General Information

Electronic Filing

Kentucky, in cooperation with the Internal Revenue Service, offers joint federal/state filing of individual income tax returns. Electronic filing is the fastest, most accurate way to file your return. **This year you may file your state return electronically, using an authorized electronic filer or approved software package, without submitting your federal return at the same time.**

Why should you file your tax return electronically?

- You get an acknowledgment that the return has been received.
- You get a more accurate return due to software edits.
- You get a faster refund. Refunds from electronically filed returns are generally processed within 21 days.
- You can use direct deposit to receive your refund. Direct deposit is available only to electronic filers.

How can you file your tax return electronically?

- **Use an authorized electronic filer**. This includes paid preparers, accountants, CPAs or volunteer groups that have been approved by the IRS to transmit returns electronically.
- **File your return online.** Returns may be filed using software that is purchased and installed on a personal computer or by using a product that is accessed through the Internet. A list of approved software is posted on the Internet at **www.revenue.ky.gov**.
- **Use TeleFile.** To use the TeleFile system for both your federal and state returns, you must be eligible to file Form 740-EZ and have received both a federal and state TeleFile package through the mail. Your Kentucky return is filed at the same time—***during the same phone call***—as **your** federal return.

When can you file your tax return electronically?

- You can file your return electronically beginning January 10, 2003.
- Payments on tax due returns filed electronically are not due until April 15, 2003.
- Electronic returns will be accepted until October 15, 2003. Returns filed after April 15, 2003, are subject to the same penalties and interest as paper returns.

Computer-Generated Returns

Many computer-generated forms are acceptable for filing your Kentucky individual income tax return. Check to be sure your software generates an acceptable form. A list of vendors whose software has been approved is posted on the Internet at **www.revenue.ky.gov**.

Most software packages produce a 2-D bar code. The Revenue Cabinet scans the bar code that contains all of the information needed to process your return. The bar code is printed in the upper right-hand corner of the return when you prepare your return using an approved software package. This bar code should not be covered up or marked through. Last minute changes should be entered into the program and the return printed again so that the bar code also contains the correct information. Using the bar code reduces data entry errors for the Cabinet and results in a faster refund for you.

Where to Get Forms

Important: Use only forms printed by the Revenue Cabinet or an **approved** computer-generated version of this year's income tax forms since data must be placed in specific areas on the return to be read correctly. Use of photocopies or faxed copies may cause delays in the processing of the return.

Forms and instructions are available at some libraries, post offices, courthouses, banks and all Kentucky Taxpayer Service Centers. They may also be obtained by writing FORMS, Revenue Cabinet, Frankfort, KY 40620, or by calling (502) 564-3658. Forms can be downloaded from **www.revenue.ky.gov**. Forms are also available by fax through the Revenue Cabinet's fax-on-demand system, *TaxFax*, at (502) 564-4459.

Address Change

If you move after you file, always notify the Kentucky Revenue Cabinet of your new address. This can be done by sending a change of address card (available at your local post office) to: Kentucky Revenue Cabinet, Taxpayer Assistance Section, P.O. Box 181, Station 56, Frankfort, KY 40602-0181. Notification can also be made to any Kentucky Taxpayer Service Center. A list of locations is included in your packet.

Refund Inquiries

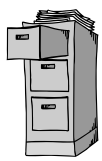
The Automated Refund and Tax Information System (ARTIS) is a touch-tone telephone system designed to provide information about your individual income tax return. Information about electronically filed returns and returns using the preprinted bar-coded labels should be available within 72 hours of receipt. Information about refund request returns filed without the preprinted bar-coded labels will be available after the return has completed initial processing (approximately six to 12 weeks).

The ARTIS number is (502) 564-1600. It is available 24 hours a day, 7 days a week.

Need a Copy of Your Tax Return?

If you need a copy of your tax return, you must send your request in writing to: Kentucky Revenue Cabinet, Taxpayer Assistance Section, P.O. Box 181, Station 56, Frankfort, KY 40602-0181. Please include your name(s) as it appeared on your return, Social Security number(s), and your complete mailing address. To ensure confidentiality, all requests must include your signature.

How Long Should Records be Kept?



Keep a copy of your tax return, worksheets and records of all items appearing on it (such as Forms W-2 and 1099 or other receipts) until the statute of limitations runs out for that return. Usually, this is four years from the date the return was due or filed (with extensions), or the date the tax was paid, whichever is later. You should keep some records longer. For example, keep property records (including those on your home) as long as they are needed to figure the basis of the original or replacement property.

Filing as an Injured Spouse on Your Federal Form 1040?

Income tax refunds may be withheld by the Cabinet if you owe money to the Kentucky Revenue Cabinet, another state agency or the Internal Revenue Service.

Kentucky does not recognize the federal injured spouse form. Kentucky law requires the offset of the entire refund if a joint return is filed. If spouses want to keep their tax liabilities and/or refunds separate, each must file a separate tax form. If you choose to file separately on a combined return, for agencies other than the Revenue Cabinet the refund will be apportioned between spouses, based on each spouse's income. The indebted spouse's refund will then be paid to the appropriate agency.

Death of a Taxpayer

If a taxpayer died before filing a return for 2002, the taxpayer's spouse or personal representative may have to file and sign a return for that taxpayer. A personal representative can be an executor, administrator or anyone who is in charge of the deceased taxpayer's property. If the deceased taxpayer did not have to file a return but had tax withheld, a return must be filed to get a refund. The person who files the return should write "**DECEASED**," the deceased taxpayer's name and the date of death across the top of the return.

If your spouse died in 2002 and you did not remarry in 2002, you can file jointly or separately on a combined return. The return should show your spouse's 2002 income before death and your income for all of 2002. You can also file jointly or separately on a combined return if your spouse died in 2003 before filing a 2002 return. Write "**Filing as surviving spouse**" in the area where you sign the return. If someone else is the personal representative, he or she must also sign.

Income Tax Withholding and Estimated Payments for 2003

If the amount you owe or the amount you overpaid is large, you may want to file a new Form K-4 with your employer to change the amount of income tax withheld from your 2003 pay. In general, you do not have to make estimated tax payments if you expect that your 2003 Form 740 will show a tax refund or a tax balance due of $500 or less. If your total estimated tax for 2003 is more than $500 you may need to file **Form 740-ES** and make estimated tax payments. Form 42A740-S4 includes a worksheet that you can use to see if you have to make estimated tax payments.

Return Adjustments

If the Revenue Cabinet adjusts your return and you do not understand the adjustment, you may write to Taxpayer Assistance, Revenue Cabinet, P.O. Box 1190, Frankfort, KY 40602-1190 or call (502) 564-4581. If you disagree with an adjustment made to your return, you may appeal that adjustment by submitting a written protest within 45 days of notification.

Amended Returns

If you discover that you omitted deductions or otherwise improperly prepared your return, you may obtain a refund by filing an amended return within four years of the due date of the original return. *You are required to file an amended return to report omitted income.* You may obtain Form 740-X by contacting a Kentucky Taxpayer Service Center or writing FORMS, Revenue Cabinet, Frankfort, KY 40620. You may also download Form 740-X from **www.revenue.ky.gov**.

Federal Audit Adjustments

Taxpayers who have received a final determination of an Internal Revenue Service audit must submit a copy to the Cabinet **within 30 days of its conclusion**. The information should be submitted to the Individual Government Program Section, Revenue Cabinet, P.O. Box 1074, Frankfort, KY 40602-1074.

Confidentiality

Kentucky Revised Statute 131.190 requires the Revenue Cabinet to maintain strict confidentiality of all taxpayer records. No employee of the Revenue Cabinet may divulge any information regarding the tax returns, schedules or reports required to be filed. However, the Revenue Cabinet is not prohibited from providing evidence to or testifying in any court of law concerning official tax records. **Also, Revenue Cabinet employees or any other person authorized to access confidential state information are prohibited from intentionally viewing such information without an official need to view.**

Further, the Cabinet may provide official information on a confidential basis to the Internal Revenue Service or to any other governmental agency with which it has an exchange of information agreement whereby the Cabinet shall receive similar or useful information in return.

Extension of Time to File

Taxpayers who are unable to file a return by April 15 may request an extension. Inability to pay is not an acceptable reason. Acceptable reasons include, but are not limited to, destruction of records by fire or flood and serious illness of the taxpayer. The request for the extension must be submitted in writing to the Revenue Cabinet on or before the due date of the return. The request must state a reasonable cause for the inability to file. Extensions are limited to six months. **A copy of the Kentucky extension request must be attached to the return.**

Individuals who receive a federal extension are not required to request a separate Kentucky extension. They can meet the requirements by attaching a copy of the application for automatic federal extension or the **approved** federal extension to the Kentucky return.

IRS extensions by *e-file* (by phone, personal computer, a tax professional or pay with credit card)—Attach a copy of Form 4868 with the confirmation number in the lower right-hand corner of the form or a copy of the electronic acknowledgment.

Kentucky residents who are in the military are often granted extensions for military service when serving outside the United States. Any extension granted for federal income tax purposes will be honored for Kentucky income tax purposes. Any income earned in a combat zone that is exempt for federal tax purposes is also exempt for Kentucky tax purposes.

Military Personnel Eligible for Combat Zone Extension—Members of the Army, Navy, Marines, Air Force, or Public Health Service of the United States government who serve in an area designated as a combat zone by presidential proclamation shall not be required to file an income tax return and pay the taxes, which would otherwise become due during the period of service, until 12 months after the service is completed. Members of the National Guard or any branch of the Reserves called to active duty to serve in a combat zone are granted the same extension.

Interest at the "tax interest rate" applies to any income tax paid after the original due date of the return. If the amount of tax paid by the original due date is less than 75 percent of the tax due, a late payment penalty may be assessed (minimum penalty is $10).

Interest and penalty charges can be avoided by sending a payment with your extension request by the due date. If you wish to make a payment prior to the due date of your return when using the:

(1) *Kentucky Extension*—Complete Section II, Kentucky Extension Payment Voucher, of the Application for Extension of Time to File, Form 40A102, and send with payment. Write "KY Income Tax—2002" and your Social Security number(s) on the face of the check.

(2) *Federal Automatic Extension*—Make a copy of the lower portion of the federal Application for Automatic Extension, Form 4868, and send with payment. Write "KY Income Tax—2002" and your Social Security number(s) on the face of the check.

2003 Estimated Tax Payments

Persons who reasonably expect to have income in excess of $5,000 from which no Kentucky income tax will be withheld may be required to make estimated tax payments on Form 740-ES. However, if the amount of estimated tax is $500 or less, no estimated payments are required. Persons who do not prepay at least 70 percent of the tax liability may be subject to a 10 percent penalty for underpayment of estimated tax. Prepayments for 2003 may be made through withholding, a credit forward of a 2002 overpayment or estimated tax installment payments. Married taxpayers filing a combined return should make joint payments of estimated tax. Form 740-ES contains a worksheet for calculating the amount of estimated tax due and instructions for making installment payments. These may be obtained from the Revenue Cabinet, Frankfort, KY 40620, or any Kentucky Taxpayer Service Center.

