



REVENUE

The Kentucky Department of Revenue presented the following information at University of Kentucky Income Tax Seminars across the Commonwealth at the end of 2018. These seminars covered recent administrative changes at the Department of Revenue as well as practical income tax preparation and compliance information.

The information in this presentation was prepared from information the Department of Revenue possessed and believed to be accurate and relevant on the date of the meeting. This information does not constitute a final ruling, order, or determination of the Department of Revenue and cannot be appealed.



2018 KENTUCKY STATE TAX UPDATE

UK Income Tax Seminar

Kentucky Department of Revenue • 501 High Street • Frankfort, KY 40601 • (502) 564-4581

Agenda

- **House Bill 487**
- **IRC and TCJA Conformity**
- **Individual Income Tax**
- **Withholding Tax**
- **Corporate Income Tax**
- **Tax Credits**
- **Property Tax**
- **Sales and Excise Taxes – [TaxAnswers.ky.gov](https://taxanswers.ky.gov)**
- **Miscellaneous**



House Bill 487

Became Law on April 27, 2018

- Most substantial Kentucky tax law changes since 2006
- Sales and Excise taxes changes not covered here
- Effective Dates:
 - January 1, 2018
 - Flat 5% income tax rate for individuals and corporations
 - Elimination of many individual income tax deductions
 - IRC conformity for income tax updated to December 31, 2017 including the TCJA (Pub. L. 115-97)
 - Single sales factor
 - Market-based sourcing
 - January 1, 2019
 - Unitary combined reporting and elective consolidated group filing



IRC and TCJA Conformity

- IRC conformity date now December 31, 2017
- Tax Cuts and Jobs Act (TCJA) provisions adopted with IRC conformity
- Kentucky Adopted from TCJA:
 - Net Operating Loss changes (IRC §172)
 - Net Interest Expense limitation (IRC §163(j))
 - Domestic Production Activity Deduction repeal (IRC §199)
 - Foreign Derived Intangible Income-FDII (IRC §250)
 - Moving Expense Deduction repeal (IRC §132)
 - Moving Expense Reimbursement Exclusion repeal (IRC §217)
 - Alimony Payment Deduction repeal (IRC §215)
 - Alimony Received Inclusion repeal (IRC §61)
- Kentucky Decoupled from TCJA:
 - Full Depreciation Expensing (IRC §168(k))
 - Pass-Through Entity Qualified Business Income (QBI) deduction (IRC §199A)



Individual Income Tax

Effective January 1, 2018

- Flat tax rate of 5% for all individuals
- Pension exclusion decreased to \$31,110 from \$41,110
- \$10 personal tax credit for taxpayers and dependents eliminated
- Retained personal tax credits for ages 65+, blind, and National Guard
- Adjustments Eliminated:
 - Deduction for health insurance premiums
 - Deduction for long-term care insurance premiums
 - Master Tobacco Settlement Payments
 - Deduction for homeless shelter leasehold interest donation
- STABLE investment income now tax exempt



Individual Income Tax

- Dollar limit cap on itemized deductions (Pease Limitation) eliminated
- Itemized Deductions Maintained:
 - Home mortgage interest, points, and qualified MIP
 - Charitable contributions
 - Several miscellaneous deductions:
 - Amortizable premium on taxable bonds (IRC §171)
 - Federal estate tax on Income in Respect of a Decedent (IRC § 691)
 - Repayments >\$3,000 under a claim of right (IRC §1341)
 - Unrecovered investment in an annuity (IRC §72)
 - Other activities loss from Schedule K-1 (Form 1065-B), box 2



Individual Income Tax

- Itemized Deductions Eliminated:
 - Investment interest (IRC §163)
 - Taxes (IRC §164)
 - Casualty/theft and gambling losses (IRC §165)
 - Medical and dental expenses (IRC §213)
 - Moving expenses (IRC §217)
 - 2% AGI miscellaneous deductions (IRC §67)



Individual Income Tax

- Form Changes
 - Eliminated Form 740-EZ
 - Eliminated Schedule ME
 - 740 and 740-NP were shortened and rearranged
 - Simplified Schedules A (itemized) and M (federal modifications)
 - **New** Schedule ITC for individual tax credits
 - Nonrefundable business incentive credits
 - Personal tax credits (65 or over, blind, National Guard)
 - Qualifying dependent children and claiming family size tax credit



Form 740

FORM 740

KENTUCKY

INDIVIDUAL INCOME TAX RETURN

Residents Only

2018

Check if deceased: ☐ Spouse ☐ Taxpayer

For calendar year or other taxable year beginning _____, 2018, and ending _____, 20____.

A. Spouse's Social Security Number

B. Your Social Security Number

Name—Last, First, Middle-Initial (Joint or combined return, give both names and initials.)

Mailing Address (Number and Street including Apartment Number or P.O. Box)

City, Town or Post OfficeStateZIP Code

FILING STATUS (see instructions)

Check if applicable:

POLITICAL PARTY FUND

INCOME/TAX

A. Spouse (Use if Filing Status 2 is checked.)

B. Yourself (or Joint)

25 Enter Child and Dependent Care Credit

26 Income Tax Liability. Subtract line 25 from line 24. If line 25 is larger than line 24, enter zero.

27 Enter KENTUCKY USETAX due on Internet, mail order, or other out-of-state purchases (see instructions).

28 Add lines 26 and 27. Enter here and on page 2, line 29

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FORM 740 (2018)

Page 2 of 2

REFUND/TAX PAYMENT SUMMARY

29 Enter amount from page 1, line 28. This is your Total Tax Liability.

30 For amended return: overpayment, if any, shown on original return.

31 Add lines 29 and 30, enter here.

32 a Enter Kentucky income tax withheld as shown on enclosed Schedule KW-2.

32b Enter 2018 Kentucky estimated tax payments.

32c Enter 2018 refundable certified rehabilitation credit.

32d For amended return: enter amount paid with original return plus additional payment(s) made after it was filed.

33 Add lines 32(a) through 32(d).

34 If line 31 is larger than line 33, subtract line 33 from line 31, enter ADDITIONAL TAX DUE.

35 a Estimated tax penalty. Check if Form 2210-K attached.

35b Estimated tax interest.

35c Interest.

35d Late payment penalty.

35e Late filing penalty.

