

# **2015-2016**

# **Kentucky Department of Revenue**

## **Annual Report**



**Daniel P. Bork, Commissioner**  
Department of Revenue

**Matthew G. Bevin**  
Governor  
Commonwealth of Kentucky

**William M. Landrum III**  
Secretary  
Finance and Administration Cabinet

**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.*

\* \* \* \* \*

*The Kentucky Department of Revenue does not discriminate on the basis of race, color, national origin, sex, age, religion, disability, sexual orientation, gender identity, veteran status, genetic information or ancestry in employment or the provision of services.*

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# REVENUE



# Contents

## REVENUE RECEIPTS

*General Fund  
Road Fund*

2



## EXECUTIVE SUMMARY

6



## INTRODUCTION

*Letter from  
Commissioner Daniel P. Bork  
addressed to  
Governor Matthew G. Bevin*

1



## 2016 GENERAL ASSEMBLY

8



## OFFICE OF THE COMMISSIONER

*Disclosure Branch  
Taxpayer Ombudsman  
Special Investigations*

22



## OFFICE OF PROCESSING & ENFORCEMENT

*Div. of Operations  
Div. of Collections  
Div. of Protest Resolution  
Div. of Registration &  
Data Integrity*

24



## OFFICE OF PROPERTY VALUATION

*Local Valuation  
State Valuation  
Minerals Taxation  
& GIS Services*

32





**OFFICE OF LEGAL  
SERVICES FOR  
REVENUE  
LEGAL ISSUES**



**10**

**DEPARTMENT OF  
REVENUE  
ORGANIZATIONAL  
CHART**



**15**

**TRAINING AND STAFF  
DEVELOPMENT**



**16**

**OFFICE OF SALES &  
EXCISE TAX**  
*Div. of Sales & Use Tax*  
*Div. of Miscellaneous Tax*



**42**

**OFFICE OF INCOME  
TAXATION**  
*Individual Income Tax*  
*Corporation Tax*



**54**

**OFFICE OF FIELD  
OPERATIONS**  
*Kentucky*  
*Taxpayer Service Centers*



**60**



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Finance and Administration Cabinet

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**Matthew G. Bevin**  
Governor

**William M. Landrum III**  
Secretary

**Daniel P. Bork**  
Commissioner

December 1, 2016

The Honorable Matthew G. Bevin  
Commonwealth of Kentucky  
The State Capitol  
Frankfort, Kentucky 40601

Dear Governor Bevin:

I am pleased to present the Annual Report of the Kentucky Department of Revenue for the Fiscal Year Ending June 30, 2016 as mandated by KRS 12.110. This report is reflective of the hard work and dedication of the many professionals that constitute the workforce for the department. This year's report includes an Executive Summary which details the goals that we, the department, as stewards for the citizens of our great Commonwealth, have going forward in keeping with your vision of strengthening the operations and efficiencies within state government.

The Department of Revenue is one of the few state agencies that have the privilege of interfacing with the citizens of our state. It is an honor for us to be entrusted with such significant responsibilities with which we strive to exceed the expectations of the citizens we serve, as well as the expectations that we place upon ourselves.

Detailed within this year's report you will find comprehensive information regarding the taxes administered and collected through each of the six offices which comprise the department. This year the department collected a record \$10.3 billion in General Fund receipts which is a 3.7% increase from the prior fiscal year. The average case protest resolution time was decreased by three months. Additionally, the department collected \$203.8 million in delinquent tax which is an increase of 14.2% from the prior year.

Recognizing that the department's greatest resource is our staff that diligently endeavor each day to carry out the mission of the department, we have taken steps to further increase our emphasis on training in order to ensure that all department personnel are given the resources and tools they need to be successful in their roles.

Thank you for your support of the Department of Revenue and its employees.

Very truly yours,

Daniel P. Bork  
Commissioner

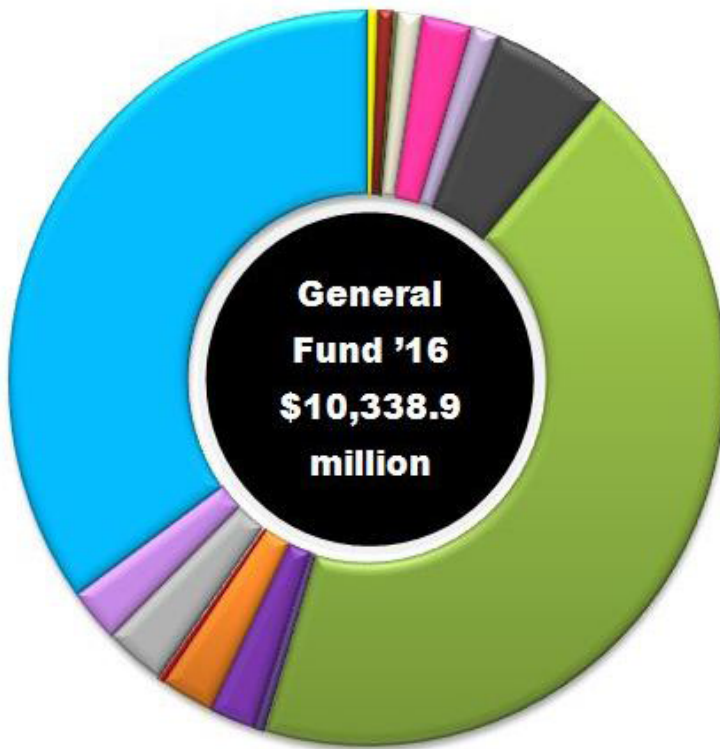




**Commissioner Daniel P. Bork**



# General Fund Revenue Receipts



- Alcoholic Beverage Taxes - Distilled Spirits
- Alcoholic Beverage Taxes - Malt Beverage
- Alcoholic Beverage Taxes - Wine
- Bank Franchise Tax
- Cigarette Tax
- Coal Severance Tax
- Corporation Income Tax
- Corporation License Tax
- Individual Income Tax
- Inheritance and Estate Tax
- Limited Liability Entity Tax (LLET)
- Lottery Receipts
- Mineral and Natural Gas Tax
- Oil Production Tax
- Pari-Mutuel Tax
- Property Taxes - Real Estate
- Property Taxes - Tangible
- Sales and Use Tax

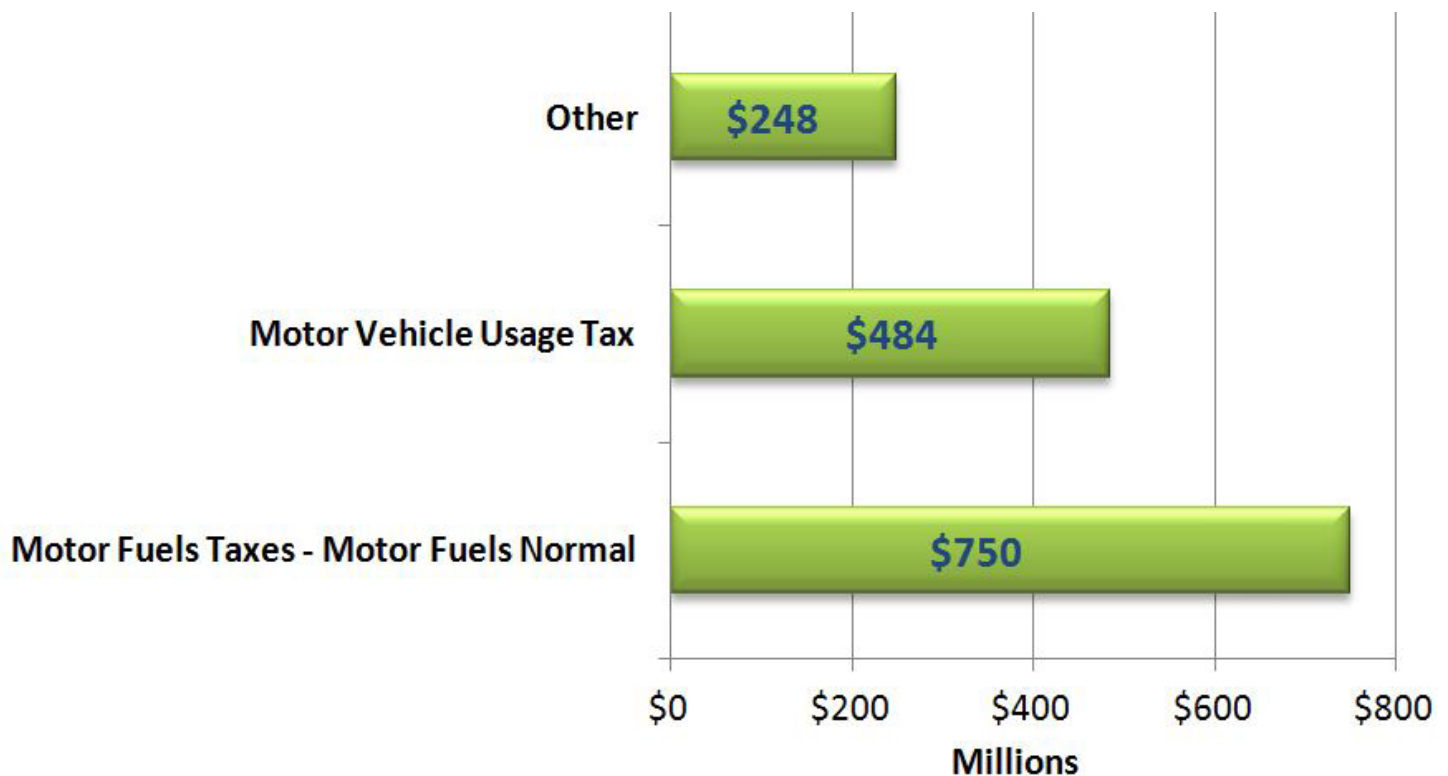
Tax Type	2016 Receipts	2015 Receipts	Percent Change
Alcoholic Beverage Taxes - Distilled Spirits	\$51,710,138	\$48,940,106	↑ 5.7
Alcoholic Beverage Taxes - Malt Beverage	67,719,399	63,641,400	↑ 6.4
Alcoholic Beverage Taxes - Wine	19,685,576	19,236,442	↑ 2.3
Bank Franchise Tax	109,049,728	99,990,669	↑ 9.1
Cigarette Tax	224,303,658	220,902,529	↑ 1.5
Coal Severance Tax	120,610,311	180,283,352	↓ (33.1)
Corporation Income Tax	526,637,870	528,118,737	↓ (0.3)
Corporation License Tax	135,698	188,600	-- 0.0
Individual Income Tax	4,282,100,570	4,069,500,570	↑ 5.2
Inheritance and Estate Tax	51,247,149	50,975,858	↑ 0.5
Limited Liability Entity Tax (LLET)	202,990,632	223,791,283	↓ (9.3)
Lottery Receipts	241,778,429	221,500,000	↑ 9.2
Mineral and Natural Gas Tax	24,045,963	30,489,982	↓ (21.1)
Oil Production Tax	4,748,862	9,840,015	↓ (51.7)
Pari-Mutuel Tax	4,993,574	2,964,884	↑ 68.4
Property Taxes - Real Estate	268,087,934	259,228,298	↑ 3.4
Property Taxes - Tangible	237,464,692	226,137,118	↑ 5.0
Sales and Use Tax	3,462,704,116	3,267,331,025	↑ 6.0
<b>General Fund Total Receipts</b>	<b>\$10,338,884,795</b>	<b>\$9,966,630,897</b>	<b>↑ 3.7</b>



## Road Fund Revenue Receipts

### Road Fund 2016 Total Receipts

**\$1,482.5 million**



Tax Type	2016 Receipts	2015 Receipts	Percent Change
Motor Fuels Taxes - Motor Fuels Normal	\$750,034,840	\$850,276,246	↓ (11.80)
Motor Vehicle Usage Tax	484,397,314	432,769,932	↑ 11.90
Other Taxes	248,109,824	243,692,480	↑ 2.30
Road Fund Total Receipts	\$1,482,541,978	\$1,526,738,658	↓ (2.90)

# Department of Revenue

## Expenditures for FY2016 - All Funds

(Excluding PVAs)

Expenditure Category	General Fund	Road Fund	Agency Fund	Tobacco Settlement Fund	Total
Salaries And Wages	33,131,301.10	1,096,922.67	3,032,078.46	20,193.74	37,280,495.97
Fringe Benefits	21,540,542.22	731,940.03	2,088,658.64		24,361,140.89
Other Personnel Costs	429,912.92	860.00	5,263.26		436,036.18
Pro Contract (Inc Per Serv)	82,324.25		725.00		83,049.25
Non Pro Contract	3,408,298.10		1,504,157.60		4,912,455.70
Utilities And Heating Fuels	1,067,014.34				1,067,014.34
Rentals	2,863,220.49	330.39	113,358.57		2,976,909.45
Maintenance And Repairs	989,018.93		89,300.76		1,078,319.69
Postage And Related Services	4,176,496.73	19.60	400,263.71		4,576,780.04
Miscellaneous Services	731,606.81		39,349.79	227,753.70	998,710.30
Telecommunications	513,528.53		46,696.29		560,224.82
Internal Computer Services	12,936,142.26	664,616.19	3,002,020.97		16,602,779.42
Items For Resale	539.35		1,598.50		2,137.85
Supplies	107,671.80	1,563.94	35,157.06	15.80	144,408.60
Commodities	880,298.22	422,821.92	225,190.73		1,528,310.87
Travel Exp & Exp Allowances	80,820.93	24,205.26	163,839.57	2,036.76	270,902.52
Misc Commodities & Other Exp	757,681.46	27,320.00	421,769.94		1,206,771.40
Claims	2,364.24				2,364.24
Capital			338.29		338.29
Construction			1,427.24		1,427.24
<b>Total Expenditures</b>	<b>83,698,782.68</b>	<b>2,970,600.00</b>	<b>11,171,194.38</b>	<b>250,000.00</b>	<b>98,090,577.06</b>

Quarterly Economic and Revenue Reports, Monthly Tax Receipt Reports, current and past budget related documents for the Commonwealth can be found at: <http://osbd.ky.gov/Publications/Pages/default.aspx>



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# *Executive Summary*

The Department of Revenue is comprised of five offices including the: Office of Processing and Enforcement; Office of Property Valuation; Office of Sales and Excise Taxes; Office of Income Taxation; and Office of Field Operations. At the end of fiscal year ("FY") 2016, the Department was in the process of forming a sixth office, the Office of Tax Policy and Regulation. This report will highlight successes from each of the offices.

