

2012 Tax Amnesty

FINAL REPORT

**FINANCE AND ADMINISTRATION CABINET
KENTUCKY DEPARTMENT OF REVENUE**

September 16, 2013

Lori H. Flanery, Cabinet Secretary

Thomas B. Miller, Commissioner

2012 Tax Amnesty

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Message from the Commissioner

It is my pleasure to present the 2012 Kentucky Tax Amnesty Final report. Approximately 28,000 taxpayers participated in the program and paid over \$58.4 million in net revenues to the General Fund. The budgeted amount for tax amnesty was estimated at \$56.7 million. The information below provides program details, including the gross amount of amnesty collections:

The Department of Revenue's highlights to date include:

- *Actual net receipts to the General Fund of \$58.4 million slightly exceeded the budgeted estimate for the Tax Amnesty program of \$56.7 million. More than \$11.7 million will be distributed back to local governments.*
- *Approximately 28,000 taxpayers took advantage of tax amnesty.*
- *Taxpayers from all 120 counties and all 50 states participated in the tax amnesty program.*
- *There were more than 77,000 website hits and 33,000 telephone calls made regarding the tax amnesty program.*
- *All Department of Revenue employees were involved in the success of the tax amnesty program, answering telephone calls, responding to correspondence, processing applications – all while maintaining normal compliance and collection activities.*
- *The post amnesty incentives, along with information obtained about taxpayers during amnesty, will assist the Department of Revenue in long-term compliance efforts.*

Many factors contributed to a successful 2012 Kentucky Tax Amnesty Program. Department of Revenue personnel did an excellent job conducting the advance research and the planning necessary for its implementation.

The Tax Amnesty advertising agency, Doe Anderson, developed a comprehensive and effective award-winning ad campaign. A very dedicated and professional staff, which was drawn from all areas of the agency, administered the day-to-day operations of the program and helped to spread the word throughout the state. Additionally, the cooperation and assistance of tax practitioners, attorneys, and other professionals throughout the Commonwealth aided tremendously. In planning for the 2012 Kentucky Tax Amnesty Program, the Department of Revenue relied heavily on the experiences of personnel involved in the 2002 Kentucky Tax Amnesty Program and added new dimensions to the program that were not possible in 2002.

The Revenue Cabinet has prepared this final report of the 2012 Kentucky Tax Amnesty Program, which reflects not only statistics about the results of the program, but an explanation of the program's operation.



Thomas B. Miller, Commissioner
Department of Revenue

KENTUCKY
tax amnesty
Good for you. Good for Kentucky.

Statutory Parameters

The 2012 Kentucky General Assembly authorized a tax amnesty program to be conducted during the fiscal year 2012-2013. The program provided for the waiver of criminal prosecution, all civil penalties and fees, and one-half interest on taxes due for eligible periods, if the tax was paid during the tax amnesty period or during the term of an authorized installment payment plan. The Kentucky Department of Revenue conducted the program from October 1 through November 30, 2012.

The following represents the parameters of the program:

- **When**

A tax amnesty program was to be offered during the fiscal year ending June 30, 2013, for a period of not less than 60 and not more than 120 days. The tax amnesty program was conducted October 1 through November 30, 2012.

- **Who**

The program applied to all taxpayers who paid their taxes directly to the Kentucky Department of Revenue.

- **Taxes Included**

All taxes under the direct administrative jurisdiction of the Kentucky Department of Revenue except ad valorem taxes levied on real property, ad valorem taxes on motor vehicles and motorboats collected by the county clerk, and ad valorem taxes on personal property payable to local officials, qualified.

- **Tax Periods Included**

Only those tax periods ending on or after December 1, 2001, and ending prior to October 1, 2011, were eligible for tax amnesty treatment.

- **Amnesty Incentives**

- Eligible taxpayers were required to pay tax due and one-half interest only on eligible tax periods.
- All penalties and cost of collection fees were waived on eligible tax periods.

