2017 Kentucky State Tax Update

UK Income Tax Seminars

Kentucky Department of Revenue
Daniel P. Bork, Commissioner
Today’s Agenda

- What’s New?
- 2017 Legislation
- Individual Income Tax Updates
- Corporate Tax Updates
- Other Taxing Areas
- Procedural Updates and Reminders
- DOR Contact Information
ADMINISTRATION CHANGES

Department of Revenue
Deputy Commissioner C. Jane Becker

- Appointed Deputy Commissioner in September of 2017.
- Prior to this appointment, served as Executive Director of the Office of Income Taxation.
ADMINISTRATION CHANGES

Office of Income Taxation
Executive Director J. Todd Renner

- Appointed Executive Director in September 2017.

- Prior to appointment, served as Director of the Corporate Tax Division within the Office of Income Taxation
What’s New in the Commonwealth

- New Declaration of Representative Form
  - Form 20A100
  - Completed forms may be submitted by:
    - Fax: 502-564-0058
    - P.O. Box 181 Sta 56
      Frankfort, KY 40602-181
2017 LEGISLATIVE UPDATE

House Bill 245

- Amends KRS 131.130 to allow the Department of Revenue to respond to taxpayer’s questions and publish the responses

- The DOR may include examples as part of any response or publication

- Designed to improve transparency in tax guidance
**2017 LEGISLATIVE UPDATE**

- **House Bill 50**
  
  - An ordinary administrative regulation with a last effective date on or after July 1, 2012, shall expire seven (7) years after its last effective date, except as provided by the certification process in KRS 13A.3104
  
  - An ordinary administrative regulation with a last effective date before July 1, 2012, shall expire on July 1, 2019, except as provided by the certification process in KRS 13A.3104
  
  - Each state agency must maintain and publish a list of all regulation numbers and their corresponding effective dates
  
  - **KRS 13A.3102**
House Bill 35

- Establishes public benefit corporations in Kentucky
  - A public benefit corporation is a specific type of for-profit corporation that allows for a public benefit to be a charter purpose
  - New trend for social corporate responsibility
  - No tax implications
  - Existing corporation must have 90% approval from existing shareholders
  - The purpose of the public benefit must be stated in the articles of incorporation
  - All stock certificates issued must note conspicuously that the corporation is a public benefit corporation
  - **Ben & Jerry’s**, **Etsy**, and **Patagonia** are examples of public benefit corporations.
INDIVIDUAL INCOME TAX

Schedule KW-2

- Created for paper returns to help reduce the number of attachments filed
- Submitted in place of the genuine W-2 and/or other wage statements
- Helps taxpayers to more easily retain copies of their own original statements
### Part II—Form 1099 and W-2G

Enter all 1099s and W-2Gs with Kentucky income tax withheld.

<table>
<thead>
<tr>
<th></th>
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<tr>
<td>17</td>
<td>TOTAL FROM ALL 1099s AND W2-Gs</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

### Part III—Totals

Enter total Kentucky income tax withheld from line 18, Column F on your Kentucky income tax return (Form 740 and 740-NP, line 30(a), 740-EZ, line 11 or 740-NP-R, line 1).

Enter combined totals from Column F, lines 11 and 17

Enclose with your Kentucky tax return.

42A740-KW2 (30CT17)
INDIVIDUAL INCOME TAX

Amendment Election Checkbox on Form 740

- Beginning with 2017 the Form 740-X is no longer required to file an amended return

- Copy of the 1040X is requested if applicable

- The 740-X will still be required for amendments to years prior to 2017
### FORM 740 (2017)

#### REFUND/TAX PAYMENT SUMMARY

29. Enter amount from page 1, line 28. This is your **Total Tax Liability**  
   00

30. (a) Enter Kentucky income tax withheld as shown on enclosed Schedule KW-2  
   00

