

Kentucky Tax Alert

A REVENUE PUBLICATION FOR THE TAX PROFESSIONAL

July 2005 Vol. 24, No. 4

Tax Rate Reduction and Family Size Tax Credit

During the 2005 Regular Session, Gov. Ernie Fletcher proposed and the General Assembly enacted, changes to individual income tax rates and a family size tax credit to replace the low income tax credit. When Gov. Fletcher signed HB 272 on Mar. 18, 2005, these changes became effective for taxable years beginning on or after Jan. 1, 2005.

Individual Income Tax Rate Change—The rate for taxable income between \$8,000 and \$75,000 is reduced to 5.8 percent, with taxable income over \$75,000 continuing to be taxed at 6 percent. The **revised 2005 Withholding Tax Tables** are published on the Department of Revenue's (DOR) Web site at <http://revenue.ky.gov/business/whtax.htm>. These tables reflect the \$1,910 standard deduction and the new tax rate.

Family Size Tax Credit—Special Withholding Exemption Certificate (Form K-4E)—The new Family Size Tax Credit is based on modified gross income (MGI) and the size of the family. MGI is equal to federal adjusted gross income plus any interest income from other states' municipal bonds and pension income from a qualifying lump-sum distribution. Single individuals whose MGI and married couples whose combined MGI is at or below federal poverty level for their family size will receive a 100 percent tax credit. The 2005 MGI levels that qualify for the 100 percent tax credit are:

| Size of Family Unit | Amount |
|---|----------|
| 1 an individual either single or married living apart from his or her spouse for the entire year | \$ 9,570 |
| 2 an individual with one dependent child or a married couple | \$12,830 |
| 3 an individual with two dependent children or a married couple with one dependent child | \$16,090 |
| 4 or more an individual with three dependent children or a married couple with two dependent children | \$19,350 |

Changes have been made to the Special Withholding Exemption Certificate (Form K-4E) to reflect the new Family Size Tax Credit. An employee may be entitled to claim exemption from the withholding of Kentucky income tax if no income tax liability is anticipated for the current year and the employee meets the MGI requirements as shown above. **The MGI eligible for exemption of withholding tax is \$19,350 for a family of four or more.**

The new Special Withholding Exemption Certificate (Form K-4E) and tax tables may be downloaded from the DOR's Web site at: <http://revenue.ky.gov/business/whtax.htm>. If you have any questions, call (502) 564-7287.

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McQueary Named Executive Director of Property Valuation

Garrard County PVA Marsha McQueary was appointed executive director of the DOR's Office of Property Valuation effective July 1, 2005. She replaces Marian Davis, who was appointed deputy commissioner of DOR in May.

McQueary has been the Garrard County PVA since November 1996. Prior to her election in 1996, McQueary served as Deputy Garrard County PVA for 18 years. Andy Coyle, a field representative for the Office of Property Valuation, will serve as interim PVA until the test is administered and an appointment is made.

The Office of Property Valuation consists of the Divisions of Local Valuation, State Valuation and Minerals Taxation and GIS Services. McQueary will oversee the local property tax assessment and collection process for real property and the state's central assessment and collection programs for public service properties, coal properties and motor vehicles.

Staple Fiduciary Return Payments to Front Page of Return



When submitting payment with fiduciary returns (Form 741) the check should be stapled to the front page of the return. Although the form does not specifically state this, a large number of returns are being processed without checks because the checks are not visible, but are often stuck in the middle of the form. This procedure will speed the processing of money owed to the commonwealth and avoid unnecessary stop payment charges for the taxpayer.

DOR Offices Closed Sept. 5 for Labor Day

Pursuant to KRS 18A.190, all DOR offices are closed on Monday, Sept. 5, 2005, in observance of Labor Day.

State Property Tax Rate Remains 13.1 Cents for 2005

The 2005 state real property tax rate remains at 13.1 cents for 2005. KRS 132.020 requires the DOR to set the real property tax rate no later than July 1 of each year.



The rate is based on the percentage increase of taxable real property from 2004 to 2005. If this increase is less than 4 percent after the exclusion of property newly added to the tax roll during 2005, then the prior year rate does not change. The increase for 2005 is estimated at 3.63 percent, therefore the 2004 rate of 13.1 cents remains the same for 2005.

Postsecondary Education Tuition Credits

To help Kentucky families combat higher tuition and other expenses at institutions of higher learning, HB 272 establishes a companion credit on the Kentucky income tax return equal to 25 percent of the federal Hope scholarship credit or the lifetime learning credit. Kentucky already utilizes this approach for the child care tax credit.