- **Post-Amnesty Provisions**

- A three-year look-back period in which the taxpayer must file and pay timely was instituted. Failure to comply will result in the reinstatement of all pre-amnesty penalties, interest, and fees.
- Any amnesty-eligible tax periods not paid by the end of amnesty will accrue an additional two-percent interest fee on unpaid liability.
- Any amnesty eligible tax periods billed by the Department of Revenue after amnesty will be assessed additional fees.
- The Kentucky Department of Revenue shall have the authority to request and receive lists of all taxpayers obtaining and maintaining a professional license in the Commonwealth of Kentucky.

Public Information Campaign

The advertising campaign for the 2012 Kentucky Tax Amnesty program began with the selection of a public relations/advertising firm using a competitive bid process. The advertising firm, Doe-Anderson, was selected as the organization that would assist in marketing the tax amnesty program to the citizens of the Commonwealth.

The media campaign was structured to ensure the motto, “**Tax Amnesty – Good for You, Good for Kentucky,**” became an integral part of the Kentucky landscape for the duration of the program. The message was included in television ads, radio commercials, billboards, and printed publications. Because every opportunity was used to extend the message, the Kentucky Tax Amnesty program was hard to miss.

To aid in the advertising campaign and to assist in distributing information, an Internet site (www.amnesty.ky.gov) was developed that allowed potential tax amnesty participants access to all the information needed about amnesty. Taxpayers were able to download forms, review frequently asked questions and send emails directly to the Kentucky Department of Revenue staff. A smart phone application was also developed. The amnesty website was accessed more than 77,000 times during the amnesty period.

Internet and Smartphone Application

The 2012 Kentucky Tax Amnesty program integrated a Smartphone application that gave taxpayers the option to pay with a credit card via their phone. They also had the ability to complete amnesty applications and payments online.

The Internet site served over 77,000 visits. On average, seventy-three percent (73%) were first-time visitors. The website received 29,000 mobile visits, which was 37% of the total visits.

Toll-Free Number

A special toll-free telephone number, 855-KYTAXES, was established to handle amnesty-related telephone calls. In addition to those employees who were specifically assigned to amnesty teams, all other Department of Revenue employees fielded incoming calls from the toll-free amnesty telephone line as well, while continuing their normal telephone duties. More than 33,000 calls came in on the toll-free telephone number.

Mail Sent and Received

Although legislation for the tax amnesty program was passed in April 2012, the Kentucky Department of Revenue did not reach out to taxpayers until October of 2012. Great effort went into coordinating the marketing, staffing, and form development phases in an effort to allow tax amnesty to proceed with maximum revenue impacts and minimal implementation issues. Pre-filled applications (175,859) were sent approximately 10 days prior to the amnesty kickoff. The short time period between implementing amnesty and sending the pre-filled application process was a deliberate effort to minimize any adverse effects on the normal process of billing and collecting delinquent tax payments.

Amnesty Implementation and Operation

Amnesty Application

Two separate amnesty applications were developed – one incorporated taxpayer data and the other was blank. The pre-filled applications listed existing accounts receivable information separated into schedules of taxes eligible for amnesty, taxes not eligible for amnesty, taxes currently under protest, and taxes for which a corporate officer or LLC member/manager could be held personally liable.

The blank application was developed for those taxpayers not identified with an outstanding account receivable, but who might have returns and/or tax dollars to report and pay. These applications were distributed to the Taxpayer Service Centers around the commonwealth and were available through the amnesty website.

System Development and Processing

Once the application was developed, the Kentucky Department of Revenue began to focus on computer systems development and processing procedures. The Kentucky Department of Revenue partnered with the Commonwealth Office of Technology (COT) to develop a separate database to track all amnesty applications sent and received. Cases already identified in the agency's accounts receivable system (CARS) were loaded into the database and additional cases were added as applications were identified. Procedures on how to process amnesty applications were developed in cooperation with the agency's accounting and processing employees.

