inc. and Federated Department Stores, Inc., 1999-SC-1070-D, Kentucky Supreme Court

At issue in this case is whether the taxpayers' distribution of preprinted newspaper advertising inserts in Kentucky via delivery by Kentucky newspapers and the taxpayers' distribution of catalogs to Kentucky residents via the U.S. mail were subject to use tax under KRS 139.310. Agreeing with decisions of the KBTA and Franklin Circuit Court, the Kentucky Court of Appeals held that these activities were not subject to the use tax.



The Kentucky Supreme Court has granted KRC's motion for discretionary review of the Court of Appeals' opinion. Briefing is now underway before that court.

Jim Beam Brands Co. v. Revenue Cabinet, 2000-SC-00044-D, Kentucky Supreme Court

The question in this corporation income and license tax case is whether the taxpayer's sales to overseas military clubs are sales to the United States government and thus includible in the numerator of the sales factor for purposes of the corporation income and license tax apportionment computation (KRS 141.120(8)(c) and 136.070(3)(d)(2)). Affirming a decision of the Franklin Circuit Court, which had reversed a decision of the KBTA adverse to KRC, the Kentucky Court of Appeals held that military officers' clubs are indeed instrumentalities of the United States government and that the taxpayer's sales to those clubs were sales to the United States government within the meaning of the statutory provisions in question.

The taxpayer has filed a motion for discretionary review of the Court of Appeals' decision with the Kentucky Supreme Court. That motion is still pending before the Supreme Court.

(Subsequent to the close of Fiscal Year 2000, the Supreme Court denied the taxpayer's motion for discretionary review.)

Owens-Illinois Labels, Inc. and Owens-Brockway Plastics Products, Inc. v. Revenue Cabinet, 2000-SC-00483-D and 2000-SC-00484-D, Kentucky Supreme Court

The issue in this case is whether a privately owned leasehold interest in an industrial building owned by a qualifying tax-exempt local governmental entity and financed with industrial revenue bonds pursuant to KRS

103.200 *et seq.* was subject to ad valorem taxation at full state and local tax rates after the industrial revenue bonds had been fully redeemed and retired. Reasoning that tax exemption provisions such as those involved in this case (i.e., KRS 132.020(1) and 132.200(8)) are disfavored and strictly construed, the Kentucky Court of Appeals held that the privately owned leasehold interests in the industrial buildings in question were subject to ad valorem or property taxation at full state and local tax rates by virtue of the redemption and retirement of the industrial revenue bonds.

The Court of Appeals' decision affirmed rulings of the Boone and Nelson circuit courts. Two of the three taxpayers involved in this case have filed motions for discretionary review of the Court of Appeals' decision with the Kentucky Supreme Court. Those motions are still pending before the Supreme Court.

USX Corporation v. Revenue Cabinet, 95-CI-0490, Franklin Circuit Court; Illinois Tool Works, Inc. v. Revenue Cabinet, 00-CI-00623, Franklin Circuit Court; Rohm and Haas Company v. Revenue Cabinet, K00-R-15, Kentucky Board of Tax Appeals

These cases challenge the constitutionality of the corporation license tax statute KRS 136.071. Specifically, the taxpayers in these cases assert that KRS 136.071 violates the United States Constitution's Commerce, Due Process, and Equal Protection Clauses, and various provisions of the Kentucky Constitution. The basis for their challenge is that KRS 136.071 permits corporations with Kentucky commercial domiciles to exclude, under certain circumstances, their investments in other corporations from the computation of their taxable capital, while not extending the same opportunity to corporations having commercial domiciles in other states.

No decision on the merits has yet been rendered in these cases.





KRC Administrative Expenditures

KRC administrative expenditures for Fiscal Year 1999-2000 totaled \$63,579,632. The types of appropriated funds that support ongoing operations include General, Road, Restricted, and Federal funds.

Excluded from these administrative costs are *EMPOWER Kentucky* funds in the amount of \$5,171,390 and capital construction funds for purchasing major equipment in the amount of \$75,479 for KRC network infrastructure support.

Personnel costs represented 68 percent, or \$43,254,215, of the total administrative expenditures for Fiscal Year 1999-2000.

ADMINISTRATIVE COSTS, FISCAL YEAR 2000

(Excluding PVA's, EMPOWER Kentucky and Capital Construction Costs)

