

Kentucky Tax Alert

A REVENUE PUBLICATION FOR THE TAX PROFESSIONAL

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2010 KENTUCKY INDIVIDUAL INCOME TAX UPDATES

Family Size Tax Credit—This credit provides benefits to individuals and families at incomes up to 133 percent of the threshold amount based on the federal poverty level. The 2010 threshold amount is \$10,830 for a family size of one, \$14,570 for a family of two, \$18,310 for a family of three and \$22,050 for a family of four or more.

Standard Deduction—For 2010, the standard deduction is \$2,210.

Military Pay Exclusion—Effective for taxable years beginning on or after Jan. 1, 2010, all military pay received by active duty members of the Armed Forces of the United States, members of reserve components of the Armed Forces of the United States, and members of the National Guard will be exempt from Kentucky income tax. (KRS 141.010(10)(u))

Soldiers will claim the exemption by excluding military pay when filing a Kentucky individual income tax return starting with the 2010 return, due on April 18, 2011. Provided the military member has no income other than military pay, he or she would not be required to file a Kentucky income tax return. The military pay exemption applies to all Kentucky military members regardless of where the member is stationed. Kentucky income tax should no longer be withheld from checks received for military pay, beginning Jan. 1, 2010. If Kentucky income tax is incorrectly withheld from a soldier's military pay in 2010 and after, the Department of Revenue (DOR) will refund the tax withheld.

Military Spouse—The Military Spouses Residency Relief Act (MSRRA) (Public Law 111-97) was signed into law on Nov. 11, 2009. This new federal law is effective for taxable year 2009. The MSRRA allows the same residency benefits permitted to military personnel under the Servicemembers Civil Relief Act (SCRA) to also apply to a military spouse's nonmilitary service income, under certain circumstances. Please see withholding exemption certificate K-4-M for additional information.

The MSRRA prohibits a spouse's income from being considered income earned in a tax jurisdiction if the spouse is not a resident or domiciliary of such jurisdiction when the

spouse is in that jurisdiction solely to be with a servicemember serving under military orders.

Those military spouses who fall under this law should file Form 740-NP Kentucky Individual Income Tax Nonresident or Part-Year Resident Return to request a refund of the Kentucky income tax withheld from his or her pay. The income would not be reported as taxable on the Kentucky income tax return. To assist the department in identifying those returns, please write across the top of the return MILITARY SPOUSE. Please address any further questions to the Taxpayer Assistance Section at (502) 564-4581.

Certified Rehabilitation Tax Credit—The certified rehabilitation credit cap has been increased from \$3 million to \$5 million effective for applications received on or after April 30, 2010. Effective for applications for preliminary approval received on or after April 30, 2010, the credit will be refundable if a proper election form is filed. The refundable credit is reported on Form 740, Page 2, Line 32(c). (KRS 171.396, 171.397 and 141.382)

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Kentucky Energy Efficiency Products Tax Credit—The energy efficient products credit remains effective for taxable years beginning after Dec. 31, 2008 and before Jan. 1, 2016.

Credit Carry Forward: If you qualified for the Energy Efficiency Products Tax Credit in 2009 and could not utilize your entire approved credit, the balance may be carried forward to apply against your 2010 Kentucky tax liability. Unused amounts are limited to a one-year carry forward period. (KRS 141.436)

Domestic Production Activities Deduction—For taxable years beginning on or after Jan. 1, 2010, the amount of the domestic production activities deduction (DPAD) will remain 6 percent as allowed in Section 199(a) (2) of the Internal Revenue Code (IRC) for taxable years beginning before Jan. 1, 2010. Kentucky does not recognize the 9 percent DPAD calculation rate allowed for federal income tax returns filed for taxable years beginning on or after Jan. 1, 2010. See Schedule M. (KRS 141.010)(11)(c) and KRS 141.010(13)(c)

Film Industry Tax Credit—The film industry tax incentives provided in KRS 141.383 and 148.542 to 148.546 were amended to establish a cap of \$5 million for the fiscal year 2010-2011, and \$7.5 million for the fiscal year 2011-2012. The cap was codified in KRS 148.546(3)(b). The refundable credit is reported on Form 740, Page 2, Line 32(d).