   (b) Enter 2017 Kentucky estimated tax payments  
   00

   (c) Enter 2017 refundable certified rehabilitation credit  
   00

   (d) Enter 2017 film industry tax credit  
   00

   (e) For amended return; enter amount paid with original return plus additional payment(s) made after it was filed  
   00

31. Add lines 30(a) through 30(e)  
   00

32. (a) If line 31 is larger than line 29, enter amount overpaid  
   00

   (b) Estimated tax penalty and/or interest. \[ Check if Form 2210-K attached... \]  
   00

   (c) For amended return; overpayment, if any, shown on original return  
   00

   (d) Subtract line 32(b) and 32(c) from 32(a), enter **AMOUNT OVERPAID (see instructions)**  
   00

33. **Fund Contributions; see instructions.**
   
   (a) Nature and Wildlife Fund  
   00

   (b) Child Victims’ Trust Fund  
   00

   (c) Veterans’ Program Trust Fund  
   00

   (d) Breast Cancer Research/ 
   Education Trust Fund  
   00

   (e) Farms to Food Banks Trust Fund  
   00

   (f) Local History Trust Fund  
   00

   (g) Special Olympics Kentucky  
   00

   (h) Pediatric Cancer Research Trust Fund  
   00

   (i) Rape Crisis Center Trust Fund  
   00

34. Add lines 33(a) through 33(i)  
   00

35. Amount of line 32(d) to be **CREDITED TO YOUR 2018 ESTIMATED TAX**  
   **CREDIT FORWARD**  
   00

36. Subtract lines 34 and 35 from line 32(d). Amount to be **REFUNDED TO YOU**  
   **REFUND**  
   00

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**REFUND OPTIONS (Not available for amended returns)**

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

Check here if you would like to receive your Debit Card material in Spanish
## INDIVIDUAL INCOME TAX

### Updated Figures

<table>
<thead>
<tr>
<th>Family Size Tax Credit</th>
<th>2017 Threshold for 100% Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family size of 1</td>
<td>$12,060</td>
</tr>
<tr>
<td>Family size of 2</td>
<td>$16,240</td>
</tr>
<tr>
<td>Family size of 3</td>
<td>$20,420</td>
</tr>
<tr>
<td>Family size of 4 or more</td>
<td>$24,600</td>
</tr>
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</table>

### 2017 Itemized Deduction Limitation Thresholds

<table>
<thead>
<tr>
<th>Category</th>
<th>Threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single or MFJ</td>
<td>$186,350</td>
</tr>
<tr>
<td>MFS – Combined or Separate Returns</td>
<td>$93,175</td>
</tr>
</tbody>
</table>

### 2017 Standard Deduction

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017 Standard Deduction</td>
<td>$2,480</td>
</tr>
</tbody>
</table>

### 2018 Standard Deduction

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2018 Standard Deduction</td>
<td>$2,530</td>
</tr>
</tbody>
</table>
Penalties for Failure to E-File

- Penalty will be assessed on preparers that submit over 11 tax returns and fail to file electronically
- Penalty amount is a **$10 per paper return** filed that exceeds the 11 return threshold
- Revenue may waive the penalty if a preparer can provide sufficient reason for paper filing
  - Must submit a completed *Form 8948-K*
- **KRS 131.990(7)**
Check the applicable box to indicate the reason this return is not being filed electronically.

1. [ ] Taxpayer chose to file this return on paper.

2. [ ] The preparer received a federal waiver from the requirement to electronically file the tax return.
   
   Waiver Reference Number: __________________________ Approval Letter Date: __________________________

3. [ ] The preparer is a member of a recognized religious group that is conscientiously opposed to electronic filing.

4. [ ] The return was rejected by IRS / Kentucky e-file and the reject condition could not be resolved.
   