Personal Property Forms

Kentucky taxpayers are reminded to report taxable intangible personal property; Kentucky business taxpayers are reminded to report all taxable personal property, except motor vehicles, owned on January 1 to either the property valuation administrator in the county of residence (or location of business) or the Department of Property Valuation in Frankfort. Intangible personal property is to be reported on the Intangible Property Tax Return, Form 62A376, and tangible personal property is to be reported on the Tangible Personal Property Tax Return, Form 62A500. The due date for these returns is May 15. **Do not mail these returns with your income tax return; use a separate envelope**.

Kentucky Revenue Cabinet
Mission Statement

The mission of the Kentucky Revenue Cabinet is to . . .

Provide courteous, accurate and efficient services for the benefit of the Commonwealth and administer Kentucky tax laws in a fair and impartial manner.

2002 FEDERAL/KENTUCKY INDIVIDUAL INCOME TAX DIFFERENCES

Kentucky income tax law is based on the federal income tax law in effect on December 31, 2001. The Revenue Cabinet generally follows the administrative regulations and rulings of the Internal Revenue Service in those areas where no specific Kentucky law exists.

The chart below provides a quick reference guide to the major federal/Kentucky differences. It is not intended to be all inclusive. Items not listed may be referred to the Revenue Cabinet to determine Kentucky tax treatment.

PROVISION	FEDERAL TAX TREATMENT	KENTUCKY TAX TREATMENT
1. Interest from Federal Obligations	Taxable	Exempt
2. Retirement Income from:		Partially exempt if retired after December 31, 1997; exempt if retired before January 1, 1998; Schedule P may be required
Commonwealth of Kentucky Retirement Systems	Taxable	
Kentucky Local Government Retirement Systems	Taxable	
Federal and Military Retirement Systems	Taxable	
3. Pensions and Annuities Starting After 7/1/86 and Before 1/1/90	3-year recovery rule eliminated	3-year recovery rule retained
4. Other Pension and Annuity Income	Taxable	100% excludable up to $38,775; Schedule P may be required
5. Benefits from U.S. Railroad Retirement Board	May be taxable	Exempt; Schedule P may be required
6. Social Security Benefits	May be taxable	Exempt
7. Capital Gains on Sale of Kentucky Turnpike Bonds	Taxable	Exempt
8. Other States' Municipal Bond Interest Income	Exempt	Taxable
9. Kentucky Local Government Lease Interest Payments	Taxable	Exempt
10. Long-Term Care Insurance Premiums	Limited deduction as self-employed health insurance	100% adjustment to gross income
11. Medical and Dental Insurance Premiums	Limited deduction as self-employed health insurance	100% adjustment to gross income
12. Capital Gains on Property Taken by Eminent Domain	Taxable	Exempt
13. Election Workers—Income for Training or Working at Election Booths	Taxable	Exempt
14. Artistic Contributions	Noncash contribution allowed as itemized deduction	Appraised value allowed as itemized deduction or adjustment to income
15. State Income Taxes	Deductible	Nondeductible
16. Leasehold Interest—Charitable Contribution	May be deductible	Deductible; Schedule HH required
17. Kentucky Unemployment Tax Credit	No credit allowed	$100 per certified employee; Schedule UTC required
18. Work Opportunity Credit (federal Form 5884)	Tax credit allowed; wage expense reduced by amount of credit	No credit allowed; entire wage expense is deductible
19. Welfare to Work Credit (federal Form 8861)	Tax credit allowed; wage expense reduced by amount of credit	No credit allowed; wage expense reduced by amount of federal credit
20. Child and Dependent Care Credit	Tax credit based on expenses	20% of federal credit
21. Low Income Credit	No credit allowed	Decreasing tax credit allowed
22. Recycling and/or Composting Equipment Tax Credit	No credit allowed	Tax credit allowed; Schedule RC or RC(K-1) required
23. Taxpayer who may be Claimed as Dependent on Another's Return (i.e., full-time student)	May not claim self	May claim self
24. Child's Income Reported by Parent	Permitted; taxed at parent's rate	Not permitted
25. National Tobacco Settlement and TLAP Income	Taxable	Exempt
26. Skills Training Investment Tax Credit	No credit allowed	Tax credit allowed; Schedule TC required
27. Kentucky Investment Fund Tax Credit	No credit allowed	Tax credit allowed; Schedule TC required
28. Employer GED Incentive Tax Credit	No credit allowed	Tax credit allowed; Schedule TC required
29. 30% Bonus Depreciation/ New York Liberty Zone Benefits	Deductible	Nondeductible
30. Educator Expenses	Deductible	Nondeductible

INSTRUCTIONS

2002 FORM 740

Who Must File a Kentucky Income Tax Return

If you were a Kentucky resident for the entire year, your filing requirement depends upon the amount of Kentucky adjusted gross income, age and whether you or your spouse are legally blind. You must file a return if:

YOUR FILING STATUS IS	AND	ADJUSTED GROSS INCOME EXCEEDS
Single Person—Under age 65		$5,000
Single Person— Age 65 or over or blind		$5,000
Single Person— Age 65 or over and blind		$5,000
Husband and Wife—Both under age 65		$5,000
Husband and Wife—One 65 or over		$5,000
Husband and Wife—Both age 65 or over		$5,400

Any person with gross receipts of $5,000 or more from self-employment must file a Form 740 regardless of the amount of adjusted gross income or the number of tax credits claimed.

In some cases part-time or part-year workers have income taxes withheld from their paychecks. Even though the filing requirements are not met, an income tax return must be filed to claim a refund of the Kentucky taxes withheld.

A child meeting the filing requirements must file a return even though being claimed as a dependent by the parent. Kentucky income tax law contains no special provisions for taxing the income of a minor child at the parent's tax rates nor the reporting of income of a child on the parent's return.

Generally, all income of Kentucky residents, regardless of where it was earned, is subject to Kentucky income tax.

Nonresidents and part-year residents must report income on Form 740-NP.

Military Personnel—Members of the Armed Forces are required to file state income tax returns with their state of legal domicile, which usually is the state of residence prior to entering military service. Persons serving outside of the United States are considered residents and are not exempt from taxes because of foreign assignments.

Kentucky residents who are in the military are often granted extensions for military service when serving outside the United States. Any extension granted for federal income tax purposes will be honored for Kentucky income tax purposes. Any income earned in a **combat zone** that is exempt for federal tax purposes is also exempt for Kentucky tax purposes.

Military Personnel Eligible for Combat Zone Extension—Members of the Army, Navy, Marines, Air Force, or Public Health Service of the United States government who serve in an area designated as a combat zone by presidential proclamation and who are required by law to file an income tax return and pay income taxes to the State of Kentucky shall not be required to file the return and pay the taxes, which would otherwise become due during the period of service, until 12 months after the service. Members of the National Guard or any branch of the Reserves called to active duty to serve in a combat zone are granted the same extension.

Complete your federal tax return first. If you are not required to file a federal tax return, see instructions for Line 9.

For Fiscal Year Filers Only—Most people pay taxes for a calendar year. However, if you file for a taxable year other than a calendar year or for part of a year, enter the beginning and ending dates of that year on the line at the top of the form.

When and Where to File

The income tax return for calendar year 2002 must be postmarked no later than April 15, 2003, to avoid penalties and interest. Mail to:

APRIL 2003

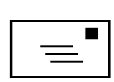
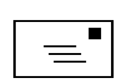
S	M	T	W	T	F	S
		1	2	3	4	5
6	7		9	10	11	12
13	14	15	16	17	18	19
20	21		23	24	25	26
27	28	29	30			

Refund/Other Returns	Pay Returns
Kentucky Revenue Cabinet	Kentucky Revenue Cabinet
Frankfort, KY 40618-0006	Frankfort, KY 40619-0008

Taxpayers who expect refunds should file as early as possible to receive refunds promptly. If you have your tax return prepared by another person, you may wish to mail the return yourself in order to insure prompt filing.

Envelopes

Use the blue envelope for refund returns. Use the yellow envelope for pay returns. Affix the label marked for the envelope in the return address area of the envelope you use. The size of the envelope has been increased which means your return only needs to be **folded in half**. This reduces the thickness of the envelope and increases the efficiency of our mail opening equipment.

Address Labels

Use the preprinted, bar-coded labels provided in this packet. This will enable us to tell you that your return has been received. If the address is incorrect, draw a line through the incorrect information and print the correct address. If the name is incorrect, discard the labels and print the requested information in the blocks provided. **The labels are for informational purposes only and do not increase your chances of being audited. Use of the labels speeds processing and enhances accuracy**.

PUBLIC JOHN Q
1234 MAIN STREET
ANYTOWN KY 00000

How to Complete Forms and Schedules

The large colored boxes on the forms will allow us to process your refund claim faster and with fewer errors. It is important to follow the instructions below:

- Use only black ink to enter data.
- Send the original form. Do not send a photocopy.
- Stay within the lines of each box.
- Print only one number or letter in each box.
- If a line does not apply to you, leave it blank.
- Do not use dashes, lines, or other symbols in the boxes or in writing your numbers.
- For negative amounts, enter a minus sign (–) in front of the first box provided for your numbers.
- All entries must be rounded to the nearest whole dollar. Amounts less than 50 cents should be rounded down. Round amounts from 50 cents to 99 cents to the next higher dollar.

Write your numbers like this:

0 1 2 3 4 5 6 7 8 9

Example: Enter $4,439.50 or $4,439.75 as: 4,440.00

, 4,440 . 00

Social Security Number

SSN Needed—You must enter your Social Security number (SSN) on the return. Social Security numbers are not printed on the peel-off labels mailed by the Revenue Cabinet. If you are married filing a joint return or separately on a combined return, make sure that you enter the names and SSNs in the same order each year.

➲ ***TIP****—For the first person (yourself) listed on the return, use SSN boxes labeled B to enter your SSN. For the second person (spouse) listed on the return, use SSN boxes labeled A to enter your spouse's SSN.*

Political Party Fund Designation

You may designate $2 of your taxes to either the Democratic or Republican party if you have a tax liability of at least $2 ($4 for married persons filing joint returns). Fifty cents will be paid to the corresponding political organization in your county of residence and the remainder will be paid to the respective state political party. *This designation will not increase your tax or decrease your refund.* You may make this designation by checking the applicable box. A husband and wife may each make a designation. Persons making no designation should check the "No Designation" box.

Reporting Periods and Accounting Procedures

Kentucky law requires taxpayers to report income on the same calendar or fiscal year and to use the same methods of accounting as required for federal income tax purposes. Any federally approved change in accounting period or methods must be reported to the Kentucky Revenue Cabinet. Attach a copy of the federal approval.