Railroad Maintenance And Improvement Tax Credit—A nonrefundable credit against the individual income, corporation income and limited liability entity taxes was enacted in an amount equal to 50 percent of the qualified expenditures paid or incurred by an *eligible taxpayer* during the taxable year to maintain or improve railroads located in Kentucky. The credit applies to taxable years beginning after Dec. 31, 2009.

An *eligible taxpayer* means the owner of a Class II or Class III railroad located in Kentucky, the transporter of property using the rail facilities of a Class II or III railroad in Kentucky, or any person that furnishes railroad-related property or services to a Class II or Class III railroad located

in Kentucky. The credit is reported on Form 740, Page 2, Section A, Line 18. The credit cannot be carried forward. (KRS 141.385 and 141.387)

Environmental Stewardship Tax Credit—Effective for taxable years ending on or after June 4, 2010, the baseline year portion of the Kentucky Environmental Stewardship Credit calculation shall be multiplied by 50 percent. (KRS 141.430)

New Markets Development Program Tax Credit—The New Markets Development Program Tax Credit was created

in KRS 141.432 to 141.434 to encourage taxpayer investment in low-income communities. A taxpayer that makes a qualified equity investment in a qualified community development entity may be eligible for a credit that may be taken against the corporation income tax, individual income tax, insurance premiums taxes and limited liability entity tax. The qualified community development entity must first submit an application to the DOR for approval. The person or entity actually making the loan or making the equity investment will be able to claim a credit, subject to a \$5 million credit cap each fiscal year, by completing Form 8874(K)-A. The total credit is broken down as follows:

- 0 percent of the purchase price or loan amount may be taken in the first two years including the year in which the investment is initially made;
- 7 percent of the purchase price or loan amount may be taken in the third year including the year in which the investment is initially made; and
- 8 percent of the purchase price or loan amount may be taken for fourth through seventh years including the year in which the investment is initially made.

Any unused approved credit may be carried forward for use in any subsequent tax year. Additional information regarding this new credit program will be provided via our Web site at revenue.ky.gov.

New Home Tax Credit—The new home tax credit provided by KRS 141.388 was extended to Dec. 31, 2010. The credit cap was lowered from \$25 million to \$15 million. *Qualified buyer* is now defined as “a resident who purchases a qualified principal residence.”



Requirements and features of this credit include the following:

- Qualified buyer(s) approved for the credit will receive a credit allocation letter with a four-digit approval code from the DOR. This letter must be attached to the income tax return filed for the taxable year during which the qualified principal residence was purchased.
- Electronic filers: Information from the credit allocation letter and the New Home Tax Credit Worksheet (for electronic filers only) must be included with any electronic return submitted. Make sure the software used to submit the return can meet these requirements.

The New Home Tax Credit application and additional information is available on the DOR Web site: www.revenue.ky.gov



Mortgage Debt Forgiveness—The Mortgage Forgiveness Debt Relief Act of 2007 has been enacted to provide relief to those families who have been adversely affected by problems in the subprime mortgage market. This act will provide relief to those families by permanently excluding debt forgiven under these circumstances for tax liability for federal purposes. However, because Kentucky has not adopted this legislation, any mortgage debt forgiveness will still be considered income for Kentucky purposes and subject to Kentucky tax. Therefore a Schedule M adjustment must be made on Part 1, Additions to Federal Adjusted Gross Income, Line 7 to report this income.

Composite Returns—Beginning in tax year 2009 composite returns are no longer filed via Kentucky Form 740-NP. If filing a composite return, use Form 740NP-WH for those electing nonresident individual partners, member or shareholders exempt from withholding as per KRS 141.206(4)(b). A pass-through entity eligible to file a composite return shall make estimated tax payments required by the provisions of KRS 141.300 on Form 740NP-WH.

2011 PERSONAL PROPERTY TAX RETURN IS DUE BY MAY 16, 2011

The 2011 Personal Property Tax Return (Rev Form 62A500) must be submitted to the county Property Valuation Administrator's (PVA) office or the Office of Property Valuation by May 16, 2011.

The tax forms and instructions (including forms available in a spreadsheet format) may be obtained at <http://www.revenue.ky.gov/forms/11ptf.htm> or <http://www.revenue.ky.gov/forms/11ptf.htm>. You may also call the Department of Revenue ((502) 564-2557) or the local PVA office and request a form to be mailed or faxed to you. Your accountant may also have forms available.