Three workgroups were tasked with processing applications, returns, and payments, as well as taxpayer assistance:

- **Tax Specialists**

Employees throughout the Kentucky Department of Revenue were appointed to handle tax specific questions and issues.

- **Application Review and Processing Team**

Employees were placed on special assignment to assist in application/payment processing, assist taxpayers with incomplete applications, respond to taxpayer inquiries regarding tax amnesty applications and to identify and route cases for refund or other adjustments. These employees were dedicated to the Kentucky Tax Amnesty effort full-time for approximately nine months, processing applications and payments, corresponding with the taxpayer for additional information and monitoring payment agreements.

The Application Review Team also assisted in returns and payment processing, including credit card payments administering approximately 1,500 short-term payment agreements.

Operational Costs

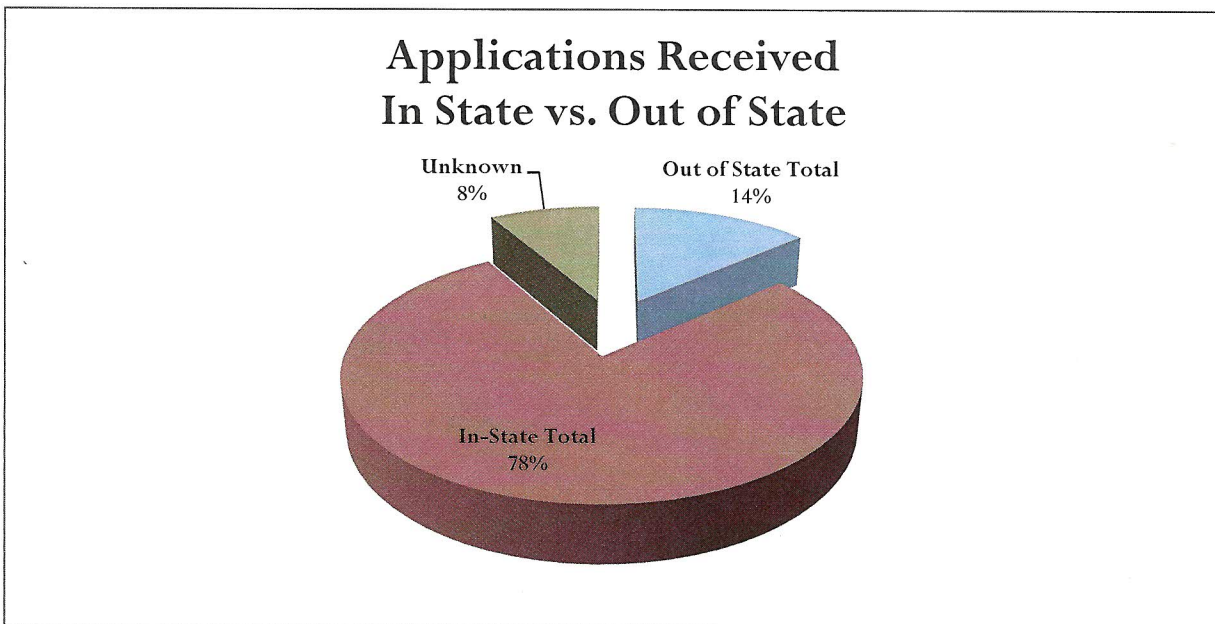
The General Assembly provided \$3.4 million for tax amnesty operations. Operational costs were expended as follows:

IT Development/Implementation/Maintenance:	\$1.0 million
Media/Advertising:	\$1.2 million
Personnel and Operating Expenses	\$1.2 million

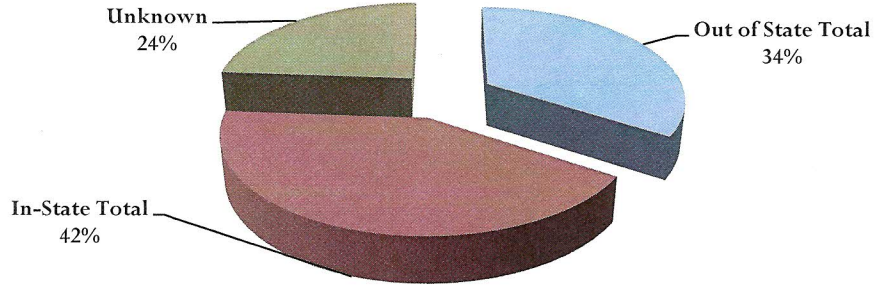
Results of Amnesty

Where Did The Money Come From?