Changes to federal income tax law made after the Internal Revenue Code reference date contained in KRS 141.010(3) shall not apply for purposes of Chapter 141 unless adopted by the General Assembly.

Filing Status

Legal liabilities are affected by the choice of filing methods. Married persons who file joint or combined returns are jointly and severally liable for all income taxes due for the period covered by the return. That is, each spouse may be held legally responsible for payment of taxes on income earned by the other. If spouses want to credit the refund of one against the liability of the other or combine their tax liabilities or refunds, they must file a combined return. **If spouses want to keep their tax liabilities and/or refunds separate, each must file a separate tax form.**

☑ Check the box that describes your filing status. If you are married, filed a joint federal return and both you and your spouse had income, you may be able to reduce your tax by using Filing Status 2 rather than Filing Status 3.

Filing Status 1, Single—Use this filing status if you are unmarried, divorced, widowed, legally separated by court decree, or if you filed as "Head of Household" or "Qualifying Widow(er)" on your federal return.

Filing Status 2, Married Filing Separately on This Combined Return—Use this filing status to report your incomes individually but on only one tax form. You do this by filling in both Columns A and B. You may file separately on this combined return regardless of whether you filed jointly or separately for federal purposes if both you and your spouse had income. This filing status usually results in a lower tax than Filing Status 3.

Each spouse must claim his or her own income and deductions. The total of Line 9, Columns A and B, must equal your federal adjusted gross income.

Filing Status 3, Married Filing Joint Return—Use this filing status if you and your spouse choose to file a joint return even if one spouse had no income. Jointly means that you and your spouse add your incomes together and report in Column B.

Filing Status 4, Married Filing Separate Returns—If using this filing status, you and your spouse must file two separate tax forms. The husband's income is reported on one tax form, the wife's on the other. When filing separate returns, the name and Social Security number of each spouse must be entered on both returns. Enter the spouse's Social Security number in the block provided, and enter the name on Line 4.

Personal Credits

LINE 5, Tax Credits

Line 5(a), Yourself—You are always allowed to claim a tax credit for yourself (even if your parent(s) can claim a credit for you on their return). On Line 5(a), there are five boxes under three separate headings. Always check the box under "Check Regular" to claim a tax credit for yourself. *If 65 or older*, also check the next two boxes on the line. *If legally blind*, also check the last two boxes on the line.

Line 5(b), Your Spouse—Do not fill in Line 5(b) if (1) you are single; (2) you are married and you and your spouse are filing two separate returns; or (3) your spouse received more than half of his or her support from another taxpayer. However, if your spouse died during the taxable year, you may claim a credit for the deceased on Line 5(b).

Fill in Line 5(b) if you are married and (1) you and your spouse are filing a joint or combined return, or (2) if your spouse had no income or is not required to file a return. If you meet these criteria, check the first box on Line 5(b) for your spouse. *If your spouse is 65 or older*, also check the next two boxes. *If your spouse was legally blind at the end of the taxable year*, also check the last two boxes on Line 5(b).

Dependents—You are allowed to claim a tax credit for each person defined as a dependent in the Internal Revenue Code. Generally, dependents who qualify for federal purposes also qualify for Kentucky.

Line 6—Use to claim tax credits for your dependent children, including stepchildren and legally adopted children, who lived with you during the taxable year.

Line 7—Use to claim tax credits for your dependent children who did not live with you and to claim tax credits for other persons who qualify as dependents.

Children of Divorced or Separated Parents—Attach a copy of federal Form 8332 filed with your federal return.

Tax Credits for Individuals Supported by More Than One Taxpayer—Attach a copy of federal Form 2120 filed with your federal return.

Kentucky National Guard Members—Persons who were members of the Kentucky National Guard on December 31, 2002, may claim an additional credit on Line 6. Designate this credit with the initials "N.G." Kentucky law specifically restricts this credit to Kentucky National Guard members; military reserve members are not eligible.

Dividing the Credits—Each taxpayer must claim all of his or her own tax credits including the credits for age and blindness. Therefore, if married, *each spouse must claim at least one credit*. However, spouses may divide tax credits for dependents, or one spouse may claim all **dependent** credits and the other none.

Example I—A husband who is 65 and a wife who is 60 are filing a combined return. The husband must claim three credits (one regular and two for being 65 or older), and the wife must claim one.

Example II—A husband and wife have two dependents. The husband must claim his regular credit, and the wife must claim hers. However, the two dependent credits may be claimed by either spouse, or each spouse may claim one.

Adjusted Gross Income

LINE 9, Federal Adjusted Gross Income

Enter the total amount of your federal adjusted gross income from your federal income tax return in Column B if Filing Status 1, 3 or 4 is used. Use Column A only when entering your spouse's income on a combined return (Filing Status 2). When using Filing Status 2, Columns A and B, Line 9, must equal your federal adjusted gross income. **(Do not confuse federal adjusted gross income with federal taxable income shown on the federal return.)**

Where husband and wife have filed a joint return for federal income tax purposes and have not elected to file a joint Kentucky income tax return, each spouse must claim his or her own income and deductions.

If you are not required to file a federal income tax return, enter on Line 9 the total of wages, salaries, tips, fees, commissions, bonuses, other payments for personal services, taxable scholarships and fellowships, taxable interest and dividends, trade or business income, unemployment compensation and all other income from sources within and without Kentucky including amounts not reported on attached wage and tax statements. If you have income not supported by a wage and tax statement, attach a supporting schedule showing the source and amount.

Determining Kentucky Adjusted Gross Income—Kentucky law requires that the individual income tax return begin with federal adjusted gross income and be adjusted for any differences to arrive at Kentucky adjusted gross income. Schedule M is designed to make "additions to" federal adjusted gross income and provides for "subtractions from" federal adjusted gross income. For a list of differences, see the Federal/Kentucky Individual Income Tax Differences chart and the line-by-line instructions.

LINE 10—Additions to Federal Adjusted Gross Income—Enter amount from Schedule M, Part I, Line 7.

LINE 12—Subtractions from Federal Adjusted Gross Income—Enter amount from Schedule M, Part II, line 17.

LINE 13—Kentucky Adjusted Gross Income—Subtract Line 12 from Line 11. This is your **Kentucky Adjusted Gross Income**.

Taxable Income

LINE 14, Deductions—Itemizers, complete Schedule A and enter on Line 14. *If one spouse itemizes deductions, the other must itemize.* See specific instructions for Schedule A.

Nonitemizers, enter the standard deduction of $1,800. If married filing separately on a combined return, enter $1,800 in both Columns A and B. **If filing a joint return, only one $1,800 standard deduction is allowed**.

LINE 15—Subtract Line 14 from Line 13. This is your **Taxable Income**.

Tax

LINE 16—Determining Your Tax

Tax Table or Computation—An optional tax table has been prepared for your convenience. You may use this table whether or not you itemize. Married taxpayers filing separately on a combined return may use the tax table or the tax rate schedule, or one spouse may use the tax table and the other the tax rate schedule. If you choose not to use the tax table, compute your tax using the tax rate schedule below.

If you use the tax table and you are claiming more than six tax credits, determine the tax from the table on your income using six tax credits. Then subtract $20 from this figure for each tax credit in excess of six.

For married taxpayers, each spouse must claim all of his or her own credits. Therefore, each spouse must claim at least one credit. Credits for dependents may be divided between the spouses, or one spouse may claim all the credits for dependents and the other none.

Tax Rate Schedule

If taxable amount is:	*Tax is:*
$3,000 or less	2% of taxable amount
over $3,000 but not over $4,000	$60 plus 3% of amount over $3,000
over $4,000 but not over $5,000	$90 plus 4% of amount over $4,000
over $5,000 but not over $8,000	$130 plus 5% of amount over $5,000
over $8,000	$280 plus 6% of amount over $8,000

Deduct $20 for each tax credit claimed from the amount computed using the tax rate schedule above. If this computation results in an amount less than zero, enter zero in the appropriate column on Line 16.

The Kentucky Revenue Cabinet has provided a simplified tax rate schedule in the instructions for Form 740-EZ.

Schedule TC—Lump-sum Distribution and Special Nonrefundable Tax Credits

You must file Schedule TC if:

- ✓ you received a lump-sum distribution and compute your tax on Form 4972-K;
- ✓ you are a farmer and elect to income average; or
- ✓ you claim any of the nonrefundable tax credits listed below.

Lump-sum Distribution—Special 10–Year Averaging—Kentucky allows a special 10-year averaging method for determining tax on lump-sum distributions received from certain retirement plans that qualify for federal 10-year averaging. If this special method is used for federal purposes, Form 4972-K, Kentucky Tax on Lump-Sum Distributions, and Schedule P, Pension Income Exclusion, must be filed with Form 740 and tax must be determined on Schedule TC.

Farm Income Averaging, Schedule J—If you elect farm income averaging on your federal return, you may also use this method for Kentucky. The amount of income you may average is limited to the amount elected for federal purposes. Complete Schedule J. Enter tax before deducting personal tax credits on Schedule TC, Line 2, and check the box for "Schedule J." Attach completed Schedule J.

Skills Training Investment Tax Credit—Enter the amount of credit certified by the Bluegrass State Skills Corporation. Attach a copy of the final authorizing resolution or Schedule K-1 in the first year claimed. The excess credit over the income tax liability in the year approved may be carried forward for three successive taxable years. For information regarding the application and approval process for this credit, contact the Cabinet for Economic Development, Bluegrass State Skills Corporation at (502) 564-2021.

Credit for Tax Paid to Another State—Kentucky residents are required to report all income received including income from sources outside Kentucky. Within certain limitations, a credit for income tax paid to another state may be claimed on Schedule TC. The credit is **limited** to the amount of Kentucky tax savings had the income reported to the other state been omitted, **or** the amount of tax paid to the other state, **whichever is less**.

You may not claim credit for tax withheld by another state. You must file a return with the other state, and pay tax on income also taxed by Kentucky in order to claim the credit. A copy of the other state's return including a schedule of income sources must be attached to verify this credit. **If you owe tax in more than one state, the credit for each state must be computed separately**.

Reciprocal States—Kentucky has reciprocal agreements with specific states. These agreements provide that taxpayers be taxed by their state of residence, and not the state where income is earned. Persons who live in Kentucky for more than 183 days during the tax year are considered residents and reciprocity does not apply. The states and types of exemptions are as follows:

Illinois, Ohio, West Virginia—wages and salaries

Indiana—wages, salaries and commissions

Michigan, Wisconsin—income from personal services (including salaries and wages)

Virginia—commuting daily, salaries and wages

Kentucky does not allow a credit for tax paid to a reciprocal state **on the above income**. If tax was withheld by a reciprocal state, you must file directly with the other state for a refund of those taxes.