36 Add lines 35(a) through 35(e). Enter here.

37 If the total of lines 31 and 36 are more than line 33, subtract line 33 from the total of lines 31 and 36. This is the AMOUNT YOU OWE.

38 If line 33 is more than line 31, subtract lines 31 and 36 from line 33. This is the AMOUNT YOU OVERPAID.

39 Fund Contributions: see instructions.

40 Add lines 39(a) through 39(j).

41 Amount of line 38 to be CREDITED TO YOUR 2019 ESTIMATED TAX. (Credit forwards not available for amended returns).

42 Subtract lines 40 and 41 from line 38. Amount to be REFUNDED TO YOU.

REFUND OPTIONS (Not available for amended returns)

Check here if you would like your refund issued on a Bank of America Prepaid Debit Card.

Check here if you would like to receive your Debit Card material in Spanish.

I, the undersigned, declare under penalties of perjury that I have examined this return, including all accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct and complete. I also understand and agree that our election to file a combined return under the provisions of Regulation 103 KAR 17:020 will result in refunds being made payable to us jointly and in each of us being jointly and severally liable for all taxes accruing under this return.

Sign Here

Signature of Taxpayer

Driver's License/State Issued ID No.

Date

Telephone Number (daytime)

Signature of Spouse

Driver's License/State Issued ID No.

Date

Signature of Preparer

Date

Name of Preparer or Firm

ID Number

Email

Telephone No.

May the DOR discuss this return with this preparer?

Enclose

Include a complete copy of federal Form 1040, if you received farm, business, or rental income or loss. If not required, check here.

Refund or No Payment

Kentucky Department of Revenue

Payment

Check Payable: Kentucky State Treasurer

E-Pay Options: www.revenue.ky.gov

Include: Your Social Security number and "KY Income Tax—2018"

With Payment


Kentucky Department of Revenue

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Schedule ITC – Kentucky Individual Tax Credit Schedule

SCHEDULE ITC



KENTUCKY INDIVIDUAL TAX CREDIT SCHEDULE

2018

Enclose with Form 740 or 740-NP

Enter name(s) as shown on tax return.

Your Social Security Number

SECTION A – BUSINESS INCENTIVES AND OTHER TAX CREDITS

A	B	C	D	E	F
Preapproval Required	Credit Name	Required Attachment	Spouse	Yourself	
1	No	Nonrefundable Limited Liability Entity	Kentucky Limited Liability Entity Tax Credit Worksheet/Schedule K-1	00	00
2	Yes	Kentucky Small Business	Schedule K-1	00	00
3	Yes	Skills Training Investment	Schedule K-1	00	00
4	Yes	Certified Rehabilitation	Certification Copies	00	00
5	No	Tax Paid to Another State	Copy(ies) of Other State(s) return or Worksheet A	00	00
6	No	Unemployment	Schedule UTC	00	00
7	Yes	Recycling/Composting Equipment	Schedule RC	00	00
8	Yes	Kentucky Investment Fund	KEDFA notification	00	00
9	No	Qualified Research Facility	Schedule QR	00	00
10	No	GED Incentive	Form DAEL-31	00	00
11	Yes	Voluntary Environmental Remediation	Schedule VERB	00	00
12	Yes	Biodiesel	Schedule BIO	00	00
13	Yes	Clean Coal Incentive	Schedule CCI	00	00
14	Yes	Ethanol	Schedule ETH	00	00
15	Yes	Cellulosic Ethanol	Schedule CELL	00	00
16	No	Railroad Maintenance & Improvement	Schedule RR-I	00	00
17	Yes	Endow Kentucky	Schedule ENDOW	00	00
18	Yes	New Markets Development Program	Form 8874(K)-A	00	00
19	No	Food Donation (Carryover only)	Schedule FD	00	00
20	No	Distilled Spirits	Schedule DS	00	00
21	Yes	Angel Investor	Certification Letter	00	00
22	Yes	Film Industry	Film Office Certification	00	00
23	No	Inventory	Schedule INV	00	00
24	Total of Other Tax Credits (add lines 1 through 23). Enter here and on Form 740, page 1, line 15, Columns A and B, or enter combined totals of Columns E and F on Form 740-NP, page 1, line 15			00	00

SECTION B – PERSONAL TAX CREDITS – Only use if you or your spouse are 65 or over, blind, or in the Kentucky National Guard.

Check all four if 65 or over

Check all four if blind

Check both for Kentucky National Guard

1 (a) Credits for yourself:

1 (b) Credits for spouse:

2 If married filing separately on a combined return (Filing Status 2), each taxpayer must claim his or her own credits from line 1, and enter the totals in Boxes 2A and 2B. All other filers enter the amount from line 1 in Box 2B

3 Multiply credits on line 2A by \$10 and enter on line 3A. Multiply credits on line 2B by \$10 and enter on line 3B. Enter here and on Form 740, page 1, line 17, Columns A and B (Form 740-NP, page 1, line 17)

1 Enter number of boxes checked on line 1

Spouse

Yourself

2A

2B


3A

3B

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SCHEDULE ITC (2018)



Page 2 of 7

SECTION C – FAMILY SIZE TAX CREDIT

Enter dependents qualifying for family size tax credit. See instructions to determine family size and qualifying dependents.

First and Last Name	Dependent's Social Security number	Dependent's relationship to you	Check if qualifying child for family size tax credit
			<input type="checkbox"/>
			<input type="checkbox"/>
			<input type="checkbox"/>
			<input type="checkbox"/>

Use worksheet to compute Modified Gross Income. Modified Gross Income along with your family size will be used to determine your credit percentage on the Family Size Tax Table below.