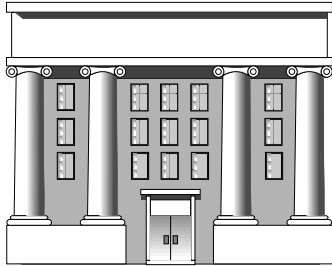
| | General Fund | Agency Fund | Federal Fund | Road Fund | Total |
|---|---------------------|--------------------|-----------------|--------------------|---------------------|
| Salaries full-time | \$30,888,245 | \$ 861,688 | \$35,047 | \$ 791,084 | \$32,576,063 |
| Fringe benefits | 7,651,240 | 0 | 0 | 6,482 | 7,657,722 |
| Seasonal employees | 550,548 | 0 | 0 | 0 | 550,548 |
| Overtime/block 50s | 858,529 | 0 | 0 | 0 | 858,529 |
| Training and tuition assistance | 59,210 | 0 | 0 | 0 | 59,210 |
| Worker compensation insurance | 141,828 | 0 | 0 | 0 | 141,828 |
| Unemployment insurance | 38,337 | 0 | 0 | 0 | 38,337 |
| Legal/audit services/consultants | 848,391 | 0 | 0 | 0 | 848,391 |
| Janitorial services | 222,378 | 0 | 0 | 0 | 222,378 |
| Data entry/temporary services | 143,379 | 0 | 0 | 0 | 143,379 |
| Security | 157,830 | 0 | 0 | 0 | 157,830 |
| Total Personnel | \$41,559,915 | \$ 861,688 | \$35,047 | \$ 797,565 | \$43,254,215 |
| Carpool (State Motor Pool) | \$ 36,668 | \$ 0 | \$ 0 | \$ 0 | \$ 36,668 |
| Utilities | 303,528 | 7,500 | 0 | 6,000 | 317,028 |
| Rent/rentals | 2,825,902 | 35,000 | 0 | 55,000 | 2,915,902 |
| Maintenance and repairs | 992,256 | 0 | 0 | 0 | 992,256 |
| Postage | 1,988,990 | 100,000 | 0 | 306,000 | 2,394,990 |
| Printing/other services | 1,577,017 | 226,292 | 0 | 35,146 | 1,838,455 |
| Telecommunications | 315,226 | 10,000 | 0 | 10,000 | 335,226 |
| Information Technology (includes DIS costs) | 6,726,236 | 1,051,121 | 0 | 90,000 | 7,867,357 |
| Computer equipment | 569,499 | 98,706 | 0 | 0 | 668,205 |
| Supplies | 563,900 | 0 | 0 | 0 | 563,900 |
| Commodities/furniture | 261,777 | 9,440 | 0 | 1,344 | 272,561 |
| Software/telephone equipment | 173,958 | 5,222 | 0 | 0 | 179,180 |
| Travel | 1,197,901 | 47,115 | 0 | 0 | 1,245,016 |
| Filing/lien/collection fees | 2,673 | 93,863 | 0 | 0 | 96,536 |
| Dues/subscriptions services | 443,826 | 99,670 | 0 | 50,667 | 594,163 |
| Total Operating | \$17,979,358 | \$1,783,928 | \$ 0 | \$ 554,157 | \$20,317,443 |
| Computer equipment over \$5,000 | 0 | 7,974 | 0 | 0 | 7,974 |
| Total Capital Outlay | \$ 0 | \$ 7,974 | \$ 0 | \$ 0 | \$ 7,974 |
| Total Administrative Costs | \$59,539,273 | \$2,653,590 | \$35,047 | \$1,351,722 | \$63,579,632 |



KRC Administration

KRC Recruits Qualified Applicants at Area Colleges

In 1999, KRC began a pilot recruitment program with area colleges and universities. The major goals of this program are: (1) to address recruitment/retention issues facing the Cabinet, (2) to ensure an adequate pool of qualified applicants to fill vacancies as they occur, and (3) to develop a relationship with career services staff at educational institutions, who will ensure students are aware of career opportunities available within KRC.



KRC Human Resources Branch and senior staff representatives visited Eastern Kentucky University on April 18 and Morehead State University on April 26. A total of 16 students, many with outstanding credentials,

were interviewed. After learning about the positions available and the benefits of state government employment, several of those interviewed expressed an interest in working for KRC and followed up with applications. Although state government starting salaries are less than some in private industry, the candidates were interested in other aspects of the *hidden paycheck* such as flextime, health care benefits, promotional opportunities, and internal mobility as well as the retirement and deferred compensation plans.

KRC concentrated on students with majors in accounting, business, and information technology in the recruitment process.

This project proved to be very successful and KRC plans on expanding the program to work with other colleges and universities.

Mike Haydon Named KRC Secretary

On Monday, Dec. 13, 1999, Mike Haydon was named KRC Secretary. Haydon, who was serving as KRC deputy secretary, replaced Sarah Jane "Susie" Schaaf. Schaaf moved to the Families and Children Cabinet to accept the position of executive director of Performance Enhancement.



Haydon had served as KRC deputy secretary since January 1999 and has worked in Kentucky government since 1975. He has served as property valuation administrator in Washington County, deputy commissioner of the Department of Local Government, director of purchasing for the Finance and Administration Cabinet, deputy finance secretary, deputy executive director of

the Health Purchasing Alliance, assistant state treasurer, and commissioner of KRC's Department of Property Valuation. He also has experience as a city administrator and served on the Springfield City Council.

He holds a bachelor's degree in government from Western Kentucky University and served two years on active duty with the U.S. Army.

"We appreciate the contributions Susie Schaaf has made as Revenue Cabinet Secretary, and know that her abilities will be extremely valuable as she tackles the challenges in her role with the Families and Children Cabinet. We're fortunate that Mike Haydon is experienced in the Revenue Cabinet and able to step in immediately for a smooth transition," said Governor Paul Patton.

Haydon was sworn in as KRC Secretary on Tuesday, Dec. 14, at the Capitol. He and his family live in Springfield.



KRC Management Appointments

On Sept. 1, 1999, Lois Adams was appointed director of the Division of Field Operations.

Adams is a 27-year KRC veteran who began her career in 1974 as a clerk in the Louisville Taxpayer Service Center. She has held several supervisory positions including regional manager in the Field Division. She was manager of the Louisville Contact Branch in the Division of Collections at the time of her appointment.

She holds a bachelor of science degree in accounting from the University of Louisville.

On Jan. 1, 2000, Debra Eucker was appointed director of the Division of Legal Services and acting director of the Division of Protest Resolution. She was previously director of the Division of Local Valuation.

Eucker began her KRC tenure in August 1991 as a staff attorney. Prior to joining KRC, she was a law clerk for former Chief Judge Pierce Lively, U.S. Court of Appeals

for the Sixth Circuit, and was an attorney with the Lexington office of Brown, Todd and Heyburn.

She holds a bachelor of arts degree from Miami University in Oxford, Ohio, in English and political science, and earned her law degree from the University of Cincinnati Law School.