Employer's Unemployment Tax Credit—If you hired unemployed Kentucky residents to work for you during the last six months of 2001 or during 2002, you may be eligible to claim the unemployment tax credit. In order to claim a credit, each person hired must meet specific criteria. For each qualified person, you may claim a tax credit of $100. The period of unemployment must be certified by the Department for Employment Services, Cabinet for Workforce Development, Second Floor West, 275 East Main Street, Frankfort, KY 40621-0001, and you must maintain a copy of the certification in your files. To claim this credit you must file Schedule UTC, and use Schedule TC to calculate your tax.

Recycling and/or Composting Tax Credit—Individuals who purchase recycling or composting equipment to be used exclusively in Kentucky for recycling or composting postconsumer waste materials, are entitled to a credit against the tax equal to 50 percent of the installed cost of the equipment. Application for this credit must be made on Schedule RC, which may be obtained from the Revenue Cabinet. **A copy of Schedule RC and/or Schedule RC (K-1) reflecting the amount of credit *approved* by the Revenue Cabinet and Schedule TC must be attached to the return.** (See Schedules RC and TC.)

Kentucky Investment Fund Tax Credit—An investor whose cash contribution to an investment fund has been certified by the Kentucky Economic Development Finance Authority (KEDFA) is entitled to a nonrefundable credit against Kentucky income tax equal to 40 percent of the cash contribution. For investments before July 1, 2002, the amount of credit that may be claimed in any given year is limited to 25 percent of the total amount certified by the Kentucky Economic Development Finance Authority (KEDFA). *For investments after July 1, 2002, the credit is claimed on the tax return filed for the tax year following the year in which the credit is granted and is limited in any tax year to 50 percent of the initial aggregate credit apportioned to the investor.* Attach a copy of the certification by KEDFA in the first year claimed. Any excess credit may be carried forward. No credit may extend beyond 15 years of the initial certification.

Coal Incentive Tax Credit—Effective for tax returns filed after July 15, 2001, an electric power company or a company that owns and operates a coal-fired electric generating plant may be entitled to a coal incentive tax credit. Application for this credit is made on Schedule CI, Application for Coal Incentive Tax Credit, and a copy of the credit certificate issued by the Kentucky Revenue Cabinet must be attached to the return on which the credit is claimed**.**

Qualified Research Facilities Tax Credit—A new section of KRS Chapter 141 was created to allow a nonrefundable credit against individual and corporation income taxes equal to 5 percent of the cost of constructing and equipping new facilities or expanding or remodeling existing facilities in Kentucky for qualified research. "Qualified research" is defined to mean qualified research as defined in Section 41 of the IRC. Any unused credit may be carried forward 10 years. Complete and attach Schedule QRFTC, Qualified Research Facility Tax Credit.

Employer GED Incentive Tax Credit—KRS Chapter 151B.127 provides a nonrefundable income tax credit for employers who assist employees in completing a learning contract in which the employee agrees to obtain his or her high school equivalency diploma. The employer shall complete the lower portion of the GED-Incentive Program Final Report (Form DAEL-31) and attach a copy to the return to claim this credit. Shareholders and partners should attach a copy of Schedule K-1 showing the amount of credit distributed. For information regarding the program, contact the Cabinet for Workforce Development, Department of Adult Education and Literacy.

LINE 17, Total Tax Liability—Married taxpayers filing a combined return must add the amounts on Line 16, Columns A and B, and enter the sum on Line 17. Other taxpayers should enter the amount from Line 16, Column B, on Line 17.

LINE 19, Low Income Tax Credit

A low income tax credit is allowed to single persons and married couples whose combined **Kentucky adjusted gross income** is not over $25,000.

Caution: Married couples who file separate returns or separately on a combined return*—If you are married and living with your spouse, you must add your and your spouse's Kentucky adjusted gross income (AGI) together to find the correct low income tax credit percentage.* ***For purposes of determining the low income credit, a separately stated (loss) or negative AGI of either spouse is treated as zero.***

Complete the low income credit worksheet.

a. Enter the amount from Column B, Line 13, **but not less than zero**. __________

b. Enter the amount from Column A, Line 13, **but not less than zero**. + __________

(If you are using Filing Status 4, enter the amount from Column B, Line 13, of your spouse's separate return.)

c. Add Lines a and b. __________

If over $25,000, you do not qualify for this tax credit. Skip Line 19.

If you qualify for the low income tax credit, determine the decimal amount from the chart. Enter the decimal in the space provided on Line 19. Multiply Line 18 by the decimal amount.

If the amount on Line c is: over	but not over	Enter decimal amount on Line 19
---	$ 5,000	1.00 (100%)
$ 5,000	$10,000	.50 (50%)
$10,000	$15,000	.25 (25%)
$15,000	$20,000	.15 (15%)
$20,000	$25,000	.05 (5%)

LINE 21, Child and Dependent Care Credit

Enter in the space provided the amount of credit calculated on federal Form 2441, Line 9 (or Form 1040A, Schedule 2, Line 9), for child and dependent care expenses. Multiply this amount by 20 percent (.20), and enter result on Line 21.

If you do not meet the filing requirements to file a federal income tax return but would have been entitled to the federal child and dependent care credit, you may claim the child and dependent care credit for Kentucky purposes. Complete and attach federal Form 2441, state on the form "did not meet federal filing requirements" and follow instructions for Line 21.

LINE 23, Kentucky Use Tax

Important Reminder from the Revenue Cabinet About Out-of-State Purchases

Pursuant to KRS 139.330, a 6 percent use tax is due if you make out-of-state purchases for storage, use or other consumption in Kentucky and did not pay at least 6 percent state sales tax to the seller at the time of purchase. For example, if you order from catalogs, make purchases through the Internet, or shop outside Kentucky for items such as clothing, shoes, jewelry, cleaning supplies, furniture, computer equipment, software, office supplies, books, souvenirs, exercise equipment or subscribe to magazines, you may owe use tax to Kentucky. It is important to remember that use tax applies ***only*** to items purchased outside Kentucky, including another country, which would have been taxed if purchased in Kentucky.

Two options are available to report and pay use tax.

(1) Form 51A113, Kentucky Consumer's Use Tax Return, may be filed during the year each time you make taxable purchases; or

(2) You can report and pay use tax on an annual basis at the same time you file your Kentucky individual income tax return. For your convenience, a Use Tax Calculation Worksheet is provided below.

Credit Against the Kentucky Use Tax Due

- You may reduce or eliminate the amount of Kentucky use tax due by the amount of state sales tax paid to the out-of-state seller. The reduction may not exceed the amount of Kentucky use tax due on the purchase. For example, if Georgia state sales tax of 4 percent is paid, only the additional 2 percent is due to Kentucky, or if Illinois state sales tax of 6.25 percent is paid, no additional Kentucky use tax is due.
- Sales tax paid to a city, county or country cannot be used as a credit against the Kentucky use tax due.

Use Tax Calculation Worksheet

Purchases Subject to
Kentucky Use Tax .... $ ________________

Multiply by .06 (6%)............... x .06

Use Tax .... $ ________________

Report this amount on Form 740, Line 23; or 740EZ, Line 7.

Need more information about use tax?

Visit our web site at:
www.revenue.ky.gov

Call or write:
Kentucky Revenue Cabinet
Attention: Use Tax
P.O. Box 181, Station 53
Frankfort, KY 40602-0181

Monday—Friday
8 a.m.—4:30 p.m., ET
(502) 564-5170

Hearing or speech-impaired persons may call the TDD line at (502) 564-3058.

LINE 25(a), Tax Withheld—Enter the amount of 2002 **Kentucky** income tax withheld by your employer(s). This amount is shown on wage and tax statements which you must attach to Form 740 in the designated area.

You will not be given credit for Kentucky income tax withheld unless you attach the wage and tax statements reflecting Kentucky withholding.

Employers are required to give these statements to employees no later than January 31, 2003. If by March 1 you are unable to obtain a wage and tax statement from an employer, contact the Revenue Cabinet for instructions.

You may not claim credit for tax **withheld** by another state. Within certain limitations, Kentucky residents may claim a credit for nonrefundable individual income tax **paid** to other states on Schedule TC.

LINE 25(b), Estimated Tax Paid—Enter Kentucky estimated tax payments made for 2002 and amounts credited from the 2001 return.

Also include on Line 25(b) payments prepaid with extension requests. Identify as "prepaid with extension."

LINE 26—Enter the sum of Lines 25(a) and 25(b).

Compare the amounts on Lines 24 and 26. If Line 26 is larger than Line 24, subtract Line 24 from Line 26. Enter the difference on Line 27. This is the **AMOUNT OVERPAID**.

If Line 26 is smaller than Line 24, you owe additional tax. Subtract Line 26 from Line 24. Enter on Line 35. For instructions on payment, see Line 37, Amount You Owe.

LINE 27, Amount Overpaid—If you have an overpayment on Line 27, you may have all of this amount refunded to you. You also may contribute all or part of it to the Nature and Wildlife Fund, the Child Victims' Trust Fund, the Bluegrass State Games and U.S. Olympic Committee Fund and/or the Veterans' Program Trust Fund and/or credit all or part of it toward your 2003 estimated tax.

Voluntary Refund Contributions

Donations to the following funds are voluntary and amounts donated will reduce your refund. You may contribute all or a portion of your overpayment to one or more of the following funds. Enter the amount you wish to contribute on the appropriate lines.

LINE 28, Nature and Wildlife Fund—Contributions to this fund are used to acquire and manage Kentucky's finest natural areas as state nature preserves and to care for all wildlife not taken by hunting or fishing. The Kentucky Department of Fish and Wildlife Resources and the Kentucky State Nature Preserves Commission work together to protect Kentucky's rare plants and animals; acquire the most precious and threatened forests, wetlands and prairies; and manage Kentucky's diverse wildlife. Your tax deductible contributions play a critical role in protecting and managing the best examples of Kentucky's natural environment for the future. *Contributions may also be made directly to the Nature and Wildlife Fund, 801 Schenkel Lane, Frankfort, KY 40601.*

LINE 29, Child Victims' Trust Fund—Contributions to this fund finance local programs designed to prevent the sexual abuse and exploitation of children. This fund is administered through the Attorney General's Office and relies solely on the tax deductible contributions made by interested citizens. *Contributions may also be made directly to the Child Victims' Trust Fund, c/o Kentucky Attorney General, Capitol Building, Frankfort, KY 40601.*

LINE 30, Bluegrass State Games and U.S. Olympic Committee Fund—Contributions to this fund provide Kentuckians a wholesome avenue for personal development through participation in the Bluegrass State Games and assist Kentucky's Olympic hopefuls with the funding needed to train for the Olympic Games. *Contributions may also be made directly to the Bluegrass State Games and U.S. Olympic Committee Fund, Office of the Governor, Capitol Building, Frankfort, KY 40601.*

LINE 31, Veterans' Program Trust Fund—Contributions to this fund are administered by a Board of Directors, who are all veterans. The Trust Fund provides services to veterans that are not already provided by a state law or federal appropriation. In recognizing the service and sacrifice that veterans have provided, the fund organizes and fosters programs that assist veterans. The fund provides supplies, program equipment, or other expenditures deemed essential. *Contributions may also be made to the Kentucky Veterans' Program Trust Fund, 1111 Louisville Road, Frankfort, KY 40601.*

LINE 33, Estimated Tax—You may credit all or part of the overpayment toward your estimated tax liability for 2003. Do so by entering the amount you want credited on Line 33.