EMPLOYER NOTIFICATION ON ADULT CHILDREN HEALTH INSURANCE PREMIUMS

Kentucky did not automatically adopt the changes to gross income and deductions enacted by the Patient Protection and Affordable Care Act of 2010 (Patient Protection Act) or the amending Health Care and Education Reconciliation Act of 2010 (Reconciliation Act). Kentucky remains under the Internal Revenue Code (IRC) in effect as of Dec. 31, 2006. Legislative action by the Kentucky General Assembly would be required for a code update.

Several questions were received recently concerning whether Kentucky adopted the federal income tax treatment of the extended health care insurance coverage for adult children under age 27. Kentucky is required by KRS 141.010(3) to

follow the IRC in effect on Dec. 31, 2006. Those employees who have adult children that would now qualify for health insurance under the new federal law would not be able to receive the same treatment for Kentucky income tax purposes. For Jan. 1, 2011 and after, employers should treat the amounts paid for adult children as being paid with post-tax dollars for Kentucky income tax purposes if those adult children are not eligible for the gross income exclusion under the Dec. 31, 2006 IRC.

An adjustment would need to be made for this difference between federal and Kentucky wages on the W-2 as Kentucky would not allow the pre-tax treatment of health insurance for adult children under age 27 that now qualify under the new federal law. Box 14-Other on the W-2 may be used to show the employee the amount that was adjusted due to this legislative change.

Should you have any questions regarding the Kentucky tax treatment, please feel free to contact our Withholding Tax Branch at (502) 564-7287.

DOR SETS 2011-2012 HOMESTEAD EXEMPTION

The maximum homestead exemption on real estate owned by qualified persons has been set at \$34,000 for the 2011 and 2012 tax periods. The 2011-2012 exemption reflects a \$300 increase over the 2009-2010 exemption of \$33,700.

The amount of the homestead exemption is adjusted every two years in accordance with KRS 132.810 to compensate for changes in the purchasing power of the dollar. The exemption provided state and local property tax savings of approximately \$155 million for more than 399,000 elderly or disabled Kentuckians during the 2010 tax year.

To qualify for the homestead exemption, a person must be at least 65 years old during the tax period or must be classified as totally disabled by any public or private retirement system. The property must also be owned, occupied and maintained by the taxpayer as a personal residence on the Jan. 1 assessment date. Disabled persons less than 65 years of age must make an application on an annual basis with the exception of service-connected totally disabled veterans of the United States Armed Forces.



For more information about Kentucky's Homestead Exemption program and how to qualify for the Homestead Exemption, contact your local Property Valuation Administrator's office.

DOCUMENTING A SALE EXEMPT FROM SALES AND USE TAX

For a seller to claim a deduction for resale or other available exemptions from gross receipts, the appropriate certificate of exemption in paper form or its relevant data elements in electronic format must be obtained from the purchaser and kept on file for at least 4 years. According to Kentucky sales and use tax law, there is a presumption that all gross receipts are subject to tax until the contrary is established (KRS 139.260). The burden of proof to establish an exemption is upon the seller. If a seller accepts an exemption claim from customers, it is imperative that the seller maintain the properly completed documentation to substantiate the deductions from taxable receipts. Through audits and other compliance inquiries, the Department routinely requests this documentation from sellers.

In order for the tax liability for a sale originally treated as exempt but ultimately determined to be taxable to transfer from the seller to the buyer, the exemption claim must be accepted by the seller in "good faith." Absent fraud or other unlawful solicitation of certificates, the "good faith" standard for the seller is defined below in an excerpt from KRS 139.270

(3)(a) "Good faith" shall be demonstrated by the retailer or seller if the retailer or seller:

- 1. Accepts, within ninety (90) days subsequent to the date of sale, a properly completed resale certificate or certificate of exemption; and*
- 2. Maintains a file of the certificate or data elements in accordance with KRS 139.720.*

The most commonly used exemption certificates are listed below:

- Streamlined Sales Tax Agreement Certificate of Exemption –51A260
- Resale Certificate–Form 51A105
- Purchase Exemption Certificate–Form 51A126
(Exemption for Educational, Charitable and Religious Organizations)
- Farm Exemption Certificates–
Form 51A158 (Farm Exemption)
Form 51A159 (On-Farm Facilities Exemptions)
- Machinery for New and Expanded Industry
–Form 51A111

Anyone may access these and other forms at the Department Web site at <http://revenue.ky.gov/forms/cursalefrm.htm>

2010 ROTH IRA CONVERSIONS

For the 2010 tax year, there are two federal Acts that have a significant impact on the tax consequences of implementing a Roth IRA conversion.