WORKSHEET FOR COMPUTATION OF MODIFIED GROSS INCOME FOR FAMILY SIZE TAX CREDIT

(a) Enter your federal adjusted gross income from Form 740, page 1, line 5 (Form 740-NP, page 1, line 8). If zero or less, enter zero

(b) If married filing separate returns and living in the same household, enter your spouse's federal adjusted gross income from Form 740, page 1, line 5 (Form 740-NP, page 1, line 8). If zero or less, enter zero

(c) Enter tax-exempt interest from municipal bonds (non-Kentucky)

(d) Enter amount of lump-sum distributions not included in federal adjusted gross income (federal Form 4972)

(e) Enter total of lines (a), (b), (c) and (d)

(f) Enter your Kentucky adjusted gross income from Form 740, page 1, line 9 (Form 740-NP, page 1, line 9). If zero or less, enter zero

(g) If married filing separate returns and living in the same household, enter your spouse's Kentucky adjusted gross income from Form 740, page 1, line 9 (Form 740-NP, page 1, line 9). If zero or less, enter zero

(h) Enter amount of lump-sum distributions not included in adjusted gross income (Kentucky Form 4972-K)

(i) Enter total of lines (f), (g) and (h)

(j) Enter the greater of line (e) or (i). This is your Modified Gross Income. Use this amount to determine if you qualify for the Family Size Tax Credit.

Use this Family Size Table to determine the percentage of credit and enter in the space provided on Form 740 or 740-NP, line 21.


Family Size	One	Two	Three	Four or More	Credit Percentage is					
IF MGI...	is over	is not over	is over	is not over	is over	is not over	is over	is not over	is over	is not over
	\$ ---	\$ 12,140	\$ ---	\$ 16,460	\$ ---	\$ 20,780	\$ ---	\$ 25,100	\$ ---	\$ 29,420
12,140	12,626	16,460	17,118	20,780	21,611	25,100	26,104	29,420	30,424	33,744
12,626	13,111	17,118	17,777	21,611	22,442	26,104	27,108	30,424	31,428	34,748
13,111	13,597	17,777	18,435	22,442	23,274	27,108	28,112	31,428	32,432	35,752
13,597	14,082	18,435	19,094	23,274	24,105	28,112	29,116	32,432	33,440	36,756
14,082	14,568	19,094	19,752	24,105	24,936	29,116	30,120	33,440	34,444	37,760
14,568	15,054	19,752	20,410	24,936	25,767	30,120	31,124	34,444	35,448	38,764
15,054	15,418	20,410	20,904	25,767	26,391	31,124	31,877	35,448	36,452	39,768
15,418	15,782	20,904	21,398	26,391	27,014	31,877	32,630	36,452	37,456	40,772
15,782	16,146	21,398	21,892	27,014	27,637	32,630	33,383	37,456	38,460	41,776
16,146	---	21,892	---	27,637	---	33,383	---	38,460	---	---

Multiply tax from Form 740 or 740-NP, line 19, by the applicable percentage and enter on Form 740 or 740-NP, line 21. This is your Family Size Tax Credit.

42A740ITC (10-9-18 DRAFT)



Form 740 - Schedule A – Kentucky Itemized Deductions

FORM 740 SCHEDULE A <small>Commonwealth of Kentucky Department of Revenue</small>				KENTUCKY ITEMIZED DEDUCTIONS FULL-YEAR RESIDENTS ONLY ➤ Enclose with Form 740.		2018	
Enter name(s) as shown on Form 740, page 1.				Your Social Security Number			
Interest Expense	1 Home mortgage interest and points reported to you on federal Form 1098.....	1		00			
	2 Home mortgage interest not reported to you on federal Form 1098 (if paid to an individual, show that person's name, identifying number and address).....	2		00			
	<i>See instructions for lines 3 and 4.</i>						
	3 Points not reported to you on federal Form 1098.....	3		00			
	4 RESERVED	4		00			
	5 Total interest. Add lines 1 through 4. Enter here..... ➤	5		00			
Contributions <i>Note:</i> <i>For any contribution of \$250 or more, see instructions.</i>	6 Contributions by cash or check.....	6		00			
	7 Other than cash or check (attach federal Form 8283 if over \$500).....	7		00			
	8 Artistic charitable contributions deduction (attach copy of appraisal)	8		00			
	9 Carryover from prior year.....	9		00			
	10 Total contributions. Add lines 6 through 9. Enter here..... ➤	10		00			
Other Miscellaneous Deductions	11 Other (see instructions)	11		00			
Total Itemized Deductions	12 Add lines 5, 10, and 11. Enter here	12		00			
PART I—DIVIDING DEDUCTIONS BETWEEN SPOUSES Use this schedule if married filing separately on a combined return.							
1 Total itemized deductions, line 12..... .00							
2 Percent of income (Form 740, line 9, Column A) to total income (Form 740, total of line 9, Columns A and B)..... %							
3 Percent of income (Form 740, line 9, Column B) to total income (Form 740, total of line 9, Columns A and B)..... %							
4 Percent on line 2 times total deductions entered on line 1 (enter here and on Form 740, line 10, Column A)00							
5 Percent on line 3 times total deductions entered on line 1 (enter here and on Form 740, line 10, Column B)00							



Individual Income Tax

Fraud Deterrence Measures

- Identity Quiz Reminder
 - Participants get **two** chances to pass
 - Even if the quiz is failed, a legible photo ID and a copy of wage statements can be used to confirm identity
 - For joint returns both spouses must provide information
- Statistics on Quiz Letters
 - Less than 3% of Kentucky filers have received identity quiz letters in calendar year 2018



Withholding Tax

- The electronic filing threshold for withholding statements (W-2, W-2G, and 1099 Series) has been lowered from 100 to 26 forms
- **DOR will no longer provide blank Forms W-2**
- ***New*** Form K-5
 - Replaces mailing individual withholding statements (W-2, W-2G, and 1099 series)
 - Beginning in early 2019, the Form K-5 can be completed online and electronically submitted at <https://revenue.ky.gov>



Form K-5 – Kentucky Employer’s Report of Withholding Tax Statements

FORM K-5

180001XXXX

KENTUCKY
EMPLOYER'S REPORT OF
WITHHOLDING TAX STATEMENTS

2018

Kentucky Withholding Account Number

Federal Employer Identification Number (FEIN)

Business Name

Mailing Address (Number and Street including Apartment Number or P.O. Box)

City, Town or Post Office

State

ZIP Code

Telephone Number

Part I—Kentucky withholding statement code and totals.

Withholding Statement Code (see instructions)

Number of Kentucky Withholding Statements

Total Kentucky Wages or Payments

Total Kentucky Income Tax Withheld

Part II—Complete the table below for each statement or information return issued.