Specifically, the credit:

- applies only to undergraduate students;
- phases-out for high incomes (as projected in 2005, more than \$53,000 in federal modified adjusted gross income for single taxpayers and more than \$107,000 for joint filers);
- is nonrefundable, but may be carried forward into future years if tax liability is less than the amount of credit; and
- applies when students attend private or public colleges, universities or technical institutions within Kentucky.

Taxpayer qualifications to claim the credit are already determined by the IRS, so no significant additional taxpayer effort will be required. Form 8863-K, Kentucky Education Tuition Tax Credit, will be used by taxpayers to compute the amount of Kentucky credit.

University of Kentucky General Income Tax Seminars for 2005

- Program:** Income Tax Seminars for individuals and professionals designed to help refine their tax preparation skills. Fifteen convenient locations around the state of Kentucky in November and December.
- Focus:** Two comprehensive days on individual taxpayer and small business issues, agricultural issues, the latest updates on new rulings and tax law changes, business entities, fringe benefits, an update on IRS changes and much more.
- Conducted by:** University of Kentucky Agricultural Economics Department
Cooperative Extension Service
- In cooperation with:** U.S. Internal Revenue Service
Kentucky Department of Revenue

2005 UK General Income Tax Seminars

Frankfort
Nov. 1–2 (*Register by Oct. 19*)
Best Western Parkside
80 Chenault Drive
Frankfort, KY 40601
1-502-695-6111

Lexington #1
Nov. 15–16 (*Register by Nov. 1*)
Holiday Inn North
1950 Newtown Pike
Lexington, KY 40511
1-859-233-0512

No. KY #1/Erlanger
Dec. 1–2 (*Register by Nov. 17*)
Receptions Conf. Ctr.
1379 Donaldson Rd.
Erlanger, KY 41018
1-859-746-2700

Elizabethtown
Nov. 3–4 (*Register by Oct. 20*)
Holiday Inn Express
107 Buffalo Creek Dr.
Elizabethtown, KY 42701
1-270-769-1334

Louisville
Nov. 16–17 (*Register by Nov. 2*)
Executive Inn West
830 Phillips Lane
Louisville, KY 40209
1-800-626-2708

Paducah
Dec. 5–6 (*Register by Nov. 21*)
J.R.'s Executive Inn
One Executive Blvd.
Paducah, KY 42001
1-800-866-3636

Jenny Wiley
Nov. 7–8 (*Register by Oct. 25*)
Jenny Wiley State Park
75 Theatre Ct.
Prestonsburg, KY 41653

Grayson
Nov. 17–18 (*Register by Nov. 3*)
Grayson Conf. Ctr.
371 CW Stevens Blvd
Grayson, KY 41143
1-606-474-6646

Lexington #2
Dec. 6–7 (*Register by Nov. 22*)
Holiday Inn North
1950 Newtown Pike
Lexington, KY 40511
1-859-233-0512

Owensboro
Nov. 9–10 (*Register by Oct. 26*)
Executive Inn Rivermont
One Executive Blvd.
Owensboro, KY 42301
1-270-926-8000

Hopkinsville
Nov. 28–29 (*Register by Nov. 15*)
Christian Co. Ext. Ctr.
2850-B Pembroke Rd.
Hopkinsville, KY 42240
1-270-886-6328

Maysville
Dec. 8–9 (*Register by Nov. 23*)
Mason Co. Extension Ctr.
800 U.S. Hwy 68
Maysville, KY 41056
1-606-564-6808

Somerset
Nov. 10–11 (*Register by Oct. 27*)
Center for Rural Dev.
2292 So. Hwy 27
Somerset, KY 42501-2905
1-606-677-6000

Bowling Green
Nov. 30–Dec. 1 (*Register by Nov. 16*)
Univ. Plaza Hotel & Conv. Ctr.
1021 Wilkinson Place
Bowling Green, KY 42101
1-270-745-0088

No. KY #2/Burlington
Jan. 4–5, 2006 (*Register by Dec. 20*)
Boone Co. Extension Ctr.
6028 Camp Ernst Rd.
Burlington, KY 41005
1-859-586-6101

The Learning Objectives:

To have participants fully aware and cognizant of the latest changes in tax legislation and case rulings for both the Federal Tax Code and the Kentucky State Tax Code.

Registration Information

Preregistration: (Two weeks before the seminar) \$219. Late registration \$239. Please register by mail or FAX (credit card payment required) using the form provided. Confirmation cards will be mailed to those who preregister. Please duplicate this form for multiple registrations.