   Reject Code: __________________________ Number of attempts to resolve reject: __________________________

5. [ ] The preparer’s e-file software package does not support Form __________ or Schedule __________

6. Check the box that applies and provide additional information if requested.

   a. [ ] The preparer is ineligible to file electronically because IRS e-file does not accept foreign preparer’s without social security numbers who live and work abroad.

   b. [ ] The preparer is ineligible to participate in IRS/KY e-file due to an IRS sanction.

   c. [ ] Other: Describe below the circumstances that prevented the preparer from filing the return electronically.

   __________________________________________

   __________________________________________

   __________________________________________

   __________________________________________
Motivations for Fraud Deterrence

- Fraud by the numbers
  - The Federal Trade Commission saw a 47% increase in identity thefts from 2015 to 2016
    - The largest contributor to this swell was tax fraud
  - There have been 781 reported data breaches in the U.S in the first half of 2017
    - This accounts for 88% of data breaches throughout the world
  - The IRS identified 107,000 identity theft victims in the first 5 months of 2017
Fraud Deterrence Measures

- **Use of Surrogate Numbers on Notices**
  - Taxpayer SSN will be replaced on state issued notices by a new 9 digit surrogate number
  - The first digit of the new numbers will be an alpha character in order to differentiate them from a SSN (ex. C12345678)
  - For uniformity purposes surrogate numbers generated for a SSN will not change, ensuring a SSN will always have the same surrogate number
INDIVIDUAL INCOME TAX

Fraud Deterrence Measures

- Identity Quiz Reminder
  - Participants get two chances to pass
  - Even if the quiz is failed, a legible photo ID and a copy of wage statements can be used to confirm identity
    - For joint returns both spouses must provide information
  - Filtering criteria is reviewed regularly to improve the process and reduce the number of false positives
Individual Income Tax

Fraud Deterrence Measures

- Fraud reporting online
  - A link is under development that will allow users to report fraud and/or data breaches directly through the Revenue website
    - Link should be live in time for tax season
  - This tool is planned to contain links to the IRS fraud reporting authorities and the FTC

- Processing date of returns begins February 26
  - helps ensure Revenue has sufficient time to evaluate the effectiveness of all security filters before processing begins
Effectiveness of Fraud Prevention Measures

Statistics on DOR Fraud Prevention
- During calendar year 2017, DOR fraud prevention measures have:
  - Saved over $27 million in potentially fraudulent refunds from being sent out

Statistics on Quiz Letters
- Under 2% of Kentucky filers have received identity quiz letters in calendar year 2017
Fraud Prevention Tips

- File returns as early as possible after all necessary statements are received
- Contact Revenue as soon as you become aware of a personal data breach
- Stay well-informed on data breaches
- Maintain a steady monitor on credit reports
- Monitor your mailbox
Electronic Filing Statistics

- Individual
  - 88.41% of the 1.96 million returns received by September were e-filed

- Corporate
  - 44.31% of the Corporate returns received by September were e-filed
  - Number of e-filed Corporate returns nearly doubled each year in the last two years
Corporate Income Tax

Tax Form and Instruction Redesign

- Forms have been revised to make them more practical
- Form labeling has been modified to use the more conventionally recognized form numbers
**CORPORATE INCOME TAX**

- Corporate form and instruction changes

<table>
<thead>
<tr>
<th>Form</th>
<th>Change(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Form 725-EZ</td>
<td>New short form for $175 minimum single-member LLET filers; Schedule CP discontinued</td>
</tr>
<tr>
<td>Schedule LLET</td>
<td>Information/calculations are now Schedule L on main forms; related Schedule LLET forms have been consolidated into Schedule L-C</td>
</tr>
<tr>
<td>Schedules K and K-1</td>
<td>Updated for clearer LLET and apportionment pass-through items</td>
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<tr>
<td>Schedule A</td>
<td>Updated to include Schedules A-C and A-N</td>
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<tr>
<td>Schedules CR and KCR</td>
<td>Updated to include Schedules CR-C and KCR-C</td>
</tr>
<tr>
<td>Schedule DS</td>
<td>Updated to include Schedule DS-R</td>
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<tr>
<td>Schedule NOL</td>
<td>Updated to include Schedule NOL-CF</td>
</tr>
<tr>
<td>Form 740NP-WH-P</td>
<td>Discontinued—included as a worksheet within the instruction package</td>
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<tr>
<td>Tax Credit Packages</td>
<td>Most tax credit forms combined into packages to ease use</td>
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</table>
**FILING YEAR 2018 ELECTRONIC FILING**