LINE 34—Subtract amounts entered on Lines 32 and/or 33 from Line 27. Enter the difference, if any, on Line 34. **This amount will be refunded to you**. If the total of Lines 32 and 33 equals the amount on Line 27, enter a zero on Line 34.

Note: If the amount of Kentucky tax you overpaid is excessive, obtain a copy of Form K-4A from your employer to see if you are entitled to additional allowances. If you are entitled to additional allowances, file a new Form K-4 with your employer to reduce the amount of Kentucky tax withheld.

Tax Payment Summary

LINE 35—This is your additional tax due before penalties and interest.

Penalties and Interest

LINE 36(a), Underpayment of Estimated Tax—If the amount owed is more than $500 and more than 30 percent of the income tax liability on Line 22, you may be subject to a penalty of 10 percent of the underpayment of estimated tax.

The amount of the penalty may be calculated on Form 2210-K, which may be obtained from the Revenue Cabinet. Form 2210-K may also be used by qualifying farmers and others to claim exception to the penalty. If paying the penalty or claiming an exemption, complete Form 2210-K, attach it to your return and check the block below Line 36(a). Enter the amount of the penalty on Line 36(a). The minimum is $25.

Note: Taxpayers claiming a credit for tax paid to another state on Schedule TC, Line 5(c), must add the credit to Lines 1 and 4, Part II, Form 2210-K, to determine the underpayment and penalty.

If your return is filed and all tax due is paid before April 15, 2003, you do not owe any other penalties or interest. If your return is filed after April 15, 2003, or any tax due on the return is paid after April 15, 2003, you may be subject to additional penalties and interest.

LINE 36(b), Interest—Interest will be assessed at the "tax interest rate" from the original due date of the return until the date of payment.

LINE 36(c), Late Payment Penalty—If the amount of tax due as shown on Line 35 is not paid by the original due date of the return, a penalty of 2 percent of the tax computed due may be assessed for each 30 days or fraction thereof that the tax is past due, not to exceed 20 percent. The minimum penalty is $10. However, if the amount timely paid is 75 percent of the tax determined due by the Revenue Cabinet, no late payment penalty will be assessed.

LINE 36(d), Late Filing Penalty—If a return is not filed by the due date or the extended due date, a penalty of 2 percent of the total tax due for each 30 days or fraction thereof that a return is not filed may be assessed, not to exceed 20 percent. The minimum penalty is $10.

Note: Penalties but not interest may be reduced or waived if reasonable cause for reduction or waiver can be shown.

LINE 37, Amount You Owe—When filing the return, you must pay any tax due shown on Line 37. Attach check payable to **Kentucky State Treasurer** to your return. *To help identify your payment properly, write "KY Income Tax—2002"and your Social Security number on the face of the check*. Attach check at the left side of Form 740. Place the check on TOP of any wage and tax statements.

Pay by Credit Card—Pay your 2002 Kentucky individual income tax by MasterCard or VISA credit card through April 15, 2003. Access the Revenue Cabinet's home page (**www.revenue.ky.gov**) to make credit card payments over the Internet. Click on the **KY *E-Tax*** logo or choose **Electronic Services** from the menu, then click on **Credit Card**. If you do not have access to the Internet you may call the Revenue Cabinet at (502) 564-4581.

To make a credit card payment, the following information is needed: credit card type and number, expiration date, and the cardholder's address as it appears on the credit card billing statement.

Note: If you cannot pay your tax in full, file your return and pay as much as possible by April 15. Contact the Revenue Cabinet for additional payment information.

COPY OF FEDERAL RETURN

You must attach a complete copy of your federal return if you received farm, business, or rental income or loss.

The Kentucky Revenue Cabinet does not require copies if none of the above apply or if you filed Form 1040EZ or 1040A. Check the box on Form 740, page 2, if you are not required to attach a copy of your federal return.

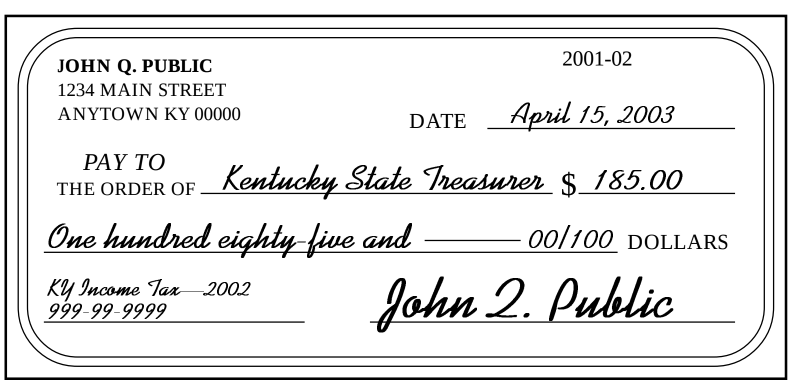
2003 INCOME TAX BOOKLET

Check the appropriate box to indicate whether you wish to receive a complete booklet of tax forms for the preparation of your 2003 income tax return.

SIGN RETURN

Be sure to sign your return on page 2. Each return must be signed by the taxpayer. Joint and combined returns must be signed by both husband and wife. Returns that are not signed may be returned to you for signature.

Please enter a telephone number where you can be reached during regular working hours. You may be contacted for information which may help in processing tax returns.



Instructions for Schedule M—Modifications to Federal Adjusted Gross Income

Additions to Federal Adjusted Gross Income

Line 1—Interest on securities issued by other states and their political subdivisions is taxed by Kentucky and must be reported. Also report dividends received from regulated investment companies (mutual funds) that are taxable for Kentucky income tax purposes. ***Note:*** *Interest from securities of Kentucky and its political subdivisions is exempt.*

Line 2—Enter the self-employed health insurance deduction from federal Form 1040, Line 30.

Line 3—Enter resident adjustment from Kentucky Schedule K-1. Partners, beneficiaries of estates and trusts and S corporation shareholders, see Kentucky Schedule K-1 instructions.

Line 4—Enter total depreciation from federal Form 4562 if you have elected to take the 30 percent special depreciation allowance or the additional New York Liberty Zone Section 179 deduction for property placed in service after September 10, 2001. See Line 15 for additional instructions.

Line 5—Enter educator expenses from federal Form 1040, line 23; 1040A, Line 16.

Line 6—Enter other additions to federal adjusted gross income not listed above (attach detailed schedule). Include:

- the portion of a lump-sum distribution on which you have elected the 20 percent capital gains rate for federal income tax purposes (Schedule P and Form 4972-K required);
- the federal net operating loss deduction;
- the passive activity loss adjustment (see Form 8582-K and instructions);
- differences in pension (3-year recovery rule) and IRA bases; and
- differences in gains (losses) from the sale of intangible assets amortized under the provisions of the Revenue Reconciliation Act of 1993.

At-Risk Limitations—Federal/Kentucky income (loss) differences may create different allowable losses due to at-risk limitations. If you have amounts invested in an activity for which you are not at risk and used federal Form 6198, At-Risk Limitations, complete federal Form 6198, using Kentucky amounts, to determine if the Kentucky allowable loss differs from the federal allowable loss. For a passive activity, use the Kentucky allowable loss to complete Form 8582-K. For all other activities (nonpassive), enter the difference as an "other addition" or "other subtraction" on Line 6 or Line 16.

Note: *Before entering the difference on Line 6 or Line 16 you must take into account any addition or subtraction affecting the at-risk limitations.*

Line 7, Total Additions—Add Lines 1 through 6. Enter on Line 7 and on Form 740, page 1, Line 10.

Subtractions from Federal Adjusted Gross Income

Line 8—Enter the amount of taxable state income tax refund or credit **reported on your federal return** and included as income on Form 740, page 1, Line 9.

Line 9—Enter interest income from U.S. government bonds and securities. Do not include taxable interest from securities, such as FNMA (Fannie Mae), GNMA (Ginnie Mae) and FHLMC (Freddie Mac), which are merely guaranteed by the U.S. government.

Line 10, Pension Income Exclusion—The 2002 exclusion amount is 100 percent of taxable retirement benefits or $38,775, whichever is less. All pension and retirement income paid under a written retirement plan (qualified or unqualified) is eligible for exclusion. This includes pensions, annuities, IRA accounts, 401(k) and similar deferred compensation plans, income received from converting a regular IRA to a Roth IRA, death benefits, disability retirement benefits and other similar accounts or plans.

This exclusion is for each taxpayer and must be computed independently of your spouse who may be filing on the same return. A husband and wife must complete and claim their own exclusion, regardless of filing status. *Joint filers—Combine the separately computed pension exclusion amounts and enter on Schedule M, Line 10, Column B.*

Pension Income Exclusion Worksheet

Step 1.	Column A Spouse	Column B Yourself
a. Enter taxable pension income reported on your federal Form 1040, Line 15(b) or 16(b); Form 1040A, Line 11(b) or 12(b) .... a		
b. Enter disability retirement benefits on Form 1040, Line 7 or Form 1040A, Line 7 .... b		
c. Enter deferred compensation reported on Form 1040, Line 7 or Form 1040A, Line 7 c		
d. Add Lines a, b and c .... d		
Step 2. Line d is $38,775 or less. Enter the amount from Line d on Schedule M, Line 10.		
Step 3. Line d is more than $38,775. Do you have retirement income from the federal government, the Commonwealth of Kentucky or a Kentucky local government; or supplemental U.S. Railroad Retirement Board benefits?	☐ Yes ☐ No	☐ Yes ☐ No
If you answered no, enter $38,775 on Schedule M, Line 10.		
If you answered yes, you must complete Schedule P to determine your pension exclusion.		

Line 11—Enter Social Security and Social Security equivalent U.S. Railroad Retirement Board benefits included on Form 740, page 1, Line 9. These amounts are reported on federal Form 1040, Line 20(b) (Form 1040A, Line 14(b)).

Line 12, Long-term Care Insurance Premiums—Enter long-term care insurance premiums paid in 2002. Do not claim as an itemized deduction.

Line 13, Health Insurance Premiums—Enter medical and dental insurance premiums paid for yourself, your spouse and your dependents. This deduction applies to premiums paid with after-tax dollars. **Note:** You **cannot** deduct on Line 13 insurance premiums paid with pretax dollars (cafeteria plans and vouchers already excluded from wage income) because the premiums are not included in box 1of your W-2 form(s). Do not include long-term care insurance premiums included on Schedule M, Line 12.