	Taxpayer Identification Number (SSN or FEIN)	Last Name (Employee or Payee)	Kentucky State Wages or Payments	Kentucky State Income Tax Withheld
1				
2				
3				
4				
5				

Under penalties of perjury, I declare that I have examined this form and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Sign Here

Signature of Taxpayer

Date

Name of Taxpayer

Title

Signature of Preparer

Date

Name of Preparer or Firm

PTIN

Email

Telephone No.

May the DOR discuss this return with this preparer?
☐ Yes ☐ No

Mail To:

Kentucky Department of Revenue
K-5 Processing
P.O. Box 181, Station 57
Frankfort, KY 40601-2103

42A805-K5 (6-14-18 DRAFT)

Page 1 of 2

FORM K5 (2018)

180001XXXX

KENTUCKY
EMPLOYER'S REPORT OF
WITHHOLDING TAX STATEMENTS

Page 2 of 2

Kentucky Withholding Account Number

	Taxpayer Identification Number (SSN or FEIN)	Last Name (Employee or Payee)	Kentucky State Wages or Payments	Kentucky State Income Tax Withheld
6				
7				
8				
9				
10				
11				
12				
13				
14				
15				
16				
17				
18				
19				
20				
21				
22				
23				
24				
25				

26 or more must be filed electronically



Withholding Tax

- **New** Form K-4 introduced in 2018 after HB 487
- Consolidated four forms into one
- All wage earners taxed at 5% rate with an allowance for the standard deduction
- Should only be completed if declaring for one of the exemptions or requesting additional withholding



Form K-4 – Kentucky’s Withholding Certificate

FORM

K-4

Kentucky's Withholding
Department of Revenue

KENTUCKY'S WITHHOLDING
CERTIFICATE

2018

Social Security Number

Name—Last, First, Middle Initial

Mailing Address (If Number and Street including Apartment Number or P.O. Box)

City, Town or Post Office

State

ZIP Code

All Kentucky wage earners are taxed at a flat 5% rate with a standard deduction allowance of \$2,530. The Department of Revenue annually adjust the standard deduction in accordance with KRS 141.081(2)(a).

Check if exempt:

☐

1. Kentucky income tax liability is not expected this year (see instructions)

☐

2. You qualify for the Fort Campbell Exemption Certificate. I am a resident of _____ State

☐

3. You qualify for the nonresident military spouse exemption

☐

4. You work in Kentucky and reside in a reciprocal state

Additional withholding per pay period under agreement with employer \$ _____

Under penalties of perjury, I declare that I have examined this certificate and, to the best of my knowledge and belief, it is true, correct, and complete.

Signature

Date

Instructions to Employees

Kentucky recently enacted a new 5% flat tax rate. Due to this change all Kentucky wage earners will be taxed at this rate with an allowance for the standard deduction.

You may be exempt from withholding if any of the four conditions below are met:

1.

You may be exempt from withholding for 2018 if both the following apply:

• For 2017, you had a right to a refund of all Kentucky income tax withheld because you had no Kentucky income tax liability, and

• For 2018, you expect a refund of all your Kentucky income tax withheld.

If both the above statements apply you are exempt, check box 1. Your exemption for 2018 expires February 15, 2019.

2.

Under the provisions of Public Law 105–261, pay and compensation earned at the Fort Campbell, Kentucky, military base is exempt from Kentucky income tax if you are not a resident of Kentucky. KRS 141.010(17) defines “resident” as an individual domiciled within this state or an individual who is not domiciled in this state, but maintains a place of abode in this state and spends in the aggregate more than one hundred eighty-three (183) days of the taxable year in this state.

Check box 2 if you certify that you are not a resident of Kentucky and only earn wages as an employee at Fort Campbell, Kentucky. This exemption must be revoked within 10 days of a move or change of address to Kentucky.

42A804 (K-4)(2018)

3.

You may be exempt from withholding, if you meet the conditions set for under the Servicemember Civil Relief Act as amended by the Military Spouses Residence Relief Act. You must complete the worksheet below to determine if you are eligible.

In order to qualify you must complete this form in full, certify that the you are not subject to Kentucky withholding tax because you met the conditions set forth below, and provide a copy of your spouse’s military picture ID issued to the employee by the U.S. Department of Defense.

1. My spouse is a military servicemember.....(check one) ☐ YES ☐ NO

2. I am NOT a military servicemember.....(check one) ☐ YES ☐ NO

3. My military servicemember spouse has a current military order assigning him or her to a military location in Kentucky.....(check one) ☐ YES ☐ NO

4. I and my military servicemember spouse live at the same address.....(check one) ☐ YES ☐ NO

5. My domicile is a state other than Kentucky.....(check one) ☐ YES ☐ NO

6. My military servicemember spouse's domicile is the same as mine.....(check one) ☐ YES ☐ NO

7. I am present in Kentucky solely to be with my military servicemember spouse.....(check one) ☐ YES ☐ NO

If you checked “YES” to all the statements above, your earned income is exempt from Kentucky withholding tax.

Check box 3 if you checked “YES” to all the statements listed in the worksheet. You are exempt from Kentucky income tax withholding. This exemption will terminate if any of the answers to the questions changes to “NO”. In general, the exemption termination date will be the earlier of:

• The day the military servicemember is no longer in the military;

• The day the employee enlists in the military;

• The day the employee and the military servicemember no longer live at the same address; or

• The day the military servicemember’s permanent duty station changes to a location outside of Kentucky.

4.

You may be exempt from withholding if you work in Kentucky but reside in one of the following reciprocal states: Illinois, Indiana, Michigan, West Virginia, Wisconsin, Virginia and you commute daily or Ohio and you are not a shareholder-employee who is a “twenty (20) percent or greater” direct or indirect equity investor in a S corporation.

In order to qualify you must complete the worksheet below:

I have not been a resident of Kentucky during the year. (Check block in front of applicable statement.) I work and reside in:

☐ Illinois, ☐ Indiana, ☐ Michigan, ☐ West Virginia, ☐ Wisconsin

☐ Virginia and commute daily to my place of employment in Kentucky. (Must commute daily to apply.)

☐ Ohio and I am not a shareholder-employee who is a “twenty (20) percent or greater” direct or indirect equity investor in an S corporation.

Check box 4 if you certify you work in Kentucky and reside in a reciprocal state.