The Tax Increase Prevention and Reconciliation Act of 2005, enacted May 17, 2006, allows a taxpayer to convert from a Traditional IRA to a Roth IRA by removing the modified adjusted gross income (MAGI) limitation on such rollovers starting in tax year 2010. Taxpayers who convert in 2010 may, as a special case, elect to pay tax on amounts converted in equal installments in 2011 and 2012.

The Small Business Jobs Act of 2010, signed into law on Sept. 27, 2010, provides that distributions from 401(k), 403(b) and 457(b) government plans distributed after Sept. 27, 2010 and before Jan. 1, 2011, may be rolled over into a designated Roth IRA account within their plans, and the taxpayer may elect to include amounts converted in equal installments in 2011 and 2012, unless the taxpayer elects otherwise.

Kentucky is under the IRC code reference date of Dec. 31, 2006; therefore, the tax treatment of Roth IRA conversions is different for these two federal Acts.

Traditional IRAs rolled into Roth IRAs would be treated the same for Kentucky as federal, since the adoption of the **Tax Increase Prevention and Reconciliation Act of 2005** falls within our IRC code date. Thus, taxpayers will be allowed to take advantage of Kentucky's pension exclusion each year, should they elect to pay tax in equal installments in 2011 and 2012.

However, since the **Small Business Jobs Act of 2010** is effective after Kentucky's code reference date of Dec. 31, 2006, this provision would not apply for Kentucky purposes; therefore, a rollover of a 401(k), 403(b) or 457(b) government plan distributed after Sept. 27, 2010 and before Jan. 1, 2011, would be fully taxed in 2010 for Kentucky purposes, and eligible for Kentucky's pension exclusion.

USE TAX REMINDER

The U.S. Commerce Department recently reported that e-commerce has registered four consecutive quarters of double-digit growth. In the third quarter of 2010 e-commerce sales increased nearly 13.7 percent compared to the same period a year ago and captured 4.2 percent of total retail sales, a new record for online retail. In November, Cyber Monday sales reached the \$1 billion mark for the first time. These numbers illustrate

the growing popularity of online retail activity for consumers in Kentucky and around the country. More and more Kentucky taxpayers are incurring a use tax liability for many of their online purchases. Just because the seller does not charge the 6 percent sales and use tax at the time of sale, it does not mean that the transaction is tax free. If the online seller is located out of state (remote) and is not required to collect the Kentucky tax, the purchaser is responsible to pay the corresponding 6 percent use tax on taxable items that are delivered into the Commonwealth per KRS 139.310 and 139.330.

Every state with a sales tax has this corresponding use tax to ensure that the tax base is applied equally on retail sales regardless of whether the seller is instate or out of state. Although the use tax has been in the tax code since 1960, it is now more relevant than ever because of the ever increasing percentage of online transactions represented in the retail category.

During the 2011 income season, tax professionals should remember this potential liability for themselves and should also remind their clients of this filing responsibility. Individuals and other entities have several options available to report the use tax. They may report use tax on Form 51A113(O), available at <http://revenue.ky.gov>. Individuals may also report use tax on the designated line of their Kentucky individual income tax return. Retail businesses registered for sales and use tax should report their purchases subject to Kentucky use tax on line 23(a) of Forms 51A102 or 51A103. Other nonretail business entities with recurring use tax liability should register for a consumer's use tax account number and report their purchases and remit the tax on Form 51A113.

Kentucky Tax Alert comments and suggestions should be addressed to the Office of Public Information, Finance Secretary's Office, Frankfort, Kentucky, (502) 564-0937.

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NOTE: If a return due date falls on a scheduled holiday or weekend, returns will be due the next working day.

