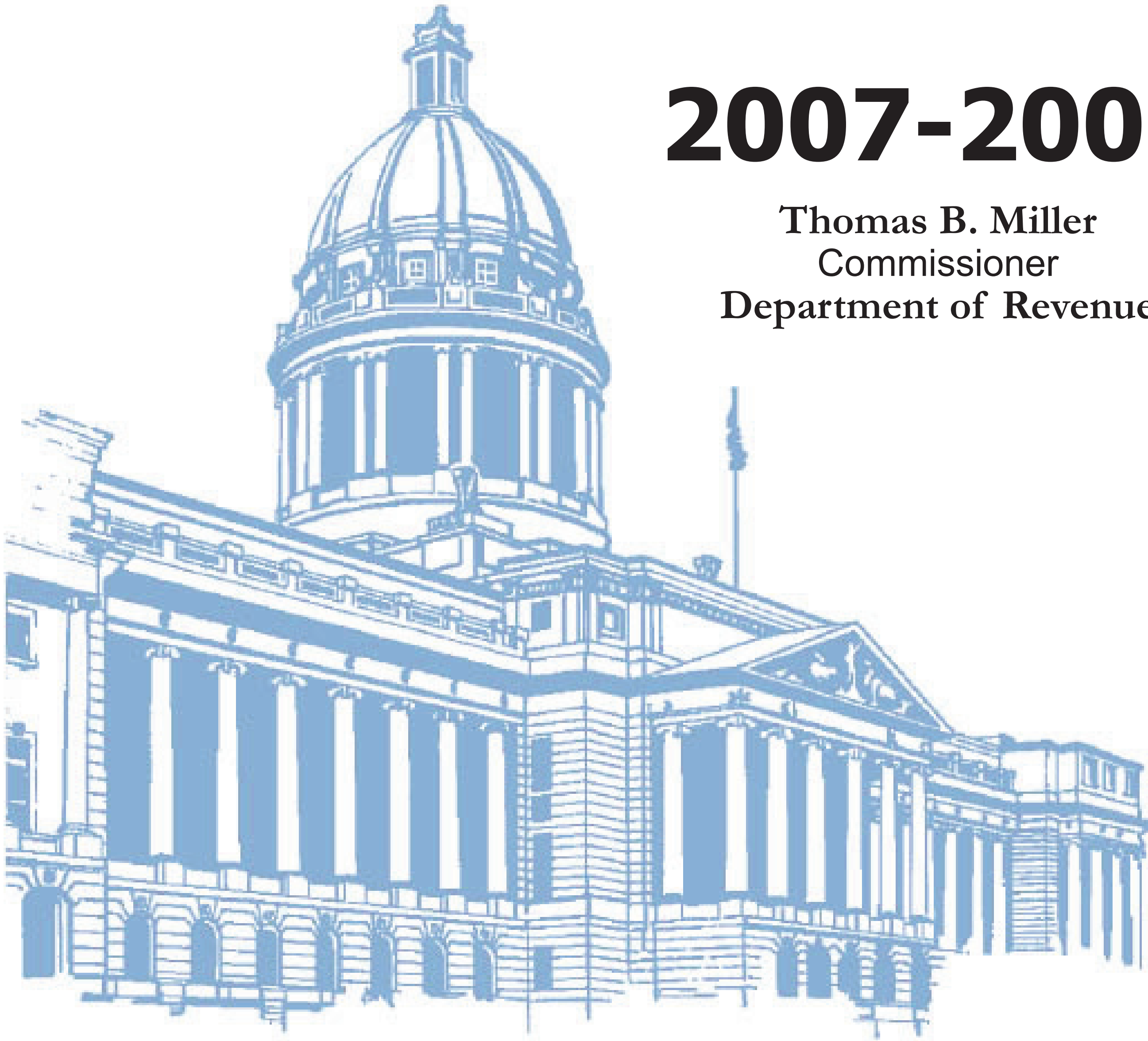
Annual Report



2007-2008

Thomas B. Miller
Commissioner
Department of Revenue

Steven L. Beshear
Governor
Commonwealth of Kentucky

Jonathan Miller
Secretary
Finance and Administration Cabinet

Kentucky
UNBRIDLED SPIRIT™

Kentucky Department of Revenue
Mission Statement

As part of the Finance and Administration Cabinet, the mission of the Kentucky Department of Revenue is to administer tax laws, collect revenue, and provide services in a fair, courteous, and efficient manner for the benefit of the commonwealth and its citizens.

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The Kentucky Department of Revenue does not discriminate on the basis of race, color, national origin, sex, religion, age or disability in employment or the provision of services.

The cost of printing this report was paid by the Kentucky Department of Revenue.

Steven L. Beshear
Governor

FINANCE AND ADMINISTRATION CABINET
DEPARTMENT OF REVENUE

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Jonathan Miller
Secretary

Thomas B. Miller
Commissioner

December 1, 2008

The Honorable Steven L. Beshear
Commonwealth of Kentucky
The State Capitol
Frankfort, Kentucky 40601

Dear Governor Beshear:

I am pleased to present the Annual Report of the Department of Revenue for fiscal year ending June 30, 2008. This report reflects the dedicated work of the many fine professionals who comprise the Department of Revenue workforce.

Over 62 percent of individual income tax returns were electronically filed. There were 1,125,753 electronically filed returns, an increase of 9.8 percent for the year. In addition, 224,462 2D barcode returns and 503,348 paper returns were filed resulting in a total of 1,853,562 filed returns for the 2007 tax year.

Thank you for your support of the Department of Revenue, its employees and for your confidence in our abilities.

Very truly yours,

Thomas B. Miller

Thomas B. Miller
Commissioner

Contents

Revenue Receipts

Reprinted from the Governor's Office for Economic Anlaysis

Quarterly Economic & Revenue Report
Fourth Quarter 2008
Fourth Quarter, FY 2008

General Fund

General Fund receipts in the fourth quarter of FY08 totaled $2.448 billion compared to $2.364 billion in the fourth quarter of FY07, an increase of 3.5 percent.

Tax law changes and weakening economic conditions had an impact on collections during the fourth quarter of FY08. Tax law changes primarily affected individual income tax, corporation income tax, and limited liability entity tax receipts while economic conditions influenced sales and coal tax receipts.

The sales and use tax posted growth of only 0.5 percent in the fourth quarter of FY08 as rising gasoline and commodity prices reduced consumers' disposable income. Receipts of $719.8 million compare to the $716.4 million collected in the fourth quarter of FY07.

Individual income tax receipts rose 27.6 percent in the fourth quarter of FY08 compared to collections in the fourth quarter of FY07. Receipts of $1,161.2 million were $251.0 million more than was collected in the fourth quarter of the previous fiscal year. Changes enacted by HB 1 in the first Extraordinary Session of the 2006 General Assembly shifted some receipts from the corporation income tax to this source. Additionally, mandatory withholding from out-of-state firms increased income tax payments from pass-through entities.

Corporation income taxes posted a decline of 64.2 percent during the fourth quarter of FY08. Receipts totaled $124.9 million and were $223.8 million less than collected a year earlier. Corporation income taxes were reduced by the shift in revenues to the individual income tax as well as a reduction in the top corporate income tax rate. The limited liability entity tax had collections of $47.8 million in the fourth quarter of FY08. Because this is a new tax, no collections for this account were reported in FY07.

The coal severance tax increased 12.4 percent in the fourth quarter on the strength of increased coal prices. Receipts of $66.3 million compare to $58.9 million collected in the fourth quarter of FY07.

Tobacco taxes fell in the fourth quarter. Receipts of $43.3 million were 6.8 percent less than collected in the fourth quarter of FY07. Tobacco taxes in the General Fund include the original cigarette excise tax of three cents per pack, the 26-cent per pack surtax, and taxes on other tobacco products (OTP). Taxes on cigarettes fell 7 percent in the fourth quarter while OTP receipts were off 2.3 percent.

Property taxes rose by 30.7 percent in the fourth quarter of FY08. Collections of $56.8 million compare to $43.4 million received in the final quarter of the prior fiscal year. Strong growth in the tangible account due to the addition of watercraft and telecommunication property boosted receipts.

Lottery receipts fell by 1.6 percent, or $800,000, in the fourth quarter of FY08 with revenues of $47.7 million.

The *other* category represents the remaining accounts in the General Fund, and combined for $180.1 million in receipts, a decline of 6.1 percent from FY07.

Figure A details the composition of fourth quarter General Fund receipts by tax type.

Seventy-seven percent of General Fund revenues were in the areas of the individual income tax and the sales tax. The next-largest source of revenue was the *other* category at 7 percent. The largest components in this category include insurance premium taxes, the inheritance tax, beer wholesale sales tax, the natural gas severance tax, investment income, abandoned property, departmental fees, and fines and forfeitures. Corporation income tax accounted for 5 percent. The coal severance tax, property tax, tobacco taxes, the limited liability entity tax, and lottery receipts each accounted for 3 percent or less of total General Fund receipts.

Road Fund

Road Fund receipts fell 3.6 percent in the fourth quarter of FY08 as the main contributors, motor fuels and motor vehicle usage tax receipts faltered. Receipts totaled $323.4 million compared to the $335.7 million received in the fourth quarter of FY07.

Motor fuels and motor fuels use tax receipts increased 6.9 percent during the fourth quarter of FY08. Receipts were $151.8 million compared to $142.0 collected during the fourth quarter last year. Motor fuels tax revenues rose due to an increase in the formula-driven tax rate tied to the average wholesale price of gasoline. However, a decline in gasoline consumption muted growth in this account.

Motor vehicle usage tax receipts decreased by 9.9 percent during the fourth quarter due to weak automobile sales. Receipts were $101.7 million compared to $112.9 million collected during FY07.

Revenue Receipts

Weight distance tax receipts totaled $20.4 million, a decline of 3.3 percent from the fourth quarter of last year.

Motor vehicle license tax receipts decreased by 29.1 percent during the fourth quarter of FY08. The large drop is due to nonrecurring money that was received last year. Receipts of $29.0 million compared to $40.8 million received during the fourth quarter of FY07.

Investment income was up sharply in the fourth quarter of FY08, due to higher cash balances yielding $5.9 million.

Receipts for the *other* category totaled $10.8 million during the fourth quarter, compared to $9.9 million in the fourth quarter of FY07.

Motor fuels taxes and motor vehicle usage taxes comprised 79 percent of Road Fund revenues in the fourth quarter. The next-largest source of revenue was the motor vehicle license tax with 9 percent, followed by weight distance taxes with 6 percent. The *other* category accounted for 3 percent, investment income composed 2 percent, and motor vehicle operators was 1 percent.

General Fund

The General Fund increased by 1.1 percent in FY08, slower than the growth recorded in FY07 when revenues rose 2.4 percent. Revenue growth of just 1.1 percent reflects the weakness in economic conditions, both nationally and in Kentucky, and is the lowest level of revenue growth since 2002. Receipts totaled $8.664 billion compared to $8.574 billion for the previous year.

The sales tax growth rate for FY08 was 2.1 percent, or $60.1 million above FY07 collections, as the national housing slump and higher energy prices cut into consumers' ability to make taxable purchases. Receipts of $2.876 billion compare to prior year receipts of $2.818 billion.

Individual income tax receipts grew by $441.6 million from last year, due largely to a shift in the reporting requirement for limited liability pass-through entities. When the law changed in 2005, pass-through income was taxed under the corporation income tax.

HB 1 in the 2006 special session returned the taxation of pass-through income to the individual income tax, so a portion of the 14.5 percent growth in this tax is attributable to changes in the law rather than the underlying economy. Additionally, mandatory withholding from out-of-state firms increased income tax payments from pass-through entities.

Receipts totaled $3.483 billion compared to $3.042 billion collected last year. Corporate income tax collections plummeted $552.8 million due primarily to the offsetting factor affecting individual income tax receipts. The limited liability pass-through entity shift was the main contributor to the 56 percent decline in receipts. Weak corporate profits and a reduction of the top corporate tax rate were also factors in the revenue decline. Receipts for the year totaled $435.2 million compared to $988.1 million collected in FY07.

The combination of the individual income tax, corporation income tax, and the limited liability entity tax decreased 0.3 percent compared to the prior year.

Coal severance taxes increased by 5 percent in FY08 reflecting both increased volume and prices. Total collections for the fiscal year were $233 million or $11 million more than FY07 receipts.

Tobacco tax receipts increased $1 million to $178.4, an increase of 0.6 percent.

Total property taxes rose 1.7 percent during the fiscal year. Receipts totaled $500.6 million compared to $492.5 million collected in FY07. Strong growth of 7 percent in the tangible property tax account helped offset reductions in omitted and delinquent and public service tax collections.

Lottery receipts increased 0.4 percent from the previous year. Receipts of $187.5 million compared to $186.6 million remitted to the state in FY07.

The *other* category finished the year with growth of 3.4 percent. Receipts of $670.2 million compare to $648.1 million collected in FY07. Accounts showing strong growth were the inheritance tax and the sale of NOx allowances. Offsetting these gains were abandoned property receipts and interest on investments.

General Fund collections for FY08 were $100.8 million below originally budgeted levels for the year, but $28 million above the revised official estimate rendered in January 2008 by the Consensus Forecasting Group, as modified by the 2008 General Assembly, which projected revenue growth of just 0.7 percent. The reduced revenue estimates in December 2007 and January 2008 resulted in a budget reduction earlier this fiscal year.