- Kentucky follows the IRS for return acceptance dates

<table>
<thead>
<tr>
<th>Filing Year</th>
<th>Form</th>
<th>Payment/Refund</th>
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<tbody>
<tr>
<td>2018</td>
<td>Form 740</td>
<td>E-Pay &amp; Direct Deposit of Refund</td>
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<td></td>
<td>Form 740-NP</td>
<td>E-Pay</td>
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<td>Form 740-NP-R</td>
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<td>Form 741*</td>
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<td>Form 720</td>
<td>E-Pay</td>
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<td>Form 720 (consolidated)</td>
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<td>Form 720S</td>
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<td>Form 725 / 725-EZ *</td>
<td>E-Pay</td>
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<td>Form 765</td>
<td>E-Pay</td>
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<td>Form 765-GP</td>
<td>E-Pay</td>
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</table>

* Projected to be available for e-filing during the 2018 Filing Year
INTEREST RATES

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

- Increased 1% from last year

- Interest rates for 2018:
  - Rate charged on unpaid taxes is 6%
    - Base rate of 4% plus 2%
  - Rate paid when interest is due on a refund is 2%
    - Base rate of 4% minus 2%

- KRS 131.183
Sales Tax Remitted by Travel Intermediaries

- Taxes due on accommodations bought through online travel companies (OTCs) or “travel intermediaries” will be collected and paid directly to the Kentucky Department of Revenue by the travel intermediary
  - Begins October 1, 2017
  - Correspondence was released on September 01, 2017 to hotels and other accommodations providers regarding this remittal protocol
  - Amount paid will be on the entire room charge not just the portion of the charge for the room reservation retained by the OTC
  - Examples of travel intermediaries are Expedia or Priceline
FIELD AUDIT UPDATES

If there is no Declaration of Representative on file a caller wanting taxpayer information must:

- Identify themselves as the business owner, business representative, or preparer
- Provide correct name, address, and phone number that matches Revenue files
- Give either the client SSN, Kentucky business account number, FEIN, or SSN of responsible party on file
- Provide one of the following:
  - (a) a number from a recent return (such as taxable income reported or sales tax return total)
  - (b) a Kentucky driver’s license number that can be confirmed in the Department of Transportation database
**FIELD AUDIT UPDATES**

- A newly appointed section will perform field audits on individual taxpayers
  - One key focus will be on taxpayers filing Schedules C, F, and E
  - Other focuses will include troublesome areas, such as returns with high mileage deductions and verifying contemporaneous mileage logs are maintained
  - Staff will continue to review Schedule A returns with a large amount of deductions

- Auditors will be performing more audits on tangible property tax returns in 2018
Filing Requirements

- KRS 132.220(1)(b)(2)
- Due Date: May 15th
- There is NO filing extension for this return
- Returns postmarked after May 15th
  - Will not be allowed a discount and
  - Will be assessed for the tax plus applicable penalties and interest
- Returns can be filed with the Property Valuation Administrator (PVA) in the county of taxable situs or with the Division of State Valuation
  - It is recommended for returns filed by May 15th to send the returns to the PVA in the county of taxable situs
The return must include the physical location of the property by street address and county
- P.O. Boxes are not acceptable as physical property locations

Kentucky does not allow consolidated and joint returns

Use the appropriate year form for the assessment date as the index factors change annually