Line 14—Enter resident adjustment from Kentucky Schedule K-1. Partners, beneficiaries of estates and trusts and S corporation shareholders, see Kentucky Schedule K-1 instructions. Subtract the distributive share of net income from an S corporation subject to the franchise tax imposed under KRS 136.505 or the capital stock tax imposed under KRS 136.300.

Line 15—**Depreciation, Section 179 Deduction and Gains/ Losses From Disposition of Assets**—*Important: Use Schedule M, Lines 4 and 15* ***only*** *if you have elected for federal income tax purposes to take the 30 percent special depreciation allowance or the additional New York Liberty Zone Section 179 deduction for property placed in service after September 10, 2001.* **A copy of the federal Form 4562 filed for federal income tax purposes *must* be submitted with Form 740 to verify that no adjustments are required.**

Reporting Depreciation and Section 179 Deduction Differences for Property Placed in Service After September 10, 2001.

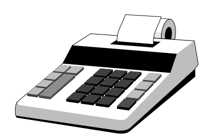
Convert federal Form 4562 to a **Kentucky Form 4562** by entering Kentucky at the top center of the form above Depreciation and Amortization. Compute Kentucky depreciation and Section 179 deduction in accordance with the IRC in effect on December 31, 2001, by ignoring the lines and instructions regarding the 30 percent special depreciation allowance and the additional New York Liberty Zone Section 179 deduction. **Note:** In determining the Section 179 deduction for Kentucky the income limitation on Line 11 is Kentucky net income before the Section 179 deduction instead of federal taxable income. **Attach Kentucky Form 4562** to Form 740, and enter the amount from Kentucky Form 4562, Line 22 on Line 15.

Line 16—Enter other subtractions from federal adjusted gross income not listed above (attach detailed schedule). Include:

- income received as a result of the **Master Tobacco Settlement Agreement**, the secondary settlement fund referred to as "Phase II";
- income received from the **Tobacco Loss Assistance Program (TLAP)**;
- income of precinct workers for election training or working at election booths;
- capital gains on property taken by eminent domain;
- Kentucky net operating loss deduction;
- passive activity loss adjustment (see Form 8582-K and instructions);
- income of a child reported on the parent's return;
- artistic charitable contributions (if you do not itemize deductions);
- the federal work opportunity credit used to reduce wages;
- at-risk limitations (see instructions for Line 6);
- qualified farm networking project differences per KRS 141.0101(15);
- differences in the gains (losses) from the sale of intangible assets amortized under the provisions of the Revenue Reconciliation Act of 1993; and
- differences in gains (losses) from assets purchased after September 10, 2001.

Determining and Reporting Differences in Gain or Loss From Disposition of Assets—If you dispose of assets during the year on which the 30 percent special depreciation allowance or the additional New York Liberty Zone Section 179 deduction was taken for federal income tax purposes, you will need to determine and report the difference in the amount of gain or loss on such assets as follows:

Convert federal Schedule D, federal Form 4797 and other applicable federal forms to **Kentucky forms** by entering **Kentucky** at the top center of the form. Compute Kentucky gain or loss from the disposed assets using Kentucky basis. Enter the difference in federal gain or loss and the Kentucky gain or loss on the appropriate line on Line 16. **Attach the Kentucky Schedule D and Kentucky Form 4797 and other forms or schedules to support the deduction.**



Line 17, Total Subtractions—Add Lines 8 through 16. Enter on Line 17 and on Form 740, page 1, Line 12.

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

Instructions for Schedule A

***Do not** include on Schedule A items deducted elsewhere, such as on Schedule C, C-EZ, E or F.*

You may itemize your deductions for Kentucky even if you do not itemize for federal purposes. Generally, if your deductions exceed $1,800, it will benefit you to itemize. If you do not itemize, a standard deduction of $1,800 is allowed.

Special Rules for Married Couples—*If one spouse itemizes deductions, the other must also itemize.* Married couples filing a joint federal return and who wish to file separate returns or a combined return for Kentucky may: (a) file separate Schedules A showing the specific deductions claimed by each, or (b) file one Schedule A and divide the total deductions between them based on the percentage of each spouse's income to total income.

Limitations on Itemized Deductions for High-Income Taxpayers—If your adjusted gross income on Form 740, Line 13, exceeds $137,300 ($68,650 if married filing separately on a combined return or separate returns), your itemized deductions are reduced by the lesser of:

(a) 3 percent of the amount by which your adjusted gross income exceeds $137,300 ($68,650 if married filing separately on a combined return or separate returns), or

(b) 80 percent of your total itemized deductions except medical and dental expenses, casualty and theft losses, gambling losses and investment interest.

The limitations are computed on page 2, Part II, Schedule A (Form 740).

Lines 1 through 3—Medical and Dental Expenses

You may deduct only your medical and dental expenses that exceed 7.5 percent of Line 13, Form 740. Include all amounts you paid during 2002, but **do not** include amounts which have been previously deducted; paid by hospital, health or accident insurance; or paid by your employer. Federal rules apply for reimbursement.

When you compute your deduction, you may include medical and dental bills you paid for:

- Yourself.
- All dependents you claim on your return.
- Your child whom you do not claim as a dependent because of the rules for Children of Divorced or Separated Parents.
- Any person that you could have claimed as a dependent on your return if that person had not received $3,000 or more of gross income or had not filed a joint return.

Examples of Medical and Dental Payments You MAY Deduct

To the extent you were not reimbursed, you may deduct what you paid for:

- Medicines and drugs that required a prescription, or insulin.
- Medical doctors, dentists, eye doctors, chiropractors, osteopaths, podiatrists, psychiatrists, psychologists, physical therapists, acupuncturists and psychoanalysts (medical care only).
- Medical examinations, X-ray and laboratory services, insulin treatment and whirlpool baths your doctor ordered.
- Nursing help. If you pay someone to do both nursing and housework, you may deduct only the cost of the nursing help.
- Hospital care (including meals and lodging), clinic costs and lab fees.
- Medical treatment at a center for drug addicts or alcoholics.
- Medical aids such as hearing aids (and batteries), false teeth, eyeglasses, contact lenses, braces, crutches, wheelchairs, guide dogs and the cost of maintaining them.
- Lodging expenses (but not meals) paid while away from home to receive medical care in a hospital or a medical care facility that is related to a hospital. Do not include more than $50 a night for each eligible person.
- Ambulance service and other travel costs to get medical care. If you used your own car, you may claim what you spent for gas and oil to go to and from the place you received the care; or you may claim 13 cents a mile. Add parking and tolls to the amount you claim under either method.
- The supplemental part of Medicare insurance (Medicare B).
- Surgery to improve vision including radial keratotomy or other laser eye surgery.

Examples of Medical and Dental Payments You MAY NOT Deduct

You may not deduct payments for the following:

- Elective cosmetic surgery.
- Hospital, medical and extra Medicare B insurance. To claim these expenses, see instructions for Schedule M, Line 13.
- The basic cost of Medicare insurance (Medicare A). (***Note**:* If you are 65 or over and not entitled to Social Security benefits, you may deduct premiums you voluntarily paid for Medicare A coverage.)
- Life insurance or income protection policies.
- Long-term care insurance premiums. To claim, see instructions for Schedule M, Line 12.
- The hospital insurance benefits (Medicare) tax withheld from your pay as part of the Social Security tax or paid as part of Social Security self-employment tax.
- Nursing care for a healthy baby.
- Illegal operations or drugs.
- Medicines or drugs you bought without a prescription.
- Travel your doctor told you to take for rest or change.
- Funeral, burial or cremation costs.

See federal Publication 502 for more information on allowable medical and dental expenses including deductions for capital expenditures and special care for persons with disabilities.

Lines 4 through 8—Taxes

Taxes You MAY Deduct

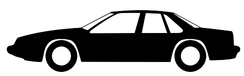
Line 4, Local Income Taxes—Enter the total amount of local occupational (payroll) tax paid. **Do not include state income taxes paid or withheld; they are not deductible**.

Line 5, Real Estate Taxes—Enter the amount of local and state property taxes you paid on real estate owned by you. Do not report real estate taxes here that were paid in connection with a business or profession and have been deducted on Schedule C, E or F.

Line 6, Personal Property Taxes—Enter property taxes paid on automobiles, intangible property (accounts receivable, bonds, etc.) or other personal property.

Line 7, Other Taxes—Enter other taxes that are deductible, including foreign income taxes paid. Do not deduct on Schedule A any nonbusiness federal taxes or any taxes paid in connection with a business or profession which are deductible on Schedule C, E or F.

Taxes You MAY NOT Deduct



Sales and use taxes.
Usage taxes on motor vehicles.
State or federal income taxes.
State or federal inheritance or estate taxes.
State gasoline taxes.
Federal excise taxes on your personal expenditures, such as taxes on theater admissions, furs, jewelry, cosmetics, tires, telephone service, airplane tickets, etc.
Federal Social Security taxes.
Hunting, fishing or dog licenses.
Auto inspection fees.
Auto license fees.
Cigarette or liquor taxes.
Taxes paid by you for another person.
Motorboat registration fees.
Drivers' license fees.
Sewer assessments.
School taxes based on electric, water, sewer, gas and telephone bills.
Local or state insurance premiums taxes or surcharges.

Lines 9 through 13—Interest Expense

You may deduct interest that you have paid during the taxable year on a home mortgage. You may not deduct interest paid on credit or charge card accounts, a life insurance loan, an automobile or other consumer loan, delinquent taxes or on a personal note held by a bank or individual.

Interest paid on business debts should be deducted as a business expense on the appropriate business income schedule.

You may not deduct interest on an indebtedness of another person when you are not legally liable for payment of the interest. Nor may you deduct interest paid on a gambling debt or any other nonenforceable obligation. Interest paid on money borrowed to buy tax-exempt securities or single premium life insurance is not deductible.

Line 9—List the interest and points (including "seller-paid points") paid on your home mortgage to financial institutions and reported to you on federal Form 1098.

Line 10—List other interest paid on your home mortgage and not reported to you on federal Form 1098. Show name and address.

Line 11—List points (including "seller-paid points") not reported to you on federal Form 1098. Points (including loan origination fees) charged only for the use of money and paid with funds other than those obtained from the lender are deductible over the life of the mortgage. However, points may be deducted in the year paid if all three of the following apply: (1) the loan was used to **buy, build or improve your main home,** and was secured by that home, (2) the points did not exceed the points usually charged in the area where the loan was made, and were figured as a percentage of the loan amount, and (3) if the loan was used to **buy or build** the home, you must have provided funds (see below) at least equal to the points charged. If the loan was used to **improve** the home, you must have paid the points with funds other than those obtained from the lender.

