

# Annual Report 2002-2003



Paul E. Patton  
*Governor*  
Commonwealth of Kentucky

Dana B. Mayton  
*Secretary*  
Revenue Cabinet

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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



**DANA B. MAYTON**  
SECRETARY

REVENUE CABINET  
**OFFICE OF THE SECRETARY**  
FRANKFORT, KENTUCKY 40620

November 26, 2003

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

Dear Governor Patton:

I am pleased to present the Annual Report of the Revenue Cabinet for the fiscal year ended June 30, 2003. This report reflects the dedicated work of the many fine professionals who comprise the Revenue workforce.

As Fiscal Year 2002 closed, the Cabinet was gearing up for a Tax Amnesty program. That program was conducted August 1 through September 30, 2003, and was overwhelmingly successful. The Cabinet collected over \$120 million from more than 23,000 taxpayers.

The 2003 income tax filing season also went well. Over 1.2 million correct and timely filed individual income tax refunds were processed by June 7, 2002. Electronic filing continued to grow, with over one-half (703,000) of the timely filed returns filed electronically through a tax practitioner or over the Internet.

As your administration draws to a close, we thank you for your continued support of the Revenue Cabinet and its employees and for your confidence in our abilities.

Sincerely

A handwritten signature in cursive script that reads "Dana Bynum Mayton".

Dana Bynum Mayton, Secretary  
Kentucky Revenue Cabinet

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# Revenue Receipts

*(Reprinted from the Governor's Office for Economic Analysis  
Fourth Quarter Report—Annual Edition  
Fiscal Year 2003)*

As shown in Table 1, combined tax and nontax receipts for the General and Road Funds increased by 3.0 percent over the combined receipts in Fiscal Year 2002. Table 2 compares only tax receipts for the two funds which increased by 3.5 percent. Table 3 compares combined nontax receipts, which decreased by 9.1 percent over the previous year.

**Table 1**  
**Total Receipts**  
**(millions of dollars)**

	<b>FY02</b>	<b>FY03</b>	<b>Percent Change</b>
General Fund	\$6,635.9	\$6783.5	3.4
Road Fund	1,119.0	1,123.1	0.4
<b>Combined</b>	<b>\$7,679.2</b>	<b>\$7,906.6</b>	<b>3.0</b>

**Table 2**  
**Tax Receipts**  
**(millions of dollars)**

	<b>FY02</b>	<b>FY03</b>	<b>Percent Change</b>
General Fund	\$6,292.0	\$6,543.2	4.0
Road Fund	1,052.8	1,059.3	0.6
<b>Combined</b>	<b>\$7,344.8</b>	<b>\$7,602.5</b>	<b>3.5</b>

**Table 3**  
**Nontax Receipts**  
**(millions of dollars)**

	<b>FY02</b>	<b>FY03</b>	<b>Percent Change</b>
General Fund	\$268.2	\$240.0	-10.4
Road Fund	66.2	63.8	-3.6
<b>Total</b>	<b>\$334.4</b>	<b>\$304.1</b>	<b>-9.1</b>

## General Fund

General Fund receipts for Fiscal Year 2003 increased by 3.4 percent over those reported in Fiscal Year 2002. Total General Fund receipts of \$6,783.5 million compared to \$6,560.2 million collected in Fiscal Year 2002. Receipts for Fiscal Year 2003 were influenced by a tax amnesty program that generated significant receipts, and by several "one-

time" events within particular taxes that provided increases for this fiscal year that are expected to occur again. In Fiscal Year 2003, tax amnesty and the other one-time events are estimated to have boosted General Fund revenues by \$192.5 million. If not for these one-time events, growth in General Fund revenues is estimated to have been only 0.5 percent.

The sales tax growth rate continues to be the most consistent performer of the large taxes, even though the growth rate is small compared to the previous decade. The growth rate for Fiscal Year 2003 was 2.8 percent, and compared to the growth rate for Fiscal Year 2002 of 2.3 percent. Receipts of \$2.4 million compared to prior year receipts of \$2.3 million. Excluding the 'tax amnesty' program and other one time collections, sales tax would likely have been nearly flat for the fiscal year.

The individual income tax posted small positive growth, after the decline posted in Fiscal Year 2002. The growth rate for Fiscal Year 2003 was 1.6 percent, compared to a negative 2.7 percent in Fiscal Year 2002. Receipts totaled \$2.746 million and compared to \$2.702 million collected last year.

Following several years of declining receipts, the corporation income and license tax posted a significant increase of 32.5 percent for the year. Receipts of \$430.6 million compared to \$324.9 million collected in Fiscal Year 2002. While this is a significant increase, it is still below the corporate income tax collections of two years ago, when \$437.4 million was collected in Fiscal Year 2001. Both tax amnesty and one-time collections had a positive influence on corporate tax collections for this fiscal year.

Coal severance tax collections declined by 11.5 percent for the year. Receipts totaled \$141.7 million and compared to \$160.2 million collected during the prior fiscal year. The decrease in coal severance tax receipts brings collections back in line with the slowly decreasing pattern of the last several years. Fiscal Year's 2002 notable increase was primarily due to significant fluctuations in energy prices, which resulted in a significantly increased demand for coal. However, energy prices have since stabilized, and the demand for coal has decreased. Collections for Fiscal Year 2003 are nearly identical to coal severance taxes collected in Fiscal Year 2001.

Total property taxes experiences a small increase of 0.4 percent during this fiscal year. Receipts totaled \$434.8 million compared to \$433.0 million collected in Fiscal Year 2002. Timing differences with distributions of some collections had a minor impact on property tax receipts.

# Revenue Receipts

Lottery receipts grew by 1.2 percent from the previous year. Receipts of \$171.0 million compare to the \$169.0 million remitted to the state last fiscal year.

The “all other” category finished the year with an increase of 5.1 percent. Receipts of \$494.8 million compare to \$470.6 million collected in Fiscal Year 2002.

**Table 4**  
General Fund Growth Rates  
for the Four Quarters and Full Year, FY03

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	FY03
Total					
Receipts	5.0%	5.1%	5.3%	-1.0%	3.4%
Sales & Use	9.8	3.0	-1.9	0.2	2.8
Individual					
Income	-1.8	3.4	10.2	-2.9	1.6
Corporate					
Income/ License	28.5	80.2	61.5	12.8	32.5
Coal					
Severance	-13.9	-10.4	-16.1	-5.4	-11.5
Property	21.4	-3.5	3.7	-4.6	0.4
Lottery	2.6	-18.4	28.2	-2.4	1.2
All Other	7.36	40.7	8.1	-11.2	5.1

## Road Fund

Total Road Fund receipts increased by 0.4 percent during Fiscal Year 2003. Total receipts of \$1,123 million compared to \$1,119 million collected in this fund during Fiscal Year 2002.

Motor fuels taxes increased by 2.0 percent on receipts of \$438.6 million, compared to \$429.8 million collected during the previous fiscal year.

Motor vehicle usage tax receipts of \$32.9 million represent a small increase of 0.8 percent over the \$429.3 million collected in Fiscal Year 2002. This compared to an increase of 8.2 percent experienced last year.

The weight distance tax posted a small increase for the year and finished with growth of 2.1 percent. Receipts totaled \$76.9 million for this year and \$75.3 million for the last fiscal year.

The “all other” category decreased by 5.4 percent over the previous year. Total receipts in this category were \$174.8 million, which compared to \$184.6 million collected in Fiscal Year 2002.

**Table 5**  
Road Fund Growth Rates  
for the Four Quarters and Full Year, FY03

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	FY03
Total					
Receipts	10.4%	-4.3%	-3.3%	-0.9%	0.4%
Motor Fuels	5.5	5.4	-5.2	2.5	2.0
Motor					
Vehicle					
Usage	14.8	-10.0	-3.5	3.0	0.8
Weight					
Distance	2.8	4.0	0.6	0.9	2.1
All Other	17.1	-17.0	1.9	-14.8	-5.4

## EMPOWER Kentucky

The *EMPOWER Kentucky* revenue enhancement programs have continued during Fiscal Year 2003. 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 FY03  
(millions of dollars)

Type Tax	Collections During FY03
Individual Income	\$33.8
Corporation Income	5.6
Sales and Use Tax	18.6
Property Tax	16.2
Other	1.8
<b>Total</b>	<b>\$76.0</b>

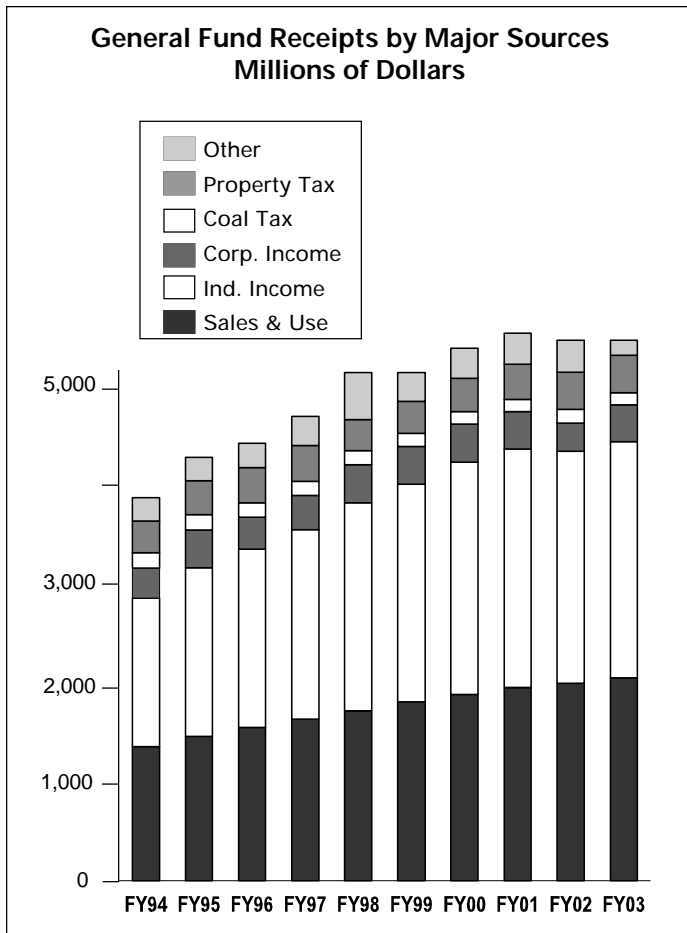
# Revenue Receipts

## GENERAL FUND

Fiscal Year	GENERAL FUND TOTAL RECEIPTS Receipts	Percent Change
2002-03	\$6,783,458,295	3.4
2001-02	6,560,216,551	-1.4
2000-01	6,653,897,653	2.7
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

## ALCOHOLIC BEVERAGE TAXES

Malt Beverage		
Fiscal Year	Receipts	Percent Change
2002-03	\$42,304,059	4.4
2001-02	40,883,326	5.2
2000-01	38,854,920	1.2
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



## Distilled Spirits

Fiscal Year	Receipts	Percent Change
2002-03	\$24,854,482	5.9
2001-02	23,477,073	1.7
2000-01	23,077,057	3.3
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

## Wine

Fiscal Year	Receipts	Percent Change
2002-03	\$8,698,754	6.3
2001-02	8,183,587	4.3
2000-01	7,846,391	2.3
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 <sup>1</sup>	7.9
1993-94	4,492,841	0.9

<sup>1</sup>Adjusted for small math error.

# Revenue Receipts

## CIGARETTE TAX<sup>1</sup>

Fiscal Year	Receipts	Percent Change
2002-03	\$16,367,947	17.4
2001-02	13,943,208	-0.5
2000-01	14,007,582	-1.2
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

<sup>1</sup>The 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
2002-03	\$152,595,257	29.9
2001-02	117,500,770	-20.3
2000-01	147,515,402	6.0
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 <sup>2</sup>	-7.1
1994-95	97,449,950 <sup>1</sup>	18.8
1993-94	82,031,324 <sup>1</sup>	-5.8

<sup>1</sup>Adjusted for small math error

<sup>2</sup>Corrected for posting error.

## COAL SEVERANCE TAX

Fiscal Year	Receipts	Percent Change
2002-03	\$141,664,981	-11.5
2001-02	160,160,116	13.1
2000-01	141,553,087	-2.5
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

## INDIVIDUAL INCOME TAX

Fiscal Year	Receipts	Percent Change
2002-03	\$2,746,386,944	1.6
2001-02	2,702,510,022	-2.7
2000-01	2,778,541,444	2.8
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

## CORPORATION INCOME TAX

Fiscal Year	Receipts	Percent Change
2002-03	\$278,035,794	34.1
2001-02	207,353,777	-28.5
2000-01	289,931,017	-5.4
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

## INHERITANCE AND ESTATE TAX

Fiscal Year	Receipts	Percent Change
2002-03	\$ 95,864,480	15.0
2001-02	\$ 83,359,872	-0.1
2000-01	83,461,499	12.0
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 <sup>1</sup>	2.4
1994-95	79,511,634	4.4
1993-94	76,135,351	7.3

<sup>1</sup>Phase-in of Class A beneficiary exemption began July 1, 1995.