January	18	Estimated Corporation Income Tax/Limited Liability Entity Tax/One Half Est. (FY ending 7/31)	
	18	Estimated Corporation Income Tax/Limited Liability Entity Tax/One Fourth Est. (FY ending 1/31)	
	18	Estimated Corporation Income Tax/Limited Liability Entity Tax/One Fourth Est. (FY ending 4/30)	
	18	Estimated Tax/Individuals/One Fourth Est.	
	20	Coal Severance Tax Returns (December Payment)	
	20	Oil Production Tax Returns (December Payment)	
	20	Monthly Sales Tax Returns (December Payment)	
	20	Quarterly Sales Tax Returns	
	20	Annual Sales Tax Returns	
	20	Health Care Provider Tax Returns (December Payment)	
	25	Monthly Motor Fuels Tax Returns (December Payment)	
	25	Monthly Sales Tax Returns (Accelerated Payment)	
	31	Income Tax Withholding Returns/Electronic Funds Transfer (EFT) Filers/Annual Reconciliation	
	31	Monthly Income Tax Withholding Returns (December Payment and K-2s)	
	31	Quarterly Income Tax Withholding Returns (Quarterly Payment and K-2s)	
	31	Annual Income Tax Withholding Returns (Annual Payment and K-2s)	
	February	1	Minerals and Gas Severance Tax Returns (December Payment)
		1	Annual Report of Distilled Spirits in Bonded Warehouses (as of 1/1/07)
		10	Twice-Monthly Income Tax Withholding Returns (January 1 - January 31 Payment/EFT Payment)
		15	Estimated Corporation Income Tax/Limited Liability Entity Tax/One Half Est. (FY ending 8/31)
		15	Estimated Corporation Income Tax/Limited Liability Entity Tax/One Fourth Est. (FY ending 2/29)
		15	Estimated Corporation Income Tax/Limited Liability Entity Tax/One Fourth Est. (FY ending 5/31)
		15	Monthly Income Tax Withholding Returns (January Payment)
		21	Coal Severance Tax Returns (January Payment)
		21	Oil Production Tax Returns (January Payment)
		21	Monthly Sales Tax Returns (January Payment)
		21	Health Care Provider Tax Returns (January Payment)
		25	Twice-Monthly Income Tax Withholding Returns (February 1 - February 15 Payment/EFT Payment)
		25	Monthly Motor Fuels Tax Returns (January Payment)
	25	Monthly Sales Tax Returns (Accelerated Payment)	
	March	1	Minerals and Gas Severance Tax Returns (January Payment)
1		Watercraft Property Tax Return (as of 1/1/07)	
10		Twice-Monthly Income Tax Withholding Returns (February 16 - February 28 Payment/EFT Payment)	
15		Estimated Corporation Income Tax/Limited Liability Entity Tax/One Half Est. (FY ending 9/30)	
15		Estimated Corporation Income Tax/Limited Liability Entity Tax/One Fourth Est. (FY ending 3/31)	
15		Estimated Corporation Income Tax/Limited Liability Entity Tax/One Fourth Est. (FY ending 6/30)	
15		Monthly Income Tax Withholding Returns (February Payment)	
15		Bank Franchise Tax Returns	
21		Coal Severance Tax Returns (February Payment)	
21		Oil Production Tax Returns (February Payment)	
21		Monthly Sales Tax Returns (February Payment)	
21		Health Care Provider Tax Returns (February Payment)	
25		Twice-Monthly Income Tax Withholding Returns (March 1 - March 15 Payment/EFT Payment)	
25		Monthly Motor Fuels Tax Returns (February Payment)	
25	Monthly Sales Tax Returns (Accelerated Payment)		
April	1	Minerals and Gas Severance Tax Returns (February Payment)	
	1	Electric Plant Board Property Tax Returns (as of 1/1/07)	
	11	Twice-Monthly Income Tax Withholding Returns (March 16 - March 31 Payment/EFT Payment)	
	18	Estimated Corporation Income Tax/Limited Liability Entity Tax/One Half Est. (FY ending 10/31)	
	18	Estimated Corporation Income Tax/Limited Liability Entity Tax/One Fourth Est. (FY ending 4/30)	
	18	Estimated Corporation Income Tax/Limited Liability Entity Tax/One Fourth Est. (FY ending 7/31)	
	18	Monthly Income Tax Withholding Returns (March Payment)	
	18	Quarterly Estimated Tax Returns/Individuals (One Fourth Payment)	
	18	Annual Individual Income Tax Returns	
	20	Monthly Sales Tax Returns (March Payment)	
	20	Quarterly Sales Tax Returns	
	20	Coal Severance Tax Returns (March Payment)	
	20	Oil Production Tax Returns (March Payment)	
	20	Health Care Provider Tax Returns (March Payment)	
	25	Twice-Monthly Income Tax Withholding Returns (April 1 - April 15 Payment/EFT Payment)	
25	Monthly Motor Fuels Tax Returns (March Payment)		
25	Monthly Sales Tax Returns (Accelerated Payment)		