The department continued to make great strides with the strategic alignment of staff to fairly administer the tax laws of Kentucky despite considerable limitations due to our outdated computer systems. The department's network of heterogeneous applications and systems has made it very difficult and expensive to provide the citizens of the commonwealth with superior customer service. The department is looking into implementing an integrated tax system that would offer a consolidation of many of our existing systems resulting in lower maintenance costs, improved efficiency and an overall improvement in the department's functionality.

We have worked diligently to elevate our customer service to a standard which taxpayers and partnering agencies deserve and have come to expect. The department's combined efforts are evidenced through the collection of \$10.3 billion in total revenue during FY '16. This number represents an increase of 3.7% over FY '15.

The department implemented fraud deterrence and prevention measures which prevented over \$17.8 million in potentially fraudulent refunds from being issued on over 25,000 returns. These endeavors demonstrate the department's commitment to constant vigilance in protecting and safeguarding both the Commonwealth's revenue as well as taxpayer identities and confidential information.

We applaud the passage of Senate Bill 129 during the 2016 legislative session. This piece of legislation has allowed the department to become more business friendly by improving its administrative regulation procedures. Specifically, the bill eliminated the requirement that the department incorporate tax forms by reference in a regulation. All form changes are now published on our website. This measure reflects the department's desire to quickly respond to taxpayers' requests, needs, and expectations.

Kentucky Business One Stop has also improved working relationships with businesses across the Commonwealth and the nation. Businesses and those who are entrusted with their tax accounts can easily register with the department. Kentucky Business One Stop is constantly expanding, improving, and gaining popularity in the business community.

The department serves both internal and external customers, and its staff are actively engaged in improving the experience for all those who interface with them. This improvement is being done through process mapping, expanded training, and education and outreach opportunities. We are enthusiastically seeking and collaborating with a number of external partners in a concerted effort to reach our customers at the community level. These endeavors will be accomplished through our resolute efforts regarding the four main principles of Fiscal Management, Consumer Focus, Competence, and Training/Education. We are striving to break down barriers to communication between areas within the department and endeavor to have like-mindedness through an initiative

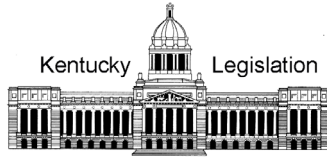
called “One Department - One Team.” This can be most vividly noted in our new website layout that was launched at the end of FY ‘16.

Subsequent to the close of fiscal year end June 30, 2016, the department has had many changes. In keeping with our goal of building an exceptional team to steer the department towards achieving its goals, C. Jane Harrison was hired as the Executive Director of the Office of Income Tax and Christy Kinney was promoted to the Director of Individual Income Tax. Cathy Thompson was promoted to the position of Director for the Division of State Valuation. Glenn Waldrop was hired as the department’s Public Information Officer. Glenn’s position will focus on working hand-in-hand with staff to better communicate with the taxpayers of the Commonwealth. We strive to make communication between the department and businesses simpler through the utilization of multiple communication resources to assist all taxpayers in becoming, and remaining, compliant. We want to ensure all Kentuckians that we are here to help. Additionally, the department has created a new office, the Office of Tax Policy and Regulation, which will be led by Ken Meng as the Executive Director and Gary Morris as an Executive Advisor. The Division of Protest Resolution has been attached to the Office of the Commissioner. The Division of Special Investigations has been moved from the Office of the Commissioner to the Office of the Inspector General beneath the Finance and Administration Cabinet.

As we move forward, we keep foremost in our mind the understanding of what our efforts and successes mean for all agencies within state government. Our connection and service to every citizen is vitally important as they rely on our support services and programs. We proudly and resolutely accept the tasks and responsibilities that have been entrusted to our department. We commit to actively improving and working toward continuous innovation in every area of operation. This innovation includes harnessing the most effective technology as well as the most efficient utilization of staff. Many of our initiatives are in their infancy and we look forward to relaying, through next year’s annual report, the successes that have resulted from our collective thinking outside the box.

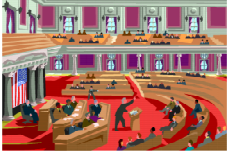


# 2016 General Assembly



## A Review of Tax Law Changes Enacted by the 2016 General Assembly

### 2016 Legislation Affecting Kentucky Department of Revenue



*NOTE: This 2016 legislative summary presents only general information concerning the major tax provisions the General Assembly has enacted and does not represent a complete analysis or specific interpretations of the law changes. The Department of Revenue (DOR) will provide more specific information as it implements these changes. Full text of enacted bills is available on the legislative homepage, [www.lrc.ky.gov](http://www.lrc.ky.gov)*

#### A REVIEW OF TAX LAW CHANGES

Enacted by the 2016 Regular Session of the General Assembly.

##### ALL TAXES

##### Business Friendly Regulation Change in Senate Bill 129

Senate Bill (SB) 129 made several changes to improve the administrative regulation procedures. One of the changes relates to the department's tax forms regulations. Effective July 14, 2016, the bill eliminates the requirement that the department incorporate tax forms by reference in a regulation. In the future, the department will simply publish changes to the forms on its website.

##### INCOME TAX

Internal Revenue Code Update—House Bill (HB) 80 updates the Internal Revenue Code (IRC) reference date from December 31, 2013 to December 31, 2015, for purposes of computing corporation and individual income tax, except for depreciation differences contained in KRS 141.0101. The IRC update applies to taxable years beginning on or after April 27, 2016, the date the bill was signed by Governor Bevin. Therefore, taxpayers must continue to adjust federal taxable income to Kentucky taxable income. For fiscal year end taxpayers with tax years beginning on or after April 27, 2016, taxable differences related to the IRC reference date update should be entered on the other additions and/or other subtractions line(s) of the applicable tax return. The IRC update will apply to the 2017 calendar tax year for individual, corporate, pass-through entity and fiduciary taxpayers.

#### ECONOMIC DEVELOPMENT

Kentucky Industrial Revitalization Act (KIRA)—HB 535 amends KRS 154.26-080 to extend the time an eligible company has to apply for a supplemental project after the expiration of the initial term of an agreement to 60 months. It also reduces the minimum number of employees at the site of the economic revitalization project from 750 to 100 and reduces the required investment from \$10,000,000 to \$5,000,000 in additional costs for improvements to a blast furnace. An additional requirement for approval of the eligible improvement costs is that the blast furnace was idled due to unfairly traded imports of carbon steel, with resulting layoffs of more than 550 employees.

#### SALES AND USE TAX

##### HB 585 - 911 Prepaid Service Charge

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

- prepaid cellular phones;
- prepaid calling cards for cellular phones;
- additional minutes or airtime for a prepaid cellular phone; and
- additional minutes or airtime for a prepaid calling card for cellular phones.

The service charge is \$0.93 per item on each retail transaction. The service charge is to be paid by the purchaser and collected by the retailer at the time of

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

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

## **PROPERTY TAX**

HB 402 removed landfills from being classified as public service companies ("PSC") for property tax purposes. Effective for assessments beginning on or after January 1, 2017, HB 402 establishes a fair cash value method for landfill facilities that can be determined through the application of a valuation methodology that has developed wide acceptance throughout the industry, including by the International Association of Assessing Officers (IAAO). An administrative regulation, 103 KAR 8:160, was promulgated on July 14, 2016, to prescribe the specific valuation method. This regulation is available through the department's website at <http://revenue.ky.gov/property/Pages/Landfill-Regulations.aspx>.

# **OFFICE OF LEGAL SERVICES FOR REVENUE**

## **ADMINISTRATION**

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

The 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. The OLS is not responsible for personnel, bankruptcy, collection and criminal matters, which are handled elsewhere in the DOR or the Finance and Administration Cabinet.

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



# Office of Legal Services for Revenue

*2015-2016 Annual Report*

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**Clinton Combs**  
Attorney III

# Legal Issues

The cases handled by Office of Legal Services (OLS) address issues and have resulted in precedents of significant importance and interest to taxpayers and the Commonwealth. Some of the recently decided cases are outlined below.

## Recent State Tax Decisions Fiscal Year 2016

***Estate of McVey v. Department of Revenue, 480 S.W.3d 233 (Ky. 2015).*** The two substantive issues of inheritance tax law in this case decided by the Kentucky Supreme Court were the following: 1) “may inheritance taxes paid as a ‘cost of administration’ under a will’s tax-exoneration provision be deducted from the value of distributive shares under KRS 140.090 and thereby reduce the overall tax liability?” and 2) “is the payment of tax by an estate on behalf of a beneficiary under a tax-exoneration clause itself a taxable ‘bequest of tax’?” The Kentucky Supreme Court ruled in the Department’s favor on these questions, holding that the inheritance taxes paid by an estate on behalf of a beneficiary of the estate are not “costs of administration,” but separate bequests subject to inheritance tax. These taxes do not reduce the total tax liability.

The other issue in this case, which has a broader application beyond the inheritance tax, was whether the decision of the Kentucky Board of Tax Appeals (“KBTA”) (now, the Kentucky Claims Commission), was owed any deference by the reviewing court. The KBTA had ruled in the Estate’s favor; the circuit court and Court of Appeals reached contrary decisions. Both the Estate and the Department agreed that the facts were undisputed and thus only questions of law were at issue. *Id.* at 239.

The Supreme Court held that deference is given only to an interpretation of a statute the agency in question administers. *McVey*, 480 S.W.3d. at 239-40. In this case, the KBTA’s decision was not entitled to deference because it was not charged with the administration or implementation of the inheritance tax. The Department is instead the administrative agency or body that administers the inheritance tax and whose interpretations would be entitled to any deference.

***Commonwealth v. AT&T Corporation, 462 S.W.3d 399 (Ky. 2015).*** The taxpayer in this case (“AT&T”) filed an action for declaratory relief asserting that amendments to a sales and use tax statute (KRS 139.505, involving interstate communications service) were unconstitutional or being unconstitutionally applied. AT&T also asserted that this statute was being erroneously interpreted or applied, even if not done so in an unconstitutional manner, and further sought a refunds of the sales and use tax it alleged to have

improperly or erroneously paid. The total amount of these claimed refunds was approximately \$13,000,000.

The circuit court dismissed the action in its entirety for AT&T’s failure to follow the statutory procedure governing tax disputes and tax refunds in particular. *See generally* KRS 134.580(3); 134.590(20); 131.110; 131.340; 131.370. The Court of Appeals affirmed this decision in part, to the extent AT&T asserted that the statute was being unconstitutionally applied or misinterpreted, but held that the circuit court should not have dismissed AT&T’s action to the extent that it asserted that the amendments to KRS 139.505 were facially unconstitutional. These issues, the Court of Appeals held, could not be decided by the KBTA.

The Kentucky Supreme Court granted the Department’s motion for discretionary review and reversed the Court of Appeals’ decision. The Supreme Court held, AT&T’s refund claims did include a facial challenge to a statute, KRS 139.505. There were also several non-constitutional issues, however, that needed to be resolved before any facial constitutional challenge could be addressed. Accordingly, the circuit court properly dismissed AT&T’s suit, requiring AT&T to pursue its administrative remedy in accordance with KRS 131.110.

***Department of Revenue v. AT&T Corporation and Subsidiaries, 2014-SC-00430 (Kentucky Supreme Court).*** At issue in this corporation income tax case was the application and validity of KRS 141.200(1) to (7), which permit corporations making up an affiliated group as defined in Section 1504(a) of the Internal Revenue Code to elect to file a consolidated tax return, computing their income tax liability in accordance with that return instead of filing separate returns. This election once made was to be binding on both the corporation taxpayers in question and the Department of Revenue for the ensuing ninety-six months.