# Revenue Receipts

## INSURANCE PREMIUMS TAX

Foreign Life Insurance Companies		
Fiscal Year	Receipts	Percent Change
2002-03	\$36,904,902	2.3
2001-02	36,058,437	3.7
2000-01	34,775,487	-3.2
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

## MINERALS AND NATURAL GAS TAX

Fiscal Year	Receipts	Percent Change
2002-03	\$27,294,398	10.7
2001-02	24,656,955	-17.9
2000-01	30,030,552	34.2
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

## Insurance Companies Other than Life

Fiscal Year	Receipts	Percent Change
2002-03	\$74,529,362	13.1
2001-02	65,899,201	11.5
2000-01	59,118,323	3.7
1999-00	57,000,964	4.7
1998-99	54,431,503	3.5
1997-98	52,600,230	4.5
1996-97	50,318,931	3.4
1995-96	48,687,419	7.0
1994-95	45,515,163	6.5
1993-94	42,720,970	5.1

## OIL PRODUCTION TAX

Fiscal Year	Receipts	Percent Change
2002-03	\$3,116,954	20.3
2001-02	2,590,722	-22.9
2000-01	3,358,036	13.2
1999-00	2,967,395	120.6
1998-99	1,344,942	-37.0
1997-98	2,135,211	-29.9
1996-97	3,044,497	15.1
1995-96	2,644,656	-5.0
1994-95	2,784,562	3.2
1993-94	2,697,560	-38.9

## LOTTERY RECEIPTS

Fiscal Year	Receipts	Percent Change
2002-03	\$171,000,000	1.2
2001-02	169,000,000	7.6
2000-01	157,030,000	0.5
1999-00	156,300,000	1.6
1998-99	153,800,000	0.5
1997-98	153,000,000	1.3
1996-97	151,000,000	2.7
1995-96	147,000,000	8.1
1994-95	136,000,000	19.3
1993-94	114,000,000	14.0

## PARI-MUTUEL TAX

Fiscal Year	Receipts	Percent Change
2002-03	\$5,953,247	14.9
2001-02	5,179,952	-16.2
2000-01	6,182,083	-7.0
1999-00	6,645,098	-7.4
1998-99	7,179,163	48.1
1997-98	4,845,921	-18.0
1996-97	5,911,958	-17.3
1995-96	7,148,951	-1.5
1994-95	7,256,986	18.3
1993-94	6,134,317	-1.8

# Revenue Receipts

## PROPERTY TAXES—REAL ESTATE

Fiscal Year	Receipts	Percent Change
2002-03	\$186,000,177	3.5
2001-02	179,678,050	4.8
2000-01	171,524,695	2.5
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 <sup>1</sup>	19.2
1995-96	142,728,406	7.2
1994-95	133,200,108	0.8
1993-94	132,125,477	4.6

<sup>1</sup>Some tangible property tax receipts were erroneously credited to real property receipts accounts.

## PROPERTY TAXES—TANGIBLE

Fiscal Year	Receipts	Percent Change
2002-03	\$149,426,286	-1.2
2001-02	151,308,795	7.7
2000-01	140,466,295	7.3
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 <sup>1</sup>	-9.6
1995-96	137,812,773	20.8
1994-95	114,122,717	9.2
1993-94	104,501,822	10.8

<sup>1</sup>Some tangible property tax receipts were erroneously credited to real property receipts accounts.

## PROPERTY TAXES—INTANGIBLE

Fiscal Year	Receipts	Percent Change
2002-03	\$25,883,197	12.0
2001-02	23,113,567	2.5
2000-01	22,551,153	-0.8
1999-00	22,721,743	25.5
1998-99	18,103,920	-14.3
1997-98	21,129,328 <sup>1</sup>	-54.7
1996-97	46,631,437 <sup>1</sup>	-29.9
1995-96	66,489,089	-20.4
1994-95	83,479,482	7.9
1993-94	77,393,521	-0.5

<sup>1</sup>Shares of stock were exempted from property tax.

## SALES AND USE TAX

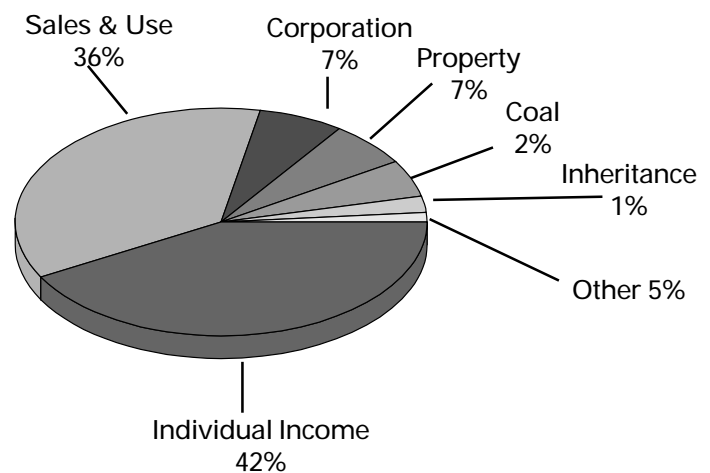
Fiscal Year	Receipts	Percent Change
2002-03	\$2,364,182,478	2.8
2001-02	2,299,990,621	2.3
2000-01	2,248,471,100	3.5
1999-00	2,171,397,969	4.1
1998-99	2,085,899,677	5.3
1997-98	1,981,297,580	5.2
1996-97	1,882,681,995	5.5
1995-96	1,783,881,316	6.2
1994-95	1,680,520,815	7.7
1993-94	1,560,085,519	6.7

## BANK FRANCHISE TAX<sup>1</sup>

Fiscal Year	Receipts	Percent Change
2002-03	\$53,747,906	6.3
2001-02	50,549,168	1.9
2000-01	49,610,220	-6.5
1999-00	53,061,789	12.8
1998-99	47,059,959	34.2
1997-98	35,059,801	-14.2
1996-97	40,878,664	----

<sup>1</sup>Kentucky's bank franchise tax was instituted in July 1996.

## Makeup of FY03 General Fund



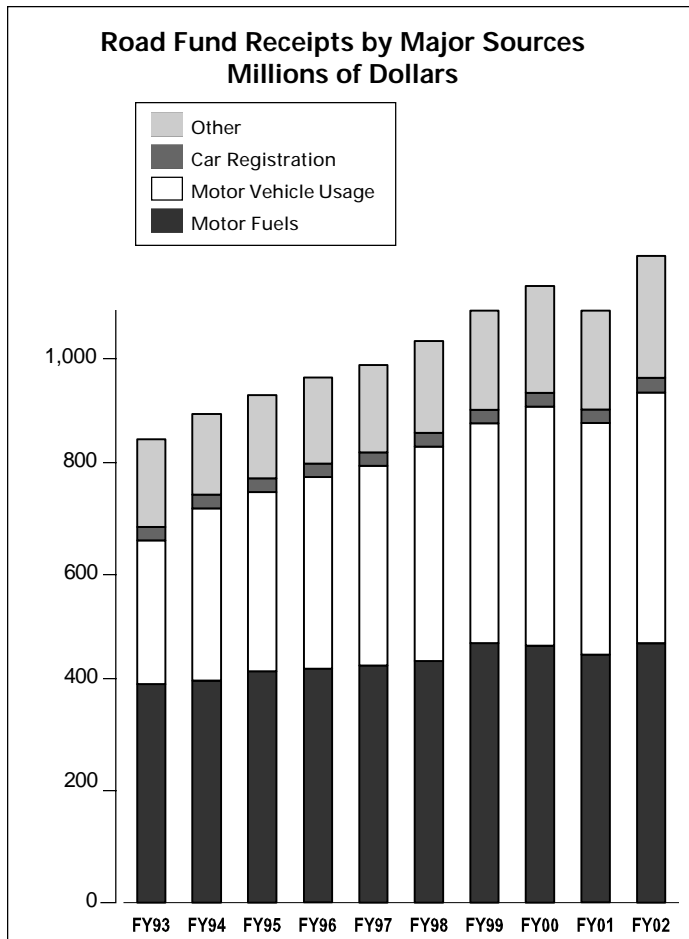
# Revenue Receipts

## ROAD FUND

ROAD FUND TOTAL RECEIPTS		
Fiscal Year	Receipts	Percent Change
2002-03	\$1,123,103,133	0.4
2001-02	1,119,005,317	5.2
2000-01	1,064,181,565	-2.4
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

## MOTOR FUELS TAXES

Motor Fuels Normal		
Fiscal Year	Receipts	Percent Change
2002-03	\$438,564,438	2.0
2001-02	429,812,296	5.1
2000-01	408,801,115	-3.6
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



## Motor Fuels Normal Use and Surtax

Fiscal Year	Receipts	Percent Change
2002-03	\$14,969,884	6.0
2001-02	14,124,035	-8.8
2000-01	15,492,738	-2.6
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

## MOTOR VEHICLE OPERATOR'S LICENSE

Fiscal Year	Receipts	Percent Change
2002-03	\$5,610,829	0.8
2001-02	5,564,009	-0.5
2000-01	5,592,769	-1.7
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

# Revenue Receipts

## MOTOR VEHICLE REGISTRATIONS

Passenger Car Registration		
Fiscal Year	Receipts	Percent Change
2002-03	\$25,793,836	1.7
2001-02	25,355,086	9.5
2000-01	23,162,962	-1.4
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

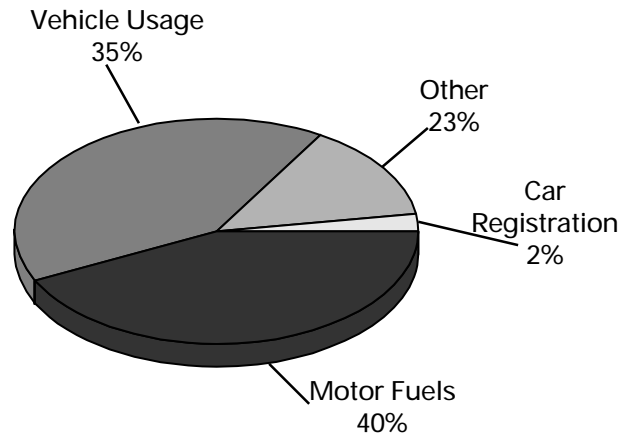
## MOTOR VEHICLE RENTAL USAGE TAX

Fiscal Year	Receipts	Percent Change
2002-03	\$43,877,657	-8.3
2001-02	47,840,871	-7.3
2000-01	51,619,167	3.3
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

## MOTOR VEHICLE USAGE TAX

Fiscal Year	Receipts	Percent Change
2002-03	\$388,959,153	2.0
2001-02	381,398,176	10.5
2000-01	345,120,799	-4.0
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

Makeup of FY03 Road Fund



# Accomplishments

## Major KRC Accomplishments in Fiscal Year 2002-2003

Accomplishments during Fiscal Year 2002-2003 reflect employees' commitment to KRC's goals. These accomplishments emphasize the KRC's mission—to provide courteous, accurate and efficient services for the benefit of the commonwealth and administer Kentucky tax laws 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 office hours in April 2003 to accommodate taxpayers with questions regarding individual income tax returns, withholding, and sales and use taxes.
- Continued the partnership with the University of Kentucky and the IRS in presenting up-to-date individual income tax information to approximately 1,400 Kentucky tax practitioners, CPAs, attorneys, insurance adjusters, realtors, and other interested parties.
- Processed 1,225,784 timely and correctly filed individual income tax returns requesting refunds by June 7, 2003.
- Issued 187,971 direct deposit refunds for individual income tax returns.
- Processed 970,100 returns filed through electronic media representing an increase of 33 percent over the previous processing cycle.
- Continued to participate in the University of Louisville's Louis A. Grief Tax Institute by presenting up-to-date individual income tax information to approximately 200 tax practitioners, CPAs, attorneys, and other interested persons.
- Served as the main answering point (taxpayer assistance group) for individual, withholding, and sales tax telephone inquiries. A total of 138,925 inquiries were received for the fiscal year.
- Increased voluntary electronic submission of wage and tax statements through an educational campaign conducted by the Withholding Tax Section. Electronic filing of W-2s increased 14.9 percent. The number of employers filing W-2s electronically increased by 550.
- Joined IRS on November 3 for a joint problem solving day. Taxpayers received assistance in resolving either state or federal tax issues with one-stop assistance.