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May	2	Income Tax Withholding Returns/Electronic Funds Transfer (EFT) Filers/First Quarter Reconciliation	
	2	Quarterly Income Tax Withholding Returns	
	2	Income Tax Withholding Returns/Electronic Funds Transfer (EFT) Filers/First Quarter Reconciliation	
	2	Quarterly Income Tax Withholding Returns	
	2	Minerals and Gas Severance Tax Returns (March Payment)	
	2	Public Service Company Property Tax Returns (as of 12/31/06)	
	2	Railroad Car Line Property Tax Returns (as of 12/31/06)	
	10	Twice-Monthly Income Tax Withholding Returns (April 16 - April 30 Payment/EFT Payment)	
	16	Intangible Personal Property Tax Return (Taxpayer will be billed later)	
	16	Tangible Personal Property Tax Return (Taxpayer will be billed later)	
	16	Estimated Corporation Income Tax/Limited Liability Entity Tax/One Half Est. (FY ending 11/30)	
	16	Estimated Corporation Income Tax/Limited Liability Entity Tax/One Fourth Est. (FY ending 5/31)	
	16	Estimated Corporation Income Tax/Limited Liability Entity Tax/One Fourth Est. (FY ending 8/31)	
	16	Monthly Income Tax Withholding Returns (April Payment)	
	20	Monthly Sales Tax Returns (April Payment)	
	20	Coal Severance Tax Returns (April Payment)	
	20	Oil Production Tax Returns (April Payment)	
	20	Health Care Provider Tax Returns (April Payment)	
	25	Twice-Monthly Income Tax Withholding Returns (May 1 - May 15 Payment/EFT Payment)	
	25	Monthly Motor Fuels Tax Returns (April Payment)	
	25	Monthly Sales Tax Returns (Accelerated Payment)	
	June	1	Minerals and Gas Severance Tax Returns (April Payment)
		10	Twice-Monthly Income Tax Withholding Returns (May 16 - May 31 Payment/EFT Payment)
		15	Estimated Corporation Income Tax/Limited Liability Entity Tax/One Half Est. (FY ending 12/31)
		15	Estimated Corporation Income Tax/Limited Liability Entity Tax/One Fourth Est. (FY ending 6/30)
		15	Estimated Corporation Income Tax/Limited Liability Entity Tax/One Fourth Est. (FY ending 9/30)
		15	Estimated Tax/Individuals/One Fourth Est.
		15	Monthly Income Tax Withholding Returns (May Payment)
		20	Monthly Sales Tax Returns (May Payment)
		20	Coal Severance Tax Returns (May Payment)
		20	Oil Production Tax Returns (May Payment)
		20	Health Care Provider Tax Returns (May Payment)
		27	Twice-Monthly Income Tax Withholding Returns (June 1 - June 15 Payment/EFT Payment)
		27	Monthly Motor Fuels Tax Returns (May Payment)
		27	Monthly Sales Tax Returns (Accelerated Payment)
	July	1	Minerals and Gas Severance Tax Returns (May Payment)
		1	Cigarette License Annual Renewal Applications and License Fee
11		Twice-Monthly Income Tax Withholding Returns (June 16 - June 30 Payment/EFT Payment)	
15		Estimated Corporation Income Tax/Limited Liability Entity Tax/One Half Est. (FY ending 1/31)	
15		Estimated Corporation Income Tax/Limited Liability Entity Tax/One Fourth Est. (FY ending 7/31)	
15		Estimated Corporation Income Tax/Limited Liability Entity Tax/One Fourth Est. (FY ending 10/31)	
15		Monthly Income Tax Withholding Returns (June Payment)	
20		Coal Severance Tax Returns (June Payment)	
20		Oil Production Tax Returns (June Payment)	
20		Monthly Sales Tax Returns (June Payment)	
20		Quarterly Sales Tax Returns	
20		Health Care Provider Tax Returns (June Payment)	
25		Twice-Monthly Income Tax Withholding Returns (July 1 - July 15 Payment/EFT Payment)	
25		Monthly Motor Fuels Tax Returns (June Payment)	
25		Monthly Sales Tax Returns (Accelerated Payment)	
August	1	Income Tax Withholding Returns/Electronic Funds Transfer (EFT) Filers/Second Quarter Reconciliation	
	1	Quarterly Income Tax Withholding Returns	
	1	Minerals and Gas Severance Tax Returns (June Payment)	
	10	Twice-Monthly Income Tax Withholding Returns (July 16 - July 31 Payment/EFT Payment)	
	15	Estimated Corporation Income Tax/Limited Liability Entity Tax/One Half Est. (FY ending 2/29)	
	15	Estimated Corporation Income Tax/Limited Liability Entity Tax/One Fourth Est. (FY ending 8/31)	
	15	Estimated Corporation Income Tax/Limited Liability Entity Tax/One Fourth Est. (FY ending 11/30)	
	15	Monthly Income Tax Withholding Returns (July Payment)	
	22	Coal Severance Tax Returns (July Payment)	
	22	Oil Production Tax Returns (July Payment)	
	22	Monthly Sales Tax Returns (July Payment)	
	22	Health Care Provider Tax Returns (July Payment)	
	25	Twice-Monthly Income Tax Withholding Returns (August 1 - August 15 Payment/EFT Payment)	
	25	Monthly Motor Fuels Tax Returns (July Payment)	
	25	Monthly Sales Tax Returns (Accelerated Payment)	