Funds provided by you include down payments, escrow deposits, earnest money applied at closing, and other amounts actually paid at closing. They do not include amounts you borrowed as part of the overall transaction.

Seller-Paid Points—If you are the buyer, you may be able to deduct points the seller paid in 2002. You can do this if the loan was used to buy your main home and the points meet item **2** above. You must reduce your basis in the home by those points, even if you don't deduct them.

If you are the seller, you **cannot** deduct the points as interest. Instead, include them as an expense of the sale.

This generally does not apply to points paid to refinance your mortgage. Federal rules apply. See federal Publication 936 for more information.

Line 12, Interest on Investment Property—Investment interest is interest paid on money you borrowed that is allocable to property held for investment. It does not include any interest allocable to a passive activity or to securities that generate tax-exempt income.

Complete and attach federal Form 4952, Investment Interest Expense Deduction, to figure your deduction.

Exception. You do not have to file federal Form 4952 if all three of the following apply:

(a) your investment interest is not more than your investment income from interest and ordinary dividends,
(b) you have no other deductible investment expenses, and
(c) you have no disallowed investment interest expense from 2001.

For more details, see federal Publication 550, Investment Income and Expenses.

Lines 14 through 18—Contributions

You may deduct what you actually gave to organizations that are religious, charitable, educational, scientific or literary in purpose. You may also deduct what you gave to organizations that work to prevent cruelty to children or animals. In general, contributions deductible for federal income tax purposes are also deductible for Kentucky.

Examples of qualifying organizations are:

Churches, temples, synagogues, Salvation Army, Red Cross, CARE, Goodwill Industries, United Way, Boy Scouts, Girl Scouts, Boys and Girls Clubs of America, etc.

Fraternal orders if the gifts will be used for the purposes listed above.

Veterans' and certain cultural groups.

Nonprofit schools, hospitals and organizations whose purpose is to find a cure for, or help people who have arthritis, asthma, birth defects, cancer, cerebral palsy, cystic fibrosis, diabetes, heart disease, hemophilia, mental illness or retardation, multiple sclerosis, muscular dystrophy, tuberculosis, etc.

Federal, state and local governments if the gifts are solely for public purposes.

If you contributed to a qualifying charitable organization and also received a benefit from it, you may deduct only the amount that is more than the value of the benefit you received.

Contributions You MAY Deduct

Contributions may be in cash, property or out-of-pocket expenses you paid to do volunteer work for the kinds of organizations described above. If you drove to and from the volunteer work, you may take 14 cents a mile or the actual cost of gas and oil. Add parking and tolls to the amount you claim under either method. (But do not deduct any amounts that were repaid to you.)

Note: You are required to maintain receipts, cancelled checks or other reliable written documentation showing the name of the organization and the date and amount given to support claimed deductions for charitable contributions.

Separate contributions of $250 or more require written substantiation from the donee organization in addition to your proof of payment. It is your responsibility to secure substantiation. A letter or other documentation from the qualifying charitable organization that acknowledges receipt of the contribution and shows the date and amount constitutes a receipt. **This substantiation should be kept in your files. Do not send it with your return**.

See federal Publication 526 for special rules that apply if:

your total deduction for gifts of property is over $500,

you gave less than your entire interest in the property,

your cash contributions or contributions of ordinary income property are more than 30 percent of Line 13, Form 740,

your gifts of capital gain property to certain organizations are more than 20 percent of Line 13, Form 740, or

you gave gifts of property that increased in value, made bargain sales to charity, or gave gifts of the use of property.

You MAY NOT Deduct as Contributions

Travel expenses (including meals and lodging) while away from home unless there was no significant element of personal pleasure, recreation or vacation in the travel.

Political contributions.

Dues, fees or bills paid to country clubs, lodges, fraternal orders or similar groups.

Value of any benefit, such as food, entertainment or merchandise, that you received in connection with a contribution to a charitable organization.

Cost of raffle, bingo or lottery tickets.

Cost of tuition.

Value of your time or service.

Value of blood given to a blood bank.

The transfer of a future interest in tangible personal property (generally, until the entire interest has been transferred).

Gifts to:

Individuals.

Foreign organizations.

Groups that are run for personal profit.

Groups whose purpose is to lobby for changes in the laws.

Civic leagues, social and sports clubs, labor unions and chambers of commerce.

Line 14—Enter on Line 14 all of your contributions paid by cash or check (including out-of-pocket expenses).

Line 15—Enter on Line 15 your contributions of property. If you gave used items, such as clothing or furniture, deduct their fair market value at the time you gave them. Fair market value is what a willing buyer would pay a willing seller when neither has to buy or sell and both are aware of the conditions of the sale. If your total deduction for gifts of property is more than $500, you must complete and attach federal Form 8283, Noncash Charitable Contributions. If your total deduction is over $5,000, you may also have to obtain appraisals of the values of the donated property. See federal Form 8283 and its instructions for details.

Enter on Line 15 the value of a leasehold interest property contributed to a charitable organization to provide temporary housing for the homeless. Attach Schedule HH.

Recordkeeping—If you gave property, you should keep a receipt or written statement from the organization you gave the property to, or a reliable written record, that shows the organization's name and address, the date and location of the gift and a description of the property. You should also keep reliable written records for each gift of property that include the following information:

(a) How you figured the property's value at the time you gave it. (If the value was determined by an appraisal, you should also keep a signed copy of the appraisal.)

(b) The cost or other basis of the property if you must reduce it by any ordinary income or capital gain that would have resulted if the property had been sold at its fair market value.

(c) How you figured your deduction if you chose to reduce your deduction for gifts of capital gain property.

(d) Any conditions attached to the gift.

(e) If the gift was a "qualified conservation contribution" under IRC Section 170(h), the fair market value of the underlying property before and after the gift, the type of legal interest donated and the conservation purpose furthered by the gift.

Line 16—Enter on Line 16 artistic charitable contributions. A deduction is allowed for "qualified artistic charitable contributions" of any literary, musical, artistic or scholarly composition, letter or memorandum, or similar property.

An amount equal to the fair market value of the property on the date contributed is allowable as a deduction. However, the deduction is limited to the amount of the taxpayer's artistic adjusted gross income for the taxable year.

The following requirements for a deduction must be met:

(a) The property must have been created by the personal efforts of the taxpayer at least one year prior to the date contributed. The creation of this property cannot be related to the performance of duties while an officer or employee of the United States, any state or political subdivision thereof.

(b) A written appraisal of the fair market value of the contributed property must be made by a qualified independent appraiser within one year of the date of the contribution. A copy of the appraisal must be attached to the tax return.

(c) The contribution must be made to a qualified organization as described in this section.

Line 17—Enter on Line 17 any carryover of contributions that you were not able to deduct in an earlier year because they exceeded your adjusted gross income limit. See federal Publication 526 for details on how to figure your carryover.

Lines 19 through 21—Casualty and Theft Losses

Line 19—Enter casualty or theft losses of property that is not trade, business, rent or royalty property. Attach federal Form 4684, Casualties and Thefts, or a similar statement to figure your loss.

Losses You MAY Deduct

You may be able to deduct all or part of each loss caused by theft, vandalism, fire, storm, and car, boat and other accidents or similar causes. You may also be able to deduct money you had in a financial institution but lost because of the insolvency or bankruptcy of the institution.

You may deduct nonbusiness casualty or theft losses only to the extent that:

(a) the amount of ***each*** separate casualty or theft loss is more than $100, and

(b) the total amount of ***all*** losses during the year is more than 10 percent of Line 13, Form 740.

Special rules apply if you had both gains and losses from nonbusiness casualties or thefts. See federal Form 4684 for details.

Losses You MAY NOT Deduct

Money or property misplaced or lost.

Breakage of china, glassware, furniture and similar items under normal conditions.

Progressive damage to property (buildings, clothes, trees, etc.) caused by termites, moths, other insects or disease.

Deduct the costs of proving you had a property loss as a miscellaneous deduction on Line 24, Schedule A. (Examples of these costs are appraisal fees and photographs used to establish the amount of your loss.)

For more details, see federal Publication 547, Nonbusiness Disasters, Casualties, and Thefts. It also gives information about federal disaster area losses.

Lines 22 through 27—Miscellaneous Deductions

Most miscellaneous deductions cannot be deducted in full. You must subtract 2 percent of your adjusted gross income from the total. Compute the 2 percent limit on Line 26.

Generally, the 2 percent limit applies to job-related expenses you paid for which you were not reimbursed (Line 22). The limit also applies to certain expenses you paid to produce or collect taxable income (Line 24). See the instructions for Lines 22 and 24 for examples of expenses to claim on these lines.

The 2 percent limit does not apply to certain other miscellaneous expenses that you may deduct. These expenses can be deducted in full on Line 28. The Line 28 instructions describe these expenses. Included are deductible gambling losses (to the extent of winnings) and certain job expenses of disabled employees. See federal Publication 529, Miscellaneous Deductions, for more information.

Expenses You MAY NOT Deduct

Political contributions.

Personal legal expenses.

Lost or misplaced cash or property (but see casualty and theft losses).

Expenses for meals during regular or extra work hours.

The cost of entertaining friends.

Expenses of going to or from your regular workplace.

Education needed to meet minimum requirements for your job or that will qualify you for a new occupation.

Travel expenses for employment away from home if that period of employment exceeds one year.

Expenses of:

(a) Travel as a form of education.

(b) Attending a seminar, convention or similar meeting unless it is related to your employment.

(c) Adopting a child, including a child with special needs.

Fines and penalties.

Expenses of producing tax-exempt income.

Amounts paid to organizations or establishments which have been found to practice discrimination.

Expenses Subject to the 2 Percent Limit

Important: *The increase in first-year luxury automobile depreciation caps, the 30 percent special depreciation allowance or the additional New York Liberty Zone Section 179 deduction for property placed in service after September 10, 2001, are not allowable for Kentucky tax purposes.* For passenger automobiles purchased after September 1, 2001, you must compute Kentucky depreciation in accordance with the IRC in effect on December 31, 2001. Convert federal Form 2106, Employee Business Expenses, to a **Kentucky Form 2106** by entering **Kentucky** at the top center of the form. Complete Section D—Depreciation of Vehicles in accordance with the IRC in effect on December 31, 2001. **Attach a copy of the federal Form 2106 filed for federal income tax purposes to verify that no adjustments are required.**

Line 22—Use this line to report job-related expenses you paid for which you were not reimbursed. You MUST first fill out Form 2106, Employee Business Expenses, or Form 2106-EZ, Unreimbursed Employee Business Expenses if: you claim any unreimbursed travel, transportation, meal or entertainment expenses for your job; or your employer paid you for any of your job-related expenses reportable on Line 22.

Enter the amount of unreimbursed employee business expense from Form 2106 or 2106-EZ on Line 22 of Schedule A.

