

Kentucky Tax Alert

KENTUCKY BUSINESS ONE STOP

REMEMBER! You can apply for business tax accounts using Kentucky Business One Stop at: <http://onestop.ky.gov>. Businesses already registered with the Department of Revenue may use the features of Kentucky Business One Stop to update or maintain their business' information.

TAX INTEREST RATE SET FOR 2017

Pursuant to KRS 131.183, the 2017 tax interest rate has been set at three percent (3%). The rate charged by the Kentucky Department of Revenue on unpaid taxes will be five percent (5%) and the rate paid as interest on refunds, if applicable, will be one percent (1%).

KENTUCKY CORPORATION TAX FORM CHANGES

All corporate forms will have a fill-in version available for 2016 at:

<http://revenue.ky.gov/Get-Help/Pages/Forms.aspx>

Form 5695-K—Not applicable for tax year 2016 due to the expiration of the Energy Efficiency Products Tax Credit. Any unused credit from tax year 2015 may be carried forward and reflected on Schedule TCS, line 16, or Form 740, Section A, line 18.

Form 8908-K—Not applicable for tax year 2016 due to the expiration of the ENERGY STAR Home or ENERGY STAR Manufactured Home Tax Credit.

Note: Expiration of the energy credits changed line references on several forms including Form 720S, 765, 765-GP and related Schedules K and K-1.

Forms 720S, 765, 725 and 740NP-WH—Additional lines were added to page 1 to accommodate money paid or overpaid on the original return. These lines are applicable when filing an amended return.

Schedule TCS—Line 16 changed to allow reporting of any unused Energy Efficiency Products Tax Credit carried forward from tax year 2015.

Kentucky Small Business Tax Credit—The credit formerly referred to as the "Kentucky Small Business Investment Credit" is now referred to as the "Kentucky Small Business Tax Credit" in order to conform with statute. There has been no change in the credit.

Schedule FD—Qualification questions were added in Part I to clarify who is entitled to claim the credit. A carryforward worksheet was added in the instructions in order to track any unused credit to be carried forward.

Schedule O-720—Lines 12 and 18 were updated to report additions to and subtractions from federal taxable income resulting from amendments to the Internal Revenue Code ("IRC") (excluding amendments affecting depreciation and the IRC § 179 deduction) subsequent to the applicable IRC reference date.

Schedule O-PTE—Lines 5 and 9 were updated to report additions to and subtractions from federal taxable income resulting from amendments to the IRC (excluding amendments affecting depreciation and the IRC § 179 deduction) subsequent to the applicable IRC reference date.

Note: Kentucky's IRC reference date is December 31, 2013 for the 2016 calendar year and fiscal years beginning on or before April 26, 2016. For fiscal years beginning on or after April 27, 2016, the applicable IRC reference date is December 31, 2015.



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FILING AND PROCESSING TIPS

The following list of filing tips is provided for your convenience to help ensure that returns are processed accurately and promptly. To avoid processing problems, please note the following:

Schedule COGS—If the company is computing its LLET based on gross profits, Schedule COGS, Limited Liability Entity Tax Cost of Goods Sold, must be attached to the return. Failure to include this schedule may result in a tax adjustment and assessment.

Nexus—A return is required to be filed for Kentucky corporations and foreign corporations that have Kentucky nexus and which are doing business in Kentucky.

Account Closure—When ceasing operations and closing an account, there are different requirements for the Secretary of State and the Department of Revenue.

Account Number—Always ensure the correct Kentucky Corporation/LLET account number is used on the return being filed.

Payments—Place payments on the front of the return so they are clearly visible when the return is processed.

Payments—Do not leave check stubs attached to checks when sending in a payment. Check stubs delay the machines that sort incoming mail, resulting in longer processing times.

Schedule LLET—Note that Schedule LLET does not constitute a valid extension of time in which to file the required tax return. This schedule is always used as an attachment to a tax return and should never be submitted in lieu of a return.

Form 851-K/Schedule A-N—When completing these forms, only include subsidiaries in which the parent company owns 80% or more of the voting stock, and which are doing business in Kentucky.

Estimated Payments—Make estimated payments on a timely basis to avoid penalties and interest. When making EFT payments online, input the Taxable Year Ending NOT the due date of the payment.

Form 720-V—Form 720-V is a payment voucher for e-filed returns, NOT an extension form. To extend a filing date, use Form 41A720SL, Extension of Time to File Kentucky Corporation/LLET Return.