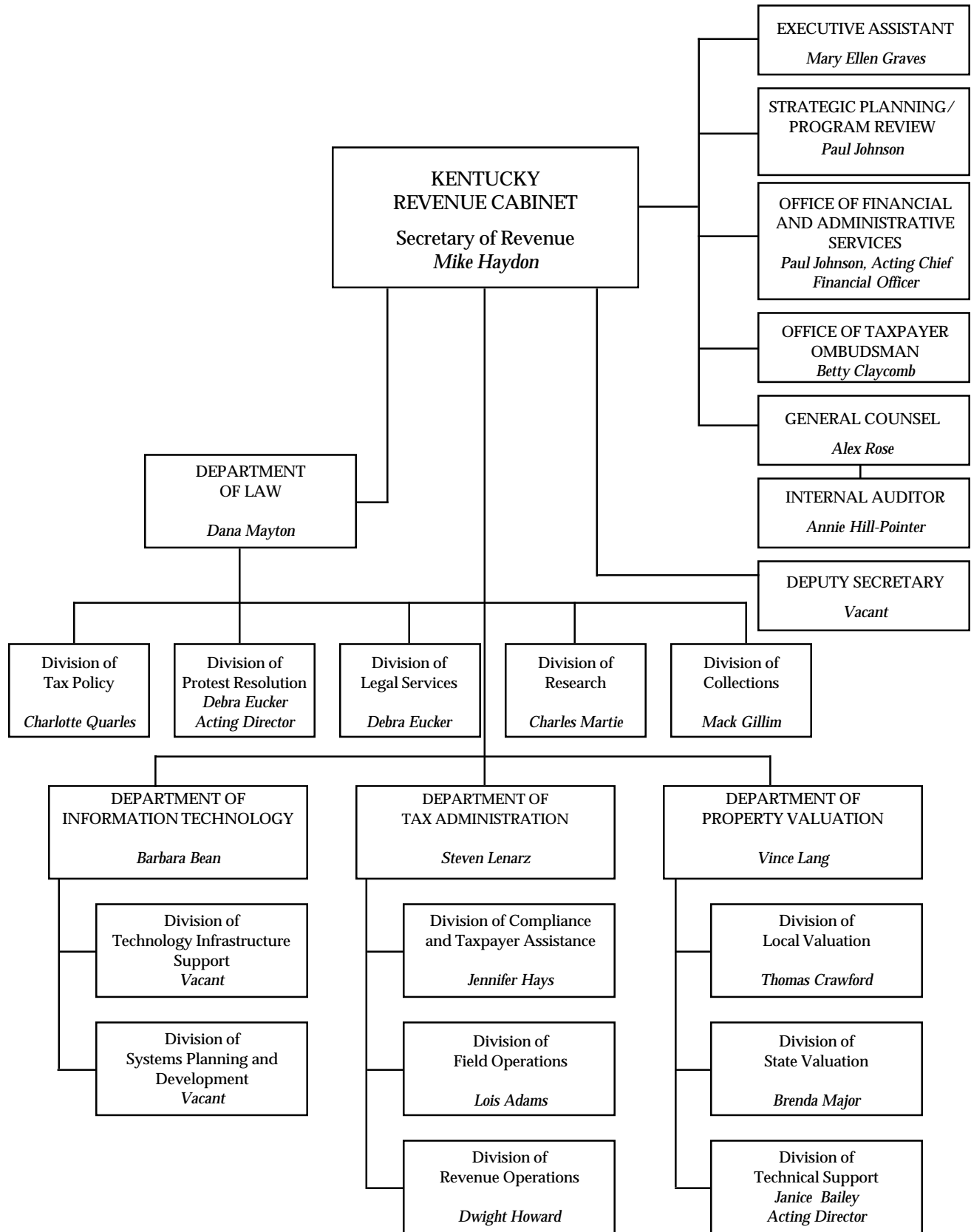
On March 1, 2000, Tom Crawford was appointed director of the Division of Local Valuation.

Crawford is a 15-year veteran of KRC and had served as the assistant director of the Division of Local Valuation since January 1992. He holds both the Certified Kentucky Assessor and Senior Kentucky Assessor designations offered by the Department of Property Valuation's education program.

Crawford is a graduate of the University of Kentucky with a bachelor of science degree in accounting, and he is a certified public accountant.



MANAGEMENT—KENTUCKY REVENUE CABINET
 JUNE 30, 2000





L. Adams



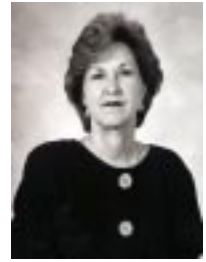
J. Bailey



Secretary Mike Haydon



B. Bean



B. Claycomb



T. Crawford



D. Eucker



M. Gillim



J. Hays



A. Hill-Pointer



D. Howard



P. Johnson



V. Lang



S. Lenarz



B. Major



C. Martie



D. Mayton



C. Quarles



A. Rose



KRC Administration

KRC Departments, Divisions, and Their Duties

The Kentucky Revenue Cabinet consists of 13 divisions, headed by the Office of the Secretary. The divisions are organized into four departments—Information Technology, Law, Property Valuation, and Tax Administration.

Office of the Secretary

The Secretary of the Revenue Cabinet is the agency's top administrative official. The Office of the Secretary is established under Chapter 131 of the Kentucky Revised Statutes. The Secretary of the Revenue Cabinet is authorized under the statute to appoint assistants and personnel as necessary to perform functions of the office.

The Office of the Secretary includes the offices of Financial and Administrative Services, Internal Audit, Strategic Planning/Program Review, and Taxpayer Ombudsman.

The **Financial and Administrative Services** office assists KRC in personnel and fiscal services, and training and development. It provides office supplies and equipment, educational, budget and fiscal, and personnel services for KRC. This office also provides personnel and payroll administration for all 120 property valuation administrators.

The **Internal Audit** office is responsible for auditing the accounting, control, and custodial activities of KRC to ensure compliance with applicable federal and state laws, administrative regulations, policies, and procedures. In addition, the Disclosure Branch, responsible for approving and regulating the disclosure of confidential state and federal information, reports to the Internal Audit office.



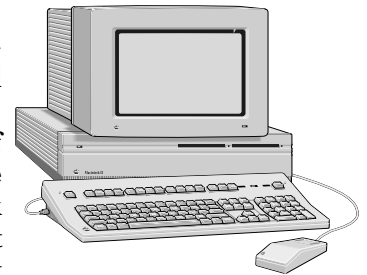
The **Strategic Planning/Program Review** office directs and coordinates the long-term planning of KRC and recommends strategies to achieve goals and objectives. The planner also coordinates work of the commissioners with respect to long-term planning and is responsible for guiding plan implementation throughout KRC.