If you meet any of the four exemptions you are exempted from Kentucky withholding. However, you must complete this form and file it with your employer before withholding can be stopped. You will need to maintain a copy of the K-4 for your permanent records.

Instructions to Employers

Upon receipt of this form, properly completed, you are authorized to discontinue withholding for an employee who qualifies for one of the four exemptions. Retain a copy of all K-4’s received from employees.

42A804 (K-4)(2018)



Corporate Income Tax

Effective January 1, 2018

- Flat tax rate of 5% for all corporations
- Single sales factor apportionment
- Market-Based Sourcing:
 - Receipts from **tangible personal property** are in Kentucky if it is shipped or delivered to a purchaser, other than the U.S. Government, in Kentucky
 - Receipts from **services** and the **sale of intangibles** are in Kentucky if the market is in Kentucky:
 - Sale, rental, lease, or license of real property in Kentucky
 - Sale, rental, lease, or license of tangible personal property in Kentucky
 - Service delivered or intangible property used in Kentucky (throw-out rule for intangible receipts if not taxable or indeterminable)
 - Kentucky Administrative Regulation (KAR) coming soon



Corporate Income Tax

- 3-Factor Apportionment Retained for “Providers” (KRS 141.121(1)(e):
 - Communication services per KRS 136.602
 - Cable services per KRS 136.602
 - Internet access per 47 USC §51

Note: A 2-digit code is required on the face of the return to indicate provider qualification
- Special Apportionment Definitions:
 - Passenger airlines
 - Qualified freight forwarders
- Alternative Apportionment:
 - Taxpayer must prove by clear and convincing evidence that statutory apportionment requirements unfairly represent activity in Kentucky



Schedule A – Kentucky Apportionment

SCHEDULE <div style="font-size: 2em; font-weight: bold; float: left; margin-right: 5px;">A</div> <div style="clear: both;"></div> <small>Corporation or Partnership Department of Revenues</small>		APPORTIONMENT AND ALLOCATION (For corporations and pass-through entities taxable both within and without Kentucky.)	<div style="font-size: 2em; font-weight: bold;">2018</div>
--	--	--	--

➤ See instructions.
➤ Attach to Form 720, 720S, 725, 765, or 765-GP

Name of Corporation or Pass-through Entity	Federal Identification Number	Kentucky Corporation/LLET Account Number
--	-------------------------------	--

☐ Check this box and complete page 2, Apportionment and Allocation – Continuation Sheet: (i) if the corporation filing this tax return is a partner or member of a limited liability pass-through entity or general partnership (organized or formed as a general partnership after January 1, 2008) doing business in Kentucky; or (ii) if the pass-through entity filing this tax return is a partner or member of a pass-through entity doing business in Kentucky; or (iii) if the corporation is filing a mandatory nonconsolidated tax return per KRS 141.200(11).

If apportionment method other than statutory formula is used:

☐ Check this box: (i) if the Department has granted written approval to use an alternative allocation and apportionment method per KRS 141.120(12) (a), and attach a copy of the approval letter to the tax return; or (ii) if the company has made an irrevocable five-year election to use an allocation and apportionment method per KRS 141.121(4)(a), and attach a copy of the election to the tax return.


<div style="border: 1px solid black; padding: 5px;"> PART I—COMPUTATION OF APPORTIONMENT FRACTION Required for All Companies—Sales Factor Computation Convert line 3 to a percentage carried to four decimal places. <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%;">1 Kentucky sales</td> <td style="width: 10%; text-align: center;">1</td> <td style="width: 10%; text-align: center;">00</td> <td style="width: 10%;"></td> <td style="width: 10%; text-align: center;">00</td> <td style="width: 10%;"></td> </tr> <tr> <td>2 Total sales</td> <td style="text-align: center;">2</td> <td style="text-align: center;">00</td> <td></td> <td style="text-align: center;">00</td> <td></td> </tr> <tr> <td>3 Sales factor (line 1 divided by line 2)</td> <td style="text-align: center;">3</td> <td></td> <td></td> <td style="text-align: center;">%</td> <td></td> </tr> </table> Required for PROVIDERS (KRS 141.121—see instructions) (For informational purposes for all other companies.) 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PART I—COMPUTATION OF APPORTIONMENT FRACTION			
Required for All Companies—Sales Factor Computation			
Convert line 3 to a percentage carried to four decimal places.			
1	Kentucky sales	1	00
2	Total sales	2	00
3	Sales factor (line 1 divided by line 2).....	3	%
Required for PROVIDERS (KRS 141.121—see instructions) (For informational purposes for all other companies.)			
Convert lines 4, 7, 10, 11, and 12 to a percentage carried to four decimal places.			
4	Double-weighted Sales factor (line 3 multiplied by 2)	4	%
5	Average value of Kentucky real/tangible property (Part III).....	5	00
6	Average value of total real/tangible property (Part IV)	6	00
7	Property factor (line 5 divided by line 6)	7	%
8	Kentucky payrolls	8	00
9	Total payrolls	9	00
10	Payroll factor (line 8 divided by line 9)	10	%
11	Total (add lines 4, 7, and 10).....	11	%
12	Apportionment fraction—line 11 divided by 4 or number of factors present (sales representing 2 factors)	12	%



Provider Business Reason Codes – 3-Factor Apportionment

FORM 720 <small>Commonwealth of Kentucky Department of Revenue</small>				KENTUCKY CORPORATION INCOME TAX AND LLET RETURN		2018	
See instructions. Taxable period beginning _____, 201____, and ending _____, 201____.							
A LLET Exemption Code Enter Code _____		D Federal Identification Number _____		E Kentucky Corporation/LLET Account Number (Required) _____			
B Income Tax Exemption Code Enter Code _____ <input type="checkbox"/> Mandatory NEXUS		Name of Corporation _____ <input type="checkbox"/> Change of Name Number and Street _____ City _____ State _____ ZIP Code _____ Telephone Number _____				Taxable Year Ending ____ / ____ <small>M M Y Y</small> State and Date of Incorporation _____	
C Check if applicable: <input type="checkbox"/> Amended return <input type="checkbox"/> Amended return—RAR Provide explanation of changes in Part V— Explanation of Amended Return Changes.		F Name of Common Parent _____ Kentucky Corporation/LLET Account Number _____				Principal Business Activity in KY _____	
		G Check if applicable: <input type="checkbox"/> Initial return <input type="checkbox"/> Short-period return (Complete Part IV) <input type="checkbox"/> Change of accounting period <input type="checkbox"/> Final return (Complete Part IV)				H Provider 3-Factor Apportionment Code _____ NAICS Code Number in KY (See www.census.gov)	