The largest shortfall occurred in the corporation income tax, which was $116.3 million below forecasted levels. On the other hand, the individual income tax, limited liability entity tax, property tax, and *other* revenues all came in above forecasted levels.

Nearly 73 percent of General Fund revenues were in the areas of the individual income tax and the sales tax. The next-largest source of revenue was the *other taxes* category. The largest components in this category include insurance premium taxes, bank franchise tax, inheritance tax, beer wholesale sales tax, the natural gas severance tax, abandoned property, departmental fees, and fines and forfeitures.

Property taxes made up 6 percent of the General Fund and corporation income accounted for 5 percent. Coal severance taxes, lottery revenues, tobacco taxes, and the LLET each accounted for 3 percent or less of General Fund revenues.

Growth was good in the first quarter but turned negative in the second quarter. General Fund receipts strengthened in the second half of the fiscal year, ending with growth of 3.5 percent in the fourth quarter.

Kentucky's General Fund receipts largely reflect the overall economy, and for that reason this report includes a discussion of economic conditions in FY08. Typically growth rates in the General Fund and personal income move together. However, tax law changes accelerated revenue collections in FY05 and FY06.

Road Fund

Total Road Fund receipts rose by 3.0 percent during FY08. Total receipts of $1.263 billion compared to $1.226 billion collected during FY07.

Motor fuels and motor fuels use taxes increased by 8.0 percent on receipts of $608.5 million, compared to $563.5 million collected during the previous fiscal year. Motor fuels taxes for the fiscal year were affected by a statutory tax rate increase tied to the wholesale price of gasoline. This increase was partially offset by a decline in gallons of motor fuels sold, reflecting consumer response to higher gas prices.

Motor vehicle usage tax receipts of $405.8 million represent a decline of 1.3 percent compared to the $411.3 million collected in FY07.

Weight distance tax revenues fell 1.3 percent with receipts of $84.4 million compared to $85.4 million collected in FY07.

Motor vehicle license tax receipts were down by 8 percent with collections of $93.5 million compared to $101.7 million collected in FY07.

Investment income rose by 20.9 percent as Road Fund balances increased over the previous fiscal year. Receipts totaled $19.5 million, compared to $16.1 million in FY07.

The *other* category grew by 10.3 percent from FY07. Total receipts in this category were $35.5 million, compared to $32.2 million collected in FY07.

Road Fund collections for FY08 were $20 million below the official revenue estimate (the consensus estimate of January 2008). This was 1.6 percent less than anticipated in the official estimate. Four of the seven accounts were below forecasted levels, one was unchanged from the previous year, and two were above the estimate. The largest shortfall occurred in the motor vehicle license tax, which was $15.1 million, or 13.9 percent, below the forecasted level. The two largest Road Fund accounts, motor fuels and motor vehicle usage, were both below forecasted levels but within 1.4 percent of the estimate.

Eighty percent of the Road Fund came from motor vehicle usage taxes and motor fuels taxes. Following these, the motor vehicle license tax and the weight distance tax each accounted for 7 percent. *Other taxes* combined to account for 3 percent, investment income was 2 percent of Road Fund revenue, and motor vehicle operators revenue was 1 percent.

Overall, the Road Fund began the year with very strong growth of 7.7 percent, but weakened in each of the remaining three quarters, ending the year with negative growth in the fourth quarter. Motor fuels taxes exhibited strong growth for the entire fiscal year while motor vehicle usage taxes were particularly weak over the second half of the fiscal year.

Unlike the General Fund, growth in the Road Fund does not closely follow the growth in Kentucky personal income.

Revenue Receipts

Revenue Receipts

GENERAL FUND TOTAL RECEIPTS

Fiscal Year	Receipts	Percent Change
2007-08	$8,664,336,663	1.1
2006-07	8,573,819,250	2.4
2005-06	8,376,083,216	9.6
2004-05	7,645,046,634	9.6
2003-04	6,977,623,200	2.9
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

ALCOHOLIC BEVERAGE TAXES—Distilled Spirits

Fiscal Year	Receipts	Percent Change
2007-08	$37,110,587	5.0
2006-07	35,332,563	6.0
2005-06	33,518,873	8.2
2004-05	27,432,580	5.4
2003-04	26,030,680	4.7
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

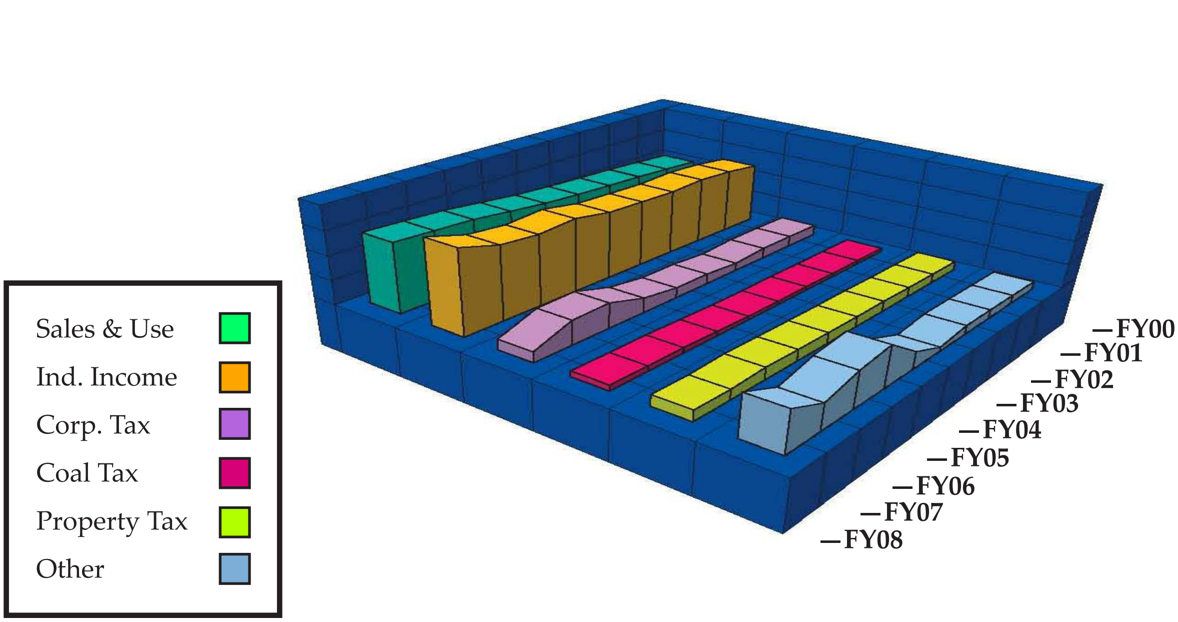
ALCOHOLIC BEVERAGE TAXES—Malt Beverage

Fiscal Year	Receipts	Percent Change
2007-08	$56,066,611	5.5
2006-07	53,150,265	3.0
2005-06	51,600,592	8.6
2004-05	44,203,035	1.0
2003-04	43,760,805	3.4
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

ALCOHOLIC BEVERAGE TAXES—Wine

Fiscal Year	Receipts	Percent Change
2007-08	$14,330,732	4.5
2006-07	13,718,442	10.0
2005-06	12,456,900	8.2
2004-05	10,115,015	8.6
2003-04	9,312,250	7.1
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

General Fund Receipts by Major Sources
Millions of Dollars



Revenue Receipts

CIGARETTE TAX

Fiscal Year	Receipts	Percent Change
2007-08	$169,547,927	0.5
2006-07	168,778,213	-2.0
2005-06	172,069,493[1]	589.2
2004-05	24,966,880	45.7
2003-04	17,136,198	4.7
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

[1] *Rate increase $0.27 surtax.*

COAL SEVERANCE TAX

Fiscal Year	Receipts	Percent Change
2007-08	$232,977,827	5.0
2006-07	221,952,516	-1.1
2005-06	224,490,111	21.7
2004-05	184,436,935	25.0
2003-04	147,498,230	4.1
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

CORPORATION INCOME TAX

Fiscal Year	Receipts	Percent Change
2007-08	$435,222,566	-56.0
2006-07	988,064,957	-1.4
2005-06	1,001,618,543	109.3
2004-05	478,504,505	57.8
2003-04	303,262,821	9.1
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

CORPORATION LICENSE TAX

Fiscal Year	Receipts	Percent Change
2007-08	$2,822,279	-75.9
2006-07	11,734,452	-73.0
2005-06	43,516,942	-67.6
2004-05	134,149,794	9.3
2003-04	124,096,012	8.1
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

INDIVIDUAL INCOME TAX

Fiscal Year	Receipts	Percent Change
2007-08	$3,483,137,317	14.5
2006-07	3,041,535,604	4.2
2005-06	2,918,610,982	-3.9
2004-05	3,036,230,706	8.6
2003-04	2,796,331,049	1.8
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

INHERITANCE AND ESTATE TAX

Fiscal Year	Receipts	Percent Change
2007-08	$51,001,299	17.0
2006-07	43,578,107	-5.2
2005-06	45,990,266	-27.2
2004-05	63,174,866	-4.4
2003-04	66,083,705	-31.1
2002-03	95,864,480	15.0
2001-02	83,359,872[1]	-0.1
2000-01	83,461,499	12.0
1999-00	74,489,981	8.5
1998-99	81,483,083	22.8

[1] *Phase out of estate tax begins.*

Revenue Receipts

LOTTERY RECEIPTS

Fiscal Year	Receipts	Percent Change
2007-08	$187,461,591	0.4
2006-07	186,625,113	-1.8
2005-06	190,000,000	17.8
2004-05	161,252,000	-7.2
2003-04	173,800,000	1.6
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

MINERALS AND NATURAL GAS TAX

Fiscal Year	Receipts	Percent Change
2007-08	$50,155,157	6.3
2006-07	47,161,910	-7.0
2005-06	50,701,858	7.7
2004-05	38,801,666	7.1
2003-04	36,223,062	32.7
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

OIL PRODUCTION TAX

Fiscal Year	Receipts	Percent Change
2007-08	$10,201,113	64.6
2006-07	6,198,342	-2.9
2005-06	6,386,501	35.6
2004-05	4,710,832	39.1
2003-04	3,387,884	8.7
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

PARI-MUTUEL TAX

Fiscal Year	Receipts	Percent Change
2007-08	$5,327,540	-3.0
2006-07	5,489,552	-2.4
2005-06	5,626,849	19.5
2004-05	4,710,111	29.8
2003-04	3,629,292	-39.0
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

PROPERTY TAXES—REAL ESTATE

Fiscal Year	Receipts	Percent Change
2007-08	$237,153,330	3.9
2006-07	228,282,174	6.0
2005-06	215,351,439	6.5
2004-05	202,182,555	5.0
2003-04	192,534,530	3.5
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

PROPERTY TAXES—TANGIBLE

Fiscal Year	Receipts	Percent Change
2007-08	$205,763,426	7.0
2006-07	192,343,695	16.1
2005-06	165,622,948	3.6
2004-05	159,883,091	7.2
2003-04	149,155,206	-0.2
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

Revenue Receipts

PROPERTY TAXES—INTANGIBLE

Fiscal Year	Receipts	Percent Change
2007-08	-----	-----
2006-07	48,841	-99.8
2005-06	30,955,124	15.0
2004-05	26,912,813	-2.3
2003-04	27,547,183	6.4
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

SALES AND USE TAX

Fiscal Year	Receipts	Percent Change
2007-08	$2,875,814,497	2.1
2006-07	2,817,652,253	2.5
2005-06	2,749,765,011	6.0
2004-05	2,594,966,373	6.0
2003-04	2,447,584,698	3.5
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

BANK FRANCHISE TAX

Fiscal Year	Receipts	Percent Change
2007-08	$71,976,055	12.6
2006-07	63,912,315	7.2
2005-06	59,603,147	-6.6
2004-05	63,837,587	15.1
2003-04	55,467,195	3.2
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

Revenue Receipts

ROAD FUND TOTAL RECEIPTS

Fiscal Year	Receipts	Percent Change
2007-08	$1,262,798,750	3.0
2006-07	1,225,943,515	5.2
2005-06	1,165,409,505	3.4
2004-05	1,126,554,402	0.9
2003-04	1,116,734,272	-0.6
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

MOTOR FUELS TAXES—Motor Fuels Normal

Fiscal Year	Receipts	Percent Change
2007-08	$571,316,086[1]	6.1
2006-07	538,568,693[1]	7.3
2005-06	501,927,927[1]	6.9
2004-05	469,621,779[1]	6.4
2003-04	441,382,996	0.6
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

[1] *Figures reflect annual rate increase capped at 10% of average wholesale prices.*

MOTOR FUELS TAXES—Motor Fuels Normal Use & Surtax

Fiscal Year	Receipts	Percent Change
2007-08	$37,184,397	51.2
2006-07	24,600,438	-5.3
2005-06	25,982,599	25.2
2004-05	20,748,200	14.1
2003-04	18,185,947	21.5
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