- Continued partnerships with the IRS to provide education and training for volunteers participating in community-based partnerships that provide free tax preparation and electronic filing for the elderly and low-income taxpayers.
- Continued a foreign and sign language directory for KRC employees to better assist taxpayers who are unable or limited in speaking English.
- Trained newly elected sheriffs about their property tax collection duties.
- Trained county clerks on the property tax assessment appeal process.
- Developed tobacco manufacturer directories on KRC Web site for use by cigarette wholesalers and general public. The directories list cigarette manufacturers and their respective brands that the Kentucky Office of Attorney General (OAG) has certified as having complied with the provisions of the Master Settlement Agreement (MSA).



### Collection of Tax Revenues

- Implemented the Environmental Remediation Fee, also known as Tipping Fee, in cooperation with the Natural Resources and Environmental Protection Cabinet. This fee is collected from landfill operators and transfer stations. Money is deposited into the Kentucky Pride Fund and used to pay for the cost of cleaning up illegal waste dumps.
- Generated tangible and intangible property tax assessments totaling \$53.6 million.
- Collected tangible and intangible property tax receipts of \$36.8 million.
- Processed 7,875 voluntary tangible property tax returns and 2,529 voluntary intangible property tax returns.
- Completed 1,984 desk audits of tangible and intangible property tax returns.
- Reviewed and billed 1,586 tangible / intangible property tax field audits.
- Answered 9,667 personal property phone calls.
- Mailed 4.7 million MOTAX renewal notices with an assessed value of \$21.3 billion.
- Processed 27,837 apportioned vehicle notices with an assessed value of \$1.6 billion.

# Accomplishments

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- Collected \$3.4 million state and \$6.3 million local apportioned vehicle taxes.
- Processed 1,140 county clerk reports.
- Computed 1,829 public service company (PSC) assessments.
- Computed 10,509 local certifications of PSC assessments with an assessed value of \$15.3 billion.
- Collected 1,312 PSC state payments totaling \$50.3 million.

## Business Practices

- Processed approximately five million documents, deposited more than \$7.7 million in receipts, and made timely deposits into all funds.
- Continued the use of two-dimensional (2-D) bar code technology to improve the efficiency of processing paper returns. KRC used the 2-D technology to process 258,963 paper returns. KRC processed 196,918 *no-money* (refund, returns without payment) returns and 62,151 *money* (returns with payment) returns. The 2-D technology is incorporated into software packages offered by various software vendors. The 2-D process is faster, has a lower error rate, and requires less human intervention than the normal paper process. The primary benefit to taxpayers is the reduction in the time required to issue refunds.
- Developed a coordinated Emergency Operations Plan (EOP) for the Fair Oaks Building Complex in conjunction with six other tenant agencies. The plan is a comprehensive emergency management program consistent with KRS Chapter 39A that serves as a guide for decision making and actions during emergencies, whether declared or sudden events. Participating in the EOP as signatory agencies are the Personnel Cabinet, Governor's Office for Technology, Cabinet for Health Services, Public Protection and Regulation Cabinet, Agriculture, Finance and Administration Cabinet, and Revenue. The plan was approved by the Division of Emergency Management.
- Developed a training manual for newly elected PVAs in November 2002, and completely updated the PVA Fiscal and Personnel Manual. Trained over 60 counties on the Payroll, Time and Labor (PTL) System. Half of the PVA offices are now using the state system to record time. Conducted training for PVAs on Asset Management and Disposal.
- Assisted PVAs with the annual inventory of fixed assets and in obtaining insurance coverage for state property in their offices. Over \$1.5 million of PVA fixed assets were added to the state inventory system.



- Expanded office hours for requesting tax forms by one hour each day during filing season. This measure was undertaken in order to provide taxpayers and tax preparers with an improved level of service during income tax filing season.
- Coordinated over 100 training events during the fiscal year. The events covered 44 different topics and required 780 hours of instruction time. KRC also worked with the Center for Excellence in Government in developing a process for documenting the critical knowledge, skills, and abilities of KRC's most tenured employees. This continuing effort is part of an overall strategy to properly plan for potential retirements by ensuring that critical knowledge is not lost when long-time employees retire.

## Technological Advances

- Implemented the Unmined Minerals and Severance Tax (UMAST) System to improve the assessment and billing functions for these taxes. The new system allows all entities responsible for unmined mineral property taxes to be properly associated with the mineral location.
- Began the design and development of a sales and withholding tax online filing system, KY E-Tax, to be fully implemented by the third quarter of 2004. KY E-Tax will expand its electronic payment options to e-checks and credit cards to pay sales tax and timely filed individual income tax by the second quarter of Fiscal Year 2004, and withholding tax by the third quarter of Fiscal Year 2004.
- Implemented a new interface from KRC's credit card application to the Commonwealth's E-Payment Gateway that provides a uniform method for agencies to process electronic payments.
- Began design and development of a system to handle no pay sales and withholding tax returns via the telephone Interactive Voice Response (IVR).
- Implemented new processes to match payments and returns received at different times during the tax filing season. This allows KRC to better manage taxpayer accounts. More than 51,000 individual income tax returns and payments were electronically matched by the completion of Fiscal Year 2003.
- Completed the new Motor Fuels Tax System. This system replaces an existing legacy system with additional functionality. This system is more adaptable to changes in the tax laws, provide search capabilities presently not available, streamline data entry, create reports that are currently done by hand, and be user friendly. Began the design of a special fuels module which will allow gasoline and special fuels licensed dealers to remit their taxes and the corresponding petroleum assurance tank fees by electronic funds transfer (EFT) payment.

# Accomplishments

- Expanded scanning applications to allow additional documents from KRC archives to be scanned and retrieved electronically.
- Installed an in-house backup and recovery solution in order to ensure reliable backup of KRC network servers and provide the ability to efficiently recover files or entire hardware platforms in a timely manner. Also, developed an off-site storage policy for backup tapes as part of KRC disaster recovery planning and utilized state contracts for off-site media storage.
- Connected 20 more PVA offices to the Kentucky Information Highway (KIH), culminating in a full two-thirds of the PVA offices having access to the KIH services.
- Began the process of rewriting the Tax Roll Information Management (TRIM) used by PVAs and Sheriff's Automated Collection System (SACS) software. The new software is currently scheduled to be implemented in the 2005 assessment year.
- Migrated the Filenet document repository from optical platters to magnetic storage in order to provide a more stable and reliable mechanism for document committal and retrieval. This upgrade allowed KRC to discontinue the use of Online System for the Collection of Accounts Receivables (OSCAR) jukeboxes resulting in less system down-time, better performance, and a reduction in hardware maintenance costs.
- Tightened KRC network security by the installation of a Virtual Private Network (VPN) firewall solution for all 12 KRC locations. This solution allows KRC to implement one set of firewall rules across the enterprise while providing a secure connection for communications between locations.
- Upgraded the physical access control software in order to provide a better method for controlling and reporting on facilities' access through the swipe-lock system. KRC security staff provides ongoing support through centralized system administration for agencies residing in both Fair Oaks buildings and the KRC Perimeter Park location.
- Developed generic profiles for all KRC mainframe applications as an important part of standard Resource Access Control Facility (RACF) security and abandoned the use of discrete profiles based on specific dataset names.
- Continued design and development of the electronic interface between the Cabinet for Families and Children's (CFC) Child Support System and OSCAR. This interface will allow KRC to leverage the capabilities of OSCAR to assist CFC in their collection of delinquent child support cases.



- Continued work on Streamlined Sales Tax Project (SSTP).
- Processed \$2.9 billion in EFT payments.

## Use of Electronic Filing Increases

- The use of electronic filing methods for 2002 individual income tax returns increased over the 2001 filing season. Electronic returns fall into one of three categories: TeleFile (telephone filing), online (Internet filing), or electronic (i.e., tax preparers). By the end of Fiscal Year 2002-2003, 707,382 returns had been filed electronically compared to 606,084 returns filed by the end Fiscal Year 2001-2002.
- The number of taxpayers filing online for 2002 returns increased to 98,738 compared to 74,119 filed for 2001.



## Compliance Initiatives

- Increased sales and use tax audits performed using computer-assisted auditing by 4.2 percent over the prior fiscal year. This percentage should continue to rise next fiscal year. The audit staff continues to perform sales and use tax audits selected by random sampling and is planning to perform additional sales and use tax audits selected by statistical sampling.
- Continued a cooperative effort with Transportation Cabinet to identify and assess motor fuels tax violators.
- Implemented an updated plan for the generation of field audits to effectively administer the level of compliance needed for all geographic area, business types, and business sizes. The plan tracks the assignment of audits in order to meet the established goals of the program on a continuing basis. A four-year period constitutes one audit cycle.
- Increased compliance emphasis on pretax items such as health insurance claimed as an itemized deduction on Schedule A.
- Improved efficiencies of the Corporation Tax Branch by using the new Corporation Coding Program. Its new features make it more accessible to staff. The query function enables staff to better identify areas of noncompliance.
- Enhanced compliance efforts via an information exchange agreement with Tennessee on exempt out-of-state all terrain vehicles (ATV) purchases as well as increased compliance efforts on exempt in-state ATV purchases.

# EMPOWER Kentucky

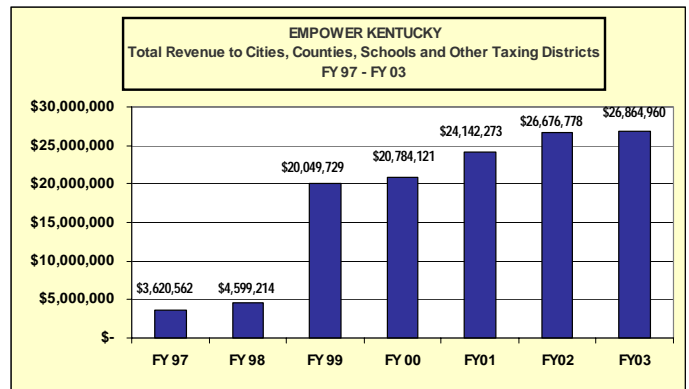
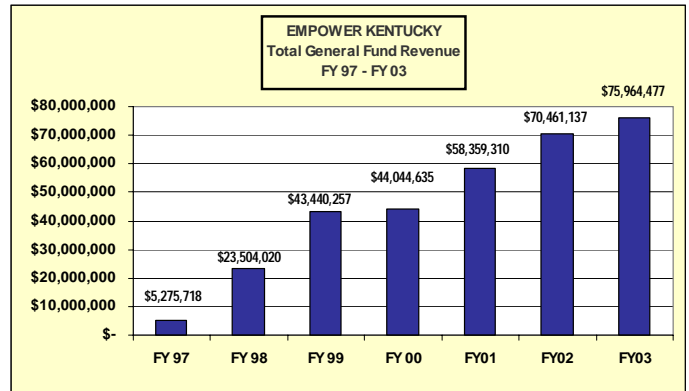
## \$300 Million and Counting

KRC's *EMPOWER Kentucky* programs, first begun in Fiscal Year 1996-97, continued to prove extremely effective in closing the gap between taxes rightfully due and taxes actually paid. In Fiscal Year 2003, the total state revenue realized from the programs was \$75,964,477. An additional \$26,864,960 was collected from property tax programs for local taxing jurisdictions. Since Fiscal Year 1996-1997, the total additional state and local revenue collected from KRC's *EMPOWER* programs is \$447,787,191.

In January 1997, KRC received authorization and funding from the *EMPOWER Kentucky* trust fund to initiate process reengineering and improvements through an initiative entitled Simplified Revenue Systems. The overarching goal for Simplified Revenue Systems is greater equity and fairness in tax administration while improving service and efficiency. The various tax gap programs are designed for better detection of nonfilers and a reduction in the level of underreporting. Various efficiency improvements have been realized in KRC's collections processes as a result of employees participating in the *EMPOWER* process re-design and reengineering initiatives.

### Kentucky Cities, Counties, and Schools Benefit

KRC's property tax compliance programs have an added benefit. In addition to the new state revenue generated from improved discovery and auditing programs, cities, counties, and schools throughout the commonwealth are the recipients of the local portion of property taxes. Since 1997, the local portion of revenues from *EMPOWER Kentucky* has totaled \$126,737,637. That figure represents a very sizable recovery of taxes that otherwise would have gone undetected and uncollected.





# Significant Progress Made Toward Strategic Goals

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The major thrust of KRC efforts during Fiscal Year 2002-2003 was directed toward the highly successful Tax Amnesty program. The Strategic Plan developed by KRC in 2001 did not specifically call for an amnesty program. The amnesty program was enacted by the General Assembly in response to recurring state budget deficits. A well-crafted strategic plan will set forth the direction of an entity but not the detailed path it will take to reach the final destination desired. Revenue's Strategic Plan does just that. By building flexibility into its plan, KRC was able to achieve the primary objective of tax amnesty—increasing cash flow to the state—and also make significant progress on its major goal to promote balanced, cost effective compliance and taxpayer assistance programs. Thus, tax amnesty had the desired effect of bringing a large amount of money into the General Fund very quickly and at the same time offered taxpayers an easy way to comply with Kentucky tax statutes.