The Kentucky Department of Revenue received 27,828 applications from taxpayers. Of these applications, 46 percent were received from individuals and 54 percent from businesses. However, the majority of the total dollars collected, 88 percent, came from businesses. The following graphs represent the number of amnesty applications received from both in-state and out-of-state taxpayers and the amount collected. The in-state/out-of-state distinction was established using the address on the amnesty application. Some counties and states codes were not known. They are reported as Unknown.

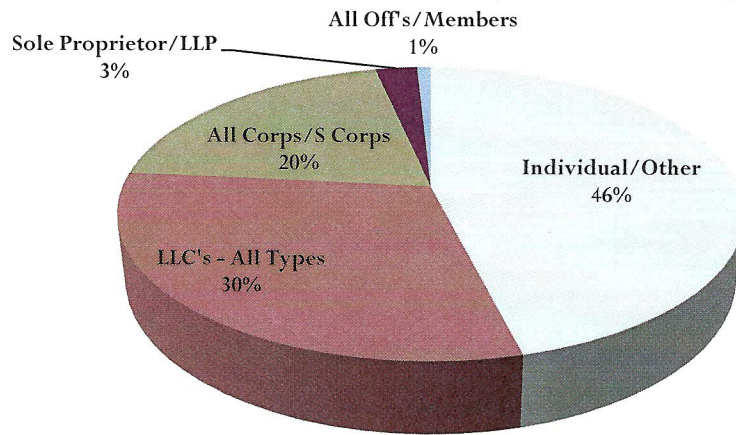


Amount Collected In State vs. Out of State



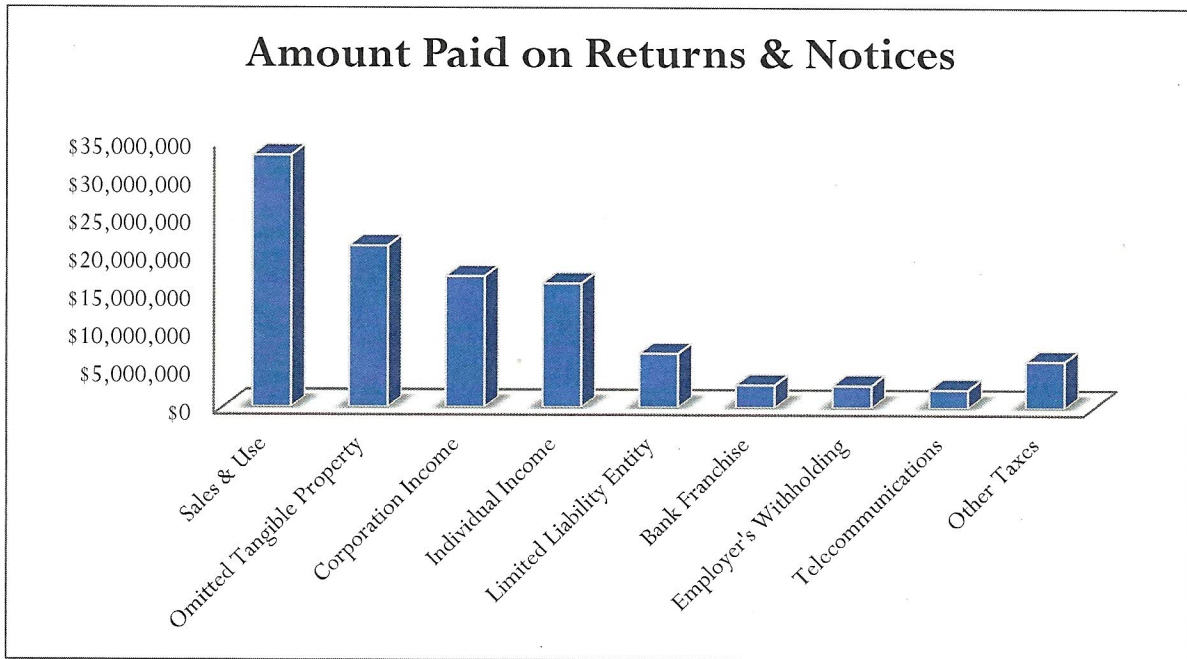
The Kentucky Department of Revenue captured the number of tax amnesty applications received and the total amount collected from businesses, individuals, corporate officers, and LLC managers/members filing for amnesty. The results are included in the graph below:

Applications Received by Ownership Type



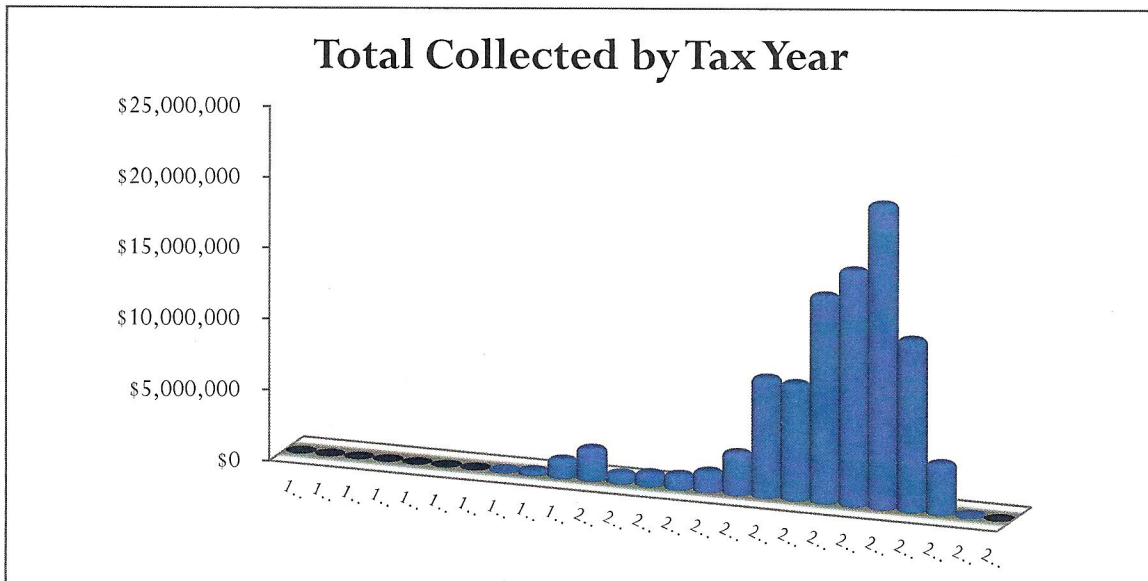
Payment Amount by Tax Type

Of the total amount received, over \$33 million was collected for sales & use tax. This represents approximately 30 percent of the total collected. The following graph shows total collections by tax type:



Amount Collected by Tax Year

Most of the tax liabilities paid under amnesty fell within the tax years 2008 through 2010. In order for taxpayers to qualify for amnesty, all outstanding liabilities had to be paid, including tax periods outside the eligible dates. Because of this requirement, tax periods as old as 1989 were paid with the amnesty application.



