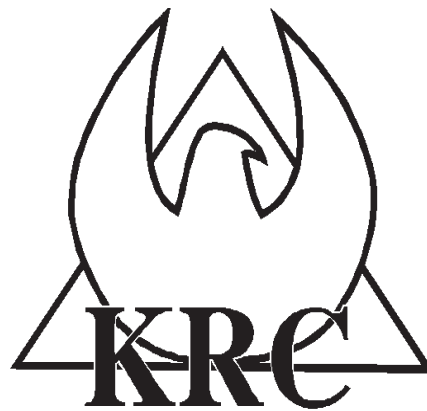


KRC
ANNUAL REPORT
1996-97



Kentucky Revenue Cabinet
... for the benefit of Kentucky
and its citizens

Margaret A. Handmaker
Secretary
Revenue Cabinet

Paul E. Patton
Governor
Commonwealth of Kentucky

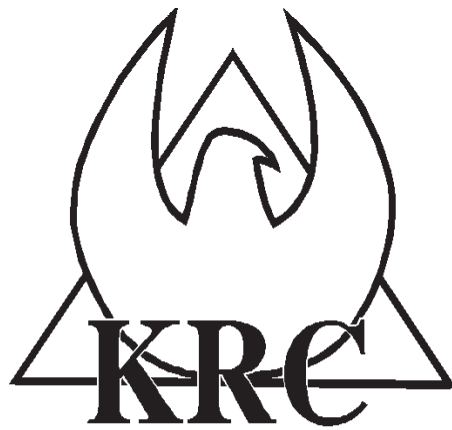
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1996-97

ANNUAL REPORT



Kentucky Revenue Cabinet
... for the benefit of Kentucky
and its citizens



*All information contained in this report is as of
June 30, 1997.*



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.

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Printed on recycled paper.

PAUL E. PATTON
GOVERNOR



Kentucky Revenue Cabinet
for the benefit of Kentucky
and its citizens

MARGARET A. HANDMAKER
SECRETARY

REVENUE CABINET
OFFICE OF THE SECRETARY
FRANKFORT, KENTUCKY 40620

October 15, 1997

The Honorable Paul E. Patton
Governor of the Commonwealth of Kentucky
State Capitol
Frankfort, KY 40601

Dear Governor Patton:

Pursuant to Kentucky Revised Statute 12.110, I am pleased to present the Kentucky Revenue Cabinet's (KRC) Annual Report for Fiscal Year 1996-97.

Contained in this report is an analysis of General Fund and Road Fund receipts, a summary of major KRC accomplishments and a description of our Empower Kentucky initiatives.

KRC staff continuously show their commitment to quality service to the citizens of Kentucky. Our accomplishments would not have been possible without their dedication.

Sincerely,

Margaret Handmaker, Secretary
Kentucky Revenue Cabinet

KRC Mission

The Cabinet's mission, reflected in its philosophy and general strategy, is central to all of its work. All of the Cabinet's actions should reflect its mission and similarly, those actions should be judged by the extent to which they help the Cabinet carry out its mission.

Within this framework, it is the mission of the Kentucky Revenue Cabinet to:

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

To achieve its mission, the Cabinet will:

- Promote voluntary compliance with tax laws through educational programs and quality taxpayer services;
- Inform the public of taxpayer rights and responsibilities;
- Establish and maintain clear, concise, accurate and timely communication to foster positive and constructive relations and a better understanding of tax laws;
- Collect and process receipts and returns as cost effectively and efficiently as possible;
- Develop and implement new and innovative programs to minimize noncompliance with tax laws;
- Utilize information resources and expertise to serve in an advisory role;
- Acquire new technologies to implement and maintain a state-of-the-art tax administration system;
- Enforce compliance when there is an intent to defraud or evade the taxes due the Commonwealth; and
- Educate, train, develop and retain the qualified staff necessary to achieve its goals and objectives.

KRC Philosophy

Recognizing that the administration of Kentucky's tax laws is a challenging and sometimes controversial responsibility, the Revenue Cabinet complements its mission with a tax administration philosophy.

The Cabinet's philosophy, drawn from its strategy and mission, represents the fundamental beliefs that shape the approach to policy and operations within a new framework. **IT IS A COMMITMENT TO SERVICE.**

- **Commitment to High Standards of Service.** The Cabinet is committed to raising the standards of tax administration by providing professional, courteous, accurate and efficient service to taxpayers of the Commonwealth as they try to voluntarily comply with Kentucky's tax laws.

This commitment to service—the core of the Cabinet's tax administration philosophy—is pervasive and long-term, and will be a daily expression of the Revenue Cabinet's value system. The high standards set for the Cabinet on behalf of Kentucky's taxpayers will guide strategies and assist in establishing goals and objectives.

- **Commitment to Employees and the Services they Provide.** The Cabinet recognizes that its employees are its greatest asset and they should be encouraged and empowered to use their creativity and resourcefulness in fulfilling the Cabinet's mission.

Employees must be dedicated to working not only individually but as a team to fully satisfy the service needs of Kentucky's taxpayers. Only through teamwork, training and education can staff ensure adequate response and efficient delivery of service.

- **Commitment to Flexibility and Effectiveness in Serving Taxpayers.** Flexibility is essential to accommodate today's rapidly changing world. Taxpayers expect greater efficiency and responsiveness from government. Budgetary and efficiency needs as well as expectations from executive, legislative and judicial branches of government demand quicker and more accurate research and data as it impacts the tax structure. In addition, the need to effectively interact with federal, state and local government officials is becoming increasingly important.
- **Commitment to Assisting the Taxpayer.** The Cabinet will improve its efforts to educate and inform taxpayers of their responsibilities to timely file and pay tax obligations. Assistance will be given to facilitate easy and accurate reporting. Constantly striving to modernize and enhance Revenue's tax administration system will enable the Cabinet to utilize more effectively its resources to provide a greater depth and breadth of service.
- **Commitment to Fair and Impartial Administration and Enforcement.** The Cabinet is committed to administering the tax laws of the Commonwealth fairly, equitably and impartially without regard to taxpayers' status, wealth, political affiliation, race, color, creed or disability.

In its pursuit of fair tax administration for all taxpayers—particularly the vast majority of taxpayers who timely report and pay their Kentucky taxes—the Cabinet will identify and actively pursue those who do not voluntarily comply with their tax reporting and payment responsibilities.

Thus, in an effort to earn total and absolute confidence of Kentucky's taxpayers regarding its fair administration of the tax laws, the Cabinet will exhibit honesty and integrity in all dealings with taxpayers and avoid any situation or action which could result in the slightest perception of unfair practices or questionable behavior.

Promoting voluntary compliance, educating taxpayers of their responsibilities and quality service will be the Cabinet's daily commitment to Kentucky and its citizens.

The Cabinet will not lose sight of those it serves!

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Revenue Receipts

*(Reprinted from the
Finance and Administration Cabinet's 1997
4th Quarter "Quarterly Economic & Revenue Report")*

As shown in Table 1, combined tax and nontax receipts for the General and Road Funds increased by 5.5 percent over the combined receipts in FY96. Table 2 compares only tax receipts for the two funds which grew by 5.6 percent. Table 3 compares combined nontax receipts which grew by 4.7 percent over the previous year.

**Table 1
Total Receipts**

	FY97	FY96	Percent Change
General Fund	\$5,663,553,289	\$5,336,883,824	6.1
Road Fund	<u>960,183,780</u>	<u>939,910,490</u>	2.2
Combined	\$6,623,737,069	\$6,276,794,314	5.5

**Table 2
Tax Receipts**

	FY97	FY96	Percent Change
General Fund	\$5,408,832,505	\$5,095,157,184	6.2
Road Fund	<u>901,229,996</u>	<u>879,869,850</u>	2.4
Combined	\$6,310,062,501	\$5,975,027,034	5.6

**Table 3
Nontax Receipts**

	FY97	FY96	Percent Change
General Fund	\$ 252,375,721	\$ 238,968,407	5.6
Road Fund	<u>58,796,377</u>	<u>58,356,382</u>	0.8
Total	\$ 311,172,098	\$ 297,324,789	4.7

General Fund

General Fund receipts rose by 6.1 percent over those reported in FY96. This is in spite of the fact that the effects of the exemption of pension income from the individual income tax and the exemption for Class A beneficiaries from the inheritance tax, passed during the 1995 Extraordinary Session of the General Assembly, began to be felt. Receipts totaled \$5,663,553,289 in FY97 compared to \$5,336,883,824 total receipts for FY96.

Sales and use tax receipts continued to perform very well although not completing the year with as strong a growth rate as in FY96. Receipts of \$1,882,681,995 grew by 5.5 percent over receipts of \$1,783,881,316 reported in FY96. The growth rate for FY96 was 6.2 percent. For the past five years this tax has had an average growth in excess of 5.3 percent.

Individual income tax receipts of \$2,205,022,964 grew by 6.3 percent over receipts of \$2,074,572,167 posted for FY96. The growth rate in FY96 was 5.6 percent. This slight increase was despite the phase-in of the pension exemption and the increase in the standard deduction.

Corporate income tax receipts improved by 2.8 percent after falling by 16.5 percent in FY96. However, corporate income tax receipts have been volatile over the past ten years. Receipts totaled \$292,753,126 for FY97 and compare to receipts of \$284,732,573 for FY96.

Coal severance tax collections fell by 1.5 percent. This tax has experienced a decline in receipts for nine out of the past 10 years. Receipts for FY97 totaled \$163,545,844.

Total property taxes experienced the smallest gain in the past ten years. However, this decline was due to the repeal of the bank shares tax. The average growth for the past several years has remained fairly constant. The account also benefited from \$3.5 million in additional compliance collections due to EMPOWER Kentucky initiatives. Total collections of \$414,858,126 grew by 1.4 percent from collections in the same period last year.

Lottery receipts of \$151,000,000 grew by 2.7 percent over FY96. This slight growth rate exceeds the estimate by \$19,000,000.

Revenue Receipts

The "all other" account grew by 17.5 percent with receipts of \$553,691,236. A contributor to this growth was the bank franchise tax, in its first year.

Table 4 compares the growth rates in the major General Fund categories and the fund as a whole for the entire year and the four individual quarters.

Table 4
General Fund Growth Rates
for the Four Quarters and Full Year, FY97

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	FY97
Total					
Receipts	6.8%	2.8%	5.5%	9.3%	6.1%
Sales & Use	7.1	5.6	4.7	4.8	5.5
Individual					
Income	11.5	0.7	-0.6	13.6	6.3
Corporate					
Income	-8.2	-13.0	13.2	15.0	2.8
Coal					
Severance	0.4	3.3	-0.8	-2.3	-1.5
Property	-23.9	1.2	2.7	25.1	1.4
Lottery	3.0	6.1	3.0	0.0	2.7
All Other	13.0	18.1	36.8	4.5	17.5

Road Fund

Total Road Fund receipts of \$960,183,780 grew by 2.2 percent over the \$939,910,490 collected during the last fiscal year. This is nearly the same rate of growth experienced in that fund in FY96. The Road Fund has been fairly consistent overall for the past several years.

Motor fuel taxes, with receipts of \$390,688,336 grew by 3.3 percent over FY96 collections of \$378,142,941. This is an increase from the previous year when the growth rate was 1.3 percent.

Motor vehicle usage tax receipts of \$341,517,606 grew by 4.2 percent over the \$327,674,445 collected in FY96.

The weight distance tax receipts improved during the year and finished with a growth of 5.4 percent. Receipts in this tax totaled \$63,061,494 and compare to \$59,809,913 collected during the last fiscal year.

Table 5 displays the growth rates for the Road Fund and its major tax categories for the year as a whole and the four individual quarters.

Table 5
Road Fund Growth Rates
for the Four Quarters and Full Year, FY97

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	FY97
Total					
Receipts	3.3%	-0.4%	-2.4%	7.5%	2.2%
Motor Fuels	3.0	0.9	-5.1	13.9	3.3
Motor					
Vehicle					
Usage	2.8	7.9	1.9	4.8	4.2
Weight					
Distance	6.4	2.7	0.2	12.5	5.4
All Other	4.1	-22.8	-5.9	-0.6	-5.4

Revenue Receipts

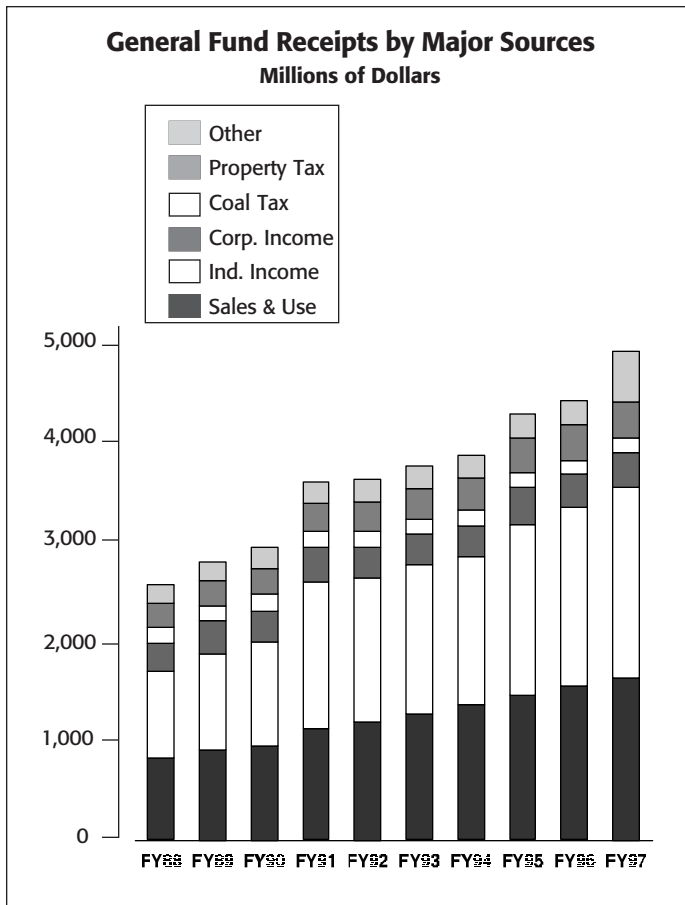
GENERAL FUND

GENERAL FUND TOTAL RECEIPTS		
Fiscal Year	Receipts	Percent Change
1996-97	\$5,663,553,289	6.1
1995-96	5,336,883,824	3.5
1994-95	5,154,077,980	10.9
1993-94	4,647,078,322	3.0
1992-93	4,511,721,822	3.5
1991-92	4,360,835,365	1.1
1990-91	4,311,675,984 ²	21.1
1989-90	3,560,983,777 ¹	8.2
1988-89	3,289,923,473	8.6
1987-88	3,030,205,722	5.4

¹Lottery revenues were first deposited in the General Fund.
²Total corrected by Finance and Administration Cabinet.

ALCOHOLIC BEVERAGE TAXES

Malt Beverage		
Fiscal Year	Receipts	Percent Change
1996-97	\$34,830,419	1.0
1995-96	34,489,349	2.0
1994-95	33,812,169	3.9
1993-94	32,553,876	4.4
1992-93	31,172,541	2.5
1991-92	30,404,806	4.8
1990-91	29,002,422	5.9
1989-90	27,376,409	3.4
1988-89	26,484,829	0.2
1987-88	26,436,124	2.0



Distilled Spirits

Fiscal Year	Receipts	Percent Change
1996-97	\$20,548,503	0.3
1995-96	20,493,441	3.0
1994-95	19,897,599	-0.3
1993-94	19,960,515	0.2
1992-93	19,923,344	2.2
1991-92	19,485,739	0.9
1990-91	19,314,634	2.8
1989-90	18,789,245	0.8
1988-89	18,634,784	-0.6
1987-88	18,755,957	-0.9

Wine

Fiscal Year	Receipts	Percent Change
1996-97	\$6,085,828	8.5
1995-96	5,610,308	15.7
1994-95	4,847,726 ¹	7.9
1993-94	4,492,841	0.9
1992-93	4,454,161	4.2
1991-92	4,273,359	4.6
1990-91	4,085,329	0.7
1989-90	4,055,763	1.0
1988-89	4,014,466	-1.9
1987-88	4,092,858	-4.2

¹Total corrected by Finance and Administration Cabinet.

Revenue Receipts

CIGARETTE TAX¹

Fiscal Year	Receipts	Percent Change
1996-97	\$16,044,967	2.3
1995-96	15,680,704	3.7
1994-95	15,126,270	5.9
1993-94	14,285,746	2.1
1992-93	13,994,590	-0.4
1991-92	14,044,608	-1.6
1990-91	14,278,438	2.7
1989-90	13,897,537	-2.1
1988-89	14,193,246	-4.4
1987-88	14,841,624	0.7

¹The cigarette tax is levied at the rate of 3 cents per pack. These totals reflect the 2.5 cents per pack that are deposited into the General Fund. The remaining 0.5 cent per pack is dedicated to tobacco research and is deposited in the Tobacco Research Trust Fund.

COAL SEVERANCE TAX

Fiscal Year	Receipts	Percent Change
1996-97	\$163,545,844	-5.3
1995-96	166,101,045	-7.3
1994-95	179,116,944	-0.4
1993-94	179,844,327	-0.2
1992-93	180,117,668	-2.7
1991-92	185,102,332	-3.1
1990-91	191,037,171	-2.3
1989-90	195,496,376 ¹	8.2
1988-89	180,603,799	-4.6
1987-88	189,243,741	1.6

¹Total corrected by Finance and Administration Cabinet.

CORPORATION INCOME TAX

Fiscal Year	Receipts	Percent Change
1996-97	\$292,753,126	2.8
1995-96	284,732,573	-16.5
1994-95	340,912,408	26.7
1993-94	269,067,231	5.6
1992-93	254,775,357	-6.0
1991-92	271,026,952	-15.1
1990-91	319,350,654 ¹	14.3
1989-90	279,482,573	-10.1
1988-89	310,803,412	21.5
1987-88	255,760,016 ²	-4.3

¹Each tax rate increased one percentage point effective January 1, 1990.

²Percent change corrected.

CORPORATION LICENSE TAX

Fiscal Year	Receipts	Percent Change
1996-97	\$107,498,746	18.8
1995-96	90,515,391 ²	-7.1
1994-95	97,449,950 ¹	18.8
1993-94	82,031,324 ¹	-5.8
1992-93	87,061,523	6.3
1991-92	81,926,247	0.3
1990-91	81,709,060	8.5
1989-90	75,328,093	8.7
1988-89	69,271,992	12.5
1987-88	61,548,677	-4.7

¹Total corrected by Finance and Administration Cabinet.

²Corrected for posting error by Finance and Administration Cabinet.

INDIVIDUAL INCOME TAX

Fiscal Year	Receipts	Percent Change
1996-97	\$2,205,022,964	6.3
1995-96	2,074,572,167	5.6
1994-95	1,964,843,490	13.6
1993-94	1,729,182,293	-0.2
1992-93	1,733,415,059	3.3
1991-92	1,678,525,589	-0.9
1990-91	1,693,338,659 ¹	39.9
1989-90	1,210,284,972	8.9
1988-89	1,111,707,645	10.4
1987-88	1,006,992,448	9.3

¹Kentucky income tax law was amended to conform to the Internal Revenue Code in effect on December 31, 1989, and the deduction for federal income tax was repealed.

INHERITANCE AND ESTATE TAX

Fiscal Year	Receipts	Percent Change
1996-97	\$95,287,282	17.0
1995-96	81,441,427 ¹	2.4
1994-95	79,511,634	4.4
1993-94	76,135,351	7.3
1992-93	70,965,470	-8.3
1991-92	77,354,648	12.6
1990-91	68,726,903	2.8
1989-90	66,855,011	25.2
1988-89	53,396,904	8.8
1987-88	49,056,276	-0.6

¹Phase-in of Class A beneficiary exemption began July 1, 1995.

Revenue Receipts

INSURANCE PREMIUMS TAX

Foreign Life Insurance Companies		
Fiscal Year	Receipts	Percent Change
1996-97	\$33,086,032	-8.5
1995-96	36,165,049	6.5
1994-95	33,966,941	-10.7
1993-94	38,057,960	11.1
1992-93	34,268,972	1.7
1991-92	33,703,047	15.7
1990-91	29,130,844	1.7
1989-90	28,656,062	-1.8
1988-89	29,168,422	12.5
1987-88	25,927,584	1.7

Insurance Companies Other than Life

Fiscal Year	Receipts	Percent Change
1996-97	\$50,318,931	3.4
1995-96	48,687,419	7.0
1994-95	45,515,163	6.5
1993-94	42,720,970	5.1
1992-93	40,631,761	2.1
1991-92	39,781,751	3.3
1990-91	38,529,132	9.6
1989-90	35,164,266	0.0
1988-89	35,165,882	1.2
1987-88	34,752,279	5.4

MINERALS AND NATURAL GAS TAX

Fiscal Year	Receipts	Percent Change
1996-97	\$20,051,609	15.4
1995-96	17,378,785	17.6
1994-95	14,783,614	-11.6
1993-94	16,718,727	8.1
1992-93	15,463,902	18.0
1991-92	13,105,878	-16.7
1990-91	15,733,934	12.1
1989-90	14,032,659	2.9
1988-89	13,632,519	-17.6

OIL PRODUCTION TAX

Fiscal Year	Receipts	Percent Change
1996-97	\$ 3,044,497	15.1
1995-96	2,644,656	-5.0
1994-95	2,784,562	3.2
1993-94	2,697,560	-38.9
1992-93	4,413,136	-7.2
1991-92	4,756,184	-18.3
1990-91	5,824,523	33.5
1989-90	4,363,731	14.0
1988-89	3,828,984	-9.9
1987-88	4,247,701	13.5

PARI-MUTUEL TAX

Fiscal Year	Receipts	Percent Change
1996-97	\$ 5,911,958	-17.3
1995-96	7,148,951	-1.5
1994-95	7,256,986	18.3
1993-94	6,134,317	-1.8
1992-93	6,247,368	-8.8
1991-92	6,852,421	6.5
1990-91	6,435,598 ¹	-42.1
1989-90	11,124,213	6.9
1988-89	10,402,885 ²	59.4
1987-88	6,525,493 ³	10.7

¹Tax rate and credit system were restructured, effectively reducing the amount of the pari-mutuel tax.

²Effective July 15, 1988, intertrack wagering was permitted in Kentucky and subjected to pari-mutuel taxing at the rate of 5 percent on all money wagered at receiving tracks. When acting as receiving tracks, the pari-mutuel tax credits cannot be applied.

³From July 15, 1982, through June 30, 1988, a 3 percent credit was allowed for all running tracks with an average daily handle of less than \$900,000. From July 15, 1986, to June 30, 1988, a 1 percent credit was allowed for all running tracks with an average handle of \$900,000 or more. As of July 1, 1988, the average daily handle requirement was changed from \$900,000 to \$1,200,000. In addition, a 2 percent credit was allowed from July 15, 1982, through the present for all trotting tracks with an average daily handle of less than \$300,000.

Revenue Receipts

PROPERTY TAXES—REAL ESTATE

Fiscal Year	Receipts	Percent Change
1996-97	\$170,063,059 ¹	19.2
1995-96	142,728,406	7.2
1994-95	133,200,108	0.8
1993-94	132,125,477	4.6
1992-93	126,333,184	3.4
1991-92	122,146,269	5.7
1990-91	115,574,669	2.3
1989-90	112,971,186	2.1
1988-89	110,657,160	4.9
1987-88	105,479,903	4.6

¹Real estate and tangible receipts subject to revision due to account coding adjustments.

PROPERTY TAXES—INTANGIBLE

Fiscal Year	Receipts	Percent Change
1996-97	\$ 46,631,437	-29.9
1995-96	66,489,089	-20.4
1994-95	83,479,482	7.9
1993-94	77,393,521	-0.5
1992-93	77,751,342	11.1
1991-92	69,961,863	-2.0
1990-91	71,415,874	12.9
1989-90	63,275,797	10.9
1988-89	57,063,060	3.6
1987-88	55,099,760	19.5

SALES AND USE TAX

PROPERTY TAXES—TANGIBLE

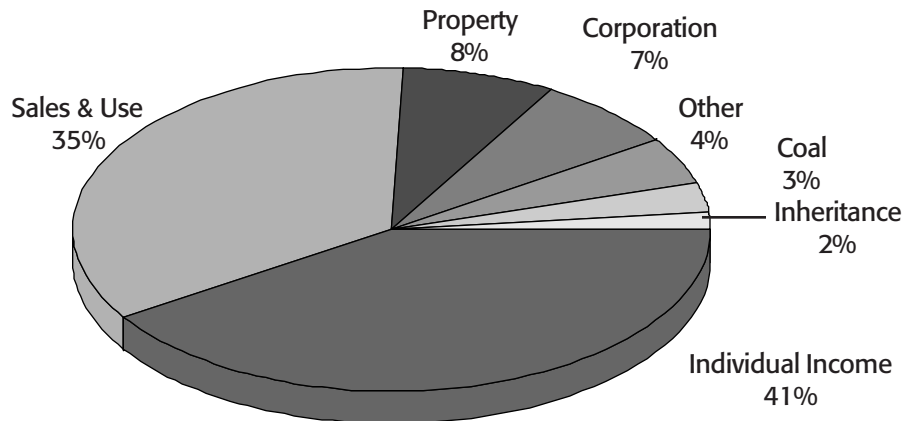
Fiscal Year	Receipts	Percent Change
1996-97	\$124,637,468 ¹	-9.6
1995-96	137,812,773	20.8
1994-95	114,122,717	9.2
1993-94	104,501,822	10.8
1992-93	94,346,047	4.5
1991-92	90,281,298	7.3
1990-91	84,110,969	7.5
1989-90	78,212,759	18.9
1988-89	65,761,650	7.1
1987-88	61,383,104	7.0

¹Real estate and tangible receipts subject to revision due to account coding adjustments.

Fiscal Year	Receipts	Percent Change
1996-97	\$1,882,681,995	5.5
1995-96	1,783,881,316	6.2
1994-95	1,680,520,815	7.7
1993-94	1,560,085,519	6.7
1992-93	1,462,251,261	7.2
1991-92	1,363,690,026	5.2
1990-91	1,296,310,445 ¹	19.4
1989-90	1,085,822,176	3.9
1988-89	1,045,200,114	9.8
1987-88	951,755,124	6.7

¹The tax rate was raised from 5 to 6 percent effective July 1, 1990.

Makeup of FY 1997 General Fund



Revenue Receipts