Extensions—Extensions are for filing purposes only; late payment penalties and interest apply to payments made after the original due date.

Schedule A—Do not check the box on Schedule A, Apportionment and Allocation, indicating the use of an alternative allocation and apportionment formula, if the corporation has not received written approval from the Department of Revenue. If written approval has been received, a copy of the letter from the Department of Revenue must be attached to the return when filed.

Additional errors that delay processing returns or create adjustments include:

- Incorrect tax exemption code
- Incomplete information
- Missing forms or schedules
- Incorrect taxable year end
- More than one box checked for receipts method
- Tax Payment Summary Section of return blank or incorrect
- Failure to include payment of tax due with the return
- Omitting Form 41A720-SL when paying with an extension

KENTUCKY'S 2016 PENSION EXCLUSION

Kentucky's individual income tax pension exclusion for the 2016 tax year is \$41,110. This exclusion applies to tax returns due April 18, 2017.

STANDARD DEDUCTION INCREASE FOR 2017 TAX YEAR

Kentucky's standard deduction for individual income tax increases from \$2,460 for the 2016 tax year to \$2,480 for the 2017 tax year as authorized by KRS 141.081 (2). Taxpayers who do not itemize deductions on their individual income tax return are entitled to claim the standard deduction.

ESTIMATED TAX PAYMENT DEADLINES

Individual income taxpayers are reminded that final 2016 quarterly estimated tax payments are due on January 17, 2017. For calendar year taxpayers, final 2016 estimated corporation income tax payments of 25% are due on December 15, 2016.

Taxpayers who have not yet made their April 18, June 15, or September 15, 2016, estimated payments should submit those payments on or before January 17, 2017, to minimize underestimation penalties.

UPDATED RETURN MAILING ADDRESSES

Many of the mailing addresses have updated Post Office Boxes with separate boxes for returns with payments and returns without payments. These addresses are clearly reflected on the bottoms of the applicable returns. To prevent processing delays, please ensure the correct address is used.

- Individual Income Tax with payment
 - 42A740, 42A740-EZ, 42A740-NP, 42A740-X
 - **PO Box 856980, Louisville, KY 40285-6980**
- Individual Income Tax without payment
 - 42A740, 42A740-EZ, 42A740-NP, 42A740-NP-R, 42A740-X
 - **PO Box 856970, Louisville, KY 40285-6970**
- Corporate Income Tax with payment
 - 41A720, 41A720S, 41A725, 41A765
 - **PO Box 856910, Louisville, KY 40285-6910**
- Corporate Income Tax without payment
 - 41A720, 41A720S, 41A725, 41A765
 - **PO Box 856905, Louisville, KY 40285-6905**
- W-2s paper
 - **PO Box 856950, Louisville, KY 40285-6950**

Physical address for returns sent through means other than the United States Post Office:

Kentucky Department of Revenue
6716 Grade Lane, Suite 910
Louisville, KY 40213-3439

The following return mailing addresses have remained **unchanged** for this year:

- General Partnership Income Return
 - 765-GP
 - **Kentucky Department of Revenue, Frankfort, KY 40620**
- Nonresident Income Tax Withholding on Distributive Share Income Report and Composite Income Tax Return
 - 740NP-WH
 - **Kentucky Department of Revenue, Frankfort, KY 40619-0006**

CMRS 911 PREPAID SERVICE CHARGE

Beginning January 1, 2017, a commercial mobile radio service (CMRS) 911 prepaid service charge is imposed on all retail transactions involving the purchase or sale of:

- a) prepaid cellular phones;
- b) prepaid calling cards for cellular phones;
- c) additional minutes or airtime for a prepaid cellular phone; or
- d) additional minutes or airtime for a prepaid calling card for cellular phones.

The service charge is \$0.93 per item on each retail transaction. The service charge is to be paid by the purchaser and collected by the retailer at the time of purchase. The retailer must either separately state the \$0.93 service charge on the invoice or otherwise disclose it to the customer. If the service charge is separately itemized on the customer's bill, then the charge is not subject to the 6% sales tax (KRS 139.470 (23)). The retailer will report and remit the collected service charges to the department on a monthly basis with the first return due by February 20, 2017. The monthly due date mirrors the sales tax return with monthly filings due on the twentieth of the following month. Retailers may retain 3% of the monthly service charge collected and timely remitted as compensation for the cost of collections. CMRS prepaid service charges will be reported to the department via an electronic return in the E-File system. See below for instructions on how to enroll an account in the E-File system. The Division of Sales and Use Tax will distribute the collected funds to the Kentucky 911 Services Board on a monthly basis and administer all matters relating to the CMRS prepaid service charge.