AT&T Corporation took advantage of these statutory provisions, electing to file a consolidated return with those subsidiaries with which it formed such an affiliated group. It later filed refund claims totaling in excess of \$6.5 million based upon its contention that only corporations having a nexus with Kentucky could be part of the affiliated group. AT&T also argued that

the inclusion in the affiliated group of subsidiaries lacking such a nexus would violate the Commerce and Due Process Clauses of the United States Constitution.

The KBTA ruled in the Department's favor. The Jefferson Circuit Court reversed the KBTA's decision, holding that the subsidiaries in question should be removed from the affiliated group.

The Court of Appeals affirmed the Jefferson Circuit Court's decision. The Court of Appeals did not reach the constitutional issue. The Court instead found the relevant provisions of KRS 141.200 to be ambiguous and held that this ambiguity must be resolved in the taxpayer's favor. Accordingly, the Court held that all of the taxpayer's subsidiaries without Kentucky property or payroll must be removed from the affiliated group, thereby entitling the taxpayer to a refund. The Kentucky Supreme Court denied the Department's motion for discretionary review on May 6, 2016.

***Department of Revenue v. Progress Metal Reclamation, Co., Not reported in S.W.3d, 2015 WL 1197545 (Ky. App.).*** On March 13, 2015, the Kentucky Court of Appeals rendered an opinion affirming earlier rulings of the KBTA and the Franklin Circuit Court on two issues involving the application of the sales and use tax exemptions for energy or energy-producing fuel and industrial tools. See KRS 139.480(3); 139.470(11) (now found at KRS 139.470(10)). The particular items of tangible personal property whose tax treatment was at issue in this case were 1) hammer pins and 2) liquid oxygen.

The KBTA agreed with the Department with respect to the hammer pins. It found that these pins were not industrial tools, but were instead repair or replacement parts not exempt from tax under KRS 139.470(11)(b). The KBTA agreed with the taxpayer on the liquid oxygen, relying upon the Department's prior interpretation of KRS 139.480(3) and 139.470(10). The circuit court's opinion and order affirms both of the KBTA's rulings.

The Kentucky Supreme Court denied the taxpayer's motion for discretionary review on February 10, 2016.

***City of Florence v. Flanery, 2013-CA-001112, (Ky. App. November 7, 2014), discretionary review granted on February 6, 2016, 2015-SC-178 and 2015-SC-181 (Kentucky Supreme Court).*** The issue presented is whether the Telecommunications Tax violates Ky. Const. §§ 163 and 164 insofar as the law enacting the tax prohibits cities from levying and collecting franchise fees. See KRS 136.660(1); 136.650(1)(b)(2). The Cities complain that the distributions to them from the state fund created as part of the tax do not provide them with the amounts they had received through the franchise fees. These distributions are governed by a statutory cap that the General Assembly has not opted to raise.

The circuit court upheld the statutory provisions in issue as constitutional. The Court of Appeals reversed the circuit court's decision. The Kentucky Supreme Court granted motions for discretionary review filed by the Department and the Kentucky CATV Association, Inc., which had intervened in this action. Oral argument was heard on September 16, 2016.

***Ohio Valley Aluminum Co., LLC v. Department of Revenue, Not reported in S.W.3d, 2014 WL 4522236 (Ky. App.).*** This sales and use tax case concerns the application of the exemption or, to be more precise, the partial exemption provided in KRS 139.480(3) for energy or energy-producing fuels used in the course of manufacturing, processing, mining or refining, to the extent the cost of the energy or energy-producing fuel exceeds 3% of the cost of production. The taxpayer, Ohio Valley Aluminum, LLC, processes scrap and raw aluminum. Ohio Valley transferred its entire inventory of raw materials and finished goods to a wholly owned subsidiary it created, OVACO; Ohio Valley thereafter confined its business to the processing of aluminum.

Ohio Valley sought a refund of sales and use tax based upon its contention that it did not have to include the cost of raw aluminum when calculating its cost of production for purposes of arriving at its tax liability under KRS 139.480(3). Ohio Valley asserted that it did not have to include this raw material in the energy exemption calculation because OVACO owned the raw materials, limiting Ohio Valley's role as a fee processor or "toller" of raw materials owned by OVACO.

Affirming rulings of the KBTA and the Shelby Circuit Court, the Court of Appeals found that the prior court decisions governing this case were *Louisville, Edible Oil Products, Inc. v. Revenue Cabinet*, 957 S.W.2d 272 (Ky. App. 1997) and *Revenue Cabinet v. James B. Beam Distilling Co.*, 798 S.W.2d 134 (Ky. 1990). These decisions found that "cost of production" was an "inclusive, expansive" term under the applicable regulation, 103 KAR 30:140, that required the inclusion of all raw material costs in the energy exemption calculation. Furthermore, Ohio Valley and OVACO were clearly dependent upon one another for the production of the finished product in question (i.e., heated and refined aluminum billets) and the costs of their respective operations should be included in cost of production of these items.

The Court of Appeals further agreed with the KBTA's ruling that "the allegedly separate relationship between Ohio Valley and OVACO [did] not withstand scrutiny." The Kentucky Supreme Court denied the taxpayer's motion for discretionary review on August 12, 2015.

***Department of Revenue v. Chegg, Inc., Not reported in S.W.3d, 2016 WL 834585 (Ky. App.).*** The issue presented in this case was whether the taxpayer's rental textbooks were exempt from state and local ad valorem taxation as personal property placed in a warehouse or distribution center for the purpose of subsequent shipment to an out-of-state destination. Reversing an earlier KBTA decision, the circuit court and Court of Appeals agreed that the exemption applied and set aside the Department's assessments. The Court held that the term "destination" need only be "a place to which one is journeying or to which something is sent." It rejected the Department's contention that the word destination must be the final destination or predetermined end of a journey. The Department's motion for discretionary review was denied by the Kentucky Supreme Court on September 22, 2016.

***Interstate Gas Supply, Inc. v. Department of Revenue, 2016-SC-000281 (Ky. Supreme Court).*** At issue in this case is whether exemption for institutions of purely public charity provided in Ky. Const. § 170 applied to the use tax imposed by KRS Chapter 139, which is an excise tax. Reversing the circuit court's opinion and order, the Kentucky Court of Appeals held that the Ky. Const. § 170 exemption is not confined to ad valorem or property taxes. The Court relied upon a decision by the former Court of Appeals that dealt with another exemption in Ky. Const. § 170, the one applying to public property used for public purposes. It found inapplicable a recent decision by the Supreme Court (*Children's Psychiatric Hospital v. Revenue Cabinet, 989*

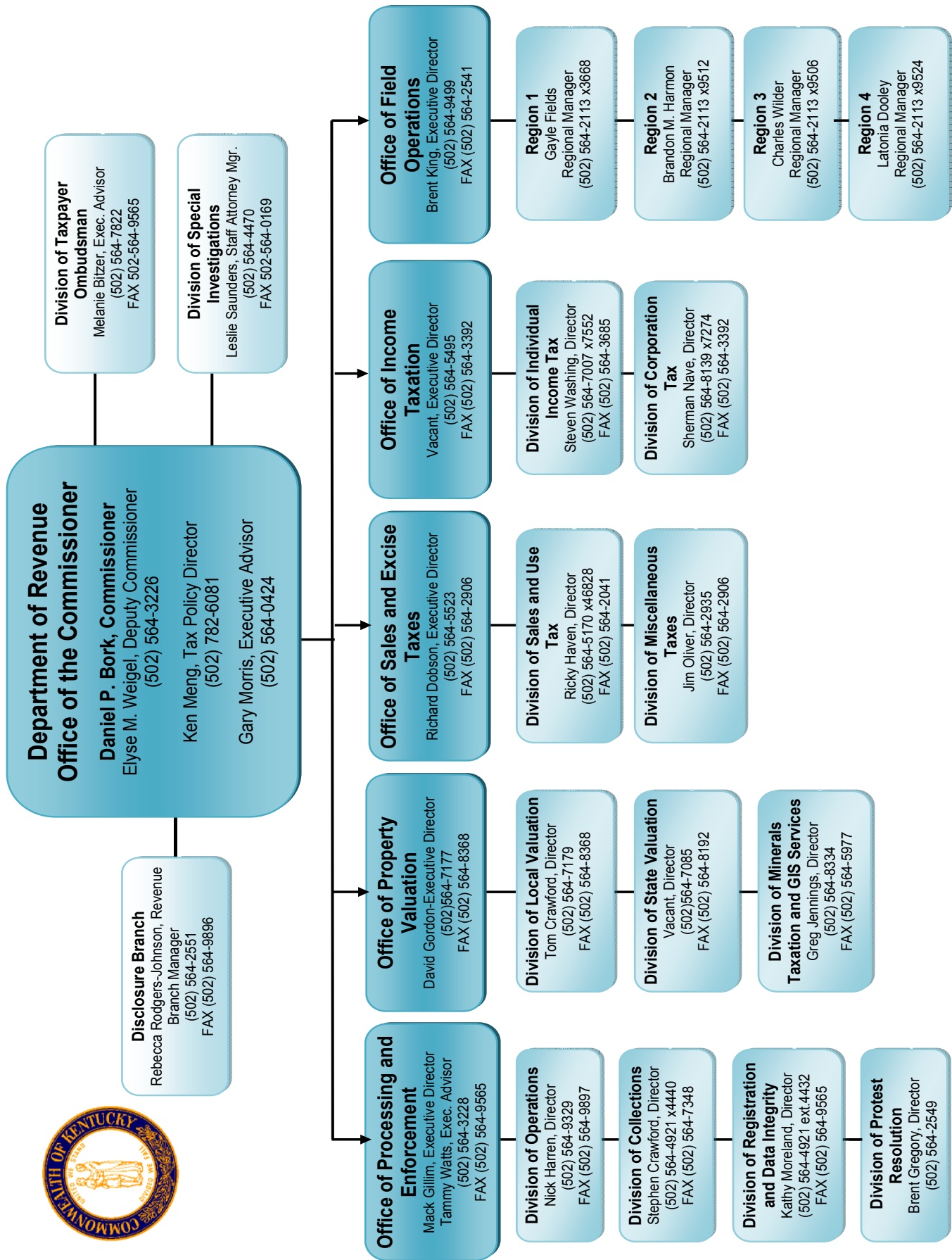
*S.W.2d 583 (Ky. 1999)*, which held that the exemption for institutions of purely public charity did not extend to another excise tax, the health care provider tax.

The Department petitioned the Court of Appeals for a rehearing on March 17, 2016, which was denied. The Department filed a motion for discretionary review by the Kentucky Supreme Court, which was granted October 13, 2016.

***Farmers National Bank v. Department of Revenue, 486 S.W.3d 872 (Ky. App. 2016).*** This action is a constitutional challenge by two banks and the Kentucky Bankers Association to provisions of KRS Chapter 134 governing the annual sale of delinquent ad valorem tax claims or certificates of delinquency to third party purchasers of these claims or certificates.

The Banks are mortgage lenders who hold security interests in real property across the Commonwealth. Their central complaint is that they are not given notice of the delinquency of the taxes in question or of the sale of the certificates of delinquency to third party purchasers. This denies them due process, they contended. They also challenged the delinquent ad valorem tax scheme as violating a variety of constitutional provisions - - Ky. Const. §§ 13, 171, 175, 181, and 242 and the Takings Clause of the U.S. Constitution. Affirming the circuit court's decision, the Court of Appeals rejected the claims of the banks and the Banking Association, which filed a motion for discretionary review on June 22, 2015. The Kentucky Supreme Court denied review on April 27, 2016.





The above organizational chart was as of June 30, 2016. For an updated chart, visit the following link:  
<http://revenue.ky.gov/Pages/Meet-Our-Staff.aspx>

## TRAINING AND STAFF DEVELOPMENT



# REVENUE

Historically, training within the Department of Revenue was done separately beneath each individual office. We, the department, have come to recognize the many missed opportunities for inclusive and cohesive training, as well as opportunities to improve and expand on training for both our state staff and for entities that interface with the department. We have begun taking the necessary steps to create a consolidated Division of Training. Through this unified approach we will be able to develop curriculum and use fresh learning theories and technology in tandem to provide consistent and relevant training. This shift affords us the ability to focus on leadership development as well as career path development for our employees. This will aid in the reduction of avoidable departures of our staff. Additionally, we have begun a formal and detailed on-boarding process for new hires entering the department. In keeping with our role as stewards, we will continue to keep our primary focus on customer service which directly benefits our taxpayers and interfacing practitioners. Because our efforts are still largely in the organizational stages, this year's report outlines the five individual offices' training accomplishments separately.