If you do not have to fill out Form 2106 or 2106-EZ, list the type and amount of your expenses in the space provided. If you need more space, attach a statement showing the type and amount of the expense. Enter one total on Line 22.

Examples of expenses to include on Line 22 are:

Travel, transportation, meal or entertainment expense. (**Note**: If you have any of these expenses, you must use Form 2106 or 2106-EZ for all of your job-related expenses.)

Union dues.

Safety equipment, small tools and supplies required for your job.

Uniforms required by your employer, and which you may not usually wear away from work.

Protective clothing, required in your work, such as hard hats and safety shoes and glasses.

Physical examinations required by your employer.

Dues to professional organizations and chambers of commerce.

Subscriptions to professional journals.

Fees to employment agencies and other costs to look for a new job in your present occupation, even if you do not get a new job.

Business use of part of your home but only if you use that part exclusively and on a regular basis in your work and for the convenience of your employer. For details, including limits that apply, see federal Publication 587, Business Use of Your Home.

Education expenses you paid that were required by your employer, or by law or regulations, to keep your salary or job. In general, you may also include the cost of keeping or improving skills you must have in your job. For more details, see federal Publication 508, Educational Expenses. Some education expenses are not deductible. See "Expenses You MAY NOT Deduct."

Line 23—Use this line to report tax return preparation fees paid during the taxable year including fees paid for filing your return electronically.

Line 24—Use this line for amounts you paid to produce or collect taxable income and manage or protect property held for earning income. List the type and amount of each expense in the space provided. If you need more space, attach a statement showing the type and amount of each expense. Enter one total on Line 24. Examples of these expenses are:

Safe deposit box rental.

Certain legal and accounting fees.

Clerical help and office rent.

Custodial (e.g., trust account) fees.

Your share of the investment expenses of a regulated investment company.

Certain losses on nonfederally insured deposits in an insolvent or bankrupt financial institution. For more information (including limits on the amount you can deduct), see federal Publication 529.

Deduction for repayment of amounts under a claim of right if $3,000 or less.

Expenses related to an activity not engaged in for profit. These expenses are limited to the income from the activity that you reported on federal Form 1040, Line 22. See Not-for-Profit Activities in federal Publication 535, Business Expenses, for details on how to figure the amount to deduct.

Expenses NOT Subject to the 2 Percent Limit

Line 28—Use this line to report miscellaneous deductions that are NOT subject to the 2 percent adjusted gross income limit. Only the expenses listed below can be deducted on Line 28.

Gambling losses to the extent of gambling winnings. Gambling winnings must be included in federal adjusted gross income (Form 740, Line 9). (**Note**: Gambling losses must be verified by supplemental records. These include a diary and unredeemed tickets, payment slips and winning statements.)

Federal estate tax on income in respect of a decedent.

Amortizable bond premium on bonds acquired before October 23, 1986.

Deduction for repayment of amounts under a claim of right if more than $3,000. See federal Publication 525.

Unrecovered investment in a pension.

Impairment-related work expenses of a disabled person.

List the type and amount of each expense. Enter one total on Line 28. For more information on these expenses, see federal Publication 529.

Line 29, Total Itemized Deductions

If the amount on Form 740, Line 13, exceeds $137,300 ($68,650 if married filing separately on a combined return or separate returns), skip Part I and complete Part II on page 2.

Dividing Deductions Between Spouses—Married taxpayers who are filing separate returns or a combined return but using only one Schedule A must divide the itemized deductions. Complete page 2, Part I, Lines 1 through 4. If one spouse is not required to file a Kentucky return, total deductions may be divided between them based on the percentage of each spouse's income to total income or separate Schedules A may be filed.

YOUR RIGHTS AS A KENTUCKY TAXPAYER

The mission of the Kentucky Revenue Cabinet (KRC) is to provide courteous, accurate and efficient services for the benefit of the Commonwealth and administer Kentucky tax laws in a fair and impartial manner.

As a Kentucky taxpayer, you have the right to expect the KRC to honor its mission and uphold your rights every time you contact or are contacted by the KRC.

RIGHTS OF TAXPAYER

Privacy—You have the right to privacy of information provided to the KRC.

Assistance—You have the right to advice and assistance from the KRC in complying with state tax laws.

Explanation—You have the right to a clear and concise explanation of:

- basis of assessment of additional taxes, interest and penalties, or the denial or reduction of any refund or credit claim;
- procedure for protest and appeal of a determination of the KRC; and
- tax laws and changes in tax laws so that you can comply with the law.

Protest and Appeal—You have the right to protest and appeal a determination of the KRC if you disagree with an assessment of tax or penalty, reduction or a denial of a refund, a revocation of a license or permit, or other determination made by the KRC.

Conference—You have the right to a conference to discuss a tax matter.

Representation—You have the right to representation by your authorized agent (attorney, accountant or other person) in any hearing or conference with the KRC. You have the right to be informed of this right prior to the conference or hearing. If you intend for your representative to attend the conference or hearing in your place, you may be required to give your representative a power of attorney before the KRC can discuss tax matters with your authorized agent.

Recordings—You have the right to make an audio recording of any meeting, conference or hearing with the KRC, or to be notified in advance if the KRC plans to record the proceedings and to receive a copy of any recording.

Consideration—You have the right to consideration of:

- waiver of penalties or collection fees if "reasonable cause" for reduction or waiver is given ("reasonable cause" is defined in KRS 131.010(9) as: "an event, happening, or circumstance entirely beyond the knowledge or control of a taxpayer who has exercised due care and prudence in the filing of a return or report or the payment of monies due the cabinet pursuant to law or administrative regulation");
- installment payments of delinquent taxes, interest and penalties;
- waiver of interest and penalties, but not taxes, resulting from incorrect written advice from the KRC if all facts were given and the law did not change or the courts did not issue a ruling to the contrary;
- extension of time for filing reports or returns; and
- payment of charges incurred resulting from an erroneous filing of a lien or levy by the KRC.

Guarantee—You have the right to a guarantee that KRC employees are not paid, evaluated or promoted based on taxes assessed or collected, or a tax assessment or collection quota or goal imposed or suggested.

Damages—You have the right to file a claim for actual and direct monetary damages with the Kentucky Board of Claims if a KRC employee willfully, recklessly and intentionally disregards your rights as a Kentucky taxpayer.

Interest—You have the right to receive interest on an overpayment of tax, except delinquent property tax, payable at the same rate you would pay if you underpaid your tax.

REVENUE CABINET RESPONSIBILITIES

The KRC has the responsibility to:

- perform audits, conduct conferences and hearings with you at reasonable times and places;
- authorize, require or conduct an investigation or surveillance of you only if it relates to a tax matter;
- make a written request for payment of delinquent taxes which are due and payable at least 30 days prior to seizure and sale of your assets;
- conduct educational and informational programs to help you understand and comply with the laws;
- publish clear and simple statements to explain tax procedures, remedies, your rights and obligations, and the rights and obligations of the KRC;
- notify you in writing when an erroneous lien or levy is released and, if requested, notify major credit reporting companies in counties where lien was filed;
- advise you of procedures, remedies and your rights and obligations with an original notice of audit or when an original notice of tax due is issued, a refund or credit is denied or reduced, or whenever a license or permit is denied, revoked or canceled;
- notify you in writing prior to termination or modification of a payment agreement;
- furnish copies of the agent’s audit workpapers and a written narrative explaining the reason(s) for the assessment; and
- resolve tax controversies on a fair and equitable basis at the administrative level whenever possible.

PROTEST AND APPEAL PROCEDURE

Protest—If you receive a notice of assessment, a Notice of Tax Due for tax or penalty or if the KRC notifies you that a tax refund or credit has been reduced or denied, a license or permit revoked or denied, or other determination made by the KRC, you have the right to protest. To do so:

- submit a written protest within 45 days from the original notice date;
- identify the type of tax involved and give the account number, Social Security number or other identification number and attach a copy of the KRC notice of determination to support that protest is timely;
- explain why you disagree;
- attach any proof or documentation available to support your protest or request additional time to support your protest;
- sign your statement, include your daytime telephone number and mailing address; and
- mail to the Kentucky Revenue Cabinet, Frankfort, KY 40620.

Conference—If you have not been able to resolve the tax matter through your protest, you have the right to request a conference to discuss the issue.

Independent Informal Review—If you feel after the conference that you have not been treated in a fair and equitable manner, you have the right to request an independent informal review.

Final Ruling—If you do not want to have a conference or if the conference did not resolve your protest, you have the right to request a final ruling of the KRC so that you can appeal your case further.

Appeal—If you do not agree with the KRC's final ruling, you can file a written appeal with the Kentucky Board of Tax Appeals. If you do not agree with the decision of the Kentucky Board of Tax Appeals, you have the right to appeal the ruling to the Kentucky courts (first to the circuit court in your home county or in Franklin County, then to the Kentucky Court of Appeals, and you have the right to request a review by the Kentucky Supreme Court).

Note: The above protest and appeal procedures do not apply for assessments of all types of property tax. Contact the local PVA for information about how to appeal the valuation of real property.

WHERE TO GET ASSISTANCE

The KRC has offices in Frankfort and taxpayer service centers in nine cities and towns throughout Kentucky. KRC employees in the service centers answer tax questions and provide assistance. The office locations and telephone numbers are listed elsewhere in this packet.

The KRC also has a Taxpayer Ombudsman's Office which consists of the Ombudsman and a staff whose job is to serve as an advocate for taxpayers' rights. One of the main functions of the office is to ensure that your rights as a Kentucky taxpayer are protected by the KRC.

Also, an important function of the Taxpayer Ombudsman's Office is to confer with KRC employees when you have a problem or conflict that you have been unable to resolve. However, it is not the role of the Ombudsman's Office to intercede in an audit, handle a protest, waive taxes, penalty or interest, or answer technical tax questions. To file a protest, see PROTEST AND APPEAL PROCEDURE. Please do not mail your protest to the Ombudsman.

The Ombudsman's Office is your advocate and is there to make sure your rights are protected. If you think you are not being treated fairly or if you have a problem or complaint, please contact the Ombudsman's Office so they can help you.

The Taxpayer Ombudsman's Office may be contacted by telephone at (502) 564-7822 (between 8:00 a.m. and 4:30 p.m. weekdays). From a Telecommunication Device for the Deaf (TDD), call (502) 564-3058. The mailing address is: Office of Taxpayer Ombudsman, P.O. Box 930, Frankfort, Kentucky 40602-0930.

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This information merely summarizes your rights as a Kentucky taxpayer and the responsibilities of the Revenue Cabinet. The Kentucky Taxpayers' Bill of Rights may be found in the Kentucky Revised Statutes (KRS) at Chapter 131.041—131.081. Additional rights and responsibilities are provided for in KRS 131.020, 131.110, 131.170, 131.183, 131.500, 133.120, 133.130, 134.580 and 134.590.