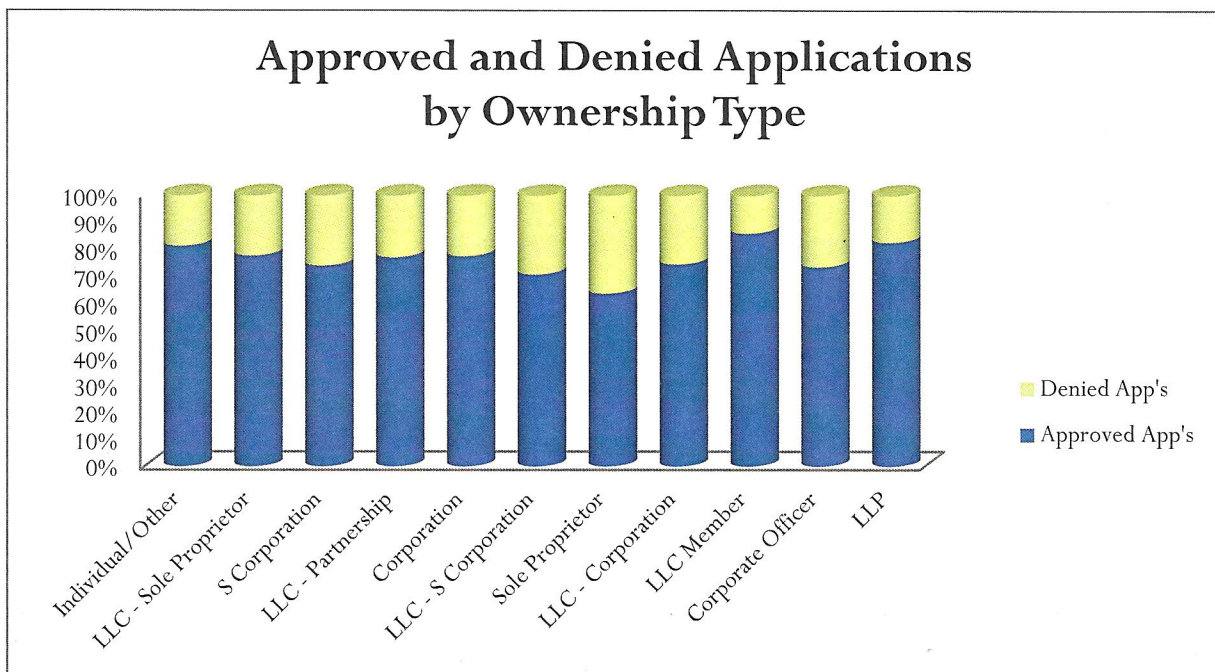
Newly Registered Taxpayers

Sixty businesses registered during amnesty. Of the total, 50 applicants were new registrations and 10 were already registered but applied for additional accounts. For example, the taxpayer who was already registered to pay employer's withholding tax disclosed he also needed a sales and use tax number. Since amnesty, these 60 registrants have contributed approximately \$73,000 in new revenues. In addition, there were more than 2,500 new individual income tax returns filed, accounting for \$2.7 million of the total collected.

Number of Approved and Denied Applications

Of the 27,828 applications received, 79 percent were ultimately approved. Most denials occurred because the taxpayer did not pay the liability in full. Taxpayers were provided an opportunity to pay even after November 30, 2012, and taxpayers with payment agreements were allowed to defer payment until May 31, 2012.

The following graph represents the total number of amnesty applications approved and denied:



Protested Audits

The Protest Resolution Branch reviews and determines taxpayer disputes with the Kentucky Department of Revenue. Whether it is the denial of a refund claim or a tax bill issued at the conclusion of an audit, taxpayers who disagree with the department's determination may file a protest within 45 days of receiving a Notice of Disallowance or a Notice of Tax Due. The review process involves gathering information necessary to evaluate the taxpayer's position and holding conferences with the taxpayer to discuss their disagreement in person.

As part of the 2012 Kentucky Tax Amnesty, the Protest Resolution Branch resolved, in whole or in part, 297 cases and collected \$31.6 million through settlement or through the normal amnesty application process.

Of the amount referenced above, \$10.8 million was collected from taxpayers who opted to pay the entire amount of tax in dispute under amnesty, thus closing their case in protest.