Significant progress was made toward achieving other goals and objectives in the Strategic Plan. Education and outreach

programs for key stakeholder groups continued unabated. Newly elected sheriffs and PVAs received timely training they needed to perform their tax assessment and collection duties. System enhancements to consolidate data from unmined minerals and severance taxes were completed during Fiscal Year 2002-2003. Programs that improve the match of payments to tax returns were also completed. The level of e-filing continued to improve as more than 700,000 income tax returns were filed electronically during the year. Because data received in electronic format can be analyzed electronically at speeds and volumes that dwarf traditional methods, this trend toward e-filing is of major importance to KRC in its efforts to improve services and simultaneously reduce costs. During Fiscal Year 2002-2003, KRC implemented cost savings that totaled \$1.7 million, a 2.67 percent reduction in General Fund appropriation. It was able to do so through a careful allocation of resources that assured maintenance of critical service levels.

## Tax Amnesty Program

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KRC conducted a tax amnesty program during Fiscal Year 2003. The intent of the program was the encourage taxpayers who owed back taxes to the commonwealth to voluntarily declare and remit the past due funds. Encouragement to participate was provided by waiver of penalties and interest for almost all past due taxes that were acknowledged and paid during the amnesty period. Penalties were added for those who owed back taxes but chose not to participate in the amnesty program, and for most future collection efforts. More than 23,000 taxpayers participated in the program and generated \$123.4 million in receipts during Fiscal Year 2003. Approximately 19,800 tax returns and more than 1,100 amended returns were filed by delinquent taxpayers. A final report for the tax amnesty program has been prepared by the Revenue Cabinet.



# Taxpayer Service

## Office of Taxpayer Ombudsman

The Office of Taxpayer Ombudsman serves as the taxpayers' rights advocate when taxpayers or practitioners contact the Ombudsman for assistance in the resolution of complaints and problems. It is the responsibility of the Ombudsman Office to coordinate a fair and equitable resolution with the taxpayer and KRC.



Referrals on behalf of taxpayers are also received 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, and routinely works with the Offices of Constituent Services in the Governor's Office and the Legislative Research Commission to coordinate responses to correspondence and inquiries received regarding tax matters.

The staff worked on a variety of issues this year which included:

- coordinated the settlement of delinquent property tax bills with local officials and KRC staff;
- obtained waiver of civil penalties when reasonable cause for waiver was demonstrated;
- coordinated the reduction or removal of wage and bank levies and assisted in obtainment of payment agreements when the taxpayer would have suffered significant hardship as a result of the levy;
- coordinated release and removal of tax liens from taxpayer records when just cause was presented;
- assisted taxpayers with the resolution of a tax bill or pending refund;
- assisted taxpayers in their requests for a payment plan;
- assisted taxpayers in the Offer in Settlement program;
- assisted taxpayers in resolving issues regarding vendor offsets;
- provided taxpayers assistance on amnesty cases; and
- made minor changes to *Your Rights As A Kentucky Taxpayer* to increase public awareness on fairness issues.

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

## Taxpayer Services to Persons with Limited English-Speaking Skills

KRC continued to participate in a statewide effort to identify available resources to assist people who work and/or live in Kentucky who have limited English speaking skills, identified as Limited English-Speaking Persons (LEP), and have a need to communicate with government.

KRC has determined that Spanish translation services are needed more often than other languages and that our bilingual employees are our most valuable resource for providing expanded service to LEP taxpayers. Several KRC employees continue to assist with translation. Another identified resource is a Foreign Language Interpreter Database and a Language Identification Form that allow employees to help a limited English-speaking person to identify which language they speak by looking at the card and pointing to the language that they understand. The Language Identification Form has 35 different languages that say "Please point to the language you understand." The database and the identification form are very helpful and valuable resources. KRC can use a service known as Language Line, an interpreter service accessed by dialing an 800 number.

## KRC at the State Fair

The Kentucky State Fair proved to be the perfect opportunity for KRC to spread the word that AMNESTY is the ANSWER. From Thursday, August 15, through Sunday, August 25, 2002, KRC staff greeted thousands of fairgoers who visited KRC's booth in the South Wing of the Kentucky Fair and Exposition Center in Louisville.

For 11 days KRC staff dressed in "Get Right with The Government" t-shirts and "Amnesty is the Answer" buttons. KRC employees answered questions about amnesty; provided taxpayer assistance; handed out tax amnesty applications and brochures; and listened as people voiced their opinions about amnesty, some favorable and some not quite so favorable. They gave away fans with "Owe Back Taxes?" printed on the fans, emery boards with "File for Tax Amnesty through September 30<sup>th</sup>," piggy banks with the Amnesty telephone number and Web site, bookmarks with telephone numbers for taxpayer service centers, and porcupine novelty items; all to promote Amnesty and foster good will with KRC.

In addition to the promotion of Amnesty, KRC promoted the newly coined phrase "E-Government is Everyday Government." The term was coined by Secretary Mayton and is being used across state agencies to promote the use of electronic services. Key e-government sites were displayed on posters and handouts were provided with additional key e-government sites along with a brief description of the services provided.

# 2003 General Assembly

## A Review of Tax Law Changes Enacted by the 2003 General Assembly

(This legislative summary was compiled by the staff of KRC's Division of Tax Policy)

*This legislative summary was compiled by the staff of KRC's Division of Tax Policy and is intended to present only general information concerning the major provisions of the legislation. This summary should not be construed to represent a complete analysis or specific interpretation of the law changes. Information that is more specific will be provided to taxpayers as the legislative changes are implemented. Full text of enacted bills is available on the legislative home page [www.lrc.state.ky.us](http://www.lrc.state.ky.us).*

**Effective dates are shown when specifically stated in the legislation. Otherwise, the changes are effective June 24, 2003.**

### ADMINISTRATIVE

**Revenue Cabinet Collection Assistance for Other Agencies**—Allows state agencies to contract with the Revenue Cabinet to assist in the collection of liquidated debts owed to the commonwealth, and allows the Cabinet to use its own powers and the powers available to those agencies in pursuing those collections. **(HB 442)**

### SALES AND USE TAX

**Vendor Compensation**—(Effective July 1, 2003 through June 30, 2004) The amount paid to a vendor for the collection of sales tax is capped at \$1,500 for each reporting period. The change appeared on the July 2003 return. **(HB 269)**

**Commercial Printers**—(Effective March 26, 2003 through June 30, 2004) An out-of-state commercial printer or mailer is relieved from the liability to collect Kentucky use tax on the sale of printing or direct mail advertising materials that are printed out of state and delivered out of state to the US Postal Service for mass mailing to third party Kentucky residents. If the printer or mailer (1) maintains records on these sales and (2) assists the Revenue Cabinet with reports from these records to ensure the payment of the use tax by the customer who commissioned the printing. **(HB 269)**

**Natural Gas Distribution**—(Effective June 1, 2003 through June 30, 2004) Kentucky sales and use tax is extended to service charges for the distribution, transmission, or transportation of natural gas for use in Kentucky. However, the tax does not apply to charges to residential customers. **(HB 269)**

**Communications Services Sales Tax Credit**—(Effective June 1, 2003 through June 30, 2004) The basis for claiming a refundable credit for sales tax paid on communications services provided under KRS 139.505 is adjusted as follows:

(1) Eligible companies must have a minimum of \$1 million in annual Kentucky gross receipts.

(2) The refund is based on the amount paid on interstate communications services which are billed to a Kentucky service address that exceeds 5 percent of the business's Kentucky gross receipts.

(3) The majority of the interstate communications services billed to a Kentucky service address must be for communications originating outside of this state and terminating in this state.

(4) The cost of the interstate communications services included in the 5 percent calculation must be a deductible business expense for federal income tax purposes.

(5) Companies eligible for the refundable tax credit shall be permitted to directly report and pay the sales tax on their purchase of communications services. **(HB 269)**

**Streamlined Sales and Use Tax Agreement**—(Effective July 1, 2004) Legislation conforms Kentucky's sales and use tax laws under Chapter 139 to the Streamlined Sales and Use Tax Agreement in an effort to simplify and create uniformity among the 45 states and the District of Columbia which currently impose a sales tax. Additional detail will be available prior to the effective date. **(HB 293)**

**Exemption for Repair and Replacement Parts**—(Effective January 1, 2004) Exempts repair or replacement parts for the direct operation or maintenance of a motor vehicle, including any towed unit, used exclusively in interstate commerce for the conveyance of property or passengers for hire from the sales tax. This exemption requires that the motor vehicle is licensed for use on the highway and its declared gross vehicle weight with any towed unit is 44,001 pounds or greater. Repair and replacement parts are defined to exclude fuel, machine oil, fluids, grease, supplies, and accessories not essential to the operation of the motor vehicle itself. **(HB 293)**

**Tobacco Buydown Receipts**—Removes tobacco buydown receipts from receipts subject to sales tax. These receipts are payments made by the tobacco manufacturer or wholesaler to retailers based upon the number and price of tobacco products the retailer sells to customers during a "buydown" promotional period. This provision applies retroactively. **(HB 346)**

### Tourism Development Act (SB 91)

- Allows a theme restaurant destination attraction to qualify for financial incentives under the Tourism Development Act provided the theme restaurant destination attraction has capital costs in excess of \$5 million, seating capacity of 450 guests of which a minimum of 50 percent will not be

# 2003 General Assembly

residents of the commonwealth, and business plans that indicate that the facility will be open a minimum of 300 days a year and offer live musical or theatrical entertainment during the majority of operating hours. (Effective March 18, 2003)

- Requires the Office of the State Budget Director, the Finance and Administration Cabinet, and the Revenue Cabinet to report whether there is a projected net positive impact for the state from a proposed tourism attraction project and, if so, to certify to the authority the amount of incremental state revenue expected. (Effective March 18, 2003)
- Allows an additional extension of up to three years to an approved company that is building an entertainment destination center and allows for an increase in the approved costs incurred by the company under certain conditions. (Effective March 18, 2003, but the carry forward of unused inducements applies to tax years commencing on or after July 1, 2004.)

## PARI-MUTUEL TAX

**Tax Credit for Use for Capital Improvements and Horsemen Incentives**—Tracks with an average daily handle on live racing of \$1.2 million or more are allowed a tax credit equal to \$12,000 multiplied by the number of live racing days at the track for the fiscal year beginning after June 30, 2003, and ending June 30, 2004, if an amount equal to at least 50 percent of the credit is used for capital improvements and at least 50 percent is used for horsemen's incentives. (*HB 269*)

**Retention of Excise Fees by Harness Tracks**—Effective July 1, 2003, through June 30, 2004, all harness race tracks licensed by the Kentucky Racing Commission are not required to pay the excise tax imposed under KRS 138.510(2) and the amount that would have been paid is retained by the track to promote and maintain its facilities and its live meet. (*HB 269*)

**Simulcasting of Quarter Horse Racing**—Allows a track licensed to conduct quarter horse racing to receive simulcasts and conduct interstate wagering on certain quarter horse races and allow all other tracks to receive simulcasts and conduct interstate wagering on quarter horse races. (*HB 389*)

## MOTOR VEHICLE USAGE TAX

**Registration of Vehicles Temporarily Out of State**—KRS 186A.115 is amended to allow Kentucky residents temporarily residing out of state to have motor vehicles purchased out of state inspected out of state but registered in Kentucky. Registration and payment of motor vehicle usage tax is permitted by mail through county clerks. (*HB 245*)

**Heavy Trucks—Exemption**—(Effective October 1, 2003) KRS 138.470 was amended to exempt motor vehicles with a registered gross weight of over 44,001 pounds from the motor vehicle usage tax. **Increased Registration Fees**—(Effective July

1, 2003) KRS 186.050 was amended to increase the registration fees for this same class of vehicles. **Increased Clerk Fees**—(Effective July 1, 2003) KRS 186.040 was amended to provide the clerk a \$20 fee for each registration of vehicles in the exempted classification. (*HB 293*)

**Discharge of Security Interest in Motor Vehicle**—Provides for the statutory discharge of a security interest in a motor vehicle when the funds to pay the indebtedness have been provided to the secured party by a certified, or cashier's check or via wire transfer, or if the debt has been paid to a secured party that is no longer in existence or the secured party has failed to file the necessary documentation to discharge the lien. The bill also provides a mechanism for an owner to get the security interest notation removed from the certificate of title when the debt has been paid and the secured party has failed to supply the necessary documentation to the county clerk. (*HB 388*)