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September	1	Minerals and Gas Severance Tax Returns (July Payment)	
	12	Twice-Monthly Income Tax Withholding Returns (August 16 - August 31 Payment/EFT Payment)	
	15	Estimated Corporation Income Tax/Limited Liability Entity Tax/One Half Est. (FY ending 3/31)	
	15	Estimated Corporation Income Tax/Limited Liability Entity Tax/One Fourth Est. (FY ending 9/30)	
	15	Estimated Corporation Income Tax/Limited Liability Entity Tax/One Fourth Est. (FY ending 12/31)	
	15	Estimated Tax/Individuals/One Fourth Est.	
	15	Monthly Income Tax Withholding Returns (August Payment)	
	20	Coal Severance Tax Returns (August Payment)	
	20	Oil Production Tax Returns (August Payment)	
	20	Monthly Sales Tax Returns (August Payment)	
	20	Health Care Provider Tax Returns (August Payment)	
	26	Twice-Monthly Income Tax Withholding Returns (September 1 - September 15 Payment/EFT Payment)	
	26	Monthly Motor Fuels Tax Returns (August Payment)	
	26	Monthly Sales Tax Returns (Accelerated Payment)	
	October	3	Minerals and Gas Severance Tax Returns (August Payment)
		10	Twice-Monthly Income Tax Withholding Returns (September 16 - September 30 Payment/EFT Payment)
		17	Estimated Corporation Income Tax/Limited Liability Entity Tax/One Half Est. (FY ending 4/30)
		17	Estimated Corporation Income Tax/Limited Liability Entity Tax/One Fourth Est. (FY ending 1/31)
		17	Estimated Corporation Income Tax/Limited Liability Entity Tax/One Fourth Est. (FY ending 10/31)
		17	Monthly Income Tax Withholding Returns (September Payment)
		20	Coal Severance Tax Returns (September Payment)
		20	Oil Production Tax Returns (September Payment)
		20	Monthly Sales Tax Returns (September Payment)
		20	Quarterly Sales Tax Returns
		20	Health Care Provider Tax Returns (September Payment)
		25	Twice-Monthly Income Tax Withholding Returns (October 1 - October 15 Payment/EFT Payment)
		25	Monthly Motor Fuels Tax Returns (September Payment)
		25	Monthly Sales Tax Returns (Accelerated Payment)
	31	Income Tax Withholding Returns/Electronic Funds Transfer (EFT) Filers/Third Quarter Reconciliation	
	31	Quarterly Income Tax Withholding Returns	
	November	1	Minerals and Gas Severance Tax Returns (September Payment)
10		Twice-Monthly Income Tax Withholding Returns (October 16 - October 31 Payment/EFT Payment)	
15		Estimated Corporation Income Tax/Limited Liability Entity Tax/One Half Est. (FY ending 5/31)	
15		Estimated Corporation Income Tax/Limited Liability Entity Tax/One Fourth Est. (FY ending 2/29)	
15		Estimated Corporation Income Tax/Limited Liability Entity Tax/One Fourth Est. (FY ending 11/30)	
15		Monthly Income Tax Withholding Returns (October Payment)	
21		Coal Severance Tax Returns (October Payment)	
21		Oil Production Tax Returns (October Payment)	
21		Monthly Sales Tax Returns (October Payment)	
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28		Twice-Monthly Income Tax Withholding Returns (November 1 - November 15 Payment/EFT Payment)	
28		Monthly Motor Fuels Tax Returns (October Payment)	
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	15	Estimated Corporation Income Tax/Limited Liability Entity Tax/One Half Est. (FY ending 6/30)	
	15	Estimated Corporation Income Tax/Limited Liability Entity Tax/One Fourth Est. (FY ending 3/31)	
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	15	Monthly Income Tax Withholding Returns (November Payment)	
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	20	Monthly Sales Tax Returns (November Payment)	
	20	Health Care Provider Tax Returns (November Payment)	
26	Twice-Monthly Income Tax Withholding Returns (December 1 - December 15 Payment/EFT Payment)		