The **Taxpayer Ombudsman** office is responsible for coordinating the resolution of taxpayer complaints and problems if requested by taxpayers or their representatives; recommending publications and education programs to improve voluntary compliance with Kentucky's tax laws; and otherwise ensuring the rights of taxpayers under KRS 131.041-131.081, the Kentucky Taxpayers' Bill of Rights.

Department of Information Technology

The Department of Information Technology consists of two divisions, the Division of Technology Infrastructure Support and the Division of Systems Planning and Development. It provides strategic planning for the development of information resource policies and offers overall support for information technologies available within KRC. The focus is on efficient delivery of information services in support of KRC's mission and objectives.

The **Division of Systems Planning and Development** is responsible for application development support services, including electronic commerce, Web development, and end-user support and production control.

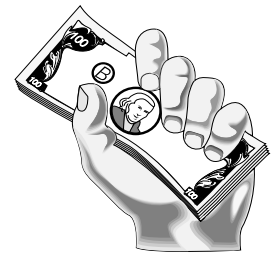


The **Division of Technology Infrastructure Support** provides network support services, Cabinet technology procurement support, and computer operations support.

Department of Law

The Department of Law administers KRC's collection efforts, communication efforts, tax policy, and legal services; resolves protested issues; and performs tax research studies. It consists of the Division of Collections, the Division of Legal Services, the Division of Protest Resolution, the Division of Research, and the Division of Tax Policy, as well as the Public Information and Communication Services Branch, which is attached to the commissioner's office.

The **Division of Collections** is responsible for the collection of delinquent taxes and the administration of collection-related compliance programs including Voluntary Disclosure and Offers in Settlement. The division is also responsible for administering the Criminal Referral program.



The **Division of Legal Services** represents KRC in administrative proceedings before the Kentucky Board of Tax Appeals (KBTA) and Board of Claims and in legal actions involving tax and a variety of other issues at every level of the state and federal court system. The division also performs a wide range of other services and functions which



include rendering advice and written legal opinions concerning the state's tax laws to KRC personnel, other state government personnel, and taxpayers; reviewing and drafting proposed statutes and regulations; analyzing tax laws and assisting with their implementation and administration; assisting with the preparation of KRC informational publications; and providing assistance and advice in connection with audits, protest conferences, and other stages of the enforcement and administration of the tax laws.



The **Division of Protest Resolution** reviews and bills tax audits completed by field auditors in KRC's 11 taxpayer service centers. The division is also responsible for responding to and resolving taxpayers' protests of the assessments which may result from both field audits and office audits. In addressing protests, the division reviews the information submitted by the taxpayer in support of a protest and conducts taxpayer conferences. When a protest cannot be resolved, the division issues final rulings which may be appealed by the taxpayer to the KBTA.

The **Division of Research** is responsible for providing analyses of tax-related issues and fiscal impact studies of legislative proposals, administrative changes, and court decisions; gathering and maintaining data to assist the Office of Financial Management and Economic Analysis in revenue forecasting; performing internal studies of administrative practices and procedures to improve efficiency of tax administration; responding to external requests for tax-related information or analysis; and assisting in the design of tax forms, returns, and related instructions.



The **Division of Tax Policy** is responsible for providing oral and written technical advice on Kentucky tax law; drafting proposed tax legislation and regulations; testifying before legislative committees on tax matters; analyzing tax legislation; reviewing and revising tax returns and forms; drafting and reviewing articles and publications; reviewing and approving final ruling letters; providing expert witnesses in tax litigation; providing consultation and assistance in protested tax cases; and conducting training and education programs.

The **Public Information and Communication Services Branch** is responsible for KRC publications, forms, media/public relations, printing, and the Cabinet's Online Taxpayer Service Center Internet site.

Department of Tax Administration

The Department of Tax Administration administers KRC's taxpayer assistance, general tax administration, field

operations, and tax processing efforts. It consists of the Division of Compliance and Taxpayer Assistance, the Division of Field Operations, and the Division of Revenue Operations.

The **Division of Compliance and Taxpayer Assistance** is responsible for providing taxpayer assistance, administering taxes levied under the Kentucky Revised Statutes, managing compliance programs, and conducting office audits.

The **Division of Field Operations** is responsible for providing quality taxpayer service from the 11 taxpayer service centers. The centers provide taxpayer assistance and education, prepare returns, distribute forms, collect delinquent taxes, and perform field audits. The division also provides instructors, develops training materials, and coordinates training for most in-house tax schools.



The **Division of Revenue Operations** is responsible for receiving and processing revenues for deposit into the state treasury, registering firms for business taxes, processing tax returns, and making additional assessments or refunds. This division also has responsibility for records management.

Department of Property Valuation

The Department of Property Valuation administers all property taxation matters. It is composed of the Division of Local Valuation, the Division of State Valuation, and the Division of Technical Support.

The **Division of Local Valuation** is responsible for certifying property valuations submitted by property valuation administrators (PVAs), coordinating property tax collection, and providing technical and administrative support to PVAs, county clerks, sheriffs, county attorneys, and local taxing districts.

The **Division of State Valuation** is responsible for overseeing the assessment of intangible and tangible personal property, motor vehicles, apportioned vehicles, public service company property, omitted personal property, and other taxes on property.



The **Division of Technical Support** is responsible for providing assistance to the 120 PVAs in the areas of mapping projects, mineral valuation and compliance, and computer technology.

TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 2000)

| TAX | LEGAL REFERENCE | STATE RATE | DESCRIPTION |
|--|------------------------------|--|--|
| Alcoholic Beverage Wholesale Sales Tax | KRS 243.884 | 9 percent of wholesale sales of distilled spirits, wine and malt beverages. | 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 user 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. |
| Cigarette Enforcement and Administration Fee | KRS 365.390 | .001 cent per pack (rate subject to change annually). | Fee paid by cigarette wholesalers and unclassified acquirers to provide for the expenses of the Revenue Cabinet in administering the Cigarette Tax Law. |
| Cigarette Licenses | KRS 138.195 | Resident wholesaler \$5.00 Nonresident wholesaler \$5.00 Subjobber \$5.00 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 Revenue Cabinet for any dealer or handler depending upon the diversity of his business and the number of established places of business. |
| Cigarette 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. A nonresident wholesaler must affix the tax stamps prior to importing them into Kentucky. |
| Coal 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. |
| Corporation Income Tax | KRS 141.010 et seq., 155.170 | First \$25,000 4 percent Next \$25,000 5 percent Next \$50,000 6 percent Next \$150,000 7 percent All Over \$250,000 8.25 percent Business Development Corporations 4.5 percent | Annual tax on the entire net income of the corporation apportioned and allocated to Kentucky. Corporations whose estimated tax liability will exceed \$5,000 must file a declaration of estimated tax due and pay the estimated tax in three installments. Financial institutions as defined in KRS 136.500, except bankers banks organized under KRS 287.135, insurance companies, savings and loan associations; corporations exempted by Internal Revenue Code (IRC) Section 501; and religious, educational, charitable and like corporations not conducted for profit are exempt from corporate income tax. An "electing small business corporation," (S corporation), as defined in Section 1371(b) of the IRC, is recognized as being exempt from Kentucky corporation income tax except for tax on net capital gain of such corporation as provided in KRS 141.040(6). "A filing requirement will apply to a corporation that only has a partnership interest in Kentucky, under KRS 141.206." For taxable years ending on or after December 31, 1995, KRS 141.200 allows an affiliated group to elect to file a consolidated Kentucky income tax return with the election binding for 96 consecutive calendar months. KRS 141.120 prohibits affiliated groups from filing a combined Kentucky corporation income tax return using the unitary business concept. |

TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 2000)

| TAX | LEGAL REFERENCE | STATE RATE | DESCRIPTION |
|---|------------------------|---|--|
| Corporation License Tax | KRS 136.070 et seq. | \$2.10 per each \$1,000 of capital employed in the business. Kentucky tax is based on the amount of such capital apportioned to Kentucky. Minimum tax is \$30. | Annual license tax levied against any corporation owning or leasing property or having an employee in Kentucky. Public service companies, certified alcohol production facilities, certified fluidized bed energy production facilities, and corporations exempt from income tax (except S corporations) are also exempt from license tax. A corporation with gross income of \$500,000 or less is allowed a credit against the license tax of \$1.40 on each \$1,000 of the first \$350,000 of capital employed. |
| 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 and Wine Consumer Taxes | KRS 243.720 et seq. | Distilled spirits containing over 6 percent alcohol by volume per gallon \$ 1.92 per liter 0.5073 Distilled spirits containing 6 percent or less alcohol by volume per gallon \$ 0.25 per liter 0.0661 Wine per gallon \$ 0.50 per liter 0.1321 (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. |
| Health Care Provider Tax | KRS 142.301 to 142.359 | 2.5 percent of gross receipts for hospital services. 2.0 percent of gross receipts for nursing facility services, licensed home health agency services, HMO services (excluding premium receipts) and ICF/MR services. | Effective July 1, 1993, a provider tax is imposed on providers of taxable medical services. Registration is required prior to the beginning of operations. |
| 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 In excess of \$8,000 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. |

TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 2000)

| TAX | LEGAL REFERENCE | STATE RATE | DESCRIPTION |
|--|---|---|--|
| Inheritance and Estate Taxes | KRS 140.010 et seq. | Inheritance tax 4-16 percent Estate tax an amount by which the state death tax credit allowable under the federal tax law exceeds the inheritance tax. | 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). The Kentucky estate tax is the amount which the allowable federal estate death tax credit exceeds the Kentucky inheritance tax. |
| Insurance Premium Surcharge | KRS 136.392 | 1.5 percent of premiums. | An insurance premium surcharge on insured Kentucky risks. There are statutory exemptions. |
| Insurance Premium Taxes | KRS 136.330 to 136.390, 299.530, 304.3-270, 304.4-030 | All insurance 1.9 percent for calendar year 2000, this tax is now being levied on domestic insurance companies and alien insurance companies as well as foreign insurance companies, the tax is being lowered by 0.1 percent per year until the rate reaches 1.5 percent and annuities are not excluded from the tax. 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. |
| Legal Process Taxes | KRS 142.010 et seq. | Conveyances of real property (deeds) \$3.00 Mortgages, financial statements and security agreements \$3.00 Marriage licenses* \$3.50 Powers of attorney to convey real or personal property \$3.00 Lien or conveyance of coal, oil, gas or other mineral right or privilege \$3.00 | 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 Revenue Cabinet and the Cabinet for Families and Children, also reported and paid to the Revenue Cabinet by county clerks as part of the monthly report of legal process taxes due. |
| Marijuana and Controlled Substance Tax | KRS 138.870 | \$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. Law enforcement agencies must notify the Revenue Cabinet of seizure of product not bearing tax stamp. |

TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 2000)