Do not enclose the tangible return with the income tax return

Staple all pages of each Tangible Personal Property Tax Return together

Do not send payments with the return
- Timely filed tangible returns will be billed no earlier than September 15 and are payable to the county sheriff.
- Returns filed after the due date are billed by the Division of State Valuation
**PROCEDURAL UPDATES**

- **Form 741-V, Kentucky Electronic Filing Payment Voucher**
  - For use with e-filed Fiduciary forms
  - **Do not attach to paper returns**

- **Form 740-ES, Kentucky Estimated Tax Voucher**
  - Limited number of vouchers will be mailed this year
  - Methods to obtain estimated vouchers
    - DOR website [www.revenue.ky.gov](http://www.revenue.ky.gov)
    - DOR forms area (502) 564-3658
  - Estimated payments can also be paid online through the Revenue website
    - The option is available under the **Individual** tab on the homepage
PROCEDURAL REMINDERS

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

○ Revenue Website
  • revenue.ky.gov

○ Kentucky Business One Stop Portal
  • onestop.ky.gov

○ Tax Alert
  • News Tab ➔ Publications Section
  • Email Brian.Stidham@ky.gov to be added to the email distribution list

○ Twitter
  • @RevenueKY
Ashland Taxpayer Service Center
1539 Greenup Avenue, 41101-7695
(606) 920-2037

Bowling Green Taxpayer Service Center
201 West Professional Park Court, 42104-3278
(270) 746-7470

Corbin Taxpayer Service Center
15100 North US25E, Suite 2, 40701-6188
(606) 528-3322

Frankfort Taxpayer Service Center
501 High Street, 40601-2103
(502) 564-4581 (Taxpayer Assistance)

Hopkinsville Taxpayer Service Center
181 Hammond Drive, 42240-7926
(270) 889-6521

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

Northern Kentucky Taxpayer Service Center
Turfway Ridge Office Park
7310 Turfway Road, Suite 190, Florence, 41042-4871
(859) 371-9049

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

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

Pikeville Taxpayer Service Center
Uniplex Center, 126 Trivette Drive, Suite 203, 41501-1275
(606) 433-7675
<table>
<thead>
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<th>Service</th>
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<tbody>
<tr>
<td>Collections</td>
<td>502-564-4921</td>
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<tr>
<td>Corporation Tax</td>
<td>502-564-8139</td>
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<tr>
<td>DOR One Stop Help Line</td>
<td>502-564-5053</td>
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<tr>
<td>E-Filing Assistance (Business Forms)</td>
<td>502-564-7926</td>
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<tr>
<td>E-Filing Assistance (Individual Forms)</td>
<td>502-564-7862</td>
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<tr>
<td>Field Operations</td>
<td>502-564-2113</td>
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<tr>
<td>Forms and Envelopes</td>
<td>502-564-3658</td>
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<td>Individual Income Tax</td>
<td>502-564-4581</td>
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<tr>
<td>Inheritance Tax</td>
<td>502-564-4810</td>
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<tr>
<td>Local Government &amp; County Fees</td>
<td>502-564-8785</td>
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<tr>
<td>Miscellaneous Tax</td>
<td>502-564-2935</td>
</tr>
</tbody>
</table>
REVENUE CONTACT PHONE NUMBERS

Motor Fuels 502-564-3853
Motor Vehicle Usage 502-564-4455
Ombudsman 502-564-7822
Property Tax 502-564-8338
Protest Resolution 502-564-6734
Registration 502-564-3306
Sales & Use Tax 502-564-5170
Special Investigations 502-564-4470
State Operator 502-564-3130
Withholding (also use for WRAPS) 502-564-7287
QUESTIONS, CONCERNS, COMMENTS

THANK YOU FOR YOUR ATTENTION

PLEASE CLAP AND ENJOY THE REST OF YOUR DAY
CONTACT INFORMATION

Office of Income Taxation
Training Branch
KY Department of Revenue
501 High Street, Station 41
Frankfort, KY 40601-2103

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Brian.Stidham@ky.gov