



**FINANCE AND ADMINISTRATION CABINET  
OFFICE OF THE SECRETARY**

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**John R. Farris**  
Secretary

In the matter of:

[REDACTED]

Contact:

[REDACTED]

FINAL RULING NO. 2006-107  
November 2, 2006

Assessment of Income Tax on Unreported Earnings  
Tax Year 2002

**FINAL RULING**

The Kentucky Department of Revenue has denied [REDACTED]'s appeal of the estimated assessment of income tax on unreported earnings for tax year 2002.

| Tax Year     | Notice Number | Tax Due       | Interest as of 11/1/06 | Fees          | Penalties     | Total Due     |
|--------------|---------------|---------------|------------------------|---------------|---------------|---------------|
| 2002         | [REDACTED]    | \$ [REDACTED] | \$ [REDACTED]          | \$ [REDACTED] | \$ [REDACTED] | \$ [REDACTED] |
| <b>Total</b> |               | \$ [REDACTED] | \$ [REDACTED]          | \$ [REDACTED] | \$ [REDACTED] | \$ [REDACTED] |

The assessment is a result of [REDACTED]'s failure to file a Kentucky Individual Income Tax Return for the 2002 tax year and pay the tax due as required by KRS 141.020. The records of the Department of Revenue disclosing [REDACTED]'s Kentucky net income for the tax year is based on information obtained from the Internal Revenue Service under the authority of Section 6301 of the Internal Revenue Code. The taxpayer's Kentucky income tax liability was estimated pursuant to KRS 131.180(4).

At issue is whether the information obtained from the Internal Revenue Service is evidence of taxable income, and also whether Kentucky law requires a person who is a resident of this state to pay individual income taxes on such income.

For federal income tax purposes, "gross income" means all income from whatever source derived and includes compensation for services. See I.R.C. Sec. 61. Further, Treasury Regulation Sec. 1.1-1(b) provides, "[i]n general, all citizens of the United States, wherever resident, and all resident alien individuals are liable to the income taxes imposed by the Code whether the income is received from sources within or without the United States."

For Kentucky income tax purposes, "gross income" in the case of taxpayers other than corporations means "gross income" as defined in Section 61 of the Internal Revenue Code. See KRS 141.010(9).

KRS 141.010(17) defines a "resident" as an individual domiciled within this state.

KRS 141.020(1) states that "an annual tax shall be paid for each taxable year by every resident individual of this state upon his entire net income." "Net income" is federal gross income with certain adjustments and minus allowable deductions. See KRS 141.010(10) and (11).

The position of the Department of Revenue is based on the aforementioned federal and state statutes and is summarized as follows:

- (1) that the information obtained from the Internal Revenue Service is proof of taxable income to [REDACTED],
- (2) that Kentucky taxable income is determined by using federal taxable income as a starting figure,
- (3) that [REDACTED] is a resident of Kentucky evidenced by his mailing address in [REDACTED], and
- (4) that a resident individual of Kentucky is subject to tax on his entire net income.

This letter is the final ruling of the Department of Revenue.

### APPEAL

You may appeal this final ruling to the Kentucky Board of Tax Appeals pursuant to the provisions of KRS 131.110, KRS 131.340-131.365, 103 KAR 1:010 and 802 KAR 1:010. If you decide to appeal this final ruling, your petition of appeal must be filed at the principal office of the Kentucky Board of Tax Appeals, 128 Brighton Park Boulevard, Frankfort, Kentucky 40602-2120, within thirty (30) days from the date of this final ruling. The rules of the Kentucky Board of Tax Appeals, which are set forth in 802 KAR 1:010, require that the petition of appeal must:

1. Be filed in quintuplicate;
2. Contain a brief statement of the law and facts in issue;
3. Contain the petitioner's or appellant's position as to the law and facts; and
4. Include a copy of this final ruling with each copy of the petition of appeal.

The petition of appeal must be in writing and signed by the petitioner or appellant. Filings by facsimile or other electronic means shall not be accepted.

Proceedings before the Kentucky Board of Tax Appeals are conducted in accordance with 103 KAR 1:010, 802 KAR 1:010 and KRS 131.340-131.365 and KRS Chapter 13B. Formal hearings are held by the Board concerning the tax appeals before it, with all testimony and proceedings officially reported. Legal representation of parties to appeals before the Board is governed by the following rules set forth in Section 2 (3) of 802 KAR 1:010:

1. An individual may represent himself in hearings before the Board;
2. An individual who is not an attorney may not represent any other individual, corporation, trust, estate, or partnership before the Board; and
3. An attorney who is not licensed to practice in Kentucky may practice before the Board if he complies with Rule 3.030(2) of the Rules of the Kentucky Supreme Court.

You will be notified by the Clerk of the Board of the date and time set for any hearing.

Sincerely,  
FINANCE AND ADMINISTRATION CABINET  
DEPARTMENT OF REVENUE



THOMAS H. BROWN  
Director  
Division of Protest Resolution

CERTIFIED MAIL  
RETURN RECEIPT REQUESTED