Many tax controversies involve more than a single issue or a single tax. Some taxpayers elected to pay some of the disputed tax liability, but not all. In total, 62 taxpayers partially resolved their tax debt in this manner, representing \$5.2 million of the amount collected. The issues or taxes that were not paid under amnesty remain in protest status and are subject to penalties, interest, and fees. The taxpayer is free to pursue the remaining disputed tax liability through the normal administrative and legal process.

The Kentucky Department of Revenue has the authority to resolve tax controversies in a fair and equitable basis based upon the hazards of litigation to the commonwealth and the taxpayer (KRS 131.030(2)). The Protest Resolution Branch settled 52 protests on this basis and collected \$15.6 million as a result.

Property Tax Collections

Almost all property tax collection came from Omitted Tangible Property Tax. The local dollars collected were distributed back to the various taxing jurisdictions where the property was located. Thus, various counties, cities, metro governments, schools, fire districts, library districts, and other local jurisdictions received a total of approximately \$12 million as a result of the tax amnesty program. Some of this money resulted from payment of pending or protested audits and some was from taxpayers voluntarily coming forth to pay back taxes before being audited.

Payment Summary

The table below represents a summary of amnesty collections:

Gross Amnesty Revenues	\$111.5 million
Post Amnesty Fees/Interest	\$1.9 million
Less: Local Government Distribution	\$11.7 million
Less: Accelerated Collections	\$42.2 million
Net Revenues Attributable to Tax Amnesty – General Fund	\$58.4 million
Net Revenues Attributable to Tax Amnesty – Road Fund	\$1.1 million
Budgeted Amnesty Revenues – General Fund	\$56.7 million
Budgeted Amnesty Revenues – Road Fund	\$500,000

From Which Kentucky Counties Did The Payments Come?

The following table represents the amount of amnesty collection by county:

County Name	Total Amount Paid
ADAIR	\$301,664
ALLEN	\$49,400
ANDERSON	\$52,153
BALLARD	\$24,697
BARREN	\$256,162
BATH	\$183,007
BELL	\$313,904
BOONE	\$865,052
BOURBON	\$180,226
BOYD	\$414,582
BOYLE	\$173,035
BRACKEN	\$16,640
BREATHITT	\$50,694
BRECKINRIDGE	\$57,080
BULLITT	\$436,202
BUTLER	\$73,583
CALDWELL	\$15,404
CALLOWAY	\$269,659
CAMPBELL	\$752,760
CARLISLE	\$14,536
CARROLL	\$89,435
CARTER	\$76,379
CASEY	\$22,778
CHRISTIAN	\$538,890
CLARK	\$490,798

County Name	Total Amount Paid
CLAY	\$517,950
CLINTON	\$31,236
CRITTENDEN	\$52,351
CUMBERLAND	\$12,987
DAVISS	\$415,838
EDMONSON	\$33,401
ELLIOTT	\$721
ESTILL	\$44,212
FAYETTE	\$6,029,588
FLEMING	\$66,981
FLOYD	\$477,920
FRANKLIN	\$266,991
FULTON	\$12,507
GALLATIN	\$11,206
GARRARD	\$55,258
GRANT	\$128,546
GRAVES	\$346,262
GRAYSON	\$103,095
GREEN	\$36,604
GREENUP	\$84,882
HANCOCK	\$13,467
HARDIN	\$558,090
HARLAN	\$50,143
HARRISON	\$94,530
HART	\$67,920
HENDERSON	\$1,185,837
HENRY	\$143,186
HICKMAN	\$59,330
HOPKINS	\$210,501