Refunds: Will require a three-day notice before the start of the seminar. A \$35 administrative fee will be retained.

Seminar Schedule: 8:00 a.m. - 5:00 p.m.

Continuing Education Credits: Approved by Ky. State Bd. of Accountancy & Enrolled Agents, The Ky. Dept. of Insurance & Certified Financial Planners Bd of Stds for 16 hrs. CEU, and 16 hrs. of CPE for National Assoc. of State Boards of Accountancy (NASBA). Attorneys must apply directly to the KY Bar Assn. for CLE credit.

Workbooks and Material: Workbooks with searchable CD for the 2005 seminars will be handed out at each seminar site. Additional material will be mailed as it becomes available.

Extra copies of seminar books may be ordered at a cost (including shipping): Tax Education Workbook \$45, KY Update (to be announced), RIA Federal Tax Handbook \$30. Please enter appropriate cost on registration form.

Certificates of Achievement: Will be mailed to participants 30 days after the seminar.

Meals are not provided: Refreshments will be served at all seminar breaks.

Smoking: All seminars will be **Smoke Free!**

Cell Phones: Are **NOT** to be used in seminars!

For further information, please write, call, or FAX:

Carol Eads
 UK Income Tax Seminar Office
 421 C.E. Barnhart Building
 Lexington, KY 40546-0276
 Phone 888-808-3303 or 859-252-3769
 FAX 859-225-9043
 EMAIL: ceads@uky.edu
www.uky.edu/Ag/AgEcon/taxwkshp.html

General Income Tax Seminars-2005

2005 UK Income Tax Seminars Registration Form

Name _____

Company _____

Address _____

City _____ State _____ ZIP _____

Phone () _____ Fax () _____

Last four digits of Social Security number _____
(Social Security number required to verify CEU credits)

Seminar Fee \$ **219**

Please add \$20 for late Registration \$ _____

Extra copies of handout materials @/TBA \$ _____

Total Amount Enclosed \$ _____

(Please check the Seminar you plan to attend)

- Bowling Green Nov. 30-Dec. 1
- Elizabethtown Nov. 3-4
- Frankfort Nov. 1-2
- Grayson Nov. 17-18
- Hopkinsville Nov. 28-29
- Jenny Wiley Nov. 7-8
- Lexington #1 Nov. 15-16
- Lexington #2 Dec. 6- 7
- Louisville Nov. 16-17
- Maysville Dec. 8-9
- No. KY #1/Erlanger Dec. 1-2
- No. KY #2/Burlington Jan 4-5, 2006
- Owensboro Nov. 9-10
- Paducah Dec. 5-6
- Somerset Nov. 10-11

Payment must accompany registration!
Please duplicate this form for multiple registrations.

Payment Method: Check Visa Mastercard

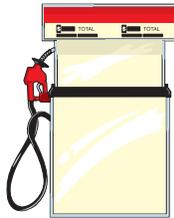
Make Checks Payable To: UK Income Tax Seminar, 421 C.E. Barnhart Building, Lexington, KY 40546-0276
 Phone 888-808-3303 or 859-252-3769 FAX 859-225-9043
(Faxed registrations without a credit card number will not be accepted!)

Card Account Number _____ Expiration Date ____/____ Amount \$ _____

Cardholder Name _____ Signature _____

Motor Fuels Excise Tax Rate

Under KRS 138.210 and 138.220, the DOR is responsible for establishing the average wholesale price (AWP) of gasoline for the purpose of calculating the motor fuels excise tax rate. The current price calculation is based on sales data accumulated for the month of April 2005 and a grade and formulation weighted average reflecting gasoline consumption patterns.



the rate will increase to 18.5 cents per gallon for gasoline and 15.5 cents per gallon for special fuels. The 1.4 cent Petroleum Storage Tank Environmental Assurance Fee is included in these figures.

Although the average wholesale price was calculated to be \$1.60, for the purpose of this calculation, KRS 138.210(10)(b) limits the increase in the AWP to \$1.34 or 10 percent over the AWP at the close of the previous fiscal year.



For the quarter commencing July 1, 2005, the DOR has set the AWP of gasoline to be \$1.34. Therefore,

Kentucky Tax Alert is a bimonthly publication printed on recycled paper, the cost of which is paid from state funds. Comments, suggestions and mailing list additions or corrections should be addressed to the Office of Public Information, Finance Secretary's Office, Frankfort, Kentucky (502) 564-4240.

ERNIE FLETCHER, Governor

**ROBBIE RUDOLPH, Secretary
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**MARK TREESH, Commissioner
Department of Revenue**

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