REASON CODE	PROVIDER BUSINESS
31	Communications service as defined in KRS 136.602;
32	Cable service as defined in KRS 136.602;
33	Internet service as defined in 47 U.S.C. sec. 151; or
34	Other (attach statement)



Corporate Income Tax

Net Operating Losses

- 50% NOL limitation for mandatory nexus consolidated group filers until December 31, 2018
- Beginning on or after January 1, 2018, the NOLD is limited to 80% of taxable income without regard to the NOL deduction per IRC §172(a)
- Unlimited unused NOL carryforward per TCJA for NOL generated on or after January 1, 2018
- Kentucky disallows NOL carryback since January 1, 2005
- Guidance coming soon



Corporate Income Tax

Filing Requirements

- Mandatory Nexus Consolidated otherwise Separate Entity still **required until December 31, 2018** for corporations
- Tax years beginning on or after **January 1, 2019** for corporations:
 - Unitary combined group; *unless*
 - Same-as-federal consolidated group election; *otherwise*
 - Separate entity filing if not part of a unitary or consolidated group
- e-Filing required if federal gross receipts >\$1,000,000
 - Applies to corporations and pass-through entities
- Forms Changes:
 - Updated Schedule A for apportionment factor changes
 - Various updates for tax law changes



Tax Credits

- **Inventory Tax Credit:**

- Ad valorem (property) tax paid on inventory
- Must be timely paid
- Phased-in 25% per year from 2018 through 2021
- Calculator will be posted at <https://revenue.ky.gov/>

- **Film Tax Credit:**

- Nonrefundable and nontransferable for applications approved after April 27, 2018
- Annual approval cap of \$100 million for 2018 and after
- Commercials no longer qualify

- **Credits Eliminated:**

- Kentucky Environmental Stewardship Act (KESA)
- Kentucky Economic Opportunity Zone Tax Credit (KEOZ)
- Incentives for Energy Independence Act (IEIA)
- Coal Incentive Tax Credit
- Food Donation Tax Credit (2018 is final year to use any 2017 carryover)
- Kentucky Housing for Homeless Families




Schedule INV – Inventory Tax Credit

SCHEDULE

INV

Kentucky Department of Revenue



KENTUCKY
INVENTORY TAX CREDIT
(Ad Valorem)

2018

See instructions.

Attach to Form 720, 720S, 725, 740, 740-NP, 741, 765, or 765-GR

KRS 141.408

Name of Taxpayer

Federal Identification Number
or Social Security Number

Kentucky Corporation/LLLET
Account Number (if applicable)

Mailing Address

Taxed as:
☐ Corporation
☐ Limited Liability Pass-through Entity
☐ General Partnership
☐ Individual
☐ Other

PART I—Qualifications


Did you pay ad valorem (inventory) tax to a taxing jurisdiction within Kentucky? ☐ Yes ☐ No

Was part or all of the inventory tax timely paid to the taxing jurisdiction on or before December 31? **Note:** The credit can only be claimed on timely paid tax ☐ Yes ☐ No

If you answered “No” to either question above, **STOP!** You do not qualify for the credit.

If you answered “Yes” to both questions above, go to Part II.

PART II—Amount of Credit


 Visit revenue.ky.gov for a worksheet to calculate the amount of allowable inventory tax credit.

Enter the total amount reported on all Forms 62A500 (Lines 1-6).

	Taxpayer's Valuation of Inventory		Tax Timely Paid on Inventory	
1 Line 31, Merchants Inventory.....	1	00	1	00
2 Line 32, Manufacturing Finished Goods	2	00	2	00
3 Line 33, Manufacturers Raw Materials/Goods in Process	3	00	3	00
4 Line 34, Motor Vehicles Held for Sale (dealers only), New Farm Machinery Held Under a Floor Plan, New Boats and Marine Equipment Held Under a Floor Plan, Salvage Titled Vehicles (insurance companies only), Recreational Vehicles Held in Retailer's Inventory, Biotechnology Products Held in a Warehouse (manufacturers and affiliates only), and Nonferrous Metal Located in a Commodity Warehouse and Held on Warranty.....	4	00	4	00
5 Line 35, Goods Stored in Warehouse/Distribution Center	5	00	5	00
6 Line 36, Inventory - In Transit.....	6	00	6	00
7 Total (add lines 1 through 6).....	7	00	7	00
8 Allowable percentage.....	8		8	25%
9 Allowable Inventory Tax Credit (Line 7 multiplied by Line 8).....	9		9	00

41A720INV (8-27-18 DRAFT)

Page 1 of 1



Inventory Tax Credit Worksheet

Commonwealth of Kentucky
DEPARTMENT OF REVENUE
2018 Computation of Inventory

1 Need some basic INFO below

6 -- CLICK below when you are done!

5 If necessary, CLICK below to DELETE a location.

4 If necessary, CLICK below to ADD another location. Then repeat STEP #3.

2 Read this part carefully!

3 -- input LOCATION 1's Inventory Data based upon the FILED TPT RETURNS

TAXPAYER INFO

Taxed as: Corporation

Name of Business: Business Name Here

Number & Street: Address Here

Number & Street: Address Here

City, State, Zip: Address Here

FEIN Number: 000000000

KY Corp/LLET Account: 000000

SAVE as PDF

DELETE A LOCATION

ADD ANOTHER LOCATION

RED AREAS - ALL red areas should be completed!

PINK AREAS only need to be completed when necessary.

GREEN NUMBERS are your LOCATION #'s within this program!

LOCATION #

COUNTY / DISTRICT

PVA PHONE NUMBER

Tax Paid Timely?

Paid within discount period?