See KRS 65.7634 for more detail (<http://www.lrc.ky.gov/Statutes/statute.aspx?id=45426>).

Each retailer that is currently providing, or is seeking to sell or provide, prepaid wireless telecommunications service in Kentucky is REQUIRED to file an application for certificate of registration with the department and is also REQUIRED to E-File returns.

ELECTRONIC FILING OF CMRS 911 PREPAID SERVICE CHARGE RETURNS

The department's new E-File system provides updated and enhanced functionality and can be accessed through the Kentucky Business One Stop portal ("KyBOS"). The E-File system accommodates the following: CMRS Prepaid Service Charge returns; Coal Severance tax returns; Sales and Consumer's Use tax returns; Withholding Tax (W2, K-1 and K-3); Transient Room Tax; and the Motor Vehicle Waste Tire Fee. Retailers that collect the CMRS prepaid service charge can use the E-file system to file the return, amend prior periods, and submit payments on any electronic device with a connection to the internet.

Each retailer has been assigned a unique 10-digit Commonwealth Business Identifier (CBI), which is an enhanced security feature of the portal. Details on how to obtain this number are provided below. There is also a

helpful E-File quick start guide available at the following link: <http://revenue.ky.gov/Collections/Pages/E-file-Payment-Options.aspx>

To start the process, follow the steps below:

<http://onestop.ky.gov>

- Click "Begin your registration".
- Create a User account.
- Click "Link your business" at the top of the OneStop home page.
- If you do not know the CBI, click on the hyperlink located below the CBI Number field to request it. You must have your CBI number to link your business.
- Return to the OneStop dashboard and click on that business from "My Businesses".
- Click the "Manage/View Taxes" icon.
- Click "Apply for additional accounts" on the right hand side of the page.
- Complete the additional registration for the CMRS (911) charge.

Retailers that are expected to be liable for the new CMRS prepaid service charge will soon receive a mailing with additional information regarding the return and filing requirements. However, even if retailers do not receive a direct mailing from the department, they must still register and comply with the CMRS prepaid service charge requirements if making retail sales of prepaid wireless telecommunications service in Kentucky.

For more information about registering and using the portal, visit onestop.ky.gov. For KyBOS assistance, please call 502 564-5053. For general CMRS prepaid service charge questions, please contact the Division of Sales and Use Tax at 502 564-5170, or email at KRC.WebResponseSalesTax@ky.gov.

DE MINIMIS SAFE HARBOR LIMIT FOR TANGIBLE PROPERTY

Property Tax

For taxable years beginning on or after January 1, 2016, the Internal Revenue Service in Notice 2015-82 (<https://www.irs.gov/pub/irs-drop/n-15-82.pdf>) increased the de minimis safe harbor threshold related to amounts paid to acquire or produce tangible personal property from \$500 to \$2,500 per invoice or item for taxpayers without applicable financial statements. This de minimis safe harbor rule details capitalization and expensing requirements related to income tax reporting. This rule is **not** applicable for Kentucky property tax purposes. For property tax, all Kentucky property is taxable unless exempted (Section 170 of the Kentucky Constitution),

and all Kentucky property not exempted is to be assessed at its fair cash value (Section 172). All taxable tangible personal property should be listed annually on the Tangible Personal Property Tax Return (Form 62A500) utilizing the appropriate schedule and class or economic life.

Income Tax

Kentucky complies with federal laws and regulations in recognizing the safe harbor limit for the computation of gross and net income for taxable years beginning on or after January 1, 2014. Kentucky recognizes the federal increase to the safe harbor limit provided in federal Regulation 1.263(a)-1(f)(1)(ii)(D) for a taxpayer **without** an applicable financial statement.

DOR OFFICES CLOSED FOR HOLIDAYS

2016 Closure Dates	Holiday
Friday, December 23 & Monday, December 26, 2016	Christmas
Friday, December 30, 2016 & Monday, January 2, 2017	New Year's

Kentucky Tax Alert comments and suggestions should be addressed to the Office of Tax Policy and Regulations, Finance and Administration Cabinet, Department of Revenue, Frankfort, Kentucky 40601, (502) 564-7268.

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