| TAX | LEGAL REFERENCE | STATE RATE | DESCRIPTION |
|--|--------------------------------|--|--|
| Motor Fuels Tax—Gasoline | KRS 138.210 et seq. | 9 percent of average wholesale price of gasoline, but not less than 10 cents per gallon. Rate determined quarterly. A 5 cent per gallon "Supplemental Highway User Motor Fuel Tax" also applies. | An excise tax paid by licensed dealers on all gasoline received in this state. There are statutory provisions for 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 Natural Resources and Environmental 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 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 and/or location of purchase. 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 Revenue Cabinet. U-Drive-It usage tax payments are made directly to the Transportation Cabinet on a monthly basis. |
| Natural Resources Severance and Processing Taxes (Minerals, Natural Gas and Natural Gas Liquids) | KRS 143A.010, 143A.020 et seq. | 4.5 percent of gross value. 12 cents per ton (clay production). | <p>Tax of 4.5 percent of the gross value is imposed on every taxpayer engaged in the business of severing and/or processing minerals (including natural gas and natural gas liquids) in Kentucky with the exception of clay. Clay production is taxed at 12 cents per ton. A credit equal to the tax of 12 cents per ton is granted to those taxpayers who sever or process clay sold to and used as a component of landfill construction by an approved waste disposal facility within this state. Also, no tax is imposed on the processing of ball clay.</p> <p>This tax does not apply to fluorspar, lead, zinc, tar sands and barite severed for any purposes; or to rock, limestone, or gravel used for privately maintained but publicly dedicated roads; or limestone when sold or used by the taxpayer for agricultural purposes so as to qualify for exemption from sales and use tax.</p> <p>A credit equal to the tax is allowed on the gross value of limestone which is severed or processed within this state and sold to a purchaser outside this state. This credit is extended only to taxpayers who sever or process limestone through the rip-rap construction aggregate of agricultural limestone stages, and who sell in interstate commerce not less than 60 percent of such stone. The credit shall not be allowed to a taxpayer who processes the limestone beyond the agricultural limestone stages.</p> <p>A gas well, which has been plugged and abandoned for a consecutive two-year period that resumes producing, qualifies for the Recovered Inactive Well Tax Credit equal to 4.5 percent of the gross value.</p> |

TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 2000)

| TAX | LEGAL REFERENCE | STATE RATE | DESCRIPTION |
|---|--|--|--|
| Oil Production Tax | KRS 137.120 et seq. | 4.5 percent of market value of crude petroleum produced in Kentucky. | Tax on the production of crude petroleum is attached when the crude petroleum is first transported from the tanks or other receptacle located at the place of production. Transporter of crude petroleum, as agent, pays tax for all persons owning any interest in such oil. An oil well, which has been plugged and abandoned for a consecutive two-year period that resumes producing, qualifies for the Recovered Inactive Well Tax Credit equal to 4.5 percent of the gross value. |
| Property Taxes: Agricultural Products In hands of producer or agent Tobacco not at manufacturer's plant (Storage) Other agricultural products not at manufacturer's plant (Storage) | KRS 132.020(1), 132.200(6) KRS 132.020(1), 132.200(6) KRS 132.020(1), 132.200(6) | 1.5 cents (per \$100 of assessment). 1.5 cents (per \$100 of assessment). 1.5 cents (per \$100 of assessment). | State rate only. Also subject to county and city rates. Also subject to county and city rates. |
| Annuities or Rights to Receive Income | KRS 132.215(2) | 0.1 cent (per \$100 of assessment). | State rate only. |
| Bank Deposits Domestic and Out-of-State | KRS 132.030(1) | 0.1 cent (per \$100 of assessment). | Tax is based on deposits as of January 1 and is paid by the institution on behalf of the depositors. State rate only. |
| Brokers' Accounts Receivable (Also see Margin Accounts) | KRS 132.050 | 10 cents (per \$100 of assessment). | State rate only. |
| Car Lines (Private) | KRS 136.120(4), 136.180(3) | Subject to annual adjustment. | Subject to annual adjustment. Local tax collected and distributed by the Revenue Cabinet effective January 1, 1994. |
| Distilled Spirits | KRS 132.020(10) | 5 cents (per \$100 of assessment). | Subject to full local rates. |
| Farm Machinery Used in Farming | KRS 132.020(1), 132.200(1) | 0.1 cent (per \$100 of assessment). | State rate only. |

TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 2000)

| TAX | LEGAL REFERENCE | STATE RATE | DESCRIPTION |
|--|--|---|--|
| Goods Held for Sale in the Regular Course of Business | KRS 132.020(10) | 5 cents (per \$100 of assessment). | Subject to local rates. |
| Intangibles Money in hand, notes, bonds, accounts and other credits, except those arising from out-of-state business, and other not specified elsewhere. Accounts receivable, notes, bonds, credits, nondomestic bank deposits and other intangibles arising from out-of-state business, patents and copyrights, and tobacco base allotments. | KRS 132.020(1), 136.120(1) KRS 132.020(2), 132.120(2) | 25 cents (per \$100 of assessment). 1.5 cents (per \$100 of assessment). | State rate only. State rate only. |
| Leasehold Interest (Owned by tax-exempt governmental unit) | KRS 132.020(1) | 1.5 cents (per \$100 of assessment). | State rate only. |
| Life Insurance Companies (Domestic) Capital Reserves Policy Proceeds on Deposit (Individual) | KRS 136.320 KRS 132.216 | 70 cents (per \$100 of assessment). 0.1 cent (per \$100 of assessment). 25 cents (per \$100 of assessment). | Also subject to county and city rates. State rate only. State rate only. |
| Livestock and Poultry | KRS 132.020(1) | 0.1 cent (per \$100 of assessment). | State rate only. |
| Manufacturing Machinery | KRS 132.020(1), 132.200(4) | 15 cents (per \$100 of assessment). | State rate only. |
| Margin Accounts (See Brokers' Accounts Receivable) | KRS 132.060 | 25 cents (per \$100 of assessment). | State rate only. |
| Mobile Homes (Real Property) | KRS 132.751 | Subject to annual adjustment. Taxed at real estate rate. | Subject to full local rates. |
| Motor Vehicles | KRS 132.487 | 45 cents (per \$100 of assessment). | Full local rates. Collected upon registration. |
| Historic Motor Vehicles | KRS 132.020 | 25 cents (per \$100 of assessment) | State rate only. |

TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 2000)

| TAX | LEGAL REFERENCE | STATE RATE | DESCRIPTION |
|---|--------------------------------|---|--|
| Pollution Control Facilities | KRS 132.020(1), 132.200(9) | 15 cents (per \$100 of assessment). | State rate only. |
| Public Warehouses Goods held for sale except goods in transit Goods in transit to an out-of-state destination within six months | KRS 132.020(10) KRS 132.095 | 5 cents (per \$100 of assessment). Exempt. | Full local rates. May be subject to local taxation. Phase-out rates in effect for cities, counties and school districts during 2000 and 2001 tax years, exempt thereafter; special taxing districts may continue to levy tax rates. |
| Radio, Television and Telephonic Equipment | KRS 132.020(1), 132.200(5) | 15 cents (per \$100 of assessment). | Full local rates. |
| Railroads (Intrastate) | KRS 132.020(11) | 10 cents (per \$100 of assessment both real and tangible). | Multiplier applied to local rates. Multiplier subject to annual adjustment. |
| Raw Materials and Products in Course of Manufacture | KRS 132.020(10), 132.200(4) | 5 cents (per \$100 of assessment). | State rate only. |
| Real Estate not Elsewhere Specified | KRS 132.020(1) | Adjusted annually (by July 1) per KRS 132.020(8). The state real estate rate was 16.3 cents for 1996, 15.7 cents for 1997, 15.3 cents for 1998, 14.8 cents for 1999 and 14.1 cents (per \$100 assessment) for 2000. | Full local rates. |
| Recreational Vehicles | KRS 132.730, 132.751 | Classification depends on permanency of location. 45 cents (per \$100 of assessment). | Subject to full local rates. |
| Recycling Machinery | KRS 132.020(1), 132.200(16) | 45 cents (per \$100 of assessment). | State rate only. |
| Retirement Plan or Profit-Sharing Plan Tax | KRS 132.043 | 0.1 cent (per \$100 of assessment). | State rate only. Taxable to individual participant. |
| Savings and Loan Associations (Domestic) (Foreign included effective January 1, 1990) | KRS 136.300(1) | 10 cents (per \$100 of assessment). | State rate only. |
| Tangible Property not Elsewhere Specified | KRS 132.020(1) | 45 cents (per \$100 of assessment). | Full local rates. |
| Trucks, Tractors, Trailers, Semi-Trailers and Buses (Interstate) | KRS 136.183 | Subject to annual adjustment. | Local tax collected and distributed by the Revenue Cabinet effective January 1, 1993. |

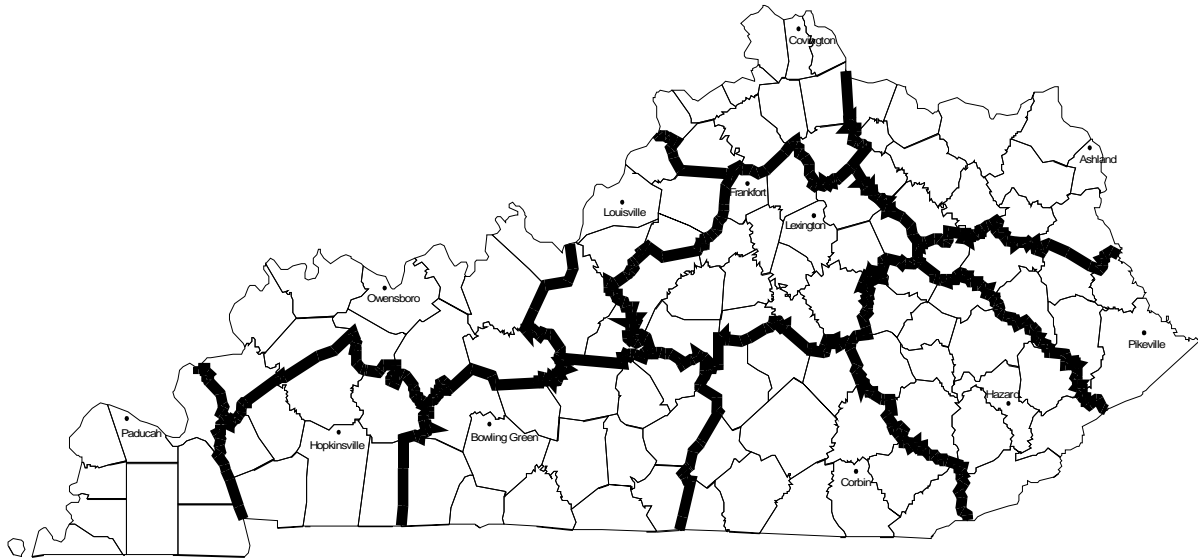
TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 2000)

| TAX | LEGAL REFERENCE | STATE RATE | DESCRIPTION | | | | | | | | | | | | | | | | |
|--|---|--|---|-------------------------|------------------|------|------------------|-----|-------------------|-----|-------------------|-------|-------------------|-------|-------------------|-------|-------------------|-------|---|
| Unmined Coal, Oil and Gas Reserves, and Other Mineral or Energy Resources Held Separately from Surface Real Property | KRS 132.820 | Real estate rate: 16.3 cents for 1996, 15.7 cents for 1997, 15.3 cents for 1998, 14.8 cents for 1999 and 14.1 cents (per \$100 assessment) for 2000. Subject to annual adjustment. | Full local rates. | | | | | | | | | | | | | | | | |
| Watercraft Commercial Individual Federally Documented | KRS 136.181 KRS 132.020(1), 132.488 KRS 132.020(13) | 45 cents (per \$100 of assessment). 45 cents (per \$100 of assessment). 1.5 cents (per \$100 of assessment). | Full local rates. Full local rates. Local option. | | | | | | | | | | | | | | | | |
| Public Service Commission Assessment | KRS 278.130 et seq. | Maximum assessment 2.0 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 Service Company Property Taxes | KRS 136.115 et seq. | Property of public service corporations taxed at the same rate as property owned by any individual or corporation (see rates under Property Taxes). | Property of public service corporations taxed at the same rate as property owned by any individual or corporation (see rates under Property Taxes). | | | | | | | | | | | | | | | | |
| Racing Taxes: (1) License Tax | (1) KRS 137.170 et seq. | (1) Per day of races. <table border="0" style="margin-left: 20px;"> <tr> <td>Average Daily Mutuel Handle (for preceding year)</td> <td>Tax Rate Per Day</td> </tr> <tr> <td>\$ 0 — \$ 25,000</td> <td>\$ 0</td> </tr> <tr> <td>25,001 — 250,000</td> <td>175</td> </tr> <tr> <td>250,001 — 450,000</td> <td>500</td> </tr> <tr> <td>450,001 — 700,000</td> <td>1,000</td> </tr> <tr> <td>700,001 — 800,000</td> <td>1,500</td> </tr> <tr> <td>800,001 — 900,000</td> <td>2,000</td> </tr> <tr> <td>900,001 and above</td> <td>2,500</td> </tr> </table> | 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 | (1) License tax imposed upon the operation of a track at which horse races are run under the jurisdiction of the Kentucky Racing Commission. Reported and paid within 30 days of end of each race meeting. An annual recapitulation report is due on or before December 31 each year for the race year ended November 30. |
| 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 | | | | | | | | | | | | | | | | | | |
| (2) Admission Tax | (2) KRS 138.480 et seq., 139.100(2)(c) | (2) Tracks under jurisdiction of the Kentucky Racing Commission 15 cents/person | (2) 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. | | | | | | | | | | | | | | | | |

TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 2000)

| TAX | LEGAL REFERENCE | STATE RATE | DESCRIPTION |
|--|--------------------------------|---|--|
| <p>Racing Taxes: (continued) (3) Pari-Mutuel Tax</p> | <p>(3) KRS 138.510 et seq.</p> | <p>(3) 3.5 percent of total wagered at all thoroughbred tracks under Kentucky Racing Commission jurisdiction with average daily handle of \$1.2 million or more; 1.5 percent if average daily handle is less than \$1.2 million.</p> <p>3.75 percent of total wagered at all standardbred tracks under Kentucky Racing Commission jurisdiction with average daily handle of \$1.2 million or more; 1.75 percent if average daily handle is less than \$1.2 million.</p> <p>3 percent of telephone account wagering and the total wagered at "receiving" tracks.</p> | <p>(3) Excise tax is imposed on every person, corporation or association which operates a horse race track at which betting is conducted.</p> <p>Excise tax is also imposed on receiving tracks participating in intertrack wagering on simulcast races.</p> <p>Average daily handle is computed from the amount wagered at the host track, excluding money wagered at receiving tracks and all telephone account wagering.</p> <p>A portion of the pari-mutuel tax is allocated to the following:</p> <ul style="list-style-type: none"> • Equine Drug Research • Equine Industry Program • Higher Education Equine Trust and Revolving Fund • Thoroughbred Development Fund • Standardbred, Quarterhorse, Appaloosa and Arabian Development Fund <p>Reported and paid weekly.</p> |
| <p>Rural Cooperative Annual Tax</p> | <p>KRS 279.200, 279.530</p> | <p>\$10.</p> | <p>Annual payment by corporations (RECCs and RTCCs) formed under KRS Chapter 279 in lieu of certain taxes.</p> |
| <p>Sales and Use Taxes</p> | <p>KRS 139.010 et seq.</p> | <p>Sales tax 6 percent</p> <p>Use tax 6 percent</p> | <p>Sales tax is imposed on the retailer for the privilege of making retail sales of tangible personal property or taxable services within Kentucky.</p> <p>Use tax is imposed on the use, storage or other consumption in the state of tangible personal property purchased for use, storage or other consumption in this state.</p> <p>Use tax is imposed on construction machinery and equipment brought into this state for the purpose of making improvements to real property.</p> <p>There are statutory exemptions.</p> |
| <p>Waste Tire Fee</p> | <p>KRS 224.2613</p> | <p>\$1 per tire sold at retail.</p> | <p>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.</p> |
| <p>Withholding (Individual Income Tax)</p> | <p>KRS 141.010 et seq.</p> | <p>Deduction from salaries or wages based upon formula or tax tables.</p> | <p>Employers are required to withhold individual income tax from payment of wages or salaries each pay period. Withholding tables and formulas are provided for common pay periods.</p> |

KENTUCKY TAXPAYER SERVICE CENTERS



• Taxpayer Service Center

— District Boundary

Ashland, 41105-0687
P.O. Box 687
134 Sixteenth Street
Telephone: (606) 920-2037
Fax: (606) 920-2039

Bowling Green, 42102-2040
P.O. Box 2040
1502 Westen Street
Telephone: (270) 746-7470
Fax: (270) 746-7847

Corbin, 40702-3298
P.O. Box 1298
Falls Road Plaza, Suite 5
1707 18th Street
Telephone: (606) 528-3322
Fax: (606) 523-1972

Frankfort, 40620
200 Fair Oaks Lane, Second Floor
Individual Income Tax Branch
Telephone: (502) 564-4581
Fax: (502) 564-3685

Hazard, 41702-4194
P.O. Box 419
233 Birch Street
Telephone: (606) 435-6017
Fax: (606) 435-6018

Hopkinsville, 42241-0695
P.O. Box 695
181 Hammond Drive
Telephone: (270) 889-6521
Fax: (270) 889-6563

Lexington, 40507-1556
301 East Main Street
Suite 500
Telephone: (859) 246-2165
Fax: (859) 246-2164

Louisville, 40202-2446
620 South Third Street
Suite 102
Telephone: (502) 595-4512
Fax: (502) 595-4205

Northern Kentucky, 41042-1385
Turfway Ridge Office Park
7310 Turfway Rd., Suite 190
Florence
Telephone: (859) 371-9049
Fax: (859) 371-9154

Owensboro, 42302-0128
P.O. Box 128
401 Frederica Street
Building C, Suite 201
Telephone: (270) 687-7301
Fax: (270) 687-7244

Paducah, 42002-2336
P.O. Box 2336
555 Jefferson Street, Suites 302/306
Telephone: (270) 575-7148
Fax: (270) 575-7027

Pikeville, 41501-2913
Uniplex Center, 126 Trivette Drive
Suite 203
Telephone: (606) 433-7675
Fax: (606) 433-7679



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