	1	2	3
COUNTY / DISTRICT	Scott (DIST 02)	Franklin (DIST 01)	
PVA PHONE NUMBER	(502) 863-7885	(502) 875-8780	
Tax Paid Timely?	YES	YES	
Paid within discount period?	NO	YES	

Grand Totals

	1	2	3
31 Merchants Inventory	\$ 9,000,000	\$ 8,000,000	\$ 1,000,000
32 Manufacturers Finished Goods	\$ 11,000,000	\$ 9,000,000	\$ 2,000,000
33 Manufacturers Raw Materials/Goods in Process	\$ 13,000,000	\$ 10,000,000	\$ 3,000,000
34 Motor Vehicles/New Farm Machinery Under Floor Plan	\$ 15,000,000	\$ 11,000,000	\$ 4,000,000
34 New Marine Inventory Under Floor Plan/Salvage Title Veh.	\$ 17,000,000	\$ 12,000,000	\$ 5,000,000
35 Goods Stored in Warehouse/Distribution Center	\$ 19,000,000	\$ 13,000,000	\$ 6,000,000
36 Inventory in Transit	\$ 21,000,000	\$ 14,000,000	\$ 7,000,000
Total Inventory Value (per Taxpayer)	\$ 105,000,000	\$ 77,000,000	\$ 28,000,000
Estimated total TIMELY Tangible Personal Property Tax Paid on Inventory (APPLY to FORM xxxx, Line 7)	\$ 405,808 (rounded)	\$ 294,880.00	\$ 110,928.16

Complete all the LOCATION's RED areas. Complete PINK areas of relevance.

1. Enter Taxpayer Info

- Taxed as
- Name
- Address
- FEIN
- KY Corp/LLET Account Number

2. Fill-in Inventory Tax Information

- Select: County/District
- Timely paid: Yes/No
- Paid within discount period: Yes/No
- Enter value of inventory property for each category (follows lines from 62A500)

3. Input Each Location in a Separate Column

- Keep adding columns until all locations entered
- Tax automatically computes

4. Click to save worksheet work paper as a PDF and retain for your records

5. Click to generate a mock-up Sch INV

- Save as a PDF



Electronic Filing Statistics

- Individual
 - 88% of the 1.96 million returns received through September were e-filed
- Corporate
 - 42% of the Corporate returns received through September were e-filed
- Kentucky follows the IRS for when e-file returns may begin to be electronically submitted & accepted



Forms Filed Electronically

Filing Year	Form	Payment/Refund
2018, 2017, & 2016	Form 740 *	E-Pay & Direct Deposit of Refund
2018, 2017, & 2016	Form 740-NP *	E-Pay
2018, 2017, & 2016	Form 740-NP-R (cannot e-file amended)	E-Pay
2018, 2017	Form 741 *	E-Pay
2018, 2017, & 2016	Form 720 *	E-Pay
2018, 2017, & 2016	Form 720 (consolidated) *	E-Pay
2018, 2017, & 2016	Form 720S *	E-Pay
2018, 2017	Form 725 / 725-EZ *	E-Pay
2018, 2017, & 2016	Form 765 *	E-Pay
2018, 2017, & 2016	Form 765-GP *	E-Pay

*including amended



Property Tax

- Pre-written computer software is subject to state and local property tax
- Reminders:
 - Form 62A500 returns are due for all businesses each year on May 15 for property held on January 1
 - Returns must be filed with the Property Valuation Administrator in each county per Form 62A500 instructions, **not** the DOR
 - Returns mailed to the DOR are forwarded via mail at the state's expense to the PVA offices
 - **Late or amended returns** must be filed with the Office of Property Valuation at DOR
 - No *de minimus* value standard
 - All personal property must be reported and depreciated per the instructions



Sales & Excise Taxes

- Information on tax changes can be found at:
 - <https://TaxAnswers.ky.gov>
- Including:
 - Listing of new services subject to sales tax
 - Industry specific FAQs
 - Video tutorials
 - Links to Register for a Sales and Use Tax Account

Sales and Use Taxes	(502) 564-5170
Telecommunications Tax	(502) 564-5170
911 Prepaid Service Charge	(502) 564-5170
Financial Tax	(502) 564-4810
Motor Vehicle Tax	(502) 564-3853
Motor Vehicle Usage Tax	(502) 564-4455
Excise Tax	(502) 564-6823
Tobacco Tax	(502) 564-6823



TaxAnswers.ky.gov

Ky.gov An Official Website of the Commonwealth of Kentucky

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Tax Answers

Income Taxes ▾

Sales and Excise Taxes ▾

Other Changes

Contact Us



TaxAnswers.ky.gov

The Kentucky Department of Revenue is committed to answering your questions and keeping you updated on recent tax law changes made during the 2018 session of the General Assembly.

Do you need to register for a Sales and Use Tax account? [Find out here](#)



Income Taxes

Important changes have been made to state and federal taxes. More information is available here.



Sales and Excise Taxes

Multiple changes have been made to sales and excise taxes. Visit this page for more information.




Other Changes

A summary of 2018 law changes that impact tax administration, property taxes, and smaller taxes.



Miscellaneous

- Kentucky Court Appointed Special Advocates (CASA) new refund designation checkoff 
- Final federal audit determination due in 180 days
 - Previously 30 days
- Assessment and refund denial protests due in 60 days
 - Previously 45 days
- Bonds no longer required to suspend collection activity when appealing an order sustaining a tax assessment to the Kentucky Claims Commission



Interest Rates

The adjusted prime rate charged by banks is used to set the tax interest rate that the Kentucky Department of Revenue charges on unpaid taxes and pays on refunds that are subject to interest due.

- **Increased 1% from last year**
- **Interest rates for 2019:**
 - Rate charged on unpaid taxes is 7%
 - Base rate of 5% plus 2%
 - Rate paid when interest is due on a refund is 3%
 - Base rate of 5% minus 2%
- **KRS 131.183**



Procedural Reminders

- No staples, check stubs, hole punches
- Review the DOR website for the newest version of forms
- Use the mailing address shown on the tax form you are sending
- Non-Revenue mail is not processed by DOR
- Do not use DOR envelopes for other personal or business mailings
- Mail each return separately – every single return and/or voucher should be mailed in its own envelope
- No envelopes (sealed or unsealed) inside another envelope
- Do not mail anything to 100 or 200 Fair Oaks Lane, Frankfort, KY
- Cut forms to size when instructed (vouchers, etc.)