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2010 FEDERAL/KENTUCKY INDIVIDUAL INCOME TAX DIFFERENCES

Kentucky income tax law is based on the federal income tax law in effect on December 31, 2006. The Department of Revenue generally follows the administrative regulations and rulings of the Internal Revenue Service in those areas where no specific Kentucky law exists.

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

PROVISION	FEDERAL TAX TREATMENT	KENTUCKY TAX TREATMENT
1. Interest from Federal Obligations	Taxable	Exempt
2. Retirement Income from: Commonwealth of Kentucky Retirement Systems Kentucky Local Government Retirement Systems Federal and Military Retirement Systems	Taxable Taxable Taxable	Partially exempt if retired after December 31, 1997; exempt if retired before January 1, 1998; Schedule P may be required
3. Pensions and Annuities Starting After 7/1/86 and Before 1/1/90	3-year recovery rule eliminated	3-year recovery rule retained
4. Other Pension and Annuity Income	Taxable	100% excludable up to \$41,110; Schedule P may be required
5. Benefits from U.S. Railroad Retirement Board	May be taxable	Exempt; Schedule P may be required
6. Social Security Benefits	May be taxable	Exempt
7. Capital Gains on Sale of Kentucky Turnpike Bonds	Taxable	Exempt
8. Other States' Municipal Bond Interest Income	Exempt	Taxable
9. Kentucky Local Government Lease Interest Payments	Taxable	Exempt
10. Long-Term Care Insurance Premiums Paid With After-Tax Dollars	Limited deduction as self-employed health insurance	100% adjustment to gross income
11. Medical and Dental Insurance Premiums Paid With After-Tax Dollars	Limited deduction as self-employed health insurance	100% adjustment to gross income
12. Capital Gains on Property Taken by Eminent Domain	Taxable	Exempt
13. Election Workers—Income for Training or Working at Election Booths	Taxable	Exempt
14. Artistic Contributions	Noncash contribution allowed as itemized deduction	Appraised value allowed as itemized deduction or adjustment to income
15. State Income Taxes	Deductible	Nondeductible
16. Leasehold Interest—Charitable Contribution	May be deductible	Deductible; Schedule HH required
17. Kentucky Unemployment Tax Credit	No credit allowed	\$100 per certified employee; Schedule UTC required
18. Work Opportunity Credit (federal Form 5884)	Tax credit allowed; wage expense reduced by amount of credit	No credit allowed; entire wage expense is deductible
19. Welfare to Work Credit (federal Form 8861)	Tax credit allowed; wage expense reduced by amount of credit	No credit allowed; wage expense reduced by amount of federal credit
20. Child and Dependent Care Credit	Tax credit based on expenses	20% of federal credit
21. Family Size Tax Credit	No credit allowed	Decreasing tax credit allowed
22. Education Tuition Tax Credit	Tax credit based on expenses	Credit allowed Form 8863-K required
23. Taxpayer Who May be Claimed as Dependent on Another's Return (i.e., full-time student)	May not claim self	May claim self
24. Child's Income Reported by Parent	Permitted; taxed at parent's rate	Not permitted
25. National Tobacco Settlement TLAP Income Quota Buyout (including imputed interest)	Taxable	Exempt
26. Bonus Depreciation/Additional Section 179 Expense	Deductible	Nondeductible
27. Mortgage Debt Forgiveness	Exempt	Taxable
28. Domestic Production Activities Deduction	Deductible	Deductible; may be limited
29. Active Duty Military Pay	Taxable	Exempt