## PROPERTY TAX

**Availability of Mine Maps to Public**—Beginning with mine-map submissions for the 1989 tax year, the Revenue Cabinet may make public or divulge those portions of mine maps submitted by taxpayers to the Cabinet pursuant to KRS Chapter 132 for ad valorem tax purposes that depict the boundaries of mined-out parcel areas. The law provides that these electronic maps may not be relied upon to determine actual boundaries of mined-out parcel areas and that property boundaries contained in mine maps required under KRS Chapters 350 and 352 may not be construed to constitute land surveying or boundary surveys as defined by KRS 322.010. The law also allows the Cabinet to make public or divulge any portion of a mine map submitted to the department by a licensee or operator. (*SB 165*)

## INDIVIDUAL INCOME TAX

**Elimination of Deduction for Taxes Paid to Foreign Countries**—(Effective for taxable years beginning after December 31, 2002 and ending July 1, 2004) The deduction for taxes paid to foreign countries is not allowable. (*HB 269*)

## CORPORATION INCOME TAX AND CORPORATION LICENSE TAX

**Tax Credit Program for Reinvesting in Existing Industry**—HB 510 creates a tax credit program for existing companies classified under NAICS codes 336211 (motor vehicle body manufacturing), 336111 (automobile manufacturing), 336112 (light truck and utility vehicle manufacturing), and 336120 (heavy duty truck manufacturing) for reinvesting in those industries. Kentucky Economic Development Finance Authority (KEDFA) may give final approval after July 1, 2004. A project must have eligible costs of not less than \$100 million to qualify for the inducements. Approved companies may recover up to 10 percent of the eligible costs against individual income, corporate income and corporate license taxes equal to the tax due from the reinvestment project. The approved company shall not be required

# 2003 General Assembly

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to pay estimated income tax payments on income derived from the project. KEDFA may require the approved company to repay all or part of its inducements if the company terminates the agreement. The credits may be taken for a period of up to 10 years. *(HB 510)*

## TOBACCO

**Master Tobacco Settlement Agreement**—HB 390 provides for the creation of a directory that lists cigarette manufacturers who have provided current and accurate certifications to the Office of Attorney General. Also provides that “it shall be unlawful for any stamping agent or distributor to affix a stamp to a package or other container of cigarettes of a tobacco manufacturer or brand family not included in the directory.” Unlawfully stamped cigarettes in violation of HB 390 will be considered contraband and subject to seizure. The stamping agent or distributor found not to be in compliance may lose the privilege of purchasing cigarette stamps or be subject to civil and/or criminal penalties. *(HB 390)*

**Cigarette Compensation Rate**—(Effective June 1, 2003 through June 30, 2004) The compensation allowed cigarette wholesalers for collecting wholesale excise tax was reduced to \$0.15 face value for each \$3 of cigarette tax evidence purchased at face value. *(HB 269)*

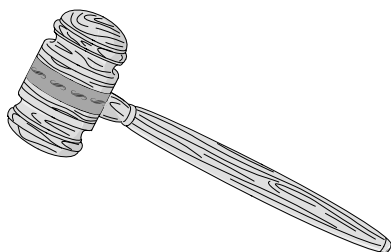
## ENTERPRISE ZONES

**Enterprise Zones to Expire**—The General Assembly took no action regarding extending the life of the existing enterprise zones established at 20 years by the 1982 General Assembly. Accordingly, beginning on December 31, 2003, both the Hickman and Louisville enterprise zones will expire, with eight remaining zones to expire at different intervals over the next few years. Certified businesses and other parties within these expiring areas will no longer be eligible for the tax benefits associated with the enterprise zones as of the end of this year.

# Legal Issues

## Legal Developments and Court Decisions

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



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

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

***Revenue Cabinet v. O'Daniel, 2001-SC-01032, Kentucky Supreme Court*** and ***Curtsinger v. Revenue Cabinet, 2002-SC-00204, Kentucky Supreme Court***

In *O'Daniel*, the taxpayers purchased an automobile (a Lincoln Town Car) in December 1994. They took physical possession but the vehicle was not officially registered and titled until Jan. 19, 1995. No property tax was paid on the automobile for the 1995 tax year.

KRC issued the taxpayers an assessment for the 1995 property tax. The taxpayers protested, arguing that they were not the registered owners of the automobile until after Jan. 1, 1995, the relevant assessment date, and thus were not responsible for the tax. KRC responded that the taxpayers were equitable owners of the automobile in December 1994 and thus were liable for the 1995 property tax on that motor vehicle.

The KBTA agreed with KRC, but the Marion Circuit Court reversed. KRC appealed to the Kentucky Court of Appeals.

In an opinion rendered on Nov. 9, 2001, the Court of Appeals affirmed the Marion Circuit Court's ruling. The Court of Appeals reasoned that liability for property taxes on motor vehicles was premised upon record ownership, relying upon KRS 186.021(2), 186.025(2), 134.805(5)(a), and 134.810(4) and (5).

In this case, the taxpayers did not become the owners of record of the Lincoln Town Car until they registered it on Jan. 19, 1995, the Court of Appeals held. Accordingly, the court ruled that the taxpayers were not owners of record of the automobile on Jan. 1, 1995, and thus were not liable for the 1995 property taxes on that vehicle.

In the *Curtsinger* case, the taxpayers' situation was factually similar to that of the taxpayers in *O'Daniel*. Instead of pursuing their administrative remedies, however, the taxpayers in *Curtsinger* brought an original action in the Franklin Circuit Court seeking declaratory and injunctive relief with respect to their assessment.

The Franklin Circuit Court ruled in KRC's favor. The court reasoned that the Kentucky Constitution requires all property to be assessed for ad valorem taxation unless specifically exempted by the Kentucky Constitution. No exemption from taxation has been enacted for motor vehicles. Moreover, liability for the motor vehicle property tax rests upon ownership, KRS 132.020(1), and in this case, the taxpayers were owners of the automobile in question once they took physical possession of it pursuant to a bona fide sale, as provided in KRS 186A.010(7)(a).

The Kentucky Supreme Court agreed to hear both of these cases. Briefs have been filed and oral argument held. The parties are currently awaiting a decision from the Supreme Court.

***Revenue Cabinet v. LWD, Inc., 2002-SC-00329-SC, and 2003-SC-00318 Kentucky Supreme Court***

At issue in this sales and use tax case is the application of the occasional sale exemption provided in KRS 139.470(4) and 139.070(1)(b) for "[a]ny transfer of all or substantially all the property held or used by person in the course of such activity [i.e., an activity for which he is required to hold a seller's permit, see KRS 139.070(1)(a)] when after such transfer the real or ultimate ownership of such property is substantially similar to that which existed before such transfer."

The facts of this case are as follows: LWD Equipment, Inc. was a wholly owned subsidiary of LWD Holding, Inc. LWD Equipment's sole business activity consisted of leasing business equipment and it accordingly held a seller's permit as required by Kentucky sales and use tax law to engage in this activity.

On numerous different occasions, LWD Equipment purchased various items of business equipment, which it immediately leased to one of its sister corporations, all of which were 100 per cent owned by LWD Holding. LWD Equipment neither sold nor leased tangible personal property to anyone other than to its sister corporations.

LWD Equipment did not report and remit sales tax for these leases of tangible personal property to its sister corporations, as required by such provisions of the sales and use tax law as

# Legal Issues

Regulation 103 KAR 28:051. KRC accordingly issued LWD Equipment a sales tax assessment, which was upheld by the KBTA. The Franklin Circuit Court reversed the KBTA, however, and KRC appealed that decision to the Kentucky Court of Appeals.

In an opinion rendered on Nov. 30, 2001, the Court of Appeals agreed with KRC that the occasional sale exemption provided for in KRS 139.470(4) and 139.070(1)(b) did not apply in this case. This exemption did not embrace transactions that occur frequently and continuously for several years, the court held. Application of the exemption to LWD Equipment's multiple, continuous and ongoing leasing activities would be contrary to the General Assembly's intent in enacting an "occasional sale" exemption in the first place.

In this case, KRC also argued that LWD Equipment's appeal of the KBTA decision to the Franklin Circuit Court was procedurally deficient and should have been dismissed because LWD Equipment failed to name the KBTA as an indispensable party to that appeal. The Court of Appeals rejected this argument, holding that LWD Equipment had complied with the governing statute, KRS 13B.140(1), by naming the KBTA in the petition initiating the appeal and by serving the KBTA with a copy of the petition.

LWD Equipment has filed a motion for discretionary review of the Court of Appeals' opinion with the Kentucky Supreme Court, which has been granted. KRC filed a cross motion for discretionary review on the issue of LWD Equipment's failure to name the KBTA as a party to its circuit court appeal. This cross motion has also been granted by the Supreme Court. Proceedings are now underway before the Supreme Court.

***Revenue Cabinet v. State Dock, Inc. and Popplewell's Alligator Dock No. 1, Inc., 2001-SC-0439 and Popplewell's Alligator Dock Inc. v. Revenue Cabinet, 2001-SC-0434, Kentucky Supreme Court***

The substantive issue in this sales and use tax case concerns the application of the exemption provided in KRS 139.483 for "supplies and fuel consumed in the operation of, and supplies consumed by crew members aboard such ships and vessels which are used principally in the transportation of property or in the conveyance of persons for hire."

Popplewell's Alligator Dock No. 1, Inc. (Alligator) operated a marina in Kentucky. As part of its business, it leased luxury houseboats to the public. Alligator collected and remitted sales tax on the rental of the houseboats, but not on the sale of gasoline used to power the leased houseboats.

Alligator contended that the sale of gasoline was exempt from tax under KRS 139.483. KRC disagreed and assessed tax accordingly. The KBTA upheld the assessment and the Franklin Circuit Court affirmed the KBTA's decision.

Alligator appealed to the Kentucky Court of Appeals. In an opinion rendered on Feb. 23, 2001, the Court of Appeals affirmed the Franklin Circuit Court's decision. The court held that the exemption provided in KRS 139.483 did not apply

because the houseboat lessees' **principal use** of the houseboats was **not** the transportation of property or the conveyance of persons for hire. Therefore, Alligator's sale of gasoline was subject to sales and use tax.

Alligator and State Dock, Inc. also filed an original action in the Franklin Circuit Court seeking declaratory and injunctive relief with respect to the application of KRS 139.483 to their sale of gasoline to power the houseboats and their rental of the houseboats themselves. The circuit court dismissed this action for lack of jurisdiction due to the failure of Alligator and State Dock to exhaust their administrative remedies.

Alligator and State Dock appealed the circuit court's dismissal of their action to the Kentucky Court of Appeals. In the same Feb. 23, 2001, opinion referred to above, the Court of Appeals vacated the circuit court's dismissal and remanded the case to the circuit court for a decision on the merits. The court held that exhaustion of administrative remedies was not required where there were no factual questions to be resolved and only a legal question—the proper construction and application of KRS 139.483—remained to be decided.

Both KRC and Alligator filed motions for discretionary review of the Court of Appeals, Feb. 23, 2001, opinion with the Kentucky Supreme Court. The Supreme Court granted both motions. Briefing has been completed and oral argument has been held and the parties are now awaiting a decision by the Supreme Court.

***A.K. Steel Corporation v. Revenue Cabinet, Ky. App., 87 S.W.3d 15 (2002)***

In this case, the taxpayer asserted that its purchases of materials, supplies, and repair and replacement parts used in its steel-making processes were exempt from sales and use tax under KRS 139.480(12). This exemption provides:

Property which has been certified as a pollution control facility as defined in KRS 224.01-300, and all materials, supplies, and repair and replacement parts purchased for use in the operation or maintenance of the facilities used specifically in the steel-making process. The exemption provided in this subsection for materials, supplies, and repair and replacement parts purchased for the use in the operation of pollution control facilities shall be effective for sales made through June 30, 1994.

Specifically, the taxpayer argued that the language "all materials, supplies and repair and replacement parts purchased for use in the operation or maintenance of the facilities used specifically in the steel-making process" embraced materials, supplies, etc., for any and all facilities used in that process and not just pollution control facilities.

The taxpayer relied upon a 1990 amendment to the law that had replaced the phrase "such facilities used specifically in the steel-making process" with "the facilities used specifically in the steel-making process" language previously quoted above. Thus, the taxpayer's position was that only materials, supplies, and repair and replacement parts purchased for use in the

# Legal Issues

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operation of pollution control facilities were covered by the June 30, 1994, sunset provision of KRS 139.480(12) and that all other materials, supplies, and repair and replacement parts purchased for use in the maintenance and operation of all other facilities used in the steel-making process continued to be exempt.