Stay in Touch

- **Twitter**

- @RevenueKY



- **Kentucky Business One Stop Portal**

- <https://onestop.ky.gov>



- **Tax Alert**

- <https://revenue.ky.gov>
 - News Tab → Publications Section → Tax Alerts

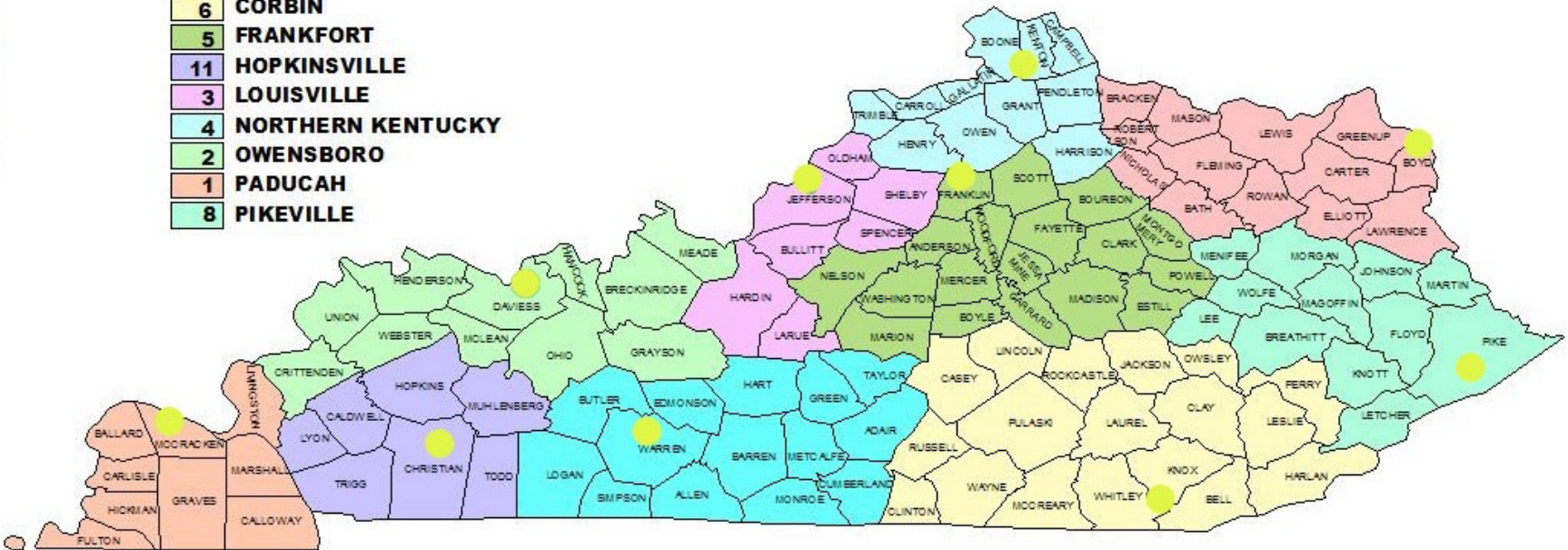


Taxpayer Service Center Map

TAXPAYER SERVICE CENTERS

Districts

- 9 ASHLAND
- 10 BOWLING GREEN
- 6 CORBIN
- 5 FRANKFORT
- 11 HOPKINSVILLE
- 3 LOUISVILLE
- 4 NORTHERN KENTUCKY
- 2 OWENSBORO
- 1 PADUCAH
- 8 PIKEVILLE



Taxpayer Service Centers

Ashland Taxpayer Service Center

1539 Greenup Avenue, 41101-7695
(606) 920-2037

Bowling Green Taxpayer Service Center

201 West Professional Park Court, 42104-3278
(270) 746-7470

Corbin Taxpayer Service Center

15100 North US25E, Suite 2, 40701-6188
(606) 528-3322

Frankfort Taxpayer Service Center

501 High Street, 40601-2103
(502) 564-4581 (*Taxpayer Assistance*)

Hopkinsville Taxpayer Service Center

181 Hammond Drive, 42240-7926
(270) 889-6521

Louisville Taxpayer Service Center

600 West Cedar Street, 2nd Floor West, 40202-2310
(502) 595-4512

Northern Kentucky Taxpayer Service Center

Turfway Ridge Office Park
7310 Turfway Road, Suite 190, Florence, 41042-4871
(859) 371-9049

Owensboro Taxpayer Service Center

401 Frederica Street, Building C, Suite 201, 42301-6295
(270) 687-7301

Paducah Taxpayer Service Center

Clark Business Complex, Suite G
2928 Park Avenue, 42001-4024
(270) 575-7148

Pikeville Taxpayer Service Center

Uniplex Center, 126 Trivette Drive, Suite 203, 41501-1275
(606) 433-7675



Revenue Contact Phone Numbers

Collections	(502) 564-4921	Motor Fuels	(502) 564-3853
Corporation Tax	(502) 564-8139	Motor Vehicle Usage	(502) 564-4455
DOR One Stop Help Line	(502) 564-5053	Ombudsman	(502) 564-7822
E-Filing Assistance (Business Forms)	(502) 564-7926	Property Tax	(502) 564-8338
E-Filing Assistance (Individual Forms)	(502) 564-7862	Protest Resolution	(502) 564-6734
Field Operations	(502) 564-2113	Registration	(502) 564-3306
Forms and Envelopes	(502) 564-3658	Sales & Use Tax	(502) 564-5170
Individual Income Tax	(502) 564-4581	Special Investigations	(502) 564-4470
Inheritance Tax	(502) 564-4810	State Operator	(502) 564-3130
Local Government & County Fees	(502) 564-8785	Withholding (also use for WRAPS)	(502) 564-7287
Miscellaneous Tax	(502) 564-2935		



Questions, Comments, or Concerns



Thank You!



2018 Kentucky State Tax Update

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Disclaimer

The information in this presentation is for educational and informational purposes only and does not constitute legal advice. Information is presented as an overall review that is subject to law changes and may not apply to all states. For accurate information on issues related to the 2018 tax changes in Kentucky, please reference HB 487 from the 2018 regular session of the Kentucky General Assembly.

Information in this presentation is believed to be accurate as of the date of publication. In the event that any information in this presentation is later determined to be in error, this presentation cannot be used by taxpayers in supporting a specific position or issue before the Department of Revenue, as it does not have the statutory or regulatory authority.

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