

Commonwealth of Kentucky
Finance and Administration Cabinet
Department of Revenue
Office of Property Valuation
501 High Street Post Office Box 1202
Frankfort KY 40602-1202

MEMORANDUM

To: Kentucky Sheriffs
Kentucky County Attorneys
Kentucky County Clerks
Kentucky Property Valuation Administrators

From: David L Gordon 
Executive Director, Office of Property Valuation

Date: 12 November 2009

RE: Guidance for the Waiver of Penalties and Interest on Real and Personal Property

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The Kentucky Department of Revenue (“Department”) has developed the following guidance to allow the county attorneys under contract with the Department, sheriffs, and county clerks, to provide for the waiver of penalties and, in one instance, interest at the local level as the agent for the Department. KRS 131.140(2) The county attorneys acting under contract with the Department, sheriffs, and county clerks are allowed to waive penalties and interest, when the waiver will facilitate the collection of the delinquent tax bill and further, to prevent any injustice to the taxpayer. In light of the fact that the local official will be more familiar with the taxpayer and his or her circumstance, each waiver of penalties and interest reviewed by the local official should be done on a case-by-case basis, with each taxpayer’s circumstance being reviewed independently.

KRS 133.220 requires the county clerk to prepare for the use of the sheriff or collector a correct tax bill for each taxpayer in the county whose property has been assessed and whose valuation is included in the certification provided in KRS 133.180. Unfortunately, errors can occur on a tax bill, some of which are beyond the control of the taxpayer, which can result in the failure of the taxpayer not receiving a notice of tax due.

KRS 131.175 allows for the waiver of penalties when it is shown that the failure to pay is due to “reasonable cause”. Though KRS 131.175 specifically does not allow for the waiver of interest, KRS 131.081(6) does allow for the waiver of interest when it is shown that the taxpayer has relied on written advice from the Department, which would include written advice from a local official.. Waiver of penalties and interest should only be granted as a matter of settlement and for the purpose of facilitating the collection of the

tax, as allowed by KRS 131.030(3). Further, no authority is provided by the Kentucky General Assembly to reduce the amount of tax due, unless there is a clerical, mathematical or procedural error in an assessment or any duplication of an assessment and that error has been reviewed and approved by the Department. KRS 133.110.

The sheriff may waive the penalties and interest that have been added when the tax bill is payable to the sheriff's office whenever reasonable cause has been demonstrated. If a waiver of a penalty and interest on a property tax bill is granted after the tax bill is transferred to the county clerks' office, each of the local officials affected by the waiver of the penalties and interest must sign the form.

The Department encourages the local officials to communicate and participate with each other in the decision to waive any penalty and interest related to this memorandum

I. GUIDELINES FOR WAIVER OF PENALTY AND INTEREST

KRS 131.175 allows for the waiver of penalties when there is shown "reasonable cause". KRS 131.010(9) defines reasonable cause as an event, happening, circumstance entirely beyond the knowledge or control of a taxpayer who has exercised due care and prudence in the filing of a return or report or the payment of monies due the Department pursuant to law or administrative regulation.

The waiver of interest can only occur when the taxpayer has shown that he or she has relied on erroneous written advice from the Department, which includes erroneous written advice from a local official. KRS 131.081(6)

A taxpayer's demonstration of reasonable cause relieves the taxpayer of paying a penalty and interest because payment would be unfair to the taxpayer in light of the circumstances surrounding the nonpayment of tax. A review by the local official of the circumstance provided by the taxpayer should be done on a case-by-case basis, with each taxpayer's circumstance being reviewed independently.

103 KAR 1:040 enumerate the circumstances constituting reasonable cause, which are as follows:

1. The taxpayer has relied on erroneous written advice from the Department, which would include erroneous written advice from a local official;
2. Death or serious illness of a taxpayer or his or her immediate family at the time the tax bills were mailed or due;
3. Death or serious illness of the taxpayer's tax return preparer at the time the tax bills were mailed or due;
4. Unavoidable absence of the taxpayer when the tax bills were mailed or due;

5. Destruction or unavailability of taxpayer records due to a catastrophic event at the time the tax bills were mailed or due;
6. Inability to obtain records in custody of a third party. For example, taxpayer divorced and the tax bill was mailed to the person other than who received the property under the terms of the divorce decree;
7. Employee theft or defalcation of taxpayer's financial records;
8. Undue hardship which can include the loss of a job or an unexpected emergency at the time the tax bills were mailed or due;
9. Human error. For example, the taxpayer's name or address may be misspelled and the taxpayer does not receive the bill;
10. Erroneous written advice by tax advisor on which it was reasonable for the taxpayer to rely;
11. Reliance on substantial legal authority;
12. Ignorance of reporting requirements due to the lack of previous tax and penalty experience. For example, the taxpayer moved in our out of state but failed to update the address with the property valuation administrator's office. Another example is when a taxpayer purchases property after January 1 and the tax bill is sent to the January 1 owner. The new owner is unaware of the delinquency the sheriff sends a second notice or the county attorney contacts the taxpayer about the delinquent tax bill;
13. Miscellaneous. The taxpayer has submitted a written waiver of penalties and fees and it is decided that the statements of the taxpayer establishes reasonable cause for delay in filing of a return or paying a tax which clearly negates negligence on the part of the taxpayer.

II. DOCUMENTATION

The Department has developed a form for use by the local official which documents why a taxpayer should be granted a waiver of a penalty and interest. The circumstance for waiver of penalties or interest correspond with the ones listed in 103 KAR 1:040. The local official should simply check the box that applies and sign the form. If a waiver is granted for a miscellaneous reason, then please provide details in the section marked "other".

If a penalty and interest on a property tax bill is waived while the sheriff is the local official responsible for its collection, only the sheriff or an authorized deputy is required to sign the form. A copy of the signed form may be provided to the taxpayer if a copy is requested. The original, signed copy should remain on file with the sheriff's office. The Department will review these forms as part of the settlement

process to complete a collection cycle. These forms are also subject to inspection by the Auditor of Public Accounts.

If a waiver of a penalty and interest on a property tax bill is granted after the tax bill is transferred to the county clerks' office, each of the local officials affected by the waiver of the penalties and interest must sign the form. Again, a copy of the signed form may be provided to the taxpayer upon request. The original signed copy should remain on file in the County Clerk's office for review by the Department and the Auditor of Public Accounts.

III. CONCLUSION

The situations detailed in this memorandum describe the most common occurrences encountered. The local official should not hesitate to contact the Department for further consideration of any situation, listed or unlisted, in this memorandum. Please contact the Office of Property Valuation at (502) 564-8338 for further discussion.