In an opinion rendered on Sept. 6, 2002, the Court of Appeals agreed with KRC that no exemption was afforded under KRS 139.480(12) for materials, supplies, and repair and replacement parts purchased for use in the operation or maintenance of facilities besides pollution control facilities used specifically in the steel-making process. Thus, no exemption for materials, supplies, and repair and replacement parts provided for in KRS 139.480(12) survived beyond June 30, 1994.

As support for its holding, the court noted that the General Assembly had expressed a preference for the use of the definite article “the” over “such,” as evidenced by the Legislative Research Commission’s Bill Drafting Manual and KRS 13A.122, “which provides legislative guidance for the drafting of regulations by state administrative agencies.” Thus, the 1990 amendment to KRS 139.480(12) had not broadened this exemption by its substitution of the word “the” for “such.” The word “such” had made it clear that “facilities” in KRS 139.480(12) meant “pollution control facilities” only. The court held that it was unlikely that the General Assembly would have “intended to add a new exemption to a statute which was otherwise simply being amended to lengthen its sunset provision.” In addition, the court observed that “[l]ikewise, if ‘the’ is read to substantively change the nature of the exemptions provided, the sunset provision would not clearly apply to either exemption, making that section of the statute illogical.”

This case is now final.

## ***Morton Buildings, Inc. v. Revenue Cabinet, 2003-SC-00625, Kentucky Supreme Court***

In an opinion rendered on July 25, 2003, the Court of Appeals ruled that the taxpayer was subject to use tax for materials it purchased outside Kentucky and used to make building components that were eventually assembled into prefabricated buildings in Kentucky. The court rejected the taxpayer’s arguments that the use tax could not apply because the materials were purchased and used in the manufacture of building components outside of Kentucky, without any specific intent on the taxpayer’s part to use the materials in Kentucky.

The Court of Appeals observed that the purpose of the use tax is to act as a backstop to the sales tax by ensuring that transactions in other states are treated just as if they had taken place in this state and been subjected to the sales tax. The “use” triggering the use tax’s application is broadly defined as “the exercise of any right or power over tangible personal property.” In this case, the materials in question, in their altered form, were actually used in Kentucky when the taxpayer assembled the building components made up of those materials into prefabricated buildings.

The taxpayer did substantial business in Kentucky, maintaining Kentucky sales offices to sell the prefabricated buildings and constructing at least 700 buildings during the four-year period that was the subject of this case. It was not necessary that the taxpayer knew which particular items (“which two-by-four or bracket”) would be used in constructing a building in Kentucky in order for the tax to apply.

Application of the use tax in this case was also supported by Regulation 103 KAR 26:070 §6. The Court of Appeals rejected the taxpayer’s argument that this regulation unlawfully enlarged the scope of the taxing statute KRS 139.310, relying upon its previous opinion of *Pete Koenig Company v. Department of Revenue*, Ky. App., 655 S.W.2d 496 (1983). This regulation represents a proper and reasonable clarification of KRS 139.310, the court ruled. Thus, pursuant to KRS 139.310, as interpreted by Regulation 103 KAR 26:070 §6, the materials in question were used in Kentucky by virtue of their incorporation, as part of the building components, into realty located in Kentucky. Use tax therefore applied and KRC therefore acted properly in denying the taxpayer’s claim for the refund of the use tax it had paid with respect to the materials in question.

The opinion of the Court of Appeals is not yet final. The taxpayer has filed a motion for discretionary review with the Kentucky Supreme Court.

## ***Illinois Tool Works, Inc. v. Revenue Cabinet, Civil Action No. 00-CI-00623, Franklin Circuit Court, Division I***

At issue in this case was the validity of the corporation license tax statute KRS 136.071 under the United States Constitution’s Commerce and Equal Protection Clauses. A corporation subject to Kentucky corporation license tax could take advantage of KRS 136.071 if it had a Kentucky commercial domicile and held, directly or indirectly, stock or securities in other corporations equal to or greater than 50 percent of its total assets. If the corporation met these requirements, it could then reduce its corporation license tax liability by filing on a consolidated basis or deducting from its taxable capital the book value of its investment in the stock and securities of any corporation in which it owned more than 50 percent of the outstanding stock.

Illinois Tool Works, Inc. (ITW) pursued this challenge to KRS 136.071 as a class action on behalf of all corporate taxpayers denied the benefit of KRS 136.071 solely because their commercial domiciles are outside Kentucky. ITW contended that the commercial domicile requirement violated the Commerce Clause by discriminating against interstate commerce. It further argued that this requirement was arbitrary and lacked a rational basis and thus was violative of the Equal Protection Clause and similar provisions of the Kentucky Constitution.

The Franklin Circuit Court agreed with ITW’s Commerce Clause claim, but rejected its Equal Protection Clause argument. In its Dec. 5, 2002, judgment, as amended on Jan. 22, 2003, the circuit court ruled that 1) KRS 136.071 is unconstitutional and

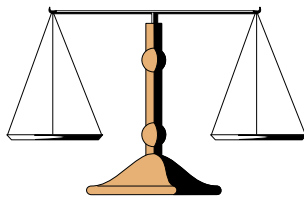


# Legal Issues

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void in its entirety under the United States Constitution's Commerce Clause; 2) that for tax years for which a corporation license tax return is due (before extension) on or after April 15, 2004 (i.e., corporation license tax returns covering corporate operations for calendar or fiscal years beginning on or after Jan. 1, 2003), KRC is enjoined from prospectively enforcing or giving any legal effect to KRS 136.071 and shall not apply KRS 136.071 to any corporation, regardless of commercial domicile; 3) that members of the class (corporations subject to the Kentucky corporation license tax that have not been able to utilize KRS 136.071 solely because their commercial domiciles were outside Kentucky) are entitled to meaningful backward-looking relief consisting of refunds and the setting aside of assessments for tax years for which a corporation license tax return was due (before extension) before April 15, 2004 (i.e., corporation license tax returns covering corporation operations for calendar or fiscal years beginning before Jan. 1, 2003); and 4) that interest is not payable on any tax refunds required as part of this backward-looking relief.

The Franklin Circuit Court's decision was not appealed and is therefore now final.



## ***Anson Stamping Company, LLC v. Revenue Cabinet, K01-R-37, Kentucky Board of Tax Appeals***

On June 20, 2003, the KBTA granted summary judgment in KRC's favor, upholding KRC's intangible personal property tax assessment for the taxpayer's accounts receivable. The taxpayer had not listed the accounts receivable for ad valorem taxation, arguing that it should be allowed to offset the values of its accounts payable against its accounts receivable and that since the amount of the accounts payable exceeded the accounts receivable, the accounts receivable had no value.

The KBTA held that the Kentucky Constitution requires that all property be assessed for ad valorem purposes at its fair cash value, estimated as the price the property would bring at a fair voluntary sale. No reduction is permitted from fair cash value for outstanding debts, liens, or other similar encumbrances. The Kentucky Constitution makes no distinction between intangible property and other forms of property. The KBTA observed that "[r]educing the amount of an asset account by offsetting the amount of a liability account does not accurately reflect the fair cash value of the property any more than reducing a house's value by the amount of the mortgage would accurately reflect the value of the house."

The KBTA's decision was not appealed and is therefore now final.

# KRC Administration

## KRC Administrative Expenditures

KRC administrative expenditures for Fiscal Year 2002-2003 totaled \$102,052,897. KRC's expenditures during Fiscal Year 2002-2003 included \$3.1 million to conduct a Tax Amnesty program. The types of appropriated funds that support ongoing operations include General, Road, Restricted, and Federal funds.

### ADMINISTRATIVE COSTS, FISCAL YEAR 2002-2003

	General Fund	Agency Fund	Federal Fund	Road Fund	Tech. Trust Fund	Total
Salaries full-time	\$33,518,284	\$2,646,416	\$	\$ 685,228	\$ 0	\$ 36,849,928
Fringe benefits	7,005,088	270,607	0	0	0	7,275,695
Seasonal employees	658,769	0	0	0	0	658,769
Overtime/block 50s	245,666	4,920	0	0	0	250,586
Training and tuition assistance	63,210	0	0	0	0	63,210
Worker compensation insurance	167,626	0	0	0	0	167,626
Unemployment insurance	63,549	0	0	0	0	63,549
Legal/audit services/consultants	579,339	0	0	0	0	579,339
Janitorial services	277,495	0	0	0	0	277,495
Data entry/temporary services	1,110,618	0	0	0	0	1,110,618
Security	140,882	0	0	0	0	140,882
<b>Total Personnel</b>	<b>\$43,830,526</b>	<b>\$2,921,943</b>	<b>\$ 0</b>	<b>\$ 685,228</b>	<b>0</b>	<b>\$ 47,437,697</b>
Carpool (state motor pool)	\$ 30,442	\$ 15,197	\$ 0	\$ 0	0	\$ 45,639
Utilities	358,983	0	0	6,000	0	364,983
Rent/rentals	2,994,226	0	0	55,000	0	3,049,226
Maintenance and repairs	1,583,732	0	0	0	0	1,583,732
Postage	3,186,334	42	0	179,865	0	3,366,241
Printing/other services	1,119,844	240,188	0	76,312	0	1,436,344
Information technology (includes GOT costs)	9,140,845	0	0	339,875	0	9,480,720
Computer equipment	418,109	0	0	0	0	418,109
Supplies	376,562	134,627	0	0	0	511,189
Commodities/furniture	8,501	1,593	0	0	0	10,094
Software/telephone equipment	88,793	0	0	0	0	88,793
Travel	356,515	490,421	0	0	0	846,936
Filing/lien/collection fees	0	175,121	0	0	0	175,121
Dues/subscriptions services	206,090	206,642	0	75,720	0	488,452
<b>Total Operating</b>	<b>\$19,868,976</b>	<b>\$1,263,831</b>	<b>\$ 0</b>	<b>\$ 732,772</b>	<b>\$ 0</b>	<b>\$ 21,889,018</b>
Computer equipment over \$5,000	\$ 0	\$ 23,439	\$ 0	\$ 0		\$ 0
<b>Total Capital Outlay</b>	<b>\$ 0</b>	<b>\$ 23,439</b>	<b>\$ 0</b>	<b>\$ 0</b>		<b>\$ 0</b>
Empower Kentucky	\$ 0	\$ 0	\$ 0	\$ 0	\$2,611,824	\$ 2,611,824
<b>Total Expenditures—Revenue</b>	<b>\$63,699,502</b>	<b>\$4,209,213</b>	<b>\$ 0</b>	<b>\$1,418,000</b>	<b>\$2,611,824</b>	<b>\$ 71,938,539</b>
PVA Salary/Fringes	\$29,930,597	\$2,705,831	\$ 0	\$ 0	\$ 0	\$ 29,636,428
PVA Operating	501,369	0	0	0	0	501,369
<b>Total Expenditures—PVAs</b>	<b>\$27,431,966</b>	<b>\$2,705,831</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 0</b>	<b>\$ 10,137,797</b>
<b>Total Expenditures—Revenue and PVAs</b>	<b>\$91,131,468</b>	<b>\$6,915,044</b>	<b>\$ 0</b>	<b>\$1,418,000</b>	<b>\$2,611,824</b>	<b>\$102,052,897</b>

# KRC Administration

## KRC Departments, Divisions, and Their Duties

KRC 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, General Counsel, Internal Audit, PVA Administrative Support Branch, Strategic Planning/Program Review, and Taxpayer Ombudsman.

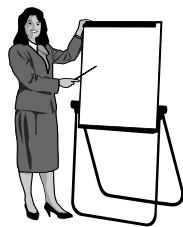
The **Office of Financial and Administrative Services** administers KRC's budget, handles human resources, training, purchasing and miscellaneous support services. This office also administers the PVA personnel budget and PVA human resource services.

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.

The **PVA Administrative Support Branch** provides budget, fiscal, personnel, and payroll administration for all 120 PVAs and more than 680 deputies throughout the commonwealth. This branch also coordinates open enrollment for health and life insurance and directs property tax educational KY-Courses. It conducts workshops at summer and fall PVA conferences and area meetings.



### 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 services related to network support and security, technology procurement, voice systems, 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 judicial actions and in administrative proceedings before such tribunals as the Kentucky Board of Tax Appeals and Board of Claims. Its representation of KRC extends to all levels of the state and federal court systems.

The division performs a wide range of other services and functions, which include: rendering advice and written legal opinions to KRC personnel and other government personnel and officials, as well as taxpayers; reviewing and drafting proposed statutes and regulations; analyzing tax laws and assisting with and advising on 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.

During this past year, the division has continued to handle a substantial caseload presenting a variety of legal issues affecting

# KRC Administration

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KRC and requiring work at all levels of the court system and administrative appeals process. The cases it handles frequently have a substantial potential fiscal impact or significant precedential value.

The Division of Legal Services is not responsible for personnel, bankruptcy, collection, and criminal matters, which are handled elsewhere in KRC. The division also is not primarily responsible for open records and disclosure matters.