## **Office of Processing and Enforcement**

### **Internally Developed:**

- A leadership resource library for department leadership
- A trainer's resource library for all training staff
- A new employee on-boarding class
- Team building activities for groups and leadership as part of welcoming new staff
- Host learning webinars on the managerial development of soft skills for staff and leadership
- A training computer lab for staff to complete both required and elective courses

### **Coordinated:**

- And hosted a one-day leadership retreat
- Outside learning opportunities for staff

### **Produced:**

- A quarterly newsletter for the office
- A weekly distribution to the department's leadership staff with "Leadership Tips of the Week"
- A training video for federally mandated IRS disclosure for all staff and contract entities

### **Collaborated**

- In the creation and training for WRAPS, KyBOS, CACS-G, and EXCEL

## **Office of Sales and Excise Tax**

### **Conducted training outside DOR encompassing:**

- Motor Vehicle Usage Tax training for County Clerks
- Sales and Use Tax training for the KY Nursery & Landscape Association
- Sales Tax and Streamlined Sales Tax for the Tax Executives Institute Meeting
- Tobacco Tax for the Federation of Tax Administrators Conference

### **Conducted training within DOR encompassing:**

- Overview of Sales and Use Tax
- Enterprise Registration System
- Annual Sales and Use Tax school
- Inheritance Tax
- UGRLT & Telecom Tax

### **Participated in:**

- A question and answer session on Federal Disaster Relief Aid at the Community Housing Fair for Business and Homeowners

## **Office of Field Operations**

### **Conducted training encompassing:**

- Corporate audit training
- Audit approvals for supervisors
- Comprehensive Sessions software system for field compliance staff and auditors
- Review of Natural Gas Severance Tax
- Review of Property Tax audits, specifically, reconciliation, amended returns, and refunds
- Review of the Computer Assisted Audit Program, focusing on the introduction and instructions for the use of the Electronic Data Questionnaire checklist
- Refresher course on narrative reports within the corporate audit template system

### **Participated in training for Multistate Tax Commission**

### **Travelled to six Taxpayer Service Centers to conduct:**

- Training on databases, templates, amended tax returns, and audits

## **Office of Property Valuation**

### **Conducted multiple training sessions for:**

- PVAs
- County Clerks
- Sheriffs

### **Coordinated and hosted:**

- PVA Conference on Assessment Administration

### **Offered courses as part of the DOR/PVA education program**

- Attended by 432 participants

### **Conducted training through the KACo Leadership Institute for:**

- A variety of local officials with an emphasis on County Judge Executives and Magistrates

### **Awarded:**

- Certified Kentucky Assessor, or Senior Kentucky Assessor designations to 15 students



## **Office of Income Tax**

### **Conducted training outside DOR encompassing:**

- 25 classes taught outside of state government including UK Tax School and Kentucky Tax update to various entities
- Outreach training on individual tax to high school students

### **Conducted training sessions inside DOR encompassing:**

- Monthly training on ADA and EEO issues
- Compensation and payment to employees
- Taxability of lawsuits and settlements
- Transfer pricing
- S-corporation shareholder stock basis
- Partnership tax
- Form 990, employee vs independent contracting
- 403(b) retirement plans
- Accumulated sick and vacation pay deferred to 403 (b) or 457 (b) plans

### **Hosted webinars covering:**

- Soft skill development for staff and improving customer service skills for the taxpaying public

### **Participated in IRS Virtual Small Business Forum**

### **Published bi-monthly Tax Alerts**

- <http://revenue.ky.gov/News/Publications/Pages/Tax-Alerts.aspx>



# EMPLOYEE SPOTLIGHT



## Kim Smith

### Division of Collections

Not only was she kind, empathetic, knowledgeable, professional, courteous and pronounced my name correctly, but she also actually listened to the entirety of my issue without cutting me off halfway through. As if that was not enough for me to be impressed, Ms. Smith did actually follow up on what she said she was going to follow up for me, didn't keep me waiting for two weeks to let me know, resolved what she could for me and made it clear that I could contact her at any time, should I need any more help and gave me her contact number.

## Jill Salee

### Owensboro Taxpayer Service Center

I wanted to let you know just how helpful Jill has been to me over the last few months. I started a business last summer and was pretty much clueless as to how to go about it. Jill was so wonderful, walking me through all that I needed to do. I just recently decided to close my business (it was worth a shot, right?) and again just wasn't sure what needed to be done. She again helped me by telling me exactly what form to fill out and even where to find it. She has been awesome and I wanted to make sure her supervisor knew that.



## Craig Mitchell

### Division of Registration and Data Integrity

I would like to call to your notice the excellent results I attained thanks to Craig Mitchell. While not going into all the gruesome details, my wife and I were victims of misinformation, wrong instruction, and a lost day of work trying to obtain a state tax identification number. Thanks to Mr. Mitchell, this unfortunate situation was corrected in a very timely and courteous manner. Many thanks to this valuable member of your team.

## Lisa Starns

### Division of Individual Income Tax

Thank you! I wanted to let you know just how much I appreciated your professionalism and helpfulness during this. Although I knew that I could eventually get all the documentation that you required, you were helpful and kind and it was appreciated. When I received the notice, I just about had a heart attack but after taking a few moments to calm down and review what was being asked, I knew it would be fine. When I called, I am not sure what I expected, but I did not expect to talk to someone as nice and helpful as you! So again, thanks!





# EMPLOYEE SPOTLIGHT



## **James Pittman**

### **Division of Collections**

Mr. Pittman has been a Godsend, and I just wanted to let you know, while I would have never guessed an inopportune conversation with the Department of Revenue would be something I'd label an enjoyable experience, Mr. Pittman is one of the most competent, polite and patient individuals I've ever had the joy of working with. He's answered questions for me on a small number of occasions since 2014, and I felt it important to note how much he helped during each time.

I run a very small business with the purpose of giving back to our first responder community. It's not something I do much for personal profit, or plan to do forever, but he has patiently answered questions and given direction without making me feel like the "rookie" I am. I just appreciate him, and hope he never leaves!

## **Jennifer Baker & Scott Newsom**

### **Office of Field Operations**

Scott and Jennifer were very cooperative, got our audit completed in the time frame we requested, and explained everything fully to us! We were very pleased with this team out of Hopkinsville!!



## **Pam Glover**

### **Miscellaneous Tax Branch**

I am graciously asking for your help in recognizing an outstanding state employee, Pam Glover. Ms. Glover answered all my questions with glowing empathy for myself as well as the situation I was dealing with. To hear such a positive voice was so comforting. The stress she was able to relieve for me was tremendous. Government employees like herself, who go above and beyond expectations, are what makes our state of Kentucky excellent.

## **Megan Hazelip**

### **Division of Sales & Use Tax**

Often we hear criticism of poor service from government employees; I would like to give praise to a young lady who works in the Sales Tax Division. On two occasions Megan Hazelip has worked with me to correct a sales tax filing error. The error was created with a sales tax filing done by an accountant under the wrong number. Megan was pleasant and very helpful in resolving the issue. I don't think anyone could ask for a better experience dealing with anyone in a business matter. People my company pay to do business with have never been as easy or pleasant to work with as Megan.



# OFFICE OF THE COMMISSIONER

## ADMINISTRATION

The Office of the Commissioner is responsible for the overall management of the Department of Revenue including the department's budget and legislative initiatives. The Office of the Commissioner consists of a Commissioner, Deputy Commissioner and support staff. The office includes the Division of Taxpayer Ombudsman, Division of Special Investigations and the Disclosure Branch.

The **Division of Taxpayer Ombudsman** is responsible for administering the Taxpayer Bill of Rights. The division provides essential services to the taxpayers of the Commonwealth who require assistance with issues that are not resolved through normal channels.

The **Division of Special Investigations** is responsible for investigating alleged violations of the tax laws and recommending criminal prosecution of the laws as warranted.

The **Disclosure Branch** is responsible for the oversight of the department's physical security, data security, and exchange of information agreements.

## ACCOMPLISHMENTS

This report separately highlights the administration and accomplishments of each of the department's individual offices beneath their respective sections of the report. This section highlights the Disclosure Branch, the Division of Taxpayer Ombudsman, the Division of Special Investigations, as well as the policy advisors all of which are attached directly to the Office of the Commissioner.

The Division of Taxpayer Ombudsman addressed thousands of inquiries via direct call, referral from both the Governor's Office and the Legislative Research Commission Constituency Office, as well as from the newly established Practitioner Hotline. The hotline was established to improve communication between practitioners and the department. It serves to assist with case specific requests and to develop a communication network that will ultimately assist all taxpayers within the Commonwealth. While the hotline has only been in existence for under a year, it has been a distinctive success. Several hundred inquiries have been fielded and the department's Practitioner Liaison, Kevin Miller, has attended many outreach opportunities working on increasing awareness. Continuous improvement, identity protection, education, and communication are the top objectives the division.

The Division of Special Investigations had 18 cases indicted in this fiscal year, involving 63 felony charges, and has opened 36 new cases. It brought in \$359,626.67 in restitution paid to the Department, saved another \$622,553 by identifying and stopping 688 fraudulent income tax refunds, and receiving \$16,986.60 in payments to bills, for a total of \$999,166.27 for the fiscal year. Also during the fiscal year, the courts ordered defendants to pay \$375,753.68 in restitution to the DOR over time.

In 2016, the Kentucky Department of Revenue's website was redesigned to allow citizens and businesses easier access to tax forms, policies, and fraud reporting. The new website features clearer navigation, responsive design, and allows for quick access from multiple devices. "The Department's website redesign goal was to provide the right information to the relevant audience as efficiently as possible. With over 45 percent of our website traffic coming from mobile devices and tablets in the last year, mobile-ready design was a key aspect of this project," stated Commissioner Bork.

# Office of the Commissioner

*2015-2016 Annual Report*

**VACANT**  
as of 12/1/16

Deputy Commissioner



Ken Meng, Policy Director



Gary Morris, Executive Advisor



Leslie Saunders,  
Staff Attorney Manager



Melanie Bitzer,  
Ombudsman



Rebecca Rodgers-Johnson,  
Disclosure Branch



# OFFICE of PROCESSING & ENFORCEMENT

## ADMINISTRATION

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 four 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 maintaining a professional and well trained staff to provide courteous, accurate and efficient services to taxpayers. The division's primary goal is to assist taxpayers in resolving their tax liabilities and debts in an expeditious manner while considering their ability to pay. In instances where taxpayers willfully attempt to evade tax obligations, the division is responsible for the utilization of all administrative and legal actions available to enforce the collection of all taxes owed to the Commonwealth. These enforcement actions are done in a fair and equitable manner and include, but are not limited to, seizure of bank accounts, wages, accounts receivables, real property and personal property. The division may also deny or revoke a driver's license, vehicle registration or professional license. The division assists other state agencies with similar collection aspects as negotiated between the department and the other state agency.

The **Division of Protest Resolution** is responsible for arbitrating cases where the taxpayer has protested an action of the DOR, including assessments, refund denials and exemption denials. The division administers the protest functions for the department from office resolution through court action.

The **Division of Registration and Data Integrity** is responsible for the proper registration of businesses and maintaining quality data for existing businesses. The division is comprised of the Registration Branch and the Program Improvement/Data Quality Branch. The Registration Branch processes all business tax applications, both paper and Kentucky Business One Stop online submissions, as well as assists registrants as needed. This branch ensures that all taxpayers who may have overlooked their tax registration obligations are contacted, or potentially billed for delinquent periods, and brought into compliance. The Program Improvement/Data Quality Branch is responsible for updating and maintaining data integrity for DOR processes and preparing requested reports and statistics for Department, Cabinet and legislative inquiries. Both branches assist the taxing areas with proper procedures and ensure the accuracy of the data over time.