County Name	Total Amount Paid
JACKSON	\$10,494
JEFFERSON	\$7,983,847
JESSAMINE	\$372,801
JOHNSON	\$163,801
KENTON	\$3,736,540
KNOTT	\$30,702
KNOX	\$129,424
LARUE	\$53,080
LAUREL	\$321,951
LAWRENCE	\$97,233
LEE	\$8,235
LESLIE	\$46,977
LETCHER	\$27,999
LEWIS	\$30,364
LINCOLN	\$148,721
LIVINGSTON	\$93,389
LOGAN	\$89,442
LYON	\$24,487
MADISON	\$631,203
MAGOFFIN	\$67,002
MARION	\$139,773
MARSHALL	\$242,329
MARTIN	\$628,752
MASON	\$24,234
MCCRACKEN	\$421,037
MCCREARY	\$34,542
MCLEAN	\$11,250
MEADE	\$100,682
MENIFEE	\$5,300

County Name	Total Amount Paid
MERCER	\$76,159
METCALFE	\$34,268
MONROE	\$32,468
MONTGOMERY	\$97,035
MORGAN	\$427,009
MUHLENBERG	\$162,528
NELSON	\$324,889
NICHOLAS	\$22,365
OHIO (County)	\$88,189
OLDHAM	\$820,909
OWEN	\$59,892
OWSLEY	\$4,050
PENDELTON	\$499,557
PERRY	\$374,731
PIKE	\$601,417
POWELL	\$60,423
PULASKI	\$325,825
ROBERTSON	\$1,146
ROCKCASTLE	\$54,254
ROWAN	\$99,068
RUSSELL	\$201,869
SCOTT	\$435,162
SHELBY	\$390,365
SIMPSON	\$69,873
SPENCER	\$219,584
TAYLOR	\$106,489
TODD	\$73,927
TRIGG	\$56,395
TRIMBLE	\$13,349

County Name	Total Amount Paid
UNION	\$57,407
WARREN	\$1,176,385
WASHINGTON (County)	\$44,628
WAYNE	\$37,363
WEBSTER	\$58,600
WHITLEY	\$419,324
WOLFE	\$24,381
WOODFORD	\$282,591
UNKNOWN	\$38,480,642

*\$15.6 million of Unknown dollars came from Protest Resolution settlements.

From Which States Did The Payments Come?

The following table represents the amount of amnesty collection by state:

State Name	Total Amount Paid
ALABAMA	\$139,245
ALASKA	\$1,590
ARIZONA	\$193,719
ARKANSAS	\$187,583
CALIFORNIA	\$439,575
COLORADO	\$773,500
CONNECTICUT	\$114,907
DELAWARE	\$23,553
FLORIDA	\$3,899,612
GEORGIA	\$1,407,656
HAWAII	\$0
IDAHO	\$242,462
ILLINOIS	\$623,931
INDIANA	\$1,208,646
IOWA	\$4,250
KANSAS	\$1,529,201
LOUISIANA	\$15,980
MAINE	\$2,948
MARYLAND	\$147,747
MASSACHUSETTS	\$886,895
MICHIGAN	\$4,638,754
MINNESOTA	\$222,298
MISSISSIPPI	\$3,654
MISSOURI	\$229,138
MONTANA	\$1,263,881
NEBRASKA	\$9,065

State Name	Total Amount Paid
NEVADA	\$21,526
NEW HAMPSHIRE	\$57,056
NEW JERSEY	\$1,239,221
NEW MEXICO	\$17,622
NEW YORK	\$706,664
NORTH CAROLINA	\$2,986,903
NORTH DAKOTA	\$0
OHIO (State)	\$3,649,354
OKLAHOMA	\$482,246
OREGON	\$31,965
PENNSYLVANIA	\$180,338
RHODE ISLAND	\$49,341
SOUTH CAROLINA	\$112,872
SOUTH DAKOTA	\$381
TENNESSEE	\$506,439
TEXAS	\$495,147
UTAH	\$6,219
VERMONT	\$7,899
VIRGINIA	\$3,015,693
WASHINGTON (state)	\$96,482
WASHINGTON, D.C.	\$385
WEST VIRGINIA	\$199,169
WISCONSIN	\$562,811
WYOMING	\$931