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 Governor's Office of Economic Analysis and the Governor's Office of Policy Research 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 (PICS) Branch** is responsible for KRC publications, forms, and printing. PICS also maintains RevWeb and online *Revenue Assets*.

## 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 services to all 120 counties from 11 taxpayer service centers located throughout the state. These services include taxpayer assistance and education, the preparation of tax returns, the distribution of forms, the collection of delinquent taxes, and the performance of audits. This division also provides instructors, develops training materials, and coordinates training for KRC employees and outside groups.

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

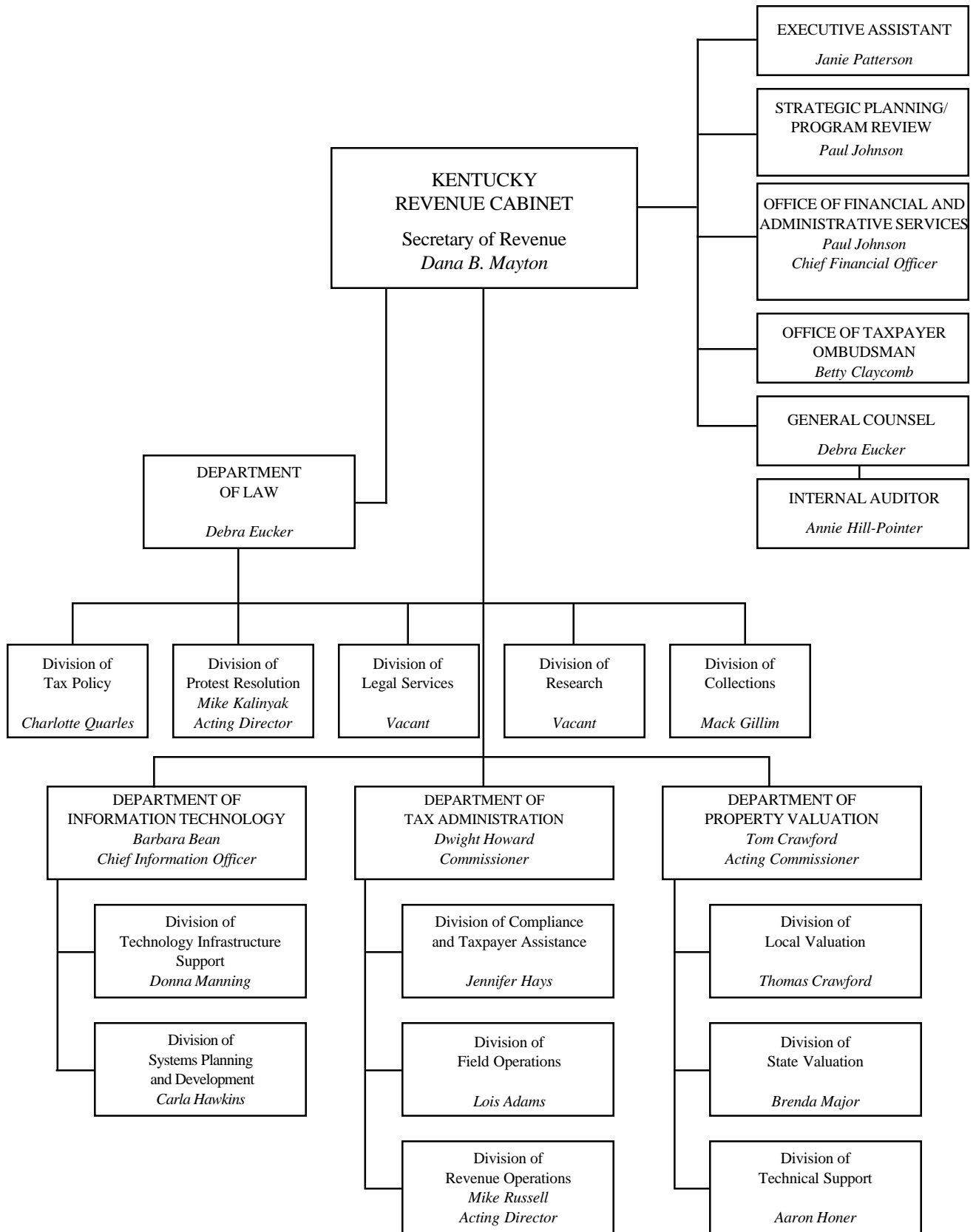
The Department of Property Valuation administers all property taxation matters. It is composed of the Division of Local Valuation, the Division of State Valuation, and the Division of Technical Support.

The **Division of Local Valuation** is responsible for certifying property valuations submitted by 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.

MANAGEMENT—KENTUCKY REVENUE CABINET  
 JUNE 30, 2003





Secretary D. Mayton



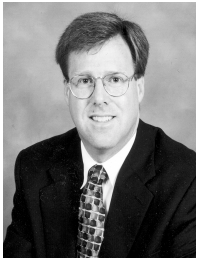
L. Adams



B. Bean



B. Claycomb



T. Crawford



D. Eucker



M. Gillim



C. Hawkins



J. Hays



A. Hill-Pointer



A. Horner



D. Howard



P. Johnson



M. Kalinyak



B. Major



D. Manning



J. Patterson



C. Quarles



M. Russell

**TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 2003)**

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION
<b>Alcoholic Beverage Wholesale Sales Tax</b>	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.
<b>Bank Franchise Tax</b>	KRS 136.500 et seq.	1.1 percent of net capital. Minimum tax is \$300 per year.	Tax is imposed on every financial institution regularly engaged in business in Kentucky at any time during the calendar year. A financial institution is presumed to be regularly engaged in business in Kentucky if during any taxable year it obtains or solicits business with 20 or more persons within Kentucky, or if receipts attributable to sources in Kentucky equal or exceed \$100,000. Tax is in lieu of all city, county and local taxes except for the real estate transfer taxes, real property and tangible personal property taxes upon users of utility services and the local deposit franchise tax.
<b>Beer Consumer Tax</b>	KRS 243.720 et seq.	\$2.50 per barrel of 31 gallons.	An excise tax imposed on distributors or retailers of malt beverages who purchase malt beverages directly from a brewer. There are statutory exemptions and credits. There is a 50 percent discount for domestic brewers up to 300,000 barrels per annum.
<b>Cigarette Enforcement and Administration Fee</b>	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.
<b>Cigarette Licenses</b>	KRS 138.195	Resident wholesaler ..... \$500 Nonresident wholesaler ..... \$500 Subjobber ..... \$500 Vending machine operator ..... \$ 25 Transporter ..... \$ 50 Unclassified acquirer ..... \$ 50	Annual license fee imposed upon various dealers and handlers of cigarettes. More than one license may be required by the Revenue Cabinet for any dealer or handler depending upon the diversity of his business and the number of established places of business.
<b>Cigarette Tax</b>	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 acquirer. The tax is paid by purchasing stamps within 48 hours after cigarettes are received by a resident wholesaler. The unclassified acquirer pays the tax by purchasing and affixing stamps within 24 hours of receipt of the cigarettes. A nonresident wholesaler must affix the tax stamps prior to importing them into Kentucky.
<b>Coal Severance Tax</b>	KRS 143.010, 143.020 et seq.	50 cents per ton minimum or 4.5 percent of gross value. (The minimum tax shall not apply to a taxpayer who only processes coal.)	Tax is based on the gross value of coal severed and/or processed in Kentucky. Partial or whole exemptions from the tax may apply to newly permitted production from "thin seams."
<b>Corporation Income Tax</b>	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 1361(a) 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(5). A filing requirement will apply to a corporation that only has a partnership interest in Kentucky, under KRS 141.206.  A limited liability company (LLC) is treated for Kentucky income tax purposes in the same manner as its tax treatment for federal income purposes under KRS 141.208.  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 141.200 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, 2003)**

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION
<b>Corporation License Tax</b>	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 LLCs are 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.
<b>Distilled Spirits Case Sales Tax</b>	KRS 243.710	5 cents per case.	Excise tax on distilled spirits sold by wholesalers to retailers in Kentucky.
<b>Distilled Spirits and Wine Consumer Taxes</b>	KRS 243.720 et seq.	Distilled spirits containing over 6 percent alcohol by volume per gallon ..... \$ 1.92 per liter ..... 0.5069 Distilled spirits containing 6 percent or less alcohol by volume per gallon ..... \$ 0.25 per liter ..... 0.0660 Wine per gallon ..... \$ 0.50 per liter ..... 0.1320  (Proportionate amount charged on smaller quantities, but not less than 4 cents on any retail container of wine.)	Excise tax imposed upon the use, sale or distribution by sale or gift of distilled spirits and wine. There are statutory exemptions.
<b>Health Care Provider Tax</b>	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, 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.
<b>Individual Income Tax</b>	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.  Tax base is the federal adjusted gross income adjusted for differences in Kentucky and federal laws, including US government bond interest, limited pension/retirement income exclusion, Social Security benefits and Railroad Retirement Board benefits and deductions for long-term care and health insurance premiums. Taxable income is computed by using the standard deduction or Kentucky itemized deductions. Tax credits include personal credits of \$20, child and dependent care, low income, and various business credits.  Standard deduction: 2002—\$1,800 2003—\$1,830 2004—\$1,870



**TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 2003)**

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION
<b>Inheritance and Estate Taxes</b>	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.
<b>Insurance Premium Surcharge</b>	KRS 136.392	1.5 percent of premiums.	An insurance premium surcharge on insured Kentucky risks. There are statutory exemptions.
<b>Insurance Premium Taxes</b>	KRS 136.320, 136.330 to 136.390, 299.530, 304.3-270, 304.4-030, 304.11-050, 304.49-220	All domestic and foreign life companies 1.6 percent tax rate for calendar year 2003. The tax rate is being lowered by 0.1 percent per year until the rate reaches 1.5 percent. Annuities are exempt from tax. All other insurance companies 2 percent tax rate for calendar year 2003. 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.
<b>Legal Process Taxes</b>	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.
<b>Marijuana and Controlled Substance Tax</b>	KRS 138.870 et seq.	\$3.50 per gram on marijuana, loose. \$1,000 per marijuana plant. \$200 per gram controlled substance by weight. \$2,000 per 50 dosage units of controlled substance.	Growers, sellers, dealers, buyers and manufacturers must obtain a tax stamp to affix to the product.  Commonwealth's or county attorneys who obtain a conviction of, or guilty or Alford plea from an offender must notify the Revenue Cabinet if the product which was the subject of the conviction or plea does not bear the tax stamp.

**TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 2003)**

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION
<b>Motor Fuels Tax—Gasoline</b>	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 tax credits and partial or full tax refunds for designated users.
<b>Motor Fuels Tax—Liquefied Petroleum Gas</b>	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.
<b>Motor Fuels Tax—Petroleum Storage Tank Environmental Assurance Fee</b>	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.
<b>Motor Fuels Tax—Special Fuels</b>	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.
<b>Motor Vehicle Usage Tax</b>	KRS 138.450 et seq.	6 percent of the consideration given or retail value as defined in KRS 138.450. Value is dependent on the type of transaction. Optional tax payment method available for U-Drive-It operators based on 6 percent of the gross rental or lease charges.	Tax imposed on new and used motor vehicles when registered for the first time in this state and when ownership is transferred. There are statutory exemptions and credits. Regular usage tax payments are made to the county clerk and forwarded to the Revenue Cabinet. U-Drive-It usage tax payments are made directly to the Transportation Cabinet on a monthly basis.
<b>Natural Resources Severance and Processing Taxes</b> (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). Limestone used in the manufacturer of cement by an integrated miner and manufacturer of cement shall be limited to 14 cents per ton of limestone mined in Kentucky.	<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, 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, 2003)**

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION
<b>Oil Production Tax</b>	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.
<b>Property Taxes:</b>  <b>Agricultural Products</b> 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.
<b>Aircraft</b>	KRS 132.020(12), KRS 132.200(19)	1.5 cents (per \$100 of assessment).	Local option.
<b>Annuities or Rights to Receive Income</b>	KRS 132.215(2)	0.1 cent (per \$100 of assessment).	State rate only.
<b>Bank Deposits</b>  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.
<b>Brokers' Accounts Receivable</b>  (Also see <b>Margin Accounts</b> )	KRS 132.050	10 cents (per \$100 of assessment).	State rate only.
<b>Car Lines</b> (Private)	KRS 136.180(3), 136.180(1)	Subject to annual adjustment.	Subject to annual adjustment. Local tax collected and distributed by the Revenue Cabinet effective January 1, 1994.
<b>Distilled Spirits</b>	KRS 132.020(10), 132.150	5 cents (per \$100 of assessment).	Subject to full local rates.
<b>Farm Machinery Used in Farming</b>	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, 2003)**

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION
<b>Goods Held for Sale in the Regular Course of Business</b>	KRS 132.020(10)	5 cents (per \$100 of assessment).	Subject to local rates.
<b>Intangible Property of Banks</b>	KRS 132.020(2)	0.1 cent (per \$100 of assessment).	State rate only.
<b>Intangibles</b>  Money in hand, notes, bonds, accounts and other credits, except those arising from out-of-state business, or intercompany accounts between parent and subsidiary, and other not specified elsewhere.  Accounts receivable, notes, bonds, credits, nondomestic bank deposits and other intangibles arising from out-of-state business, and intercompany accounts between parent and subsidiary, 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.
<b>Leasehold Interest</b>  (Owned by tax-exempt governmental unit)	KRS 132.020(1)	1.5 cents (per \$100 of assessment).	State rate only.
<b>Life Insurance Companies</b>  (Domestic) Capital Reserves Policy Proceeds on Deposit (Individual)	KRS 136.320  KRS 132.216	14 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.
<b>Livestock and Poultry</b>	KRS 132.020(1)	0.1 cent (per \$100 of assessment).	State rate only.
<b>Local Government Franchise Taxes on Bank Deposits</b>	KRS 136.575	No state rate. Tax due the following January 31. Based on June 30 deposits.	Tax is imposed on financial institutions measured by deposits in the institutions located within the jurisdiction of the county, city or urban county government at a rate not to exceed twenty-five thousandths of one percent (0.025%) of the deposits if imposed by counties and cities and at a rate not to exceed fifty thousandths of one percent (0.050%) of the deposits imposed by urban county governments.
<b>Manufacturing Machinery</b>	KRS 132.020(1), 132.200(4)	15 cents (per \$100 of assessment).	State rate only.

**TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 2003)**

<b>TAX</b>	<b>LEGAL REFERENCE</b>	<b>STATE RATE</b>	<b>DESCRIPTION</b>
<b>Margin Accounts</b> (See <b>Brokers' Accounts Receivable</b> )	KRS 132.060–KRS 132.090	25 cents (per \$100 of assessment).	State rate only.
<b>Mobile Homes</b> (Real Property)	KRS 132.751	Subject to annual adjustment. Taxed at real estate rate.	Subject to full local rates.
<b>Motor Vehicles</b>	KRS 132.487	45 cents (per \$100 of assessment).	Full local rates. Collected upon registration.
<b>Historic Motor Vehicles</b>	KRS 132.020	25 cents (per \$100 of assessment)	State rate only.
<b>Pollution Control Facilities</b>	KRS 132.020(1), 132.200(9)	15 cents (per \$100 of assessment).	State rate only.
<b>Public Warehouses</b> 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 132.097 KRS 132.099	5 cents (per \$100 of assessment).  Exempt.	Full local rates.  Special taxing districts only.
<b>Radio, Television and Telephonic Equipment</b>	KRS 132.020(1), 132.200(5)	15 cents (per \$100 of assessment).	State rate only.
<b>Railroads</b> (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.
<b>Raw Materials and Products in Course of Manufacture</b>	KRS 132.020(10), 132.200(4)	5 cents (per \$100 of assessment).	State rate only.
<b>Real Estate not Elsewhere Specified</b>	KRS 132.020(1)	Adjusted annually (by July 1) per KRS 132.020(8). The state real estate rate was 14.8 cents for 1999, 14.1 cents for 2000, 13.6 cents for 2001, 13.5 cents for 2002, and 13.3 cents (per \$100 assessment) for 2003.	Full local rates.
<b>Recreational Vehicles</b>	KRS 132.485(1), 132.730, 132.751	Classification depends on permanency of location. 45 cents (per \$100 of assessment).	Subject to full local rates.
<b>Recycling Machinery</b>	KRS 132.020(1), 132.200(16)	45 cents (per \$100 of assessment).	State rate only.
<b>Retirement Plan or Profit-Sharing Plan Tax</b>	KRS 132.043	0.1 cent (per \$100 of assessment).	State rate only. Taxable to individual participant.
<b>Savings and Loan Associations</b> (Domestic) (Foreign included effective January 1, 1990)	KRS 136.300(1), KRS 136.310(1)	10 cents (per \$100 of assessment).	State rate only.

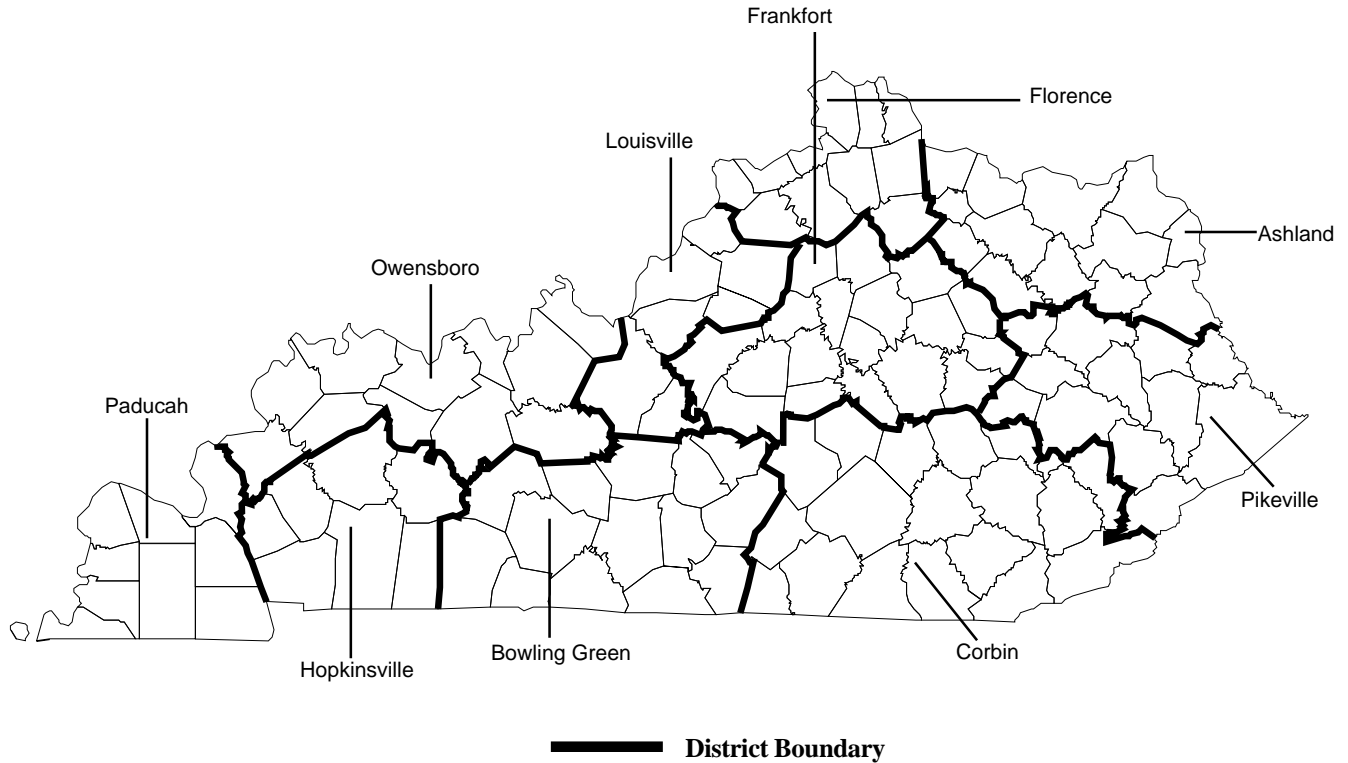
**TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 2003)**

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION																
<b>Tangible Property not Elsewhere Specified</b>	KRS 132.020(1)	45 cents (per \$100 of assessment).	Full local rates.																
<b>Trucks, Tractors, Trailers, Semi-Trailers and Buses (Interstate)</b>	KRS 136.1873	Subject to annual adjustment.	Local tax collected and distributed by the Revenue Cabinet effective January 1, 1993.																
<b>Unmined Coal, Oil and Gas Reserves, and Other Mineral or Energy Resources Held Separately from Surface Real Property</b>	KRS 132.820	Real estate rate: 14.8 cents for 1999, 14.1 cents for 2000, 13.6 cents for 2001, 13.5 cents for 2002, and 13.3 cents (per \$100 assessment) for 2003. Subject to annual adjustment.	Full local rates.																
<b>Watercraft</b> Commercial Individual Federally Documented	KRS 136.181 KRS 132.020(1), 132.488 KRS 132.020(13) KRS 132.200(20)	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.																
<b>Public Service Commission Assessment</b>	KRS 278.130 et seq.	1.885 mills (subject to change annually up to 2 mills) 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.																
<b>Public Service Company Property Taxes</b>	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 <b>Property Taxes</b> ).	Property of public service corporations taxed at the same rate as property owned by any individual or corporation (see rates under <b>Property Taxes</b> ).																
<b>Racing Taxes:</b> <b>(1) License Tax</b>	(1) KRS 137.170 et seq.	(1) Per day of races.  <table style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th style="text-align: center;">Average Daily Mutuel Handle (for preceding year)</th> <th style="text-align: center;">Tax Rate Per Day</th> </tr> </thead> <tbody> <tr> <td style="text-align: center;">\$ 0—\$ 25,000</td> <td style="text-align: center;">\$ 0</td> </tr> <tr> <td style="text-align: center;">25,001 — 250,000</td> <td style="text-align: center;">175</td> </tr> <tr> <td style="text-align: center;">250,001 — 450,000</td> <td style="text-align: center;">500</td> </tr> <tr> <td style="text-align: center;">450,001 — 700,000</td> <td style="text-align: center;">1,000</td> </tr> <tr> <td style="text-align: center;">700,001 — 800,000</td> <td style="text-align: center;">1,500</td> </tr> <tr> <td style="text-align: center;">800,001 — 900,000</td> <td style="text-align: center;">2,000</td> </tr> <tr> <td style="text-align: center;">900,001 and above</td> <td style="text-align: center;">2,500</td> </tr> </tbody> </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																		
<b>(2) Admission Tax</b>	(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. Race track admission tax is in lieu of sales tax.																

**TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 2003)**

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION
<p><b>Racing Taxes: (continued)</b></p> <p><b>(3) Pari-Mutuel Tax</b></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 <b>host</b> track, excluding money wagered at receiving tracks and all <b>telephone account</b> wagering.</p> <p>A portion of the pari-mutuel tax is allocated to the following:</p> <ul style="list-style-type: none"> <li>• Equine Drug Research</li> <li>• Equine Industry Program</li> <li>• Higher Education Equine Trust and Revolving Fund</li> <li>• Thoroughbred Development Fund</li> <li>• Standardbred, Quarterhorse, Appaloosa and Arabian Development Fund</li> </ul> <p>Reported and paid weekly.</p>
<p><b>Rural Cooperative Annual Tax</b></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><b>Sales and Use Taxes</b></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. (KRS 139.310)</p> <p>Use tax is imposed on machinery tools and other equipment brought into this state for construction, building or repair projects. (KRS 139.320)</p> <p>There are statutory exemptions.</p> <p>Effective for periods after July 1, 2003, the maximum amount of vendor's compensation per return is \$1,500.</p>
<p><b>Waste Tire Fee</b></p>	<p>KRS 224.50-868</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><b>Withholding (Individual Income Tax)</b></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



**Ashland, 41101-7670**

134 Sixteenth Street  
Telephone: (606) 920-2037  
Fax: (606) 920-2039

**Bowling Green, 42104-3278**

201 West Professional Park Court  
Telephone: (270) 746-7470  
Fax: (270) 746-7847

**Central Kentucky**

200 Fair Oaks Lane, First Floor  
Frankfort, 40620  
Fax: (502) 564-8946

**Corbin, 40701-6188**

15100 North US25E  
Suite 2  
Telephone: (606) 528-3322  
Fax: (606) 523-1972

**Frankfort, 40620**

200 Fair Oaks Lane, Second Floor  
Taxpayer Assistance Branch  
Telephone: (502) 564-4581  
Fax: (502) 564-3685

**Hopkinsville, 42240**

181 Hammond Drive  
Telephone: (270) 889-6521  
Fax: (270) 889-6563

**Louisville, 40202-2446**

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

**Northern Kentucky**

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

**Owensboro, 42302**

401 Frederica Street  
Building C, Suite 201  
Telephone: (270) 687-7301  
Fax: (270) 687-7244

**Paducah, 42001-4024**

2928 Park Avenue  
Clark Business Complex, Suite G  
Telephone: (270) 575-7148  
Fax: (270) 575-7027

**Pikeville, 41501-1275**

Uniplex Center, 126 Trivette Drive, Suite 203  
Telephone: (606) 433-7675  
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