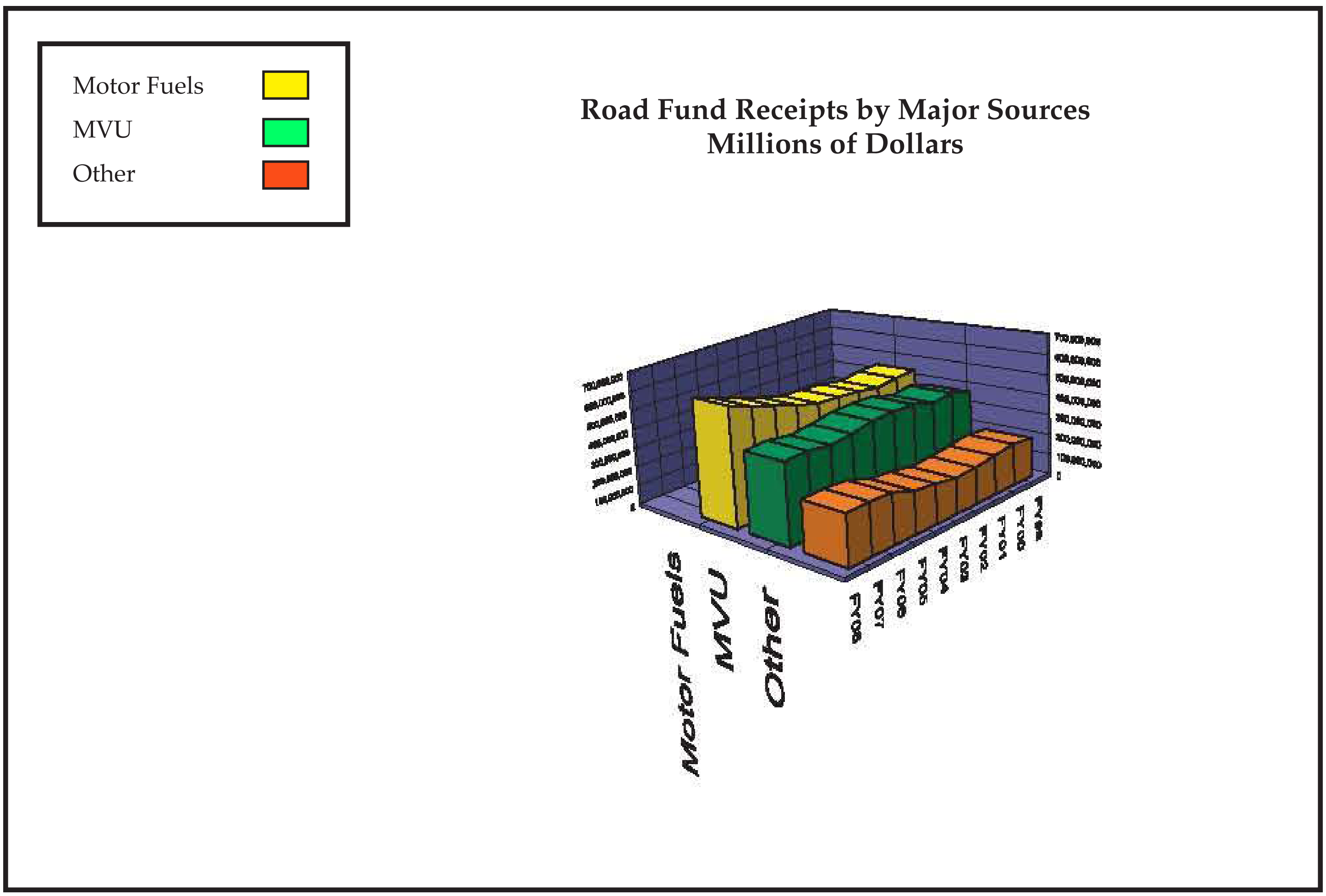
MOTOR VEHICLE OPERATOR'S LICENSE FEE

Fiscal Year	Receipts	Percent Change
2007-08	$15,372,618	-2.8
2006-07	15,811,880	8.6
2005-06	14,553,623	146.7
2004-05	5,899,247	4.9
2003-04	5,623,874	0.2
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

Revenue Receipts

MOTOR VEHICLE USAGE TAX

Fiscal Year	Receipts	Percent Change
2007-08	$405,797,215	-1.3
2006-07	411,251,997	4.0
2005-06	395,582,626	-2.9
2004-05	407,525,361	9.6
2003-04	390,976,367	0.5
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



Road Fund Receipts by Major Sources
Millions of Dollars

MAJOR ACCOMPLISHMENTS IN FISCAL YEAR 2007-2008

Office of Sales and Excise Taxes

Taxpayer Service

- Division of Sales and Use staff answered 77,163 telephone calls and 6,063 e-mails relating to sales and use tax inquiries.
- Management staff planned and presented a seminar about sales and use tax for contractors at a meeting with the CFMA in Louisville in January. Staff also gave presentations to two different equine groups in December 2007 and March 2008 about the equine breeder's supplementary sales tax schedule.
- Office staff participated in training at the county clerks' conference.
- The Division of Sales and Use Tax made 12 distributions of the telecommunications tax totaling $36,408,045 to over 1,300 local political subdivisions.
- The Division of Sales and Use Tax continued to administer the collection and transfer of sales tax paid on equine breeding fees pursuant to KRS 230.800-804. For fiscal year ending June 2008, the division transferred $18,925,303 to the Kentucky Horse Racing Authority.
- The Division of Sales and Use Tax transferred $10,937,635 to the Road Fund from motor vehicle supplementary schedules.
- Clerk's use tax transfers, including internal compliance of affidavits, resulted in General Fund collections of $2,565,672.
- Issued 12 refunds totaling $1,958,123 in relation to completed Kentucky Enterprise Initiative Act (KEIA) projects.
- Division employees verified and issued eleven approved tourism project refunds totaling $6,511,736.
- The Division of Miscellaneous Tax administered the utility gross receipts license tax and distributed $207,845,302 to 158 local school districts throughout the commonwealth.
- Participated in Commonwealth Credit Union's 50 Plus Festival to provide citizens with inheritance tax information.

Technological Advances

Responded to 1,060 Live Chat conversations from taxpayers requesting sales and use tax assistance.

Use of Electronic Filing Increases

- Taxpayers using electronic filing for sales and use tax returns increased during the year. KY E-tax, which allows taxpayers to file their return online, saw an approximate 31 percent increase. As of fiscal year end, there were 61,144 returns received and processed electronically. There was also an 8 percent increase in taxpayer's usage of DOR's Interactive Voice Response (IVR) system to file no tax due returns. There were 7,813 sales tax returns filed using IVR.
- Effective February 1, 2008 Motor Fuels Tax dealers started filing returns electronically with the January return. By the end of FY08, 93 to 94 percent of the monthly returns due were being filed electronically. Tax credits due to licensed dealers are credited against the dealers' next month's tax due amount. In addition to licensed dealers being able to file electronically, statutory refunds are now processed through the new filing system. This has streamlined the refund process and reduced the turnaround time for issuing refunds.

Compliance Initiatives

- Participation in the Streamlined Sales Tax (SST) program continued to yield beneficial results. During FY07, the capability for Certified Service Providers to file returns for SST taxpayers became available. As of FY08 end, there were 478 newly registered SST filers who remitted $5,977,345 of tax to Kentucky. The tax paid by all SST filers for the fiscal year totaled $13,089,302.
- The Division of Sales and Use Tax prepared and mailed three newsletters, the *Kentucky Sales Tax Facts*, with sales and use tax returns. Information included legislative updates, updates on business-specific issues, filing tips and an index of recent articles.

Office of Income Taxation

- Division of Individual Income Tax staff responded to 2,737 Live Chat conversations and 5,240 Webmaster Inquires from individuals requesting individual income tax assistance.
- Completed the implementation of electronic capture of all filed 2006 corporation income tax returns for the purpose of compliance and taxpayer assistance programs.

- Completed the review of 4,666 requests for letters of good standing submitted by entities needing reinstatement with the Secretary of State.

- Continued the partnership with the University of Kentucky and the IRS in presenting up-to-date income tax information for Kentucky tax practitioners, CPA's, attorneys, insurance adjusters, realtors and other interested parties.

- Continued to participate in the University of Louisville's Louis A. Grief Tax Institute by presenting up-to-date income tax information to tax practitioners, CPA's, attorneys and other interested parties.

- Received 157,920 telephone inquiries for individual income tax and 48,181 telephone inquiries for withholding tax for a total of 206,101 telephone inquiries received by the Division of Individual Income Tax.

- Offered extended taxpayer assistance hours in April 2008 to accommodate taxpayers with questions regarding individual income tax returns.

Division of Registration and Data Integrity

- Answered 33,988 telephone calls relating to registration inquiries.

- Completed 34,906 Kentucky Tax Registration Applications and 5,963 additional correspondence requests from the taxpayers.

- Reviewed approximately 39,000 possible noncompliant taxpayer cases, contacted over 29,500 new businesses for registration, and $65,645,725 in revenues were attributed to compliance efforts.

- Staff from the Division planned and participated in six training sessions for the various Taxpayer Service Centers concerning registration requirements and application processing.

Division of Local Valuation

The Local Valuation Branch coordinated the purchase of delinquent real property tax bills by the Finance and Administration Cabinet in 40 counties in accordance with the provisions of KRS 134.450. Whenever third parties make offers to purchase these delinquencies that exceed 10 percent of the total amount delinquent in a county, the Finance Cabinet must purchase all of the bills for which an offer was received. Division personnel worked closely with sheriffs, county clerks, county attorneys and Finance personnel who handle investments to ensure this process was completed timely. A total of $22,183,417 was invested in these delinquent tax bills. For delinquent bills purchased by the Finance and Administration Cabinet, payments will continue to be received from the property owners in the offices of the local county clerk and those offices will remit the appropriate amounts to the commonwealth on a monthly basis.

Property tax training was provided to sheriffs, county clerks, and property valuation administrators at various conferences and special training sessions held by their associations.

State Valuation Branch

Locally assessed tangible personal property assessments for calendar 2007 totaled $54.3 billion. These assessments yielded approximately $79 million in state revenues in FY08.

Omitted personal property tax assessments for FY08 totaled $52.9 million and resulted in state and local property tax collections of $41.5 million. Local distributions of omitted tangible property tax for the fiscal year totaled $23.6 million.

Motor vehicle assessments increased 5 percent for calendar year 2007 over the previous year to $25.6 billion. State and local revenues for FY08 totaled $111.7 million and $207.6 million, respectively.

Public Service company assessments for 2007 were set at $28.9 billion and yielded approximately $73.1 million in state revenue.

The commercial watercraft property tax system was modified as a result of HB 562, enacted by the 2006 General Assembly. Beginning Jan. 1, 2008 the new statute centralized the assessment, billing, collection and distribution of local property taxes on all commercial watercraft. It also simplified the allocation of local property taxes by using a standardized procedure and providing a 10-year hold-harmless clause for local governments to prevent any revenue loss due to the change.

Minerals Taxation and GIS Services Branch

With assistance from Cartography/GIS Services Branch personnel, 119 counties have completed digitizing their parcel maps. Currently, out of 2.17 million parcels statewide, 2.165 million parcels (99.8 percent) have been digitized.

Accomplishments

The Branch sells copies of property identification maps to the public and governmental agencies in either a paper or electronic format. Annual map sale receipts average $30 - $40 thousand. A new program has been implemented to return 80 percent of the map sales money back to the PVA's offices. The Cartography/GIS Branch coordinates digital parcel file sales between the GIS consumer and the PVA offices in Kentucky. Sales of data files can amount to several thousand dollars to the PVA office. This allows the PVA offices to recover some of the cost for creating and maintaining digital data.

The Cartography/GIS Branch personnel continued their training efforts with PVA offices in three computer mapping classes: Introduction to GeoSync, Advanced GeoSync, and GeoSync XG.

Severance tax receipts for FY08 totaled $289,858,080. One-half of these receipts are distributed back to counties with mining activity.

The coal severance tax has been selected as one of the first tax types to be integrated into the new Comprehensive Tax System.

Minerals Resource Valuation Branch

Total unmined minerals 2008 tax receipts (2007 tax year): $35,147,627

Gas:	$17,741,848
Oil:	2,237,231
Limestone:	393,642
Clay:	6,680
Coal:	14,768,226

Division of Collections

- During the last two fiscal years ending June 30, 2008, the Division of Collections collected a total of $330,317,544; compared to a total of $310,976,908 for the preceding two fiscal years.
- The Division of Collections continues to collect child support for the Cabinet for Health and Family Services. For the last two fiscal years ending June 30, 2008, a total of $29,837,728 was collected; compared to a total of $8,347,040 for the preceding two fiscal years.
- The Division of Collections continues to collect debts on behalf of other state and local government agencies under the authority of KRS 45.237(4) and KRS 45.241(6). For the fiscal year ending June 30, 2008, a total of $353,890 was collected through this program.
- The Division of Collections continues to use the recently implemented data match process whereby financial institutions are required to match lists of their account holders to lists of DOR debtors and provide the matched account information to DOR for possible levy sources. This authority is granted under KRS 131.676. For the fiscal year ending June 30, 2008, a total of $2,099,516 has been collected through this process. To date, 689 agreements have been signed with financial institutions.

Division of Operations

Over 62 percent of individual income tax returns were electronically filed. There were 1,125,753 returns filed electronically, an increase of 9.8 percent for the year.

In addition, 224,461 2D barcode returns and 503,348 paper returns for a total of 1,853,562 returns filed for fiscal year ending June 30, 2008.

Processed 1,745,421 timely and correctly filed individual income tax returns by June 15, 2008.

Issued 509,258 direct deposit refunds for individual income tax returns.

Processed 1,350,214 returns through electronic media representing an increase of 8.2 percent over the previous processing cycle.

2008 General Assembly

Kentucky Legislation

A Review of Tax Law Changes
Enacted by the 2008 General Assembly

NOTE: This 2008 legislative summary presents only general information concerning tax provisions enacted by the General Assembly during the 2008 Regular Session and does not represent a complete analysis of the law changes. Unlike the past three years, the 2008 Regular Session did not result in any major tax changes, but tax changes were made and most of the changes will be effective during 2008. Full text of the enacted bills is available on the legislative home page at www.lrc.ky.gov.

The 2008 General Assembly created, amended or repealed numerous statutes. A total of 1,030 bills were introduced, and 180 became law. Ten bills had tax implications, with some affecting all taxpayers. This review summarizes the tax portion of each bill and its impact on taxes or programs administered by Department of Revenue (DOR).

GENERAL INFORMATION

Interest Rate for Tax Liabilities and Refunds *(Effective May 1, 2008)*—Amends KRS 131.183 to provide that the Commissioner of the DOR shall adjust the tax interest rate not later than November 15 of each year if the adjusted prime rate charged by banks during October of that year, rounded to the nearest full percent, is at least 1 percentage point more or less than the tax interest rate which is then in effect. The adjusted tax interest rate shall become effective on January 1 of the succeeding year.

Beginning on May 1, 2008 all taxes payable to the Commonwealth that have not been paid shall accrue interest at the rate set by the Commissioner plus 2 percent, and any overpayment as defined in KRS 134.580 shall accrue interest at the rate set by the Commissioner minus 2 percent.

The bill also amends KRS 131.183 and sections of KRS Chapter 141 to provide that interest on refunds shall begin to accrue 60 days after the later of: (a) the due date of the return; (b) the date the return was filed; (c) the date the tax was paid; (d) the last day prescribed by law for filing the return; or (e) the date an amended return claiming a refund is filed. (HB 704)

CORPORATION AND INDIVIDUAL TAX

Apportionment of Income (*Effective for years beginning on or after Jan. 1, 2008)*—Creates a new section of KRS Chapter 141 to provide that for purposes of apportioning income: (a) the net gain from the disposal of liquid assets that produce business income shall be included in the numerator and denominator of the sales factor; and (b) passenger airlines shall use revenue passenger miles as provided by 14 C.F.R. Part 241 to allocate aircraft to the numerator of the property factor, compensation paid to flight personnel to the numerator of the payroll factor and transportation revenues to the numerator of the sales factor. (HB 258)

Energy Efficiency Credits *(Effective for taxable years beginning after Dec. 31, 2008)*—Creates a new section of KRS Chapter 141 to provide for a nonrefundable credit against the tax imposed under KRS 141.020 or 141.040 and KRS 141.0401. The tax credit provided by this new section shall apply in the tax year in which the installation is completed. If the credit cannot be taken in full in the year of installation, the tax credit may be carried forward one year. The credit shall not apply if the taxpayer has previously taken the ENERGY STAR home or ENERGY STAR manufactured home credit on the property. An energy efficiency credit shall apply as follows:

(1) On a dwelling unit located in the Commonwealth that is owned by the taxpayer and used by the taxpayer as the taxpayer's principle place of residence, or a single-family or a multifamily residential rental unit, the tax credit is equal to 30 percent of the installed costs not to exceed $500 per taxpayer of: (a) upgraded insulation, not to exceed $100; (b) energy-efficient windows and storm doors, not to exceed $250; or (c) qualified energy property, not to exceed $250.

(2) On a dwelling unit located in the Commonwealth, or on property located in the Commonwealth that is owned and used by the taxpayer as commercial property, the tax credit shall equal: (a) 30 percent of the installed costs of an active solar space-heating system, a passive solar space-heating system, a combined active solar space-heating and water-heating system, a solar water-heating system and a wind turbine or wind machine; or (b) $3 per watt direct current (DC) of rated capacity of a solar photovoltaic system. The

total tax credit cannot exceed $500 per taxpayer if installed on a dwelling unit located in the Commonwealth that is owned by the taxpayer and used by the taxpayer as the taxpayer's principal place of residence, or a single-family residential rental unit; or $1,000 per taxpayer if installed on property located in the Commonwealth that is owned and used by the taxpayer as a multifamily residential rental unit or commercial property.

(3) On property located in the Commonwealth that is owned and used by the taxpayer as commercial property, the tax credit shall equal: (a) 30 percent of the installed costs of an energy-efficient interior lighting system, not to exceed $500 per taxpayer; and (b) 30 percent of the installed costs of an energy-efficient heating, cooling, ventilation or hot water system, not to exceed $500 per taxpayer. The total tax credit cannot exceed $1,000 per taxpayer. For purposes of the tax credit commercial property shall not include single-family or multifamily residential units. (HB 2)

ENERGY STAR Home or ENERGY STAR Manufactured Home Credit *(Effective for taxable years beginning after Dec. 31, 2008)*—Creates a new section of KRS Chapter 141 to provide for a nonrefundable credit against the tax imposed under KRS 141.020 or 141.040, and KRS 141.0401, if a taxpayer builds a new ENERGY STAR home located in the Commonwealth for use as a principal place of residence, or sells a new ENERGY STAR manufactured home to a buyer who uses that home as a principal place of residence in the Commonwealth. The tax credit shall equal: (a) $800 if the taxpayer builds an ENERGY STAR home; or (b) $400 if the taxpayer sells an ENERGY STAR manufactured home.

The tax credits provided by this new section of KRS Chapter 141 shall apply in the tax year in which the taxpayer completes construction of the ENERGY STAR home or sells the ENERGY STAR manufactured home. The tax credit shall not apply if the tax credit has been previously taken by another taxpayer on the same ENERGY STAR home or ENERGY STAR manufactured home, or the taxpayer has taken the energy efficiency credits on the property. (HB 2)

PROPERTY TAX

Deed to Real Property *(Effective Aug. 1, 2008)*—Amends KRS 382.135 to require that in addition to any other requirement imposed by law, a deed to real property shall contain a statement indicating the in-care-of address to which the property tax bill for the year in which the property is transferred may be sent.

Also amends KRS 132.480 to require that information provided by the property valuation administrator (PVA) to the county clerk for preparation of the tax bills shall include all in-care-of addresses reflected in all deeds reviewed by the PVA during the year prior to the transfer of information to the county clerk. (HB 182)

Property Valuation Administrator's Examination *(Effective Aug. 1, 2008)*—Amends KRS 132.380 to provide that the department shall hold examinations for candidates for the office of PVA at a central location during the month of November of each year immediately preceding each year in which PVAs are to be elected. The department shall, at least 30 days prior to the examination, issue a statewide press release announcing the examination and post the announcement on the department's Web site. The department shall hold a second examination, if after the giving of the examination there is no person qualified to be a candidate in a county. Applicants from only those counties having no candidate qualified shall be eligible to take the second examination. After the second examination, if no qualified candidate files for office, a special examination shall be given at a time determined by the department. (HB 182)

Property Subject to Taxation for State Purposes Only *(Effective Jan. 1, 2009)*—Amends KRS 132.200 to provide that the following classes of property shall be subject to taxation for state purposes only: (a) commercial radio, television and telephonic equipment used to receive, capture, produce, edit, enhance, modify, process, store, convey or transmit audio or video content or electronic signals which are broadcast over the air; (b) equipment directly used or associated with the equipment identified in item (a), including radio and television towers used to transmit or facilitate the transmission of the signal broadcast, but excluding telephone and cellular communications towers; and (c) equipment used to gather or transmit weather information. (HB 277)

Homestead Exemption *(Effective July 1, 2008)*—Amends KRS 132.810 to exempt a service-connected totally disabled veteran of the United States Armed Forces who is less than 65 years of age from the requirement of applying for the homestead exemption on an annual basis. (HB 284)

SALES AND USE TAX

Over-the-counter Drugs *(Effective Aug. 1, 2008)*—Amends KRS 139.472 to provide that taxes imposed by this chapter shall not apply to an over-the-counter drug purchased for the treatment of a human being for which a prescription is issued. The statute also defines over-the-counter drug as a drug that contains a label that identifies the product as a drug as required by 21 C.F.R. 201.66. The label must include the Drug Facts panel or statement of the active ingredients and a list of those ingredients. Over-the-counter drugs do not include grooming and hygiene products, including soaps, cleaning solutions, shampoo, toothpaste, mouthwash, antiperspirants and sun tan lotion. (HB 538)

Vendor's Compensation ***(Effective July 1, 2008)—*** Amends KRS 139.570 to provide that reimbursement to a seller for the cost of collecting and remitting the tax in any reporting period cannot exceed $1,500. (HB 538)

Streamlined Sales Tax Agreement ***(Effective Aug. 1, 2008)***—Amends KRS Chapter 139 to incorporate changes and definitions that need to be made by Jan. 1, 2009 to conform to those in the Streamlined Sales and Use Tax Agreement (SSUTA). Major provisions include: (a) the creation of a primary definitional section and related chapter realignment for ease of reference; and (b) relief to purchasers from additional tax, related penalties or related interest if there was a reliance on erroneous data provided by the department in the form of rates, boundaries, taxing jurisdiction assignments or taxability matrix rules. (HB 629)

TAX INCREMENT FINANCING

Oversight and Responsibility ***(Effective July 15, 2008)***—Transfers oversight and responsibility for the Commonwealth's participation in tax increment financing from the Tax Increment Financing Commission within the Finance and Administration Cabinet to the Kentucky Economic Development Finance Authority established by KRS 154.20-010. Generally repeals various sections of KRS 65.7041 to 65.7083, and reenacts them under Subchapter 30 of KRS Chapter 154.

Also amends KRS 139.515 to clarify that sales and use tax refunds of construction costs must be based upon the actual percentage of tangible personal property used in the privately funded construction costs. Also, the amendment establishes the due date of a refund request and provides for penalties for failure to file by the due date. For late refund requests filed within the first 120 days after the due date of the refund request, the refund amount is reduced by one-twelfth of the total amount due for each month or portion thereof that the refund request is late. Any refund request filed more than 120 days after the due date of the refund request forfeits the entire refund. (HB 611)

CIGARETTES

Reporting of Shipments of Tobacco ***(Effective April 24, 2008)***—Amends KRS 138.195 requiring every manufacturer located or doing business in this state and the first person to import to this state, cigarettes, other tobacco products or snuff from a foreign manufacturer to submit monthly reports of such shipments to the DOR. (HB 704)

MISCELLANEOUS

Insurance Premiums Surcharge ***(Effective April 24, 2008)—***Amends KRS 136.392 to exempt the insurance premiums surcharge from premiums collected for the following: (a) the federal government; (b) organizations qualifying under Section 501(c)(3) of the Internal Revenue Code; (c) resident nonprofit religious institutions for real, tangible and intangible property coverage only; (d) state government for coverage of real property; or (e) local governments for coverage of real property. (HB 704)

Utility Gross Receipts Tax Collected by the State ***(Effective April 24, 2008)***—Amends KRS 160.6156 to provide that a utility service provider shall not be entitled to a refund or credit of taxes paid under KRS 160.613 or 160.614 if the utility service provider has increased its rates in accordance with KRS 160.617, unless the utility service provider refunds or credits its related customers the amount of overpayment made to the DOR.

Also, amends KRS 160.6157 to provide that a utility service provider that erroneously bills customers after being notified of an error by the DOR shall be subject to a penalty of $25 per subsequent error, not to exceed $10,000 per month. This penalty shall be in addition to the penalties provided by KRS 131.180 and the taxes imposed under KRS 160.613 and 160.614. (HB 704)

Legal Issues

Office of Legal Services for Revenue (OLS)

The Office of Legal Services for Revenue (OLS) represents DOR in judicial actions and in administrative proceedings before such tribunals as the Kentucky Board of Tax Appeals and Board of Claims. Its representation of DOR extends to all levels of the state and federal court systems.

OLS performs a wide range of other services and functions, which include: rendering advice and written legal opinions to DOR personnel and other government personnel and officials, as well as taxpayers; reviewing and drafting proposed statutes and regulations; interpreting and analyzing the Commonwealth's tax laws and assisting with their implementation and administration; assisting with the preparation of DOR informational publications; providing advice and assistance on open records and disclosure matters; and providing assistance and advice in connection with audits, protest conferences, and other stages of the enforcement and administration of the tax laws. OLS is not responsible for personnel, bankruptcy, collection and criminal matters, which are handled elsewhere in DOR or the Finance and Administration Cabinet.

During this past year, OLS has continued to handle a substantial caseload presenting a variety of legal issues affecting DOR and requiring work at all levels of the court system and administrative appeals process. The cases that OLS handles frequently have a substantial fiscal impact or significant precedential value.

Office of Legal Services for Revenue Legal Developments and Court Decisions

OLS represents DOR 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 DOR 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 DOR 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, OLS 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 DOR. OLS 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 OLS 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. GTE South, Inc., 238 S.W.3d 655 (Ky. 2007)

On August 23, 2007 the Kentucky Supreme Court rendered an opinion reversing a decision of the Court of Appeals holding that a sales and use tax assessment was untimely under KRS 139.620 and therefore could not be enforced against the taxpayer. DOR had sent the taxpayer two documents concerning this assessment: 1) an assessment letter setting forth the basis and amount of the assessment and including as enclosures an auditor's narrative report with supporting schedules and 2) formal notices of tax due stating the amounts of taxes, penalties and interest due.

The Court of Appeals agreed that the assessment letter was issued in a timely manner. The KBTA's decision to the contrary was not supported by substantial evidence, the Court ruled. The timeliness of the assessment letter, however, did not result in compliance with KRS 139.620, the Court of Appeals concluded. Instead, the Court ruled that to pass muster under KRS 139.620(1), the notification of an assessment must contain all of the information specified in KRS 131.081(8), a provision of the Kentucky Taxpayers' Bill of Rights. The assessment letter in question did not include the amounts of the penalties and interest due and thus did not satisfy KRS 131.081(8). The notices of tax due did state these amounts, but these notices were mailed beyond the four-year deadline prescribed by KRS 139.620(1).

The Supreme Court concurred with the Court of Appeals that the assessment letter had been timely issued or mailed. Disagreeing with the Court of Appeals, the Supreme Court held that the assessment letter constituted sufficient notice for purposes of KRS 139.620(1) and that accordingly, DOR's assessment was timely under that statutory provision. The Court further held that the damages remedy of the Kentucky Taxpayers' Bill of Rights was inconsistent with the existence of another remedy consisting of relieving the taxpayer of an assessment entirely, as the Court of Appeals had ruled.

The Supreme Court's decision is now final. The taxpayer's petition for rehearing was denied on December 20, 2007.

King Drugs, Inc. v. Revenue Cabinet, 250 S.W.3d 643 (Ky. 2008)

On September 2, 2005 the Kentucky Court of Appeals ruled in DOR's favor in this case involving the sales and use tax exemption provided in KRS 139.472 for prosthetic devices and physical aids. The Court of Appeals affirmed a decision of the Franklin Circuit Court that had upheld a KBTA order in DOR's favor.

The Court of Appeals' opinion rejected the taxpayer's contention that the exemption applied to any artificial device prescribed by a licensed physician. Considering KRS 139.472's history, the Court concluded that the addition of the words "prescribed by a licensed physician" by the Kentucky General Assembly in 1986 "evidence[d] a legislative intent to exempt the types of devices enumerated in the original version ('artificial devices…for the use of a particular crippled person so as to become a brace, support, supplement, correction or substitute for the bodily structure including the extremities of the individual' and 'artificial limbs, artificial eyes, hearing aids…for the use of a particular disabled person'), whether such devices were prescribed, or, without a prescription, if individually designed, constructed, or altered." The Court accordingly held that for the exemption claimed by the taxpayer to apply, an artificial device prescribed by a licensed physician must be "for the use of a crippled person so as to become a brace, support, supplement, correction, or substitute for the bodily structure including the extremities of the individual."

The Supreme Court granted the taxpayer's motion for discretionary review and in an opinion rendered on April 24, 2008 reversed the decision of the Court of Appeals. The Court ruled that the exemption extended to all sales of "artificial devices prescribed by a licensed physician." The Court found the statutory language to be plain and ambiguous and that the comma after "prescribed by a licensed physician" and before "or" indicated that the following adverbial phrases were not intended to reach back across the comma and modify "prescribed."

This decision is now final.

Monumental Life Insurance Co. v. Department of Revenue 2005-CA-002148-MR, Kentucky Court of Appeals

In this case, the taxpayer was a domestic life insurance company subject to ad valorem taxation under KRS 136.320 by the Commonwealth of Kentucky, Jefferson County and the City of Louisville. The tax suffered from a similar constitutional infirmity addressed in St. Ledger v. Revenue Cabinet, 912 S.W.2d 34 (Ky. 1995), vacated and remanded, 517 U.S. 1206, on remand, 942 S.W.2d 893 (Ky. 1997), cert. dism'd, 521 U.S. 1146 (1997). Specifically, shares of stock owned by the taxpayer were included in its taxable capital under KRS 136.320 and its shares of stock in corporations paying at ad valorem taxes on at least 75 percent of their property were then exempted under the statutory computation, as permitted under KRS 136.030, the statute held unconstitutional in St. Ledger.

Finding that the principle upheld in St. Ledger also applied to KRS 136.320, DOR allowed the taxpayer a refund of $1,470,357.49. The taxpayer disagreed with DOR's action; it argued that its refund should instead be $8,107,668 based upon its theory that its shares of stock should be excluded from taxable capital altogether.

DOR also determined that the taxpayer had improperly failed to report as taxable under KRS 136.320 an account entitled "separate accounts," which consisted primarily of pension and retirement assets held in the taxpayer's name for future payout to retirees. This determination resulted in an increase in the taxpayer's liability for 1998 from $48,672 to $3,061,280 and in assessments totaling $2,895,878.42 for the tax years 1995 through 1998.

The KBTA upheld DOR's assessments and its denial of the taxpayer's refund claims. The Franklin Circuit Court affirmed the KBTA's decision.

In an opinion rendered on June 27, 2008 the Court of Appeals affirmed the circuit court's ruling. The Court rejected the taxpayer's reading of St. Ledger as declaring all stock nontaxable and requiring the exclusion theory it advocated. The Court found this to be "an excessively extravagant extension of St. Ledger." The Court held that DOR's calculation of the refunds legitimately due the taxpayer was correct. The taxpayer's method of computing the refunds resulted in a "manifestly illogical result."

The Court of Appeals also agreed that the separate accounts were properly subjected to taxation. These accounts constituted taxable capital owned by the taxpayer for which no exemption was provided by statute. The accounts were properly assessed as omitted property because the taxpayer failed to disclose in its filings those accounts' taxable nature. The Court further rejected a variety of arguments based upon the doctrine of contemporaneous construction, accord and satisfaction, ERISA and unlawful discrimination under Ky. Const. §171, because of their lack of merit or the taxpayer's failure to preserve them for appellate review.

Finally, the Court rejected the taxpayer's claim that interest on the assessments should be abated under KRS 131.081(8) of the Kentucky Taxpayers' Bill of Rights. The taxpayer could not point to any written advice from DOR that it relied upon in failing to report its separate accounts.

Curtsinger v. Department of Revenue, 2007-SC-00875, Kentucky Supreme Court

At issue in this case was a Franklin Circuit Court judgment ordering refunds of state ad valorem taxes paid on motor vehicles for the tax years 1995 through 2002, where the vehicles in question were purchased in December but not registered until after the ensuing January 1 assessment date. The refunds were based upon an earlier decision by the Kentucky Supreme Court, Revenue Cabinet v. O'Daniel, 153 S.W.3d 815 (Ky. 2005). The circuit court had certified this case as a class action and the plaintiffs in this case had sought refunds in excess of $7,700,000 in state and local taxes, plus interest, for a class of more than 26,000 persons. The circuit court's judgment declined to order refunds of local refunds and to require the payment of interest on the state tax refunds it did order. The circuit court also did not order the refunds requested by the plaintiffs for the 2003 tax year. The court ruled that legislation enacted in 2002 (2002 Ky. acts, ch. 316 (House Bill 812)) governed that tax year and rendered the actions taken by DOR with respect to that year valid.

The Court of Appeals did not reach all of the issues raised by the parties on appeal. Instead, it focused upon the refund statute, KRS 134.590, and agreed with DOR that any taxpayer seeking a refund based upon O'Daniel must have applied to DOR for a refund within two years of payment and exhausted their administrative remedies. The Court accordingly remanded the case to the circuit court for factual findings as to whether these requirements were met.

This decision is not yet final. The plaintiffs have filed a motion for discretionary review with the Kentucky Supreme Court.

Jessamine County Property Valuation Administrator v. St. Andrew Orthodox Church, Inc., 2007-SC-00640, Kentucky Supreme Court

At issue in this case is whether two houses on five acre tracts owned by a religious institution and rented to private tenants were exempt from ad valorem taxation under Ky. Const. §170 as real property owned and occupied by a religious institution. The KBTA found that the real property in question was not occupied by the church in question, rejecting the church's arguments that its occasional uses of the property (including the storage of personal property in one of the houses) and its annual picnic on the property, all with the tenants' permission or acquiescence, constituted the necessary occupancy.

The KBTA found that the property was not occupied by the church. The Jessamine Circuit Court agreed with the KBTA as to the houses and their curtilages, but not as to the balance of the property.

In an opinion rendered on August 10, 2007 the Court of Appeals held that both properties were exempt in their entirety. The Court reasoned that as "there was no evidence that [the church] intended to use the property for investment purposes or to construct anything other than a church," the property should have been granted the exemption.

The Court of Appeals' decision is not yet final. The property valuation administrator has a motion for discretionary review pending before the Kentucky Supreme Court.

Treesh v. DirecTV, Inc., 2007-SC-00714, Kentucky Supreme Court

In the case, providers of direct satellite broadcast and wireless cable service (DBS providers) challenge the imposition of the school utility gross receipts license tax upon them. The Franklin Circuit Court ruled that this taxation, pursuant to KRS 160.614(3), was preempted by §602(a) of the federal Telecommunications Act of 1996. This law exempts DBS providers from fees or taxes imposed by local taxing jurisdictions.

In an opinion rendered on September 7, 2007 the Court of Appeals reversed the circuit court's judgment and held that the tax was not preempted by the federal law. The Court held that Kentucky's law fell within the preservation of state authority set forth in §602(c) of the Act, which provides that a tax imposed and collected by a State and distributed to local jurisdictions was not preempted.

The Court of Appeals' opinion is not final. The DBS providers challenging Kentucky's law filed a motion for discretionary review of the Court of Appeals' opinion, which was granted by the Kentucky Supreme Court.

DirecTV, Inc. v. Treesh, 487 F.3d 471 (6th Cir. 2007), cert den., __ U.S. __, 128 S.Ct. 1876, 170 L.Ed.2d 746 (2008)

On May 31, 2007 the United States Court of Appeals for the Sixth Circuit rejected a constitutional challenge to a provision of the gross revenue and excise tax law (KRS 136.660) enacted in 2005 that forbade the imposition of franchise fees or taxes by local governments upon multi-channel video programming service. The plaintiffs in this case were satellite television companies who asserted that this law discriminated against interstate commerce. Specifically, the satellite companies asserted that this law only benefited cable television companies, which they characterized as intrastate by virtue of their alleged in-state infrastructure, because only cable television companies were subject to local franchise fees or taxes before the 2005 law's enactment. The satellite companies had not been subject to such franchise fees and taxes by virtue of a federal law, §602(a) of the Telecommunications Act of 1996.

The Court of Appeals held that the new gross revenue and excise tax structure simply substituted a uniform state taxation scheme for what had existed before and did not discriminate against interstate commerce. The Court noted that the Commerce Clause does not protect a particular method of operation in a retail market. The law in question, the Court held, did not alter the competitive balance between in-state and out-of-state competitors. Any differential tax treatment between cable television companies and satellite television companies resulted from differences between the nature of their businesses and not from the location of their activities. Kentucky's law did not amount to a protective tariff forbidden by the Commerce Clause, or the functional equivalent of such a tariff, that benefited in-state economic interests at the expense of out-of-state interests.

Accordingly, the Court of Appeals affirmed a decision in DOR's favor by the United States District Court for the Eastern District of Kentucky.

On September 18, 2007 the Court of Appeals denied the satellite companies' petition for rehearing. The satellite companies petitioned the United States Supreme Court for certiorari or review of the Court of Appeals' decision. That petition was denied on April 14, 2008.

Department of Revenue v. Davis, 197 S.W.3d 557 (Ky. App. 2006), rev'd, 553 __ U.S. __, 128 S.Ct. 1801, 170 L.Ed.2d 685 (2008)

The plaintiffs in this case challenged on Commerce Clause grounds Kentucky's income taxation of interest income from government bonds. Specifically, Kentucky law exempts from taxation the interest income from bonds and obligations issued by the Commonwealth and its political subdivisions while taxing interest income from bonds issued by other states and their political subdivisions. The plaintiffs contended that this discriminated against interstate commerce in violation of the United States Constitution's Commerce Clause.

The Jefferson Circuit Court upheld Kentucky's law. The Kentucky Court of Appeals reversed the circuit court's decision, however, ruling instead that Kentucky's taxation of the interest income from bonds issued by other states and their political subdivisions violated the Commerce Clause of the United States Constitution. The Kentucky Supreme Court subsequently denied DOR's motion for discretionary review of the Court of Appeals' decision.

The DOR's petition for a writ of certiorari to the United States Supreme Court was granted on May 21, 2007. Following the parties' submission of briefs, oral argument was heard by the Supreme Court on November 5, 2007.

On May 19, 2008, the Supreme Court rendered an opinion reversing the decision of the Kentucky Court of Appeals and remanding the case to the Kentucky Court of Appeals for further proceedings. The Supreme Court held that Kentucky's law did not discriminate against interstate commerce in violation of the Constitution's Commerce Clause. Any notion of discrimination under of that constitutional provision contemplates a comparison of substantially similar entities. Foreign states are properly considered to be private entities with respect to bonds that have traveled beyond their borders. Within its borders, the Commonwealth of Kentucky and its political subdivisions are public entities that are not substantially similar to other bond issuers in the market, including other states and their political subdivisions. Kentucky's tax exemption favors a traditional government function (i.e., the issuance of debt securities to pay for public projects) without any differential treatment favoring local economic interests over substantially similar out-of-state interests.

On remand, the plaintiffs have moved to dismiss their appeal. Therefore, the Supreme Court's decision is now final.

Department of Revenue v. Slagel, 253 S.W.3d 74 (Ky. App. 2008)

At issue in this individual income tax case was whether the taxpayer had a Kentucky domicile for the tax years in question and thus was liable for Kentucky income tax for those years. See generally KRS 141.020(1); 141.010(17); 103 KAR 17:010.

The KBTA found that the taxpayer was domiciled in Kentucky and accordingly upheld the tax assessment issued him by DOR. The Franklin Circuit Court overturned this decision.

In an opinion rendered on April 25, 2008 the Court of Appeals reversed the circuit court's order and reinstated the KBTA's decision. It held that the KBTA's decision was supported by substantial evidence and therefore should have been upheld by the circuit court. While the taxpayer spent significant amounts of time in Venezuela working, the evidence also showed that he was registered to vote and did, in fact, vote in Kentucky; he held a Kentucky driver's license; he owned property in Kentucky, maintained bank accounts in Kentucky and had an incorporated business in Kentucky; his passport listed Kentucky as his abode and his last will and testament stated that he was "of Fayette County, Kentucky"; and his wife and children lived in Lexington, Kentucky. All of these facts and circumstances supported the KBTA's finding that the taxpayer had every intention to return to Lexington and no intention of abandoning Lexington as his domicile.

The taxpayer did not seek discretionary review by the Supreme Court. The Court of Appeals' opinion is therefore final.

Perconti v. Department of Revenue, 2008-SC-00022, Kentucky Supreme Court

On December 7, 2007 the Kentucky Court of Appeals upheld an individual income tax assessment DOR had issued the taxpayer for the 2003 tax year. The assessment was based upon DOR's disallowance of a business expense deduction in the amount of $1,850,000. Both the KBTA and the Jefferson Circuit Court had upheld DOR's action.

Affirming the circuit court, the Court of Appeals agreed that the deduction was properly disallowed. The $1,850,000 had been paid to settle a judgment for conversion obtained against the taxpayer by his former employer. Thus, the Court held, the expense was a nondeductible personal expense incurred to settle a court judgment based upon the taxpayer's improper personal conduct.

This decision is not yet final. The taxpayer has a motion for discretionary pending before the Kentucky Supreme Court.

Rudolph v. Johnson Controls, Inc., 2006-SC-00416, Kentucky Supreme Court

At issue in this corporation income tax case is the constitutionality of a 2000 amendment to KRS 141.200 (House Bill 541), which provided that

> [n]o claim for refund of a tax overpayment for any taxable year ending on or before December 31, 1995, made by an amended return or any other method after December 22, 1994, and based on a change from any initially filed separate return or returns to a combined return under the unitary business concept or to a consolidated return, shall be effective or recognized for any purpose.

KRS 141.200(9). A similar provision was contained in KRS 141.200(10). The taxpayers challenging these provisions in this case had filed amended returns after Dec. 22, 1994 seeking refunds under the unitary business concept.

The Court of Appeals rejected the taxpayers' contentions that the statutory provisions in question amounted to special legislation in violation of Ky. Const. §59; contravened the separation of powers sections of the Kentucky Constitution (§§27 and 28); and denied the taxpayers the equal protection of the laws under the Kentucky and United States Constitutions. The Court did agree with the taxpayers that the 2000 amendment (HB 541) deprived them of due process of law under the Fourteenth Amendment to the United States Constitution, holding that "the period of retroactivity contained in HB 541 is so lengthy as to constitute a due process violation."

This decision is not yet final. Both the DOR's motion for discretionary review and the taxpayers' cross motion for discretionary review have been granted by the Kentucky Supreme Court.

Department of Revenue

Expenditures for FY2008 - All Funds

(Excluding PVAs)

Expenditure Category	General Fund	Road Fund	Agency Fund	Tobacco Settlement Fund	Total
Regular Salaries & Wages	33,684,567.97	1,272,021.76	(3,067.50)		34,953,522.23
Other Salaries & Wages	708,237.70	171.98			708,409.68
Employer FICA	2,466,564.55	90,062.71	1,408.36		2,558,035.62
Employer Retirement	2,938,841.62	106,193.17	3,343.82		3,048,378.61
Health Insurance	4,734,064.19	196,226.71	0.00		4,930,290.90
Life Insurance	17,685.31	729.08	614.52		19,028.91
Subtotal Salaries & Fringe	*44,549,961.34*	*1,665,405.41*	*2,299.20*	-	*46,217,665.95*
Worker's Compensation	144,784.00				144,784.00
Other Personnel Costs	157,747.24		(31.19)		157,716.05
Auditing Services	173,600.00				173,600.00
Appraisal Services	40,735.00				40,735.00
Other Professional Services Contracts	3,980,970.94	-			3,980,970.94
Total Personnel Costs	**49,047,798.52**	**1,665,405.41**	**2,268.01**	**-**	**50,715,471.94**
Utilities & Heating Fuels	535,439.60				535,439.60
Facilities and Support Services Charges	930,133.24				930,133.24
Other Rentals	1,808,352.27	447.51	6,090.73		1,814,890.51
Maintenance and Repairs	769,280.57	33,359.67	427.03		803,067.27
Postage & Related Services	3,741,384.94		85.00		3,741,469.94
Miscellaneous Services	1,758,024.86			175,000.00	1,933,024.86
Telecommunications	262,772.43				262,772.43
Computer Services	13,542,821.01	48,602.93			13,591,423.94
Supplies	267,248.72		(413.65)		266,835.07
Commodities	130,504.65				130,504.65
Travel	680,919.60		66,234.81		747,154.41
Miscellaneous Commodities	403,750.53	252,184.48	6,528.19		662,463.20
Total Operating Expenses	**24,830,632.42**	**334,594.59**	**78,952.11**	**175,000.00**	**25,419,179.12**
Furniture	-		7,524.00		7,524.00
Motor Vehicles	64,582.00		22,332.01		86,914.01
Total Capital Outlay	**64,582.00**	**-**	**29,856.01**	**-**	**94,438.01**
Total Expenditures	**73,943,012.94**	**2,000,000.00**	**111,076.13**	**175,000.00**	**76,229,089.07**

DOR Offices, Divisions and Their Duties

Office of Processing & Enforcement

The Office of Processing and Enforcement is responsible for promoting the enterprise services available to the commonwealth related to document processing, depositing of funds and collecting debt. Additionally, the office is responsible for coordinating, planning and implementing a data integrity strategy. The office consists of the following three divisions:

The **Division of Operations** is responsible for opening all incoming tax returns, preparing the returns for data capture, coordinating the data capture process, depositing receipts and maintaining the tax data. Additionally, the division assists other agencies with similar operational aspects as negotiated with that agency.

The **Division of Collections** is responsible for enforced collection activities related to tax and other debts owed to the commonwealth. The division also collects delinquent child support referred by the Cabinet for Families and Children.

The **Division of Registration and Data Integrity** is responsible for registering taxpayers and ensuring that the data entered into the tax systems is accurate and complete. The Registration Branch processes all business tax applications and assists registrants as needed. This branch also ensures that all taxpayers, who may have overlooked their tax registration obligations, are contacted and brought into compliance. The Program Improvement Branch is responsible for maintaining data integrity for DOR processes and prepares requested reports and statistics for both DOR personnel, cabinet personnel and any legislative inquiries. Both branches assist the taxing areas in proper procedures to make sure that data remains accurate over time.

Division of Minerals Taxation and GIS Services

The Division of Minerals Taxation and GIS Services is responsible for administering the taxes related to severance tax and the unmined minerals property tax. It also coordinates the DOR's GIS mapping efforts. It contains three branches: Mineral Resource Valuation; Minerals Severance Tax; and Cartography/GIS.

Office of Sales and Excise Taxes

The Office of Sales and Excise Taxes is responsible for administering all matters related to sales and use tax and the miscellaneous excise taxes. This includes technical tax research, compliance, taxpayer assistance, tax specific training, public announcements, publications, forms and any other matter related to those taxes. It includes the divisions of Sales and Use Tax, Miscellaneous Taxes and the Executive Director's Office.

- The **Division of Sales and Use Tax** is responsible for administering the sales and use tax and telecommunications excise and gross revenue taxes. It has two branches: Program Compliance and Taxpayer Assistance. The branches are responsible for conducting office audits, administering various exemption and refund incentive programs, initiating compliance activities, assisting taxpayers, verifying and preparing refunds and discovery of non-filer populations.

- The **Division of Miscellaneous Taxes** is responsible for administering the following taxes: affordable housing trust fund fee, alcoholic beverage taxes; cigarette enforcement fee, cigarette papers tax, license, excise tax and surtax; other tobacco products and snuff taxes; gasoline tax; liquefied petroleum gas; special fuels taxes; petroleum storage tank environmental assurance fee; health care provider tax; inheritance and estate tax; insurance premiums and insurance surcharge taxes; bank franchise tax; legal process; marijuana and controlled substance; motor vehicle tire fee; motor vehicle usage taxes; loaner-rental program; PSC annual assessment; pari-mutuel excise, racing license and admissions taxes; RECC and RTCC; transient room tax; and utility gross receipts license tax. It consists of two branches: Road Fund Branch and Miscellaneous Tax Branch.

Office of Income Taxation

The Office of Income Taxation was established pursuant to KRS 131.020(1)(g). The Office is responsible for administering all matters related to the individual income, withholding, corporation income, corporation license, and limited liability entity taxes, including but not limited to technical tax research, compliance, taxpayer assistance, tax specific training, public announcements, publications, creating and updating forms, analyzing legislation, drafting legislation, and drafting regulations. The Office is comprised of the Division of Individual Income Tax, the Division of Corporation Income Tax and the Executive Director's Office.

- The **Division of Individual Income Tax** is comprised of the individual income tax branch, withholding tax branch, and the director's office. The division has the primary responsibility of providing taxpayer assistance for individual income and individual income withholding taxes, including handling taxpayer inquiries received over the phone, by written correspondence, via e-mail and via live chat. The Division is also responsible for compliance programs for individual income and individual withholding taxes and assisting the Office of Processing and Enforcement in the processing of returns.

- The **Division of Corporation Tax** is responsible for the administration of corporation income and license taxes, limited liability entity tax, pass-through entity withholding, economic development income tax credits, and other types of income tax incentives. The Division is divided into two branches, the Corporate Income & License Tax Branch and the Pass-through Entity Branch. The two branches perform the same basic functions–taxpayer assistance and compliance, albeit on different types of corporation and pass-through entity tax returns.

Office of Field Operations

The Office of Field Operations is responsible for managing the regional taxpayer service centers and field audit program.

The **Audit Support and Training Branch** is responsible for supporting the work of DOR field auditors and compliance officers throughout the commonwealth, including the support related to computer-assisted audits, audit selection and training.

The 10 regional offices are geographically divided among three regional managers to oversee the field operations of the commonwealth. Region 1 consists of Ashland, Northern Kentucky and Pikeville Taxpayer Service Centers. Region 2 consists of Louisville, Corbin and Bowling Green Taxpayer Service Centers; and the Audit Selection Section. Region 3 consists of Hopkinsville, Central Kentucky, Owensboro and Paducah Taxpayer Service Centers.

PVA Offices (Accounting)

This office provides budget, fiscal, personnel and payroll administration for all 120 PVAs and more than 680 deputies throughout the commonwealth. It 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 meetings.

FINANCE & ADMINISTRATION CABINET
KENTUCKY DEPARTMENT OF REVENUE
Organization Chart

Thomas B. Miller – Commissioner
Elyse Weigel - Deputy Commissioner
(502) 564-3226

- Special Investigations Division
  Debra Clancy- Asst. Director
  (502) 564-4470
  Fax (502) 564-0169
- Security and Disclosure Branch
  (502) 564-5200 Security
  Fax (502) 564-5090
  (502) 564-2551 Disclosure
  Fax 564-9896
- Office of Legal Services for Revenue
  Jason Snyder
  Executive Director
  (502) 564-3990
  Fax (502) 564-4044

- Office of Taxpayer Ombudsman
  Cathy Freeman
  Acting Ombudsman
  (502) 564-7822 x49679
- Office Processing & Enforcement
  Mack Gillim
  Executive Director
  (502) 564-3228 x43228
  Fax (502) 564-9565
  - Division of Operations
    Jerry McCarty- Director
    (502) 564-9329 x47868
    Fax (502) 564-9897
  - Division of Collections
    Tammy Watts- Director
    (502) 564-4921 x4477
    Fax (502) 564-7348
  - Div Registration & Data Integrity
    Yvonne Jackson- Director
    (502) 564-564-3227 x47490
    Fax (502) 564-9565
- Office of Property Valuation
  David Gordon
  Executive Director
  (502) 564-8338 x47177
  Fax (502) 564-8368
  - Local Valuation Branch
    (502) 564-8338
    Fax (502) 564-8368
  - State Valuation Branch
    (502) 564-5807
    Fax (502) 564-8192
  - Minerals Taxation and GIS Services Branch
    (502) 564-8334
    Fax (502) 564-5977
  - PVA Administrative Support Branch
    (502) 564-5620
    Fax (502) 564-5219
- Office of Sales & Excise Taxes
  Richard Dobson
  Executive Director
  (502) 564-5523 x45523
  Fax (502) 564-2906
  - Division of Sales & Use Tax
    Ricky Haven- Director
    (502) 564-5170 x46828
    Fax (502) 564-2041
  - Division of Miscellaneous Tax
    Jim Oliver- Director
    (502) 564-2935 x42935
    Fax 564-2906
- Office of Income Taxation
  Gary Morris
  Executive Director
  (502) 564-5495 x45495
  Fax (502) 564-3392
  - Div of Individual Income Tax
    Alta Mae Core- Director
    (502) 564-7007 x47528
    Fax (502) 564-3685
  - Division of Corporation Tax
    Don Richardson- Director
    (502) 564-8139 x47327
    Fax (502) 564-3392
- Office of Field Operations
  Tom Brown
  Executive Director
  (502) 564-2113 x49499
  Fax (502) 564-2541
  - Region 1
    Ron Giles
    Regional Manager
    (502) 564-2113 x43668
  - Region 2
    Brandon M. Harmon
    Regional Manager
    (502) 564-2113 x49512
  - Region 3
    Regina Ratliff
    Regional Manager
    (502) 564-2113 x49506

Affordable Housing Trust Fund Fee (KRS 64.012) ***(Effective Aug. 1, 2006)*****—**Collected by agreement between DOR and the Kentucky Housing Corporation, $6 of each $12 fee imposed on the recording with the county clerk of a 1) Deed of trust or assignment for the benefit of creditors; 2) Deed; 3) Real estate mortgage; 4) Deed of assignment; 5) Real estate option; 6) Power of attorney; 7) Revocation of power of attorney; 8) Lease which is recordable by law; 9) Deed of release of a mortgage or lien under KRS 382.360; 10) United States lien; 11) Release of a United States lien; 12) Release of any recorded encumbrance other than state liens; 13) Lis pendens notice concerning proceedings in bankruptcy; 14) Lis pendens notice; 15) Mechanic's and artisan's lien under KRS Changer 376; 16) Assumed name; 17) Notice of lien issued by the IRS; 18) Notice of lien discharge issued by the IRS; 19) Original, assignment, amendment, or continuation financing statement; 20) Making a record for the establishment of a city, recording the plan or plat thereof, and all other service incident; 21) Survey of a city, or any part thereof, or any addition to or extensions of the boundary of a city; 22) Recording with statutory authority for which no specific fee is set, except a military discharge; and 23) Filing with statutory authority for which no specific fee is set shall be paid to the affordable housing trust fund established in KRS 198A.710 and shall be remitted by the county clerk.

Agricultural Products

- In Hands of Producer or Agent **(KRS 132.020(1)(e), 132.200(6))—**1.5 cents (per $100 of assessment). State rate only.
- Tobacco Not at Manufacturer's Plant (Storage)–**(KRS 132.020(1)(d), 132.200(6))—**1.5 cents (per $100 of assessment). Also subject to county and city rates.
- Other Agricultural Products Not at Manufacturer's Plant (Storage) **(KRS 132.020(1)(e), 132.200(6))—**1.5 cents (per $100 of assessment). Also subject to county and city rates.

Aircraft

- Not used in the Business of Transporting Person or Property for Compensation or Hire **(KRS 132.020(1)(p), 132.200(18))—**1.5 cents (per $100 of assessment). Local option.
- For Hire Non-Public Service Company **(KRS 132.020(1)(r))—**45 cents (per $100 of assessment). Subject to full local rates.
- Public Service Company Aircraft **(KRS 136.120, KRS 136.180(3))—**Subject to annual adjustment. Multiplier applied to local rates and subject to annual adjustment.

Alcoholic Beverage Wholesale Sales Tax (KRS 243.884)—11 percent of wholesale sales of distilled spirits, wine and malt beverages. A wholesale sales tax on alcoholic beverage wholesalers/distributors to be reported monthly. There are statutory exemptions.

Bank Franchise Tax (KRS 136.500 et seq.)—1.1 percent of net capital. Minimum tax is $300 per year. Tax is imposed on every financial institution regularly engaged in business in Kentucky at any time during the calendar year. A financial institution is presumed to be regularly engaged in business in Kentucky if during any taxable year it obtains or solicits business with 20 or more persons within Kentucky, or if receipts attributable to sources in Kentucky equal or exceed $100,000. Tax is in lieu of all city, county and local taxes except for the real estate transfer taxes, real property and tangible personal property taxes upon users of utility services and the local deposit franchise tax.

Beer Consumer Tax (KRS 243.720 et seq.)—$2.50 per barrel of 31 gallons. An excise tax imposed on distributors or retailers of malt beverages who purchase malt beverages directly from a brewer. There are statutory exemptions and credits. There is a 50 percent discount for domestic brewers up to 300,000 barrels per annum.

Cigarette Enforcement and Administration Fee (KRS 365.390)—0.001 cent per pack (rate subject to change annually). Fee paid by cigarette wholesalers and unclassified acquirers to provide for the expenses of the DOR in administering the cigarette tax law.

Cigarette Excise Tax (KRS 138.130 et seq.)—3 cents per 20 cigarettes, proportioned for other quantities. An excise tax on cigarettes paid by resident and nonresident wholesalers and unclassified acquirers. The tax is paid by purchasing stamps within 48 hours after cigarettes are received by a resident wholesaler. 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.

Cigarette Inventory Floor Stocks Tax (KRS 138.143) —$0.27 per 20 cigarettes. A one-time surtax on cigarette inventory on hand at 11:59 p.m. on May 31, 2005.

Cigarette Licenses (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 DOR for any dealer or handler depending upon the diversity of his business and the number of established places of business.

Cigarette Paper Tax (KRS 138.140(6)*(Effective June 1, 2006)*—$0.25 per 32 sheets of cigarette papers or proportionally for units other than 32 sheets. This tax is paid by the wholesaler.

Cigarette Surtax (KRS 138.140)—$0.27 per 20 cigarettes, proportioned for other quantities. A surtax on cigarettes paid concurrently with the cigarette excise tax at the time of stamp purchases. A portion is allocated to cancer research.

Coal Severance Tax (KRS 143.010, 143.020 et seq.)—50 cents per ton minimum or 4.5 percent of gross value. (the minimum tax shall not apply to a taxpayer who only processes coal.) Tax is based on the gross value of coal severed and/or processed in Kentucky. Partial exemptions from the tax may apply to newly permitted production from thin seam.

Corporation Tax (KRS 141.010 et seq., 155.170)—For tax years beginning on or after Jan. 1, 2005 and before Jan. 1, 2007, corporation means a C corporation, S corporation, Limited Liability Company (LLC), Professional Limited Liability Partnership (PLLP), Limited Partnership (LP), Limited Liability Partnership (LLP), Real Estate Investment Trust (REIT), Regulated Investment Company (RIC), Real Estate Mortgage Investment Conduit (REMIC), Finance Asset Securitization Investment Trust (FASIT), or similar entities created with limited liability for the partners, members or shareholders. Corporation tax is the greater of the tax computed based on net income; alternative minimum calculation (AMC); or $175. Corporation income tax rates: first $50,000 of net income—4 percent; next $50,000—5 percent; and all over $100,000—7 percent. The AMC is the lesser of $0.095 per $100 of a corporation's Kentucky gross receipts, or $0.75 per $100 of a corporation's Kentucky gross profits. For tax years beginning on or after Jan. 1, 2006, if gross receipts or gross profits from all sources are $3 million or less, no AMC is due. Also, marginal AMC tax relief is provided if gross receipts or gross profits from all sources are in excess of $3 million, but less than $6 million. For taxable years ending on or after Dec. 31, 1995, and before Dec. 31, 2005, 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.

For tax years beginning on or after Jan. 1, 2005, an affiliated group of corporations must file a nexus consolidated return as provided by KRS 141.200.

For tax years beginning on or after Jan. 1, 2007 all pass-through entities will be treated the same for Kentucky income tax purposes as they are treated for federal income tax purposes, except for differences between Kentucky law and federal law. The AMC was repealed and a new limited liability entity tax (LLET) is imposed on every corporation and limited liability pass-through entity doing business in Kentucky. "Corporation means "corporation" as defined in Section 7701(a)(3) of the Internal Revenue Code.

The LLET is the greater of $175 or the lesser of $0.095 per $100 of a corporation's or pass-through entity's Kentucky gross receipts, or $0.75 per $100 of a corporation's or pass-through entity's Kentucky gross profits.

For tax years beginning on or after Jan. 1, 2007, if gross receipts or gross profits from all sources are $3 million or less, a $175 minimum payment is due. Also, marginal LLET tax relief is provided if gross receipts or gross profits from all sources are in excess of $3 million, but less than $6 million.

An individual that is a partner, member or shareholder of a limited liability pass-through entity is allowed an LLET credit against the income imposed by KRS 141.020 equal to the individual's proportionate share of LLET computed on the gross receipts or gross profits of the limited liability pass-through entity as provided by KRS 141.0401(2), after the LLET is reduced by the minimum tax of $175 and by any other credits for which the limited liability pass-through entity may be allowed.

The credit allowed a corporation or individual that is a partner, member or shareholder in a limited liability pass-through entity shall be applied only to the income tax assessed on the corporation's or individual's proportionate share of distributive income from the limited liability pass-through entity as provided by KRS 141.0401(3)(a) and KRS 141.0401(3)(b), respectively. Any remaining credit shall be disallowed and shall not be carried forward to the next year.

A corporation that is a partner or member of a limited liability pass-through entity is allowed a LLET credit against the income tax imposed by KRS 141.040 equal to the LLET computed on its gross receipts or gross profits as provided by KRS 141.0401(2)(c), after the LLET is reduced by the minimum tax of $175 and by any other credits for which the corporation may be allowed. Corporation income tax rates: first $50,000 of net income—4 percent; next $50,000—5 percent; and all over $100,000—6 percent.

Distilled Spirits (KRS 132.020(1)(n), 132.097, 132.099, 132.180 and 132.200(4))—Except for inventories qualifying for goods in transit to an out-of-state destination within six months and certain products in course of manufacture, subject to 5 cents (per $100 of assessment) state rate and full local rates.

Distilled Spirits and Wine Consumer Taxes (KRS 243.720 et seq.)—Distilled spirits containing over 6 percent alcohol by volume: per gallon—$1.92; per liter—0.5069; 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.

Distilled Spirits Case Sales Tax (KRS 243.710)—5 cents per case. Excise tax on distilled spirits sold by wholesalers to retailers in Kentucky.

Farm Machinery Used in Farming (KRS 132.020(1)(f))— .1 cent (per $100 of assessment). State rate only.

Goods Held for Sale in the Regular Course of Business (KRS 132.020(1)(n))—5 cents (per $100 of assessment). Subject to local rates.

Health Care Provider Tax (KRS 142.301 to 142.359) (*Effective July 1, 2006*)—2.5 percent of gross receipts for hospital services **for facilities not in operation during FY06. For facilities in operation during FY06, the monthly tax is one-twelfth of the total paid during FY06;** 2 percent of gross receipts for home health agency services; 5.5 percent of gross receipts for Medicaid managed care services, ICF/MR services, and support for community living services; $1.50-$10.75 per nonMedicare patient bed day for nursing facilities services.

Effective July 1, 1993, a provider tax is imposed on providers of taxable medical services. Registration is required prior to the beginning of operations.

Individual Income Tax (KRS 141.010 et seq.)—First $3,000—2 percent; Next $1,000—3 percent; Next $1,000—4 percent; Next $3,000—5 percent; next $67,000—5.8 percent. In excess of $75,000—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 U.S. 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, family size and various business credits. Standard deduction: 2007—$2,050 and 2008—$2,100.

Inheritance and Estate Taxes (KRS 140.010 et seq.)—

Inheritance tax— 4–16 percent; 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).

Estate tax— Beginning in 2005, the state death tax credit was replaced by a deduction for state death taxes paid until the repeal of the federal estate tax in 2010. Therefore, the Kentucky estate tax is effectively repealed for the estates of decedents who die after Dec. 31, 2004.

Insurance Premium Surcharge (KRS 136.392)—1.5 percent of premiums. An insurance premium surcharge on insured Kentucky risks. There are statutory exemptions.

Insurance Premium Taxes (KRS 136.320, 136.330 to 136.390, 299.530, 304.3-270, 304.4-030, 304.11-050, 304.49220)—All domestic and foreign life companies 1.5 percent tax rate. Annuities are exempt from tax. All other insurance companies 2 percent tax rate. 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.

Leasehold Interest (KRS 132.020(1)(b), 132.200(2))—Privately owned leasehold interest in industrial buildings. 1.5 cents (per $100 of assessment). State rate only.

Livestock and Poultry (KRS 132.020(1)(g))—.1 cent (per $100 of assessment). State rate only.

Legal Process Taxes (KRS 142.010 et seq.)*(Effective Jan. 1, 2007)*—Conveyances of real property (deeds) - $4; mortgages, financial statements and security agreements - $4; marriage licenses*- $4.50; powers of attorney to convey real or personal property - $4; lien or conveyance of coal, oil, gas or other mineral right or privilege - $4. 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 DOR and the Cabinet for Health and Family Services, also reported and paid to the DOR by county clerks as part of the monthly report of legal process taxes due.

Loaner-Rental Tax (KRS 138.460 & KRS 138.4605)—Loaner-Rental tax is paid by a dealer who is regularly engaged in the servicing or repair of motor vehicles and loans or rents a motor vehicle to a retail customer while the customer's motor vehicle is at the dealership for repair or service. Dealers must make application to be in the program. Upon acceptance into the program, the dealer will be required to file a monthly return and remit $25 per vehicle for as long as the vehicle is used as a Loaner-Rental. A vehicle log must be maintained by the dealer; loan/rental dates, mileage in and out, customer names and description of repairs completed for the customer.

Manufacturing Machinery (KRS 132.020(1)(i), 132.200(4))—15 cents (per $100 of assessment). State rate only.

Marijuana and Controlled Substance Tax (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 DOR if the product which was the subject of the conviction or plea does not bear the tax stamp.

Motor Fuels Tax—Gasoline (KRS 138.210 et seq.)—9 percent of average wholesale price of gasoline, but not less than 12.1 cents per gallon. Rate is determined quarterly. A 5 cent per gallon Supplemental Highway User Motor Fuel Tax also applies. It is 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.

Motor Fuels Tax—Liquefied Petroleum Gas (KRS 234.310 to 234.440)—Variable rate same as gasoline. The 5 cent per gallon supplemental tax also applies to liquefied petroleum gas. An excise tax paid by licensed dealers on all liquefied petroleum motor fuel withdrawn to propel motor vehicles on the public highways, unless the carburetion system has been approved by the Environmental and Public Protection Cabinet.

Motor Fuels Tax—Petroleum Storage Tank Environmental Assurance Fee (KRS 224.60-145)—1.4 cents per gallon. A petroleum storage tank environmental assurance fee is levied on all taxable gasoline and special fuel reported in this state by licensed dealers. There are provisions for exemptions or refunds for qualifying gasoline or special fuels not to be used on the public highways.

Motor Fuels Tax—Special Fuels (KRS 138.210 et seq.)—Variable rate same as gasoline. A 2-cent per gallon Supplemental Highway User Motor Fuel Tax also applies. An excise tax is levied on all special fuels received in this state by licensed dealers. There are statutory provisions for tax credits and partial or full tax refunds for designated users.

Motor Vehicle Tire Fee (KRS 224.50-868)—$1 per tire sold at retail. 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.

Motor Vehicle Usage Tax (KRS 138.450 et seq.)—6 percent of the consideration given or retail value as defined in KRS 138.450. Value is dependent on the type of transaction. 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 DOR. U-Drive-It usage tax payments are made directly to the Transportation Cabinet on a monthly basis.

Other Tobacco Products Tax (KRS 138.140(4))*(Effective August 1, 2005)*—7.5 percent of the gross receipts from the wholesale sale of other tobacco products.

Pollution Control Facilities (KRS 132.020(1)(k), 132.200(8)—15 cents (per $100 of assessment). State rate only.

Public Service Commission Assessment (KRS 278.130 et seq.)—1.603 mills (subject to change annually up to 2 mills). Maximum assessment—2 mills; Minimum assessment—$50. Assessment imposed annually on utility companies under the jurisdiction of the Public Service Commission based on proportionate share of gross intrastate revenues by each company.

Public Warehouses—Goods held for sale except goods in transit. **(KRS 132.020(1)(n))—**5 cents (per $100 of assessment). Subject to local rates.

Goods in Transit to an out-of-state destination within six months. **(KRS 132.097, 132.099)**

Exempt from state, county, school and city tax. Special taxing districts only may levy a rate.

Racing Taxes

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

Race Track License Tax (KRS 137.170 et seq.)—License tax imposed upon the operation of a track at which horse races are run under the jurisdiction of the Kentucky Horse Racing Authority. 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.

Admission Tax (KRS 138.480 et seq., 139.100(2)(c))— Tracks under jurisdiction of the Kentucky Horse Racing Authority—15 cents/person. 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.

Pari-Mutuel Tax (KRS 138.510 et seq.)—3.5 percent of total wagered at all thoroughbred tracks under Kentucky Horse Racing Authority jurisdiction with average daily handle of $1.2 million or more; 1.5 percent if average daily handle is less than $1.2 million.

3.75 percent of total wagered at all standardbred tracks under Kentucky Horse Racing Authority jurisdiction with average daily handle of $1.2 million or more; 1.75 percent if average daily handle is less than $1.2 million.

3 percent of telephone account wagering and the total wagered at receiving tracks.

Excise tax is imposed on every person, corporation or association that operates a horse race track at which betting is conducted.

Excise tax is also imposed on receiving tracks participating in intertrack wagering on simulcast races.

Average daily handle is computed from the amount wagered at the host track, excluding money wagered at receiving tracks and all telephone account wagering.

A portion of the pari-mutuel tax is allocated to the following:

- Equine Drug Research;
- Equine Industry Program;
- Higher Education Equine Trust and Revolving Fund;
- Thoroughbred Development Fund; and
- Standardbred, Quarterhorse, Appaloosa and Arabian Development Fund

Reported and paid weekly.

Radio, Television and Telephonic Equipment (KRS 132.020(1)(j), 132.200(5))—15 cents (per $100 of assessment). State rate only.

Railroads–Interstate (KRS 136.120, 136.180(4))—Subject to annual adjustment. Multiplier applied to local rates and subject to annual adjustment.

Raw Materials and Products in Course of Manufacture (KRS 132.020(1)(n), 132.200(4)—5 cents (per $100 of assessment). State rate only.

Real Estate Not elsewhere Specified (KRS 132.020(1)(a))—Adjusted annually (by July 1) per KRS 132.020(4). The state real estate rate was 13.3 cents (per $100 assessment) for 2003, 13.1 cents for 2004 and 2005, 12.8 cents for 2006 and 12.4 cents for 2007. Full local rates.

Recreational Vehicles (KRS 132.485(1)(b), 132.730. 132.751)—Classification depends on permanency of location. 45 cents (per $100 of assessment). Full local rates.

Recycling Machinery (KRS 132.020(1)(r), 132.200(15))— 45 cents (per $100 of assessment). State rate only.

Rural Cooperative Annual Tax (KRS 279.200, 279.530)— $10. Annual payment by corporations (RECCs and RTCCs) formed under KRS Chapter 279 in lieu of certain taxes.

Sales and Use Taxes (KRS 139.010 et seq.)—Sales tax—6 percent; Use tax—6 percent. Sales tax is imposed on the retailer for the privilege of making retail sales of tangible personal property or taxable services within Kentucky. (KRS 139.200)

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)

Vendor's compensation is allowed up to $1,500 per timely filed and paid return. Deduct 1.75% of the first $1,000 and 1% of the amount in excess of $1,000.
There are statutory exemptions.

Snuff Tax—(KRS 138.140(5))—Effective August 1, 2005, $0.095 per unit of snuff sold. A unit is defined as a hard container containing no more than 1 1/2 ounce of snuff. This tax is paid by the wholesaler.

Tangible Property Not Elsewhere Specified (KRS 132.020(1)(r))—45 cents (per $100 of assessment). Full local rates.

Telecommunications Tax (KRS 136.600–136.600)—The telecommunications excise and gross revenues tax became effective Jan. 1, 2006. The telecommunications excise tax is imposed at the rate of 3 percent on the retail purchase of multi-channel video programming services. The telecommunications gross revenues tax is imposed at the rate of 2.4 percent of gross revenues received for the provision of multi-channel video programming services and at the rate of 1.3 percent of gross revenues received for the provision of communications services. The rates and tax computations are reported on one return that is due by the 20th day of the month following the end of the reporting period.

Vendor's compensation is allowed up to $1,500 per timely filed and paid return for the excise tax portion of the telecommunications tax return. Deduct 1.75% of the first $1,000 and 1% of the amount in excess of $1,000.

Transient Room Tax (KRS 142.400 et seq.)—1 percent of rent. A tax on every occupancy of any suite, room, rooms or cabins charged by all persons, companies, corporations, groups or organizations doing business as motor courts, motels, hotels, inns, tourist camps or like or similar accommodations businesses. The receipts from this tax are used for the tourism, meeting and convention marketing fund.

Trucks and Tractors-Interstate (KRS 136.188, 132.487, 132.760)—Subject to annual ad valorem fee as of Jan. 1, 2007. Fee subject to annual adjustment. State and local fees are collected by Department of Transportation and distributed by DOR. Buses and nonapportioned KY registered vehicles are subject to KRS 132.487. Semi-trailers of interstate motor carriers are exempt.

Unmined Coal, etc. same as for real estate.

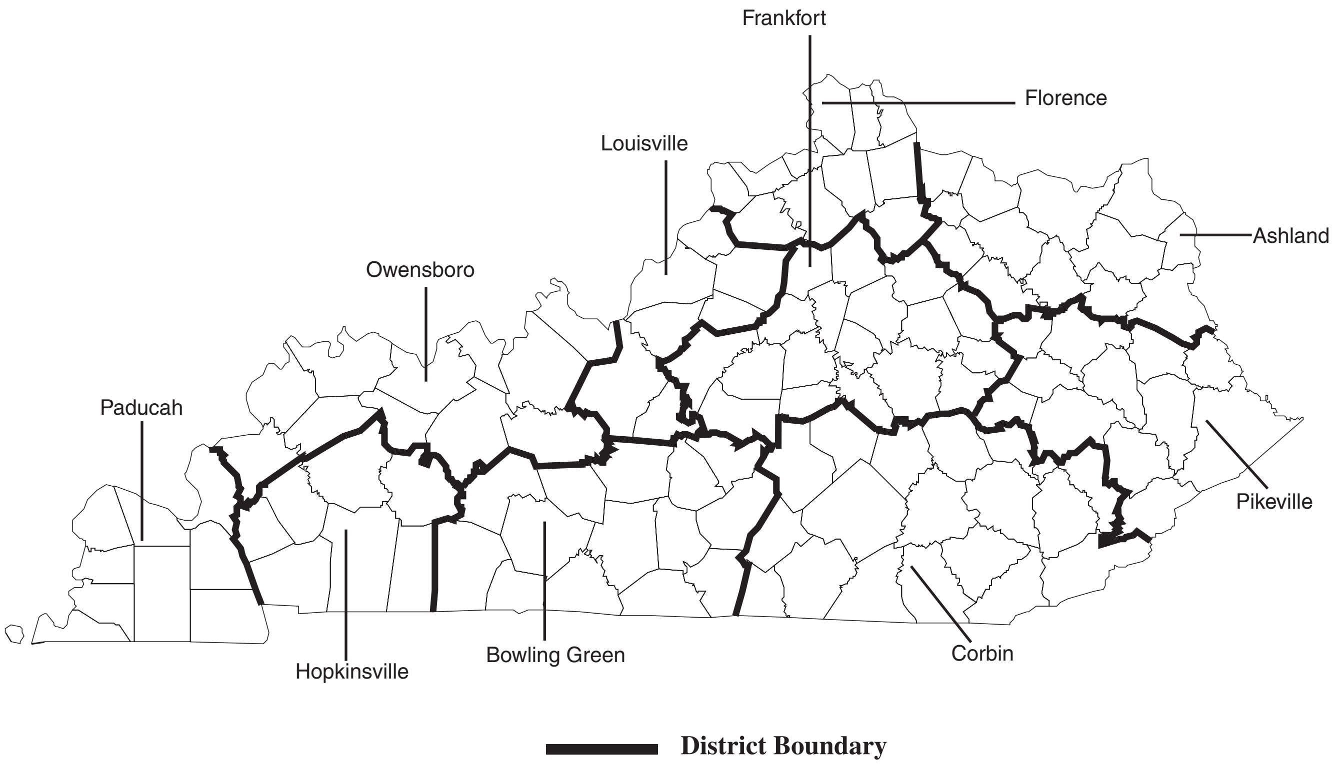
Unmined Coal, Oil and Gas Reserves and Other Mineral or Energy Resources Held Separately from Surface Real Property (KRS 132.820)—Adjusted annually (by July 1) per KRS 132.020(8). The state real estate rate was 12.4 cents for 2007, 12.8 cents for 2006, 13.1 cents for 2005, 13.1 cents for 2004 (per $100 assessments). Full local rates.

Utility Gross Receipts License Tax—(KRS 160.613, 160.6131, 160.614, 160.6145, 160.615, 160.6151, 160.6152, 160.6153, 160.6154, 160.6155, 160.6156, 160.6157, 160.6158, 160.617)—The rate is determined by each school district, but cannot exceed 3 percent. Utility gross receipts license tax for schools is assessed on gross receipts derived from the furnishing of utility services and/or cable and direct broadcast satellite services within a school district. The service provider collects the tax based on the rate established by the local authority. The service provider or Energy Direct Pay holder submits payment to the DOR with a breakdown of the tax collected by school district. The DOR captures the district information and the corresponding tax collections and distributes the amount to the appropriate school district.

Watercraft

- Commercial **(KRS 136.120 and 136.181)—**45 cents (per $100 of assessment). Full local rates.
- Individual **(KRS 132.020(1)(r), 132.488)—**45 cents (per $100 of assessment). Full local rates.
- Federally Documented **(KRS 132.020(1)(q), 132.200(19))—**1.5 cents (per $100 of assessment). Local option.

KENTUCKY TAXPAYER SERVICE CENTERS



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Corbin, 40701-6188
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