# Office of Processing & Enforcement

*2015-2016 Annual Report*



**Mack Gillim,**  
Executive Director



**Tammy Watts,**  
Executive Advisor



**Nick Harren,** Director  
Division of Operations



**Brent Gregory,** Director  
Division of Protest Resolution



**Kathy Moreland,** Director  
Division of Registration &  
Data Integrity

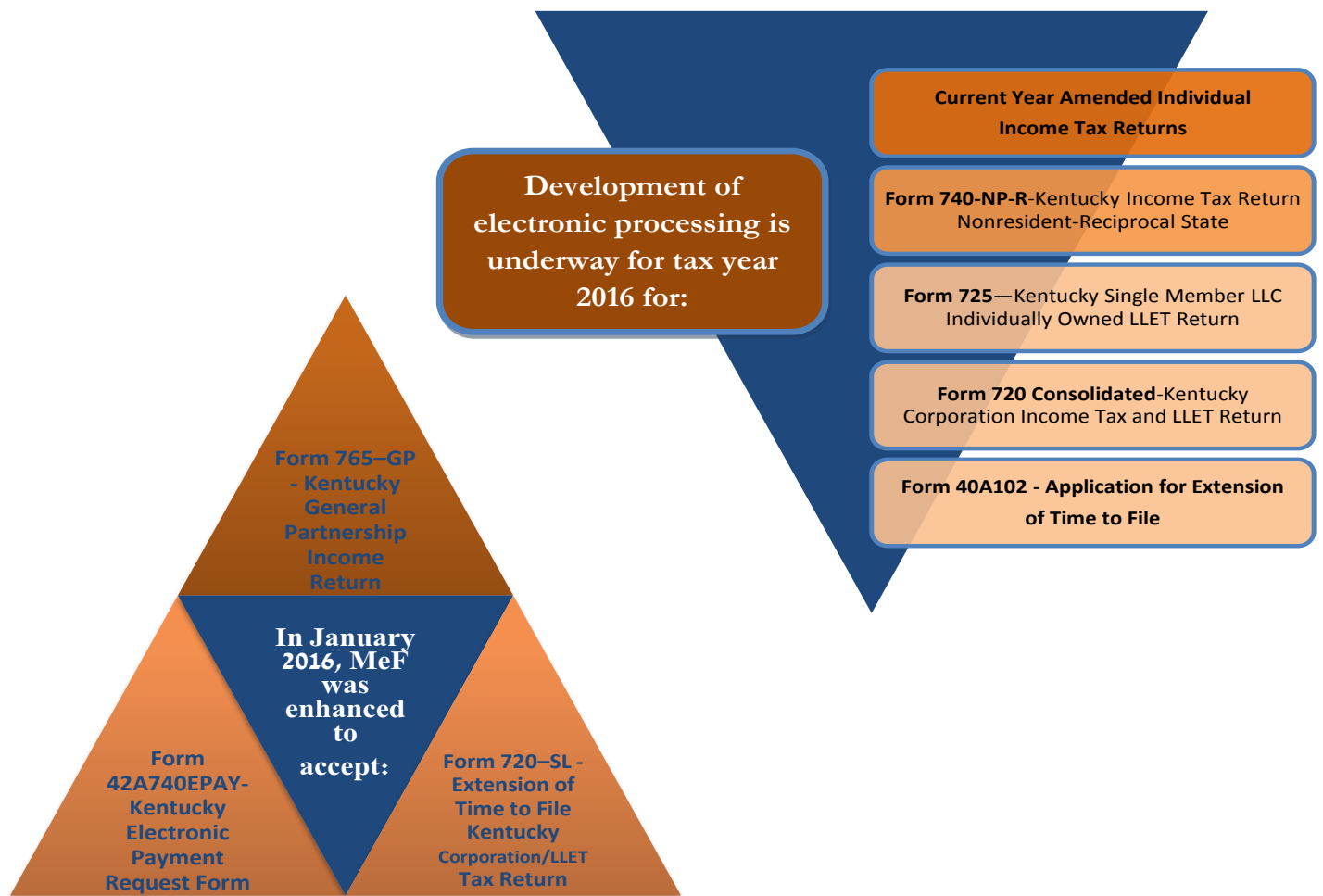


**Stephen Crawford,** Director  
Division of Collections

## Division of Operations

### Accomplishments

The Division of Operations and the Commonwealth Office of Technology are continuing to update the modernized electronic filing system (MeF), adapting to the tax changes made by the Internal Revenue Service and Kentucky



## Division of Operations

### Processed:

**1,720,614**

- **E-Filed Individual Income Tax (IIT) Returns**
  - 87.9% of total current year returns filed
  - 3.8% increase from last year

**51,040**

- **2D Barcode IIT Returns**

**184,754**

- **IIT Paper Returns**

**62,000**

- **Prior Year Amended IIT Returns**

**40,781**

- **E-Filed Corporate Returns**
  - 190% increase from last year



**1,205,689**

- **E-Filed IIT Returns Requesting Refunds**

**856,698**

- **IIT Direct Deposit Requests**

• 71 % of the total refunds requested

**7,418**

- **IIT State Issued Debit Card Requests**

## Image Cash Letter (ICL)

**\$3,180,393,204** ICL Deposits for FY '16

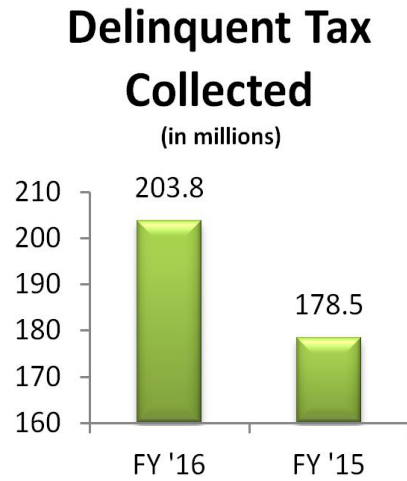
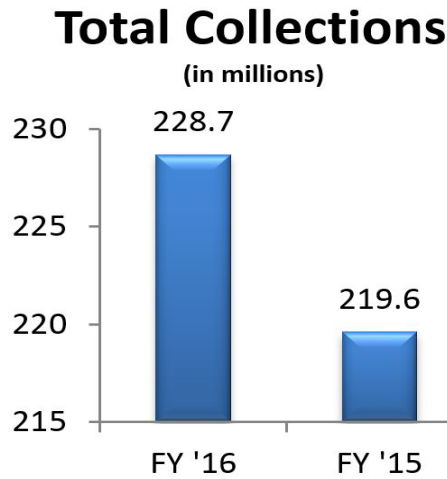
- 5.5% increase from last year

**2,154,471** Scanning and Imaging Transactions Processed

- 4.6% increase from last year

## Division of Collections

### Accomplishments



### Enterprise Collections Program

As mandated by KRS 45.237 et.seq, the Division of Collections collects debt due other state agencies. The Enterprise Collections Program allows agencies referring their debt to submit it either electronically or online. Participating agencies include the following:



**\$24.9 million**

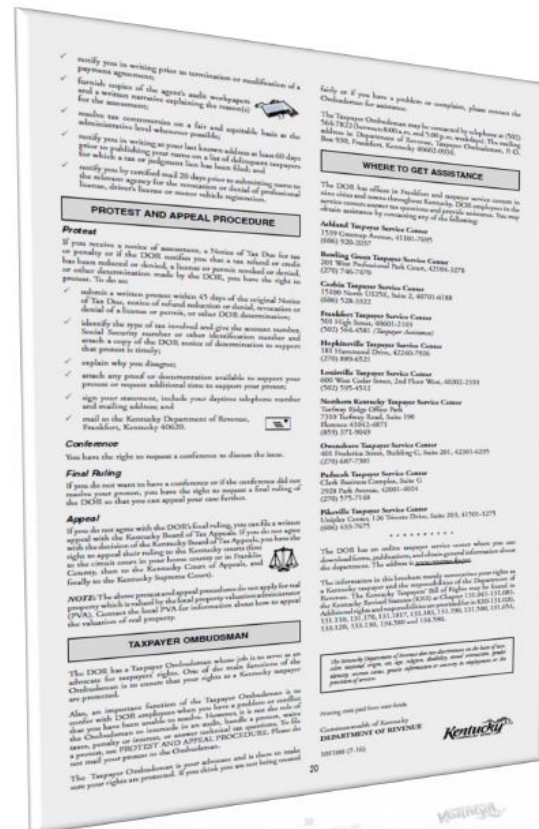
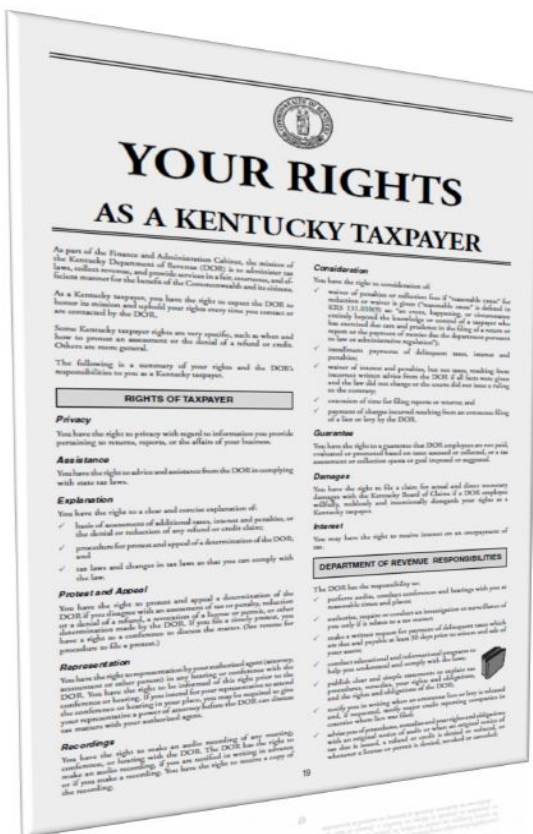
Fiscal Year 2016 Collections



# Division of Protest Resolution

## Accomplishments

The Division of Protest Resolution is responsible for resolving tax issues contested by taxpayers from a Department of Revenue assessment or ruling. In fiscal year 2015-2016, the Division resolved over 650 cases representing over \$150,000,000. During that period, the average resolution time per case was reduced by approximately three months.





## Division of Registration & Data Integrity

Answered  
**39,495**  
Taxpayer  
Assistance Calls

Answered  
**11,822**  
Additional  
Information  
Request Calls



Efforts resulted  
in approximately  
**\$105.9 million**  
in business tax  
revenues.

Received &  
processed **29,697**  
Kentucky tax  
registration  
applications.



Completed over **195,000** business tax account updates for data integrity cleansing.



Reviewed over **50,000** possible noncompliant businesses; **17,171** were determined to be unregistered and were contacted to determine their registration requirements.



Administratively registered **7,909** businesses that failed to respond to registration requests or submitted tax returns without having previously registered.

The Kentucky Business One-Stop portal received **32%** percent of the applications submitted.

There were **16,837** update/cancellation forms and other correspondence received and processed.

# OFFICE of PROPERTY VALUATION

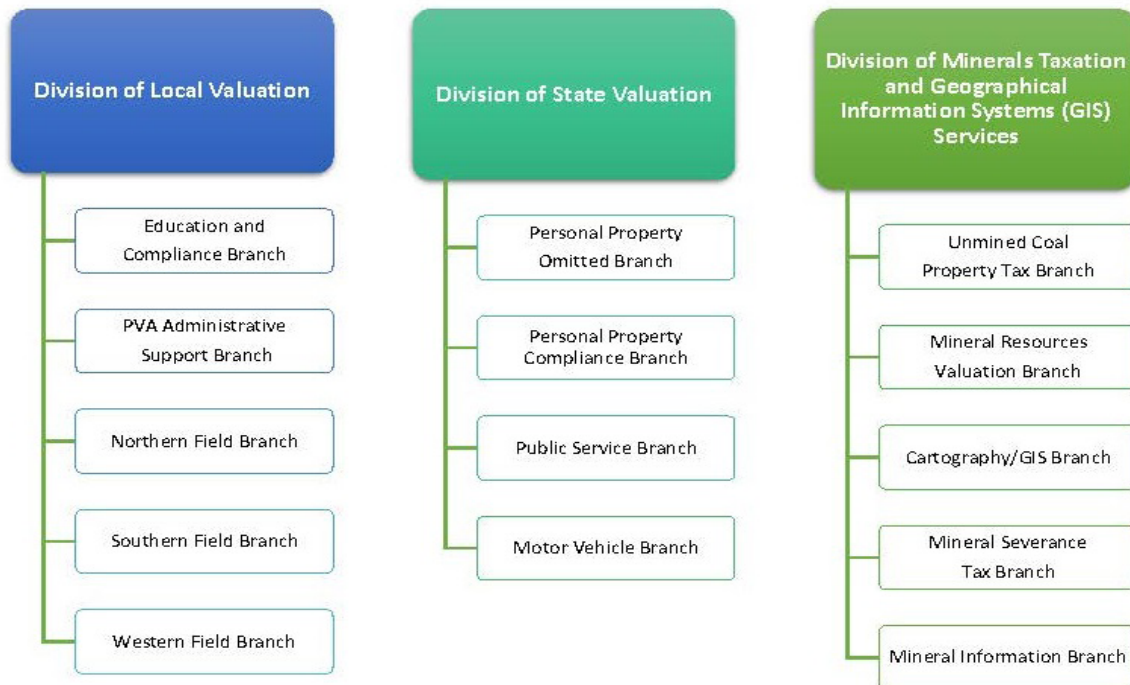
## ADMINISTRATION

The Office of Property Valuation supervises and assists Kentucky's 120 Property Valuation Administrators (PVAs) in the valuation of real and personal property throughout the Commonwealth; values the property of public service companies; values unmined coal and other mineral resources; values motor vehicles; and supervises the collection of delinquent taxes. It consists of three divisions:

The **Division of Local Support** oversees the real property tax assessment and collection process throughout the state in each county's property valuation administrator's, sheriff's and county clerk's office. The Division also oversees budget, fiscal, personnel, payroll and timekeeping administration for all PVAs and their deputies.

The **Division of State Valuation** administers all state-assessed taxes, including public service property tax, motor vehicle property tax, and the tangible and intangible tax program.

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 Department's GIS mapping efforts.



# Office of Property Valuation

*2015-2016 Annual Report*



David Gordon, Executive Director



Tom Crawford, Director  
Division of Local Taxes



Director  
Division of State Valuation



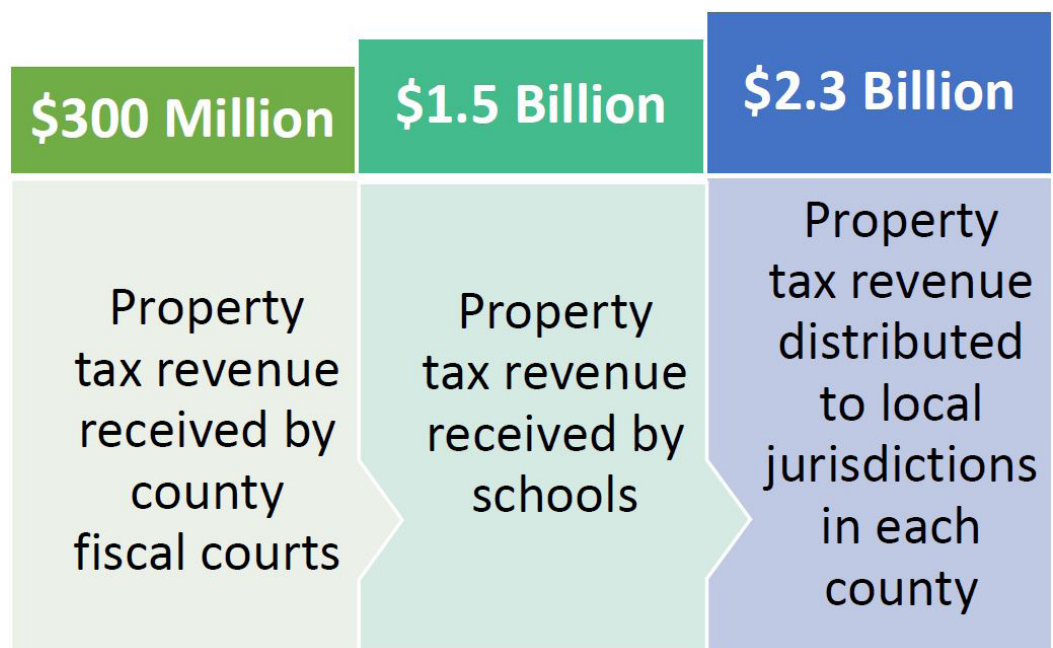
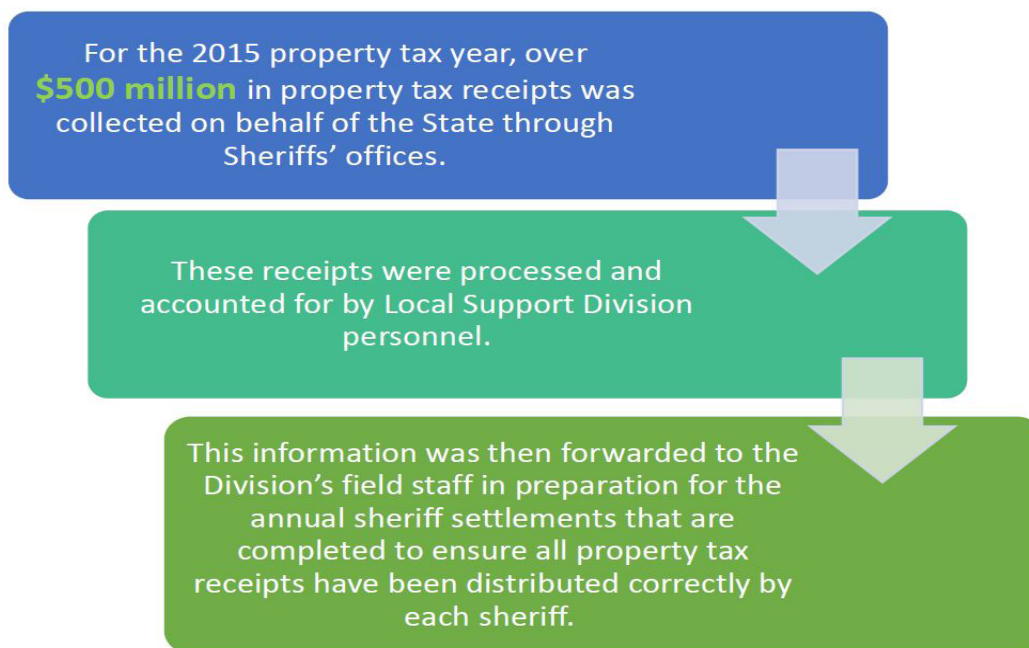
Greg Jennings, Director  
Division of Minerals Taxation  
and GIS Services

## Division of Local Valuation

### Accomplishments

Personnel within this Division participated in training developed specifically for county clerks and sheriffs. They were also invited to participate in the Kentucky Association of Counties' Leadership Institute training that is open to all local officials. Several sessions of each type of training class were held and class evaluations indicated they were very informative and helpful to the participants.

The manuals used by the county clerks and sheriffs for guidance with their respective office's property tax duties and the personnel manual utilized by the property valuation administrators were revised during the fiscal year. These manuals are used on a regular basis throughout the year by these offices.





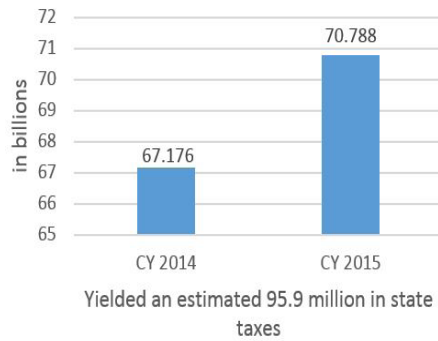
# Taxes Administered

**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.

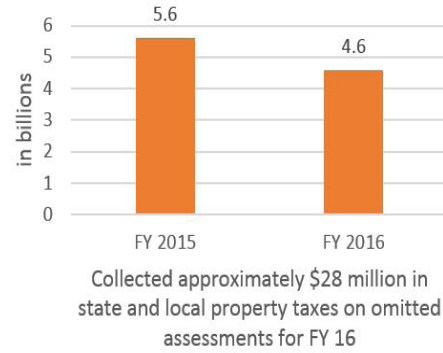
**Real Estate Not Elsewhere Specified (KRS 132.020(1)(a))**—Adjusted annually (by July 1) per KRS 132.020(4). The state real estate rate was 12.8 cents (per \$100 assessment) for 2006, 12.4 cents for 2007, 12.2 cents for 2008 through 2014. Full local rates.

# Division of State Valuation

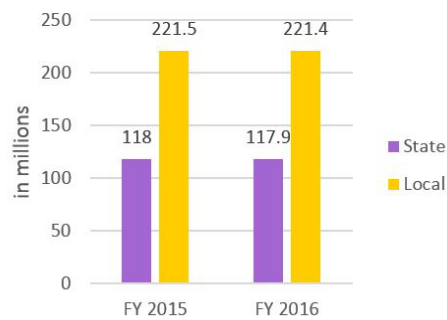
Locally Assessed Tangible  
Personal Property Assessments



Omitted Personal Property Tax  
Assessments

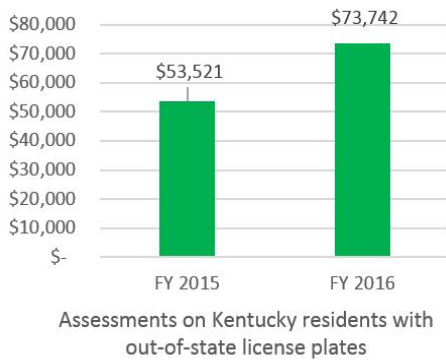


Combined State & Local  
Motor Vehicle Property Tax  
Collections

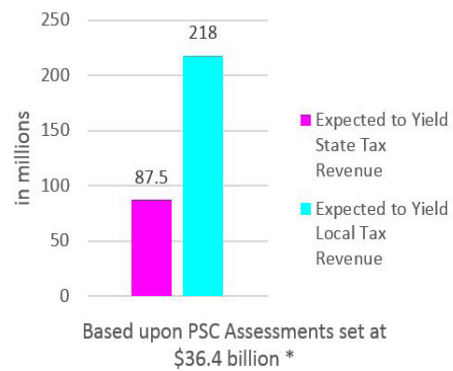


# Division of State Valuation

## Freddie Freeroader Program Assessments



## Public Service Company Assessments (CY 2015)



\* Public Service Company includes Public Service Companies, Telecoms, Railroad Car Lines, Commercial Watercraft, Electric Plant Boards, and Distilled Spirits in Bonded Warehouses.

## Assessments for Bank Deposits Tax, Savings & Loan Tax, and Domestic Life Insurance Capital Tax (CY 2015)



# Taxes Administered

## 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 Nonpublic 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. 4-R Rates apply.

**Distilled Spirits in Bonded Warehouses (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 assessments) state rate and full local rates.

**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.

**Goods in Transit—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.

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

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

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

**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.

**Radio and Television 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. 4-R Rates apply.

**Railroads—Intrastate (KRS 136.120, 136.180(4), 132.020(1)(o))**—10 cents (per \$100 of assessment). Multipliers applied to local rates and subject to annual adjustment. 4-R Rates apply.

**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.

## Taxes Administered, continued

**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.

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

**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 the DOR. Buses and nonapportioned Kentucky registered vehicles are subject to KRS 132.487. Semi-trailers of interstate motor carriers are exempt.

### Watercraft

- **Commercial (KRS 138.1801–136.1806)**—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.



## Division of Minerals Taxation and GIS Services

### Cartography/GIS Branch

The Cartography and GIS Branch supports counties that do not have GIS software or cannot update their own GIS data. This branch prints PVA maps using ArcGIS projects stored on the server. The staff uses pre-made ArcGIS templates for all counties allowing for fast and efficient reproduction of PVA maps and less down time for PVA offices. The staff also scans PVA maps or county clerk plats for paper reproduction or for geo-referencing into a county's GIS for accurate PVA parcel line updating.

**Map Sales:** The sale of PVA maps to the public and governmental agencies is distributed as follows:

- 80 percent of money received from paper map sales returned to PVA offices.
- 100 percent of money received from digital map sales go to PVA offices.

The Cartography/GIS Branch personnel continued their education efforts with PVA offices in five classes:



Class	2015	2016
ArcGIS Class	7	5
KY 60	2	1
KY 62	1	1

The branch is on the cutting edge of technology testing tablets for fieldwork to replace paper maps, property cards, boxes, and digital cameras for PVA field staffs property inspections. This saves time and money for PVA offices across the state, in the field and in the office. Tablets are becoming more popular in the field because of the use of the ArcGIS 10.X application that names the photograph by the parcel number of the selected parcel. Several counties use these techniques and continue to improve the use of tablets in PVA offices.

The flying or testing of drones for future disaster surveying could help counties recover from tornadoes, floods, and other disasters faster by supplying GIS users current aeriels of the damaged areas.

This Cartography and GIS Branch started assisting PVAs with building sketches using Apex or Rapid Sketch. In 2016, our branch staff has completed projects in Allen, Knott, Pike, Owen, Calloway, Crittenden, Metcalfe, and Whitley counties. The creation of digital building footprints along with digital photos helps PVA offices better assist the public with quick accessible data.

The branch is testing Solid State Hard Drives (SSHD) to determine how it improves GIS processing speeds. The tests that have been run in test PVA offices have improved agricultural speeds from hours to seconds. The owner layer is created in half the time which originally would have taken from 10 minutes has been reduced to 4 minutes. ArcGIS and computer start times have increased dramatically.

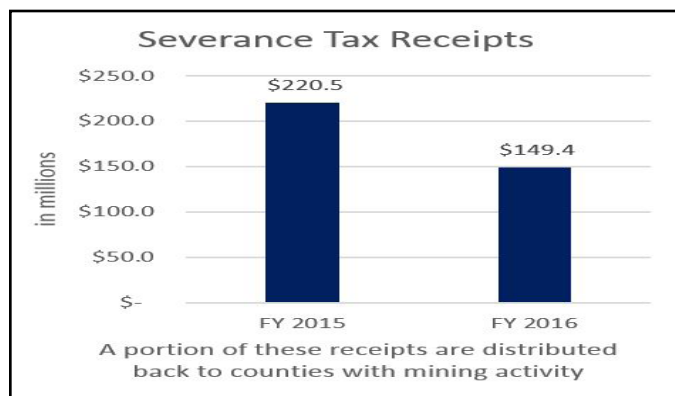
The branch uses remote control sessions using GoToAssist remote desktop software to assist PVAs with parcel sales, fix or set up projects, and technical support. This software allows our branch to set up GIS software and to fix data file structure. It also helps us return calls in a timely manner.

The branch now assists PVAs with their agricultural values using ArcGIS add-on tools. Staff can assess every property in a county using the USDA soils in less than ten minutes. This is a process that previously took multiple years to complete.

The ELA is an Enterprise License Agreement used by the Finance and Administration Cabinet and PVAs in 117 counties permitting the unlimited use of ArcGIS. The Cartography and GIS Branch records the ELA county payments and computer inventory list for all the PVAs.

The branch continues to explore the possibility of an Enterprise License Agreement for a high-resolution photographic imaging program which will enhance the ability to assess properties and furthermore, can be used by other state agencies for disaster assistance and economic development.

### Minerals Severance Branch



Tax Type	FY 16 Tax Receipts
Coal	\$120,607,931
Gas	\$6,538,255
Oil	\$4,830,046
Minerals	\$17,405,283
<b>TOTAL</b>	<b>\$149,381,515</b>

Coal Severance revenues continue to decline which has resulted in more coal companies going out of business. The remaining coal companies are struggling especially in Eastern Kentucky. The Minerals Severance Branch continues to communicate with companies to encourage continued compliance with state severance tax laws. Solid minerals other than coal saw an increase in revenue of thirteen (13) percent for the fiscal year. Oil and natural gas saw a significant decline in revenue due to the increase supply and demand factor which, for these minerals, drives down its value.

### Unmined Coal and Mineral Resources Valuation Branch

With a declining coal industry, the Unmined Coal Branch is currently undergoing an audit of the factors used to assess the values of unmined coal in the Commonwealth. For the 2015 tax year for unmined coal there was a total assessment of \$2,011,677 which results in approximately \$20,116,774 of tax revenue for the thirty-five (35) coal-bearing counties. There were 384 protests related to the assessment of unmined coal that were resolved.

The total unmined minerals 2015 tax receipts (2015 tax year):

Tax Type	Tax Receipts
Gas	\$11,230,087
Oil	\$5,361,252
Limestone	\$480,677
Clay	\$4,310
Coal	\$18,649,661
<b>TOTAL</b>	<b>\$35,725,987</b>

## Taxes Administered

**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.

**Unmined Coal, Oil and Gas Reserves and Other Mineral or Energy Resources assessed separately from Surface Real Property (KRS 132.820)**— Same tax rates as shown for real estate.

# OFFICE of SALES & EXCISE TAXES

## ADMINISTRATION

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 Division of Sales and Use Tax, Division of Miscellaneous Taxes, and the Office of the Executive Director.

The **Division of Sales and Use Tax** is responsible for administering the sales and use tax, telecommunications excise and gross revenue taxes. The division is comprised of the Program Compliance Branch and the Taxpayer Assistance Branch. 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 nonfiler populations.

The **Division of Miscellaneous Taxes** is responsible for administering the following taxes: affordable housing trust fund fee; alcoholic beverage taxes; cigarette enforcement fee; license, excise tax and surtax; chewing tobacco tax; 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; advance deposit wagering tax; RECC and RTCC; transient room tax; utility gross receipts license tax; and the spouse abuse shelter fund. The division is comprised of the Road Fund Branch and Miscellaneous Tax Branch.

# Office of Sales and Excise Taxes

*2015-2016 Annual Report*



**Richard Dobson, Executive Director**



**Ricky Haven, Director  
Division of Sales and Use Tax**



**Jim Oliver, Director  
Division of Miscellaneous Taxes**

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## OFFICE OF SALES AND EXCISE TAX

### Accomplishments

Maintained participation in the national Streamlined Sales and Use Tax Agreement (SSUTA), which continues to yield benefits. For FY16, there were approximately **1,100** registered SST filers who remitted tax returns to Kentucky. The total paid by all SST filers for the fiscal year was over **\$25.9 million**.

#### Electronically Received:

**207,807**

- Sales and Use Tax Returns

**12,374**

- Utility Gross Receipts License Tax Returns

**12,761**

- Motor Fuels Tax Returns

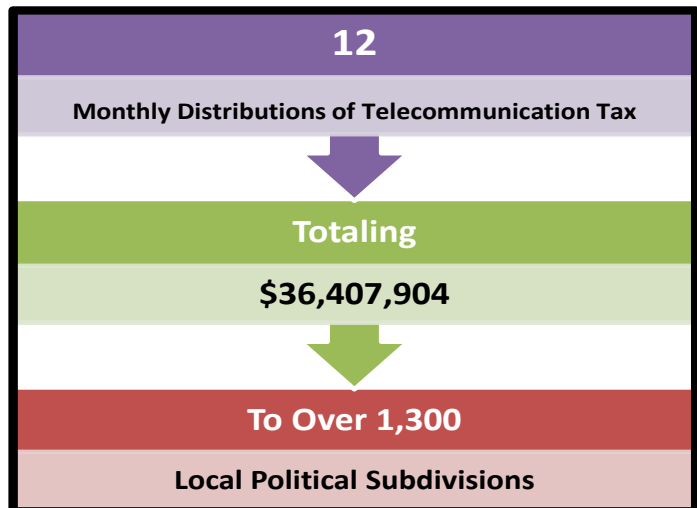
**4,500**

- Telecommunications Tax Returns

## Division of Sales and Use Tax

### Accomplishments

Reviewed sales tax accounts for tax payment thresholds to update accelerated filer status for a net revenue gain of **\$9.1 million**. Per Kentucky Regulation 103 KAR 25:131, the accelerated account returns are due the 25th day of the month and tax receipts are reported for the prior month and the first half of the current month.



#### Verified and Issued:

9

tourism  
project  
refunds  
totaling

**\$3,932,749**

6

TIF refunds  
totaling

**\$10,909,678**

48

KEIA  
refunds  
totaling

**\$6,432,282**

**\$3,462,704,116**

**Total Sales  
Tax  
Revenue**

- ✓ Held 2 public tax seminars
- ✓ By invitation, made a general sales and use tax presentation to an automobile business group

**1.6%**

Increase in Sales Tax Collected on  
Income Tax Returns in Calendar  
Year 2015 vs. Calendar Year 2014

Total Use Tax paid on income  
tax returns was **\$1.134 million**

# Taxes Administered

## **Sales and Use Taxes (KRS 139.010 et seq.)**

**Sales tax**—6 percent; Sales tax is imposed on the retailer for the privilege of making retail sales of tangible personal property, digital property or taxable services within Kentucky. (KRS 139.200)

**Use tax**—6 percent; Use tax is imposed on the use, storage or other consumption in the state of tangible personal property or digital property purchased for use, storage or other consumption in this state. (KRS 139.310)

Vendor's compensation is allowed up to \$50 per timely filed and paid return. Deduction 1.75 percent of the first \$1,000 of tax and 1.5 percent of the amount in excess of \$1,000 up to the cap of \$50.

There are statutory exemptions.

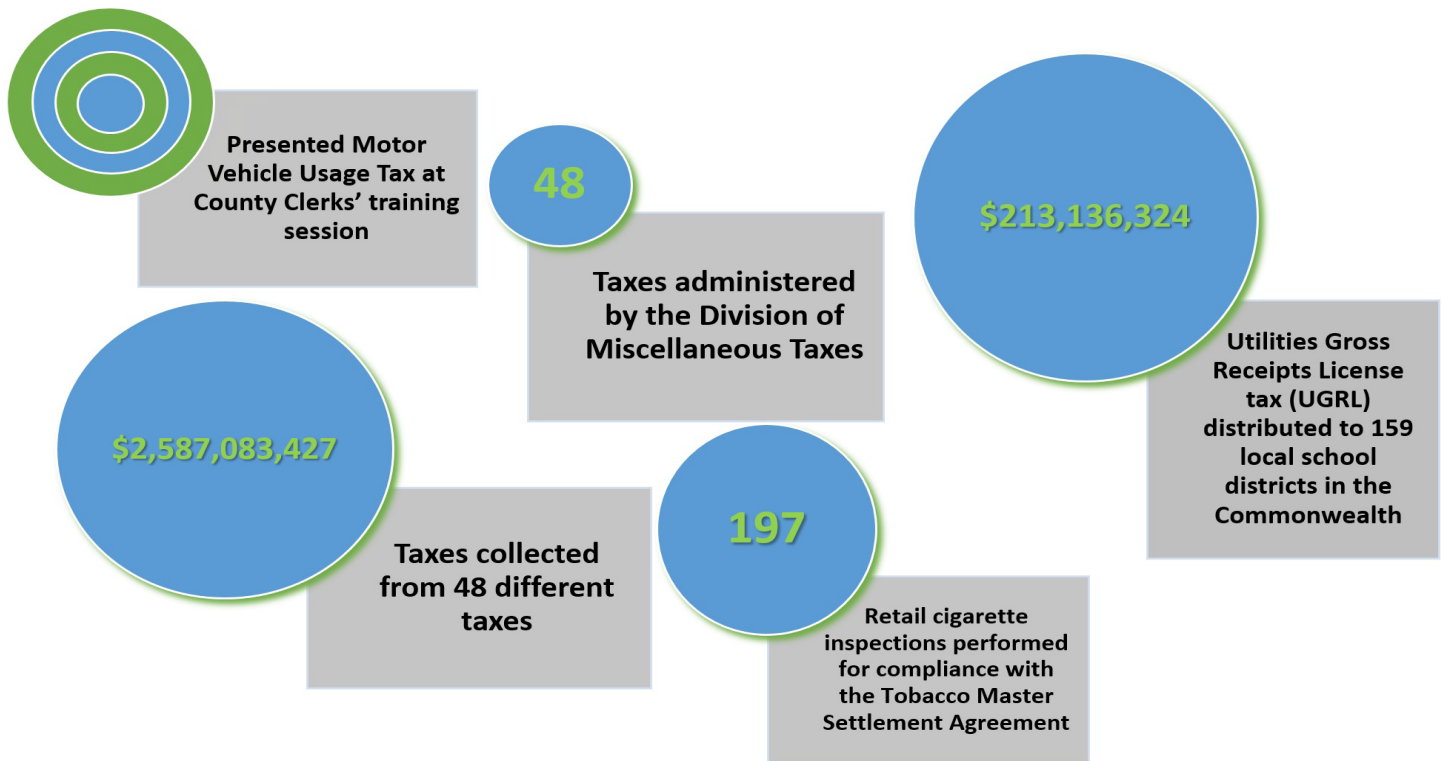
**Spouse Abuse Shelter Fund - Per statute 209.160**—There is hereby created a trust and agency account in the State Treasury to be known as the domestic violence shelter fund. Each county clerk shall remit to the fund, by the tenth of the month, ten dollars (\$10) from each twenty-four dollars (\$24) collected during the previous month from the issuance of marriage licenses.

**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 percent of the first \$1,000 and 1 percent of the amount in excess of \$1,000.

## Division of Miscellaneous Taxes

### Accomplishments



### Taxes Administered

**Advance Deposit Wagering Tax (KRS 138.513) (Effective Aug. 1, 2014)**—KRS 138.513 was enacted in 2014 in response to HB 445 (General Assembly 2014), allowing an excise tax on all advance deposit account wagering licensees, licensed under KRS 230.260 at a rate of one-half of one percent (0.5%) of all amounts wagered through the licensee by Kentucky residents: 15 percent of total collections goes into the General Fund.

**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.

## Taxes Administered, continued

**Alcoholic Beverage Wholesale Sales Tax (KRS 243.884)**—11 percent of wholesale sales of distilled spirits, wine and malt beverages. The rate for wine and malt beverages effective July 1, 2015 will be 10.75% and be reduced each year in July by a quarter percent until at a rate of 10%. 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.

**Chewing Tobacco Tax (KRS 138.140) (Effective August 1, 2013)**—An excise tax is imposed upon chewing tobacco at the rate of \$.019 per single unit sold, \$.40 per each half-pound unit sold, \$.65 per each pound unit sold. If the pouch or package contains more than sixteen (16) ounces by net weight, the rate that shall be applied to the unit shall equal the sum of sixty-five cents (\$.65) plus nineteen cents (\$.19) for each increment of four ounces or portion thereof exceeding sixteen (16) ounces sold.

**Cigarette Enforcement and Administration Fee (KRS 365.390)**—0.003 cent per pack (rate subject to change annually). Fee paid by cigarette wholesalers 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)**—\$0.30 per 20 cigarettes. A one-time surtax on cigarette inventory on hand at 11:59 p.m. on March 31, 2009.

**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 Surtax (KRS 138.140)**—\$0.57 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.

**Consumer Use Tax (KRS 139.310)**—6 percent; Use tax is imposed on the use, storage or other consumption in the state of tangible personal property or digital property purchased for use, storage or other consumption in this state.



## Taxes Administered, continued

**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.

**Health Care Provider Tax (KRS 142.301 to 142.359) (Effective July 1, 2013)**—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; \$1.82-\$12.85 per non-Medicare patient bed day for nursing facilities services.

**Horse Racing Taxes (KRS 138.510(1)(b)) (Effective Aug. 1, 2014)**—An excise tax imposed on all advance deposit account wagering licensees at a rate of 0.5 percent of all amounts wagered through the licensees by Kentucky residents. Beginning on April 1, 2014, a 1.5 percent tax imposed on tracks conducting pari-mutuel wagering on historical horse races in Kentucky. The enacted provisions relating to historical horse racing have a retroactive effect to Sept. 1, 2011. The racing tax changes were enacted in 2014 HB 445.

### **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 and this change resulted in no estate tax. The American Taxpayer Relief Act was signed into law on January 2, 2013 and permanently extends the deduction for state estate taxes on the Federal 706.

**Insurance Premium Surcharge (KRS 136.392)**—A 1.8 percent 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.

## Taxes Administered, continued

**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.

**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 that 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 16.1 cents per gallon. Rate is determined annually. 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 Energy and Environment 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.

## Taxes Administered, continued

**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.

**Public Service Commission Assessment (KRS 278.130 et seq.)**—1.583 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.

### Racing Taxes

<b>Average Daily Mutuel Handle (for preceding year)</b>	<b>Tax Rate Per Day</b>
\$ 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 Dec. 31 each year for the race year ended Nov. 30.

**Racing Admission Tax (KRS 138.480 et seq., 139.100(2)(c))**—Tracks under jurisdiction of the Kentucky Horse Racing Authority (KHRA)—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 KHRA 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 KHRA 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.

continued

# Taxes Administered, continued

## **Pari-Mutuel Tax, continued**

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.

**Snuff Tax—(KRS 138.140(5))**—Effective April 1, 2009, \$0.19 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.

**Tobacco Products Tax (KRS 138.140(4))(Effective April 1, 2009)**—15 percent of the gross receipts from the wholesale sale of tobacco products.

**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.

**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 multi-channel video programming 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.

# OFFICE of INCOME TAXATION

## ADMINISTRATION

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

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 telephone, by written correspondence, via email, 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 comprised of the Corporate Income and License Tax Branch, Pass-through Entity Branch, Communications and Training Branch, and the Director's Office. The division 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 Corporation Income and License Tax Branch and the Pass-through Entity Branch perform the same basic functions for taxpayer assistance and compliance, both branches examining different types of tax returns. The Communications and Training Branch is responsible for tax specific training, public announcements, and publications.



# Office of Income Taxation

*2015-2016 Annual Report*

**VACANT**  
as of 6/30/16

Executive Director

**VACANT**  
as of 12/1/16

Director

Division of Individual Income Tax

**VACANT**  
as of 12/1/16

Director

Division of Corporation Tax

## Division of Individual Income Tax

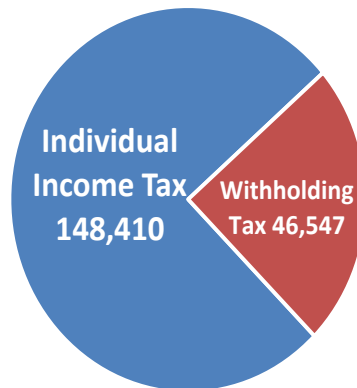
### Accomplishments

Collected **\$63.3 million**  
through compliance initiatives

#### Responded to:



#### Telephone Inquiries Answered



## WRAPS

The **Withholding Reporting and Payment System** is fully implemented. This system provides an online filing and payment system to those taxpayers that want to file their withholding returns electronically.

**14,498**  
Current Registered  
Accounts

**\$203,139,737**  
Dollars Processed

**85,000**  
Total Returns  
Processed

# Taxes Administered

**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.

The 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 \$10, child and dependent care, family size and various business credits. Standard deduction: 2015—\$2,440 and 2016—\$2,460

## Division of Corporation Tax

### Accomplishments

**\$46.8 million**

Billed in  
compliance  
inititaives

Completed the  
implementation of  
electronic capture of all  
filed **2015** corporation  
income and pass-through  
entity tax returns for the  
purpose of compliance  
and taxpayer assistance  
programs

**7,238**

Completed review of  
requests for letters of  
good standing submitted  
by entities needing  
reinstatement with the  
Secretary of State

**Responded to:**



# Taxes Administered

**Limited Liability Entity Tax (KRS 141.0401 et seq.)**—An annual limited liability entity tax (LLET) as provided by KRS 141.0401(2) shall be paid by every corporation and every limited liability pass-through entity doing business in Kentucky on all Kentucky gross receipts or Kentucky gross profits. The LLET is the greater of: \$175; or the lesser of \$0.095 per \$100 of an entity's Kentucky gross receipts or \$0.75 per \$100 of an entity's Kentucky gross profits. A small business exclusion from the LLET is provided if gross receipts or gross profits from all sources are \$3 million or less. Also, marginal LLET relief is provided if gross receipts or gross profits from all sources are in excess of \$3 million but less than \$6 million.

**Corporation Income Tax (KRS 141.010 et seq.)**—A corporation is also subject to corporation income tax provided by KRS 141.040. Corporate income tax rates: first \$50,000 of net income—4%; next \$50,000 – 5%; and all over \$100,000—6%. A corporation is allowed a tax credit against its corporation income tax equal to its LLET liability reduced by \$175.

A corporation or individual that is a partner, member, or shareholder of a limited liability pass-through entity is allowed a tax credit against its income tax equal to its proportionate share of the LLET of the limited liability pass-through entity after the subtraction of any credits identified in KRS 141.0205 and the minimum tax of \$175; however, the tax credit cannot exceed the income tax assessed on the taxpayer's share of distributive income from the limited liability pass-through entity, and any remaining tax credit shall be disallowed.



## OFFICE of FIELD OPERATIONS

### ADMINISTRATION

*"Service is our Role, Compliance is our Goal"*

The mission of the **Office of Field Operations** is to support the DOR in administering tax laws, collecting revenue and providing services in a fair, courteous and efficient manner for the benefit of the Commonwealth and its citizens.

The Office of Field Operations consists of approximately 200 employees located at ten Taxpayer Service Centers across the Commonwealth. These service centers are a link between taxpayers and the DOR employees located in Frankfort. Multiple issues involving various taxes can be resolved in these service centers. In essence, these service centers are mini-DORs that provide one-stop tax resolutions for taxpayers.

The Field Compliance duties are aimed at assistance and taxpayer education. Services include: filing individual income tax returns for taxpayers; contacting new sales tax permit holders to improve education in sales and use tax law and filing procedures; and issuing temporary permits for transient vendors selling in the Commonwealth of Kentucky.

The Audit Program is an essential part of the DOR's compliance efforts. This program ensures fair and equitable tax treatment to all businesses operating in the Commonwealth. Audits are performed in the areas of sales and use tax, corporation income and license tax, and property tax, to name a few. Audits are conducted in all 120 counties of Kentucky and across the United States from California to Rhode Island as appropriate.

### ACCOMPLISHMENTS

Net Field Audit Assessments	
In-State <b>\$26,976,435</b>	Out-of-State <b>\$24,713,074</b>

Compliance Efforts	
Collected <b>\$13,760,565</b> from taxpayers who filed returns or paid their taxes in Kentucky Taxpayer Service Centers	Issued net assessments of <b>\$8,092,054</b> from various compliance initiatives
Field compliance staff partnered with the IRS to prepare approximately <b>3,000</b> individual income tax returns for qualified taxpayers during the filing season, provided taxpayer assistance to taxpayers who call or walk in their local taxpayer service center, assisted other areas in processing returns, and collected sales tax from out-of-state and unregistered businesses at festivals and events throughout the state.	

# Office of Field Operations

*2015-2016 Annual Report*



**Brent King, Executive Director**



**Brandon Harmon,  
Regional Manager  
Region 1**



**Charles Wilder,  
Regional Manager  
Region 2**



**Gayle Fields,  
Regional Manager  
Region 3**



**Latonia Dooley,  
Regional Manager  
Region 4**

# Kentucky Taxpayer Service Centers

*“Service is our Role,  
Compliance is our Goal”*

## Louisville, 40202–2310

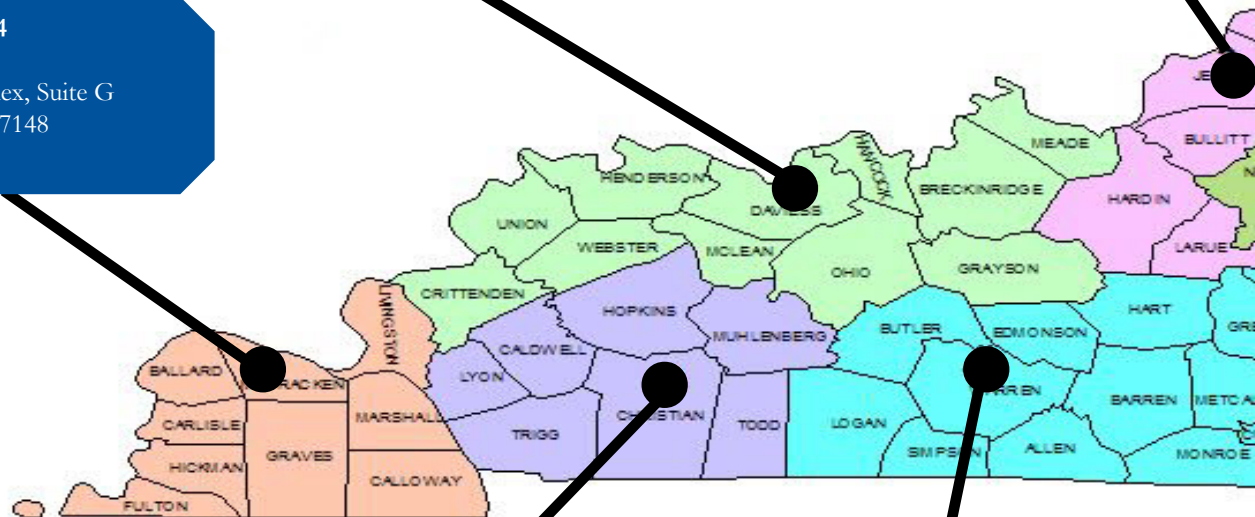
600 West Cedar Street  
2nd Floor WEST  
Telephone: (502) 595-4512  
Fax: (502) 595-4205

## Owensboro, 42301–6295

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

## Paducah, 42001–4024

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



## Hopkinsville, 42240–7926

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

## Bowling Green, 42104–3278

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

**Frankfort, 40601**

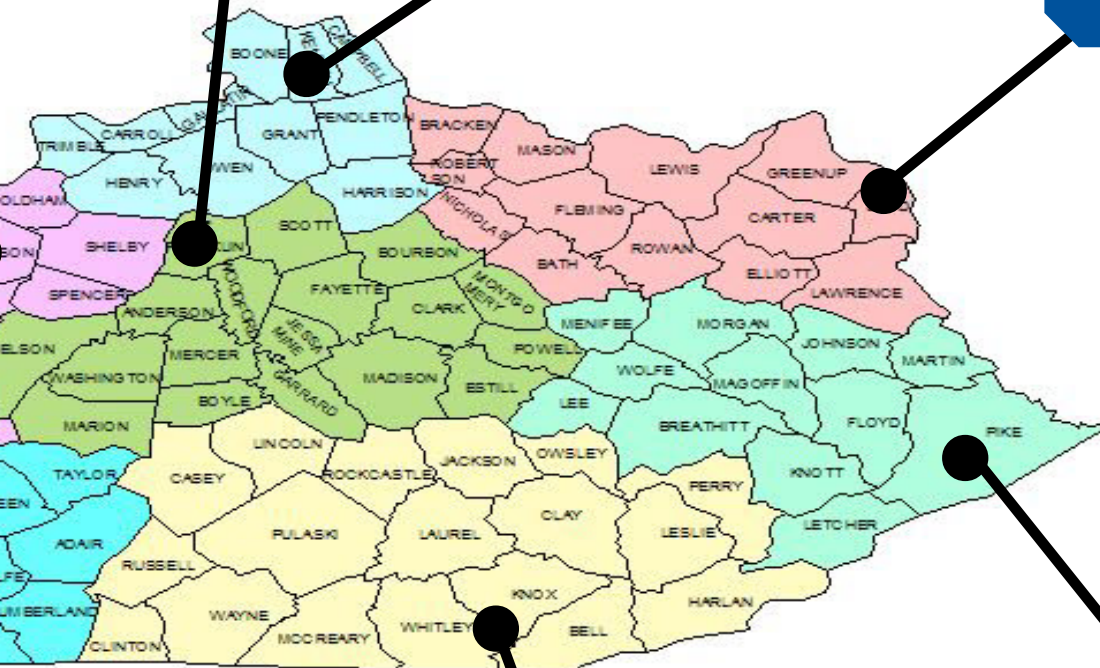
501 High Street, Tenth Floor  
Telephone: (502) 564-5930  
Fax: (502) 564-8946

**Northern Kentucky**

Turfway Ridge Office Park  
7310 Turfway Rd., Suite 190  
Florence, 41042-4871  
Telephone: (859) 371-9049  
Fax: (859) 371-9154

**Ashland, 41101-7695**

1539 Greenup Avenue  
Telephone: (606) 920-2037  
Fax: (606) 920-2039



**Pikeville, 41501-1275**

126 Trivette Drive  
Uniplex Center, Suite 203  
Telephone: (606) 433-7675  
Fax: (606) 433-7679

**Corbin, 40701-6188**

15100 North US 25E, Suite 2  
Telephone: (606) 528-3322  
Fax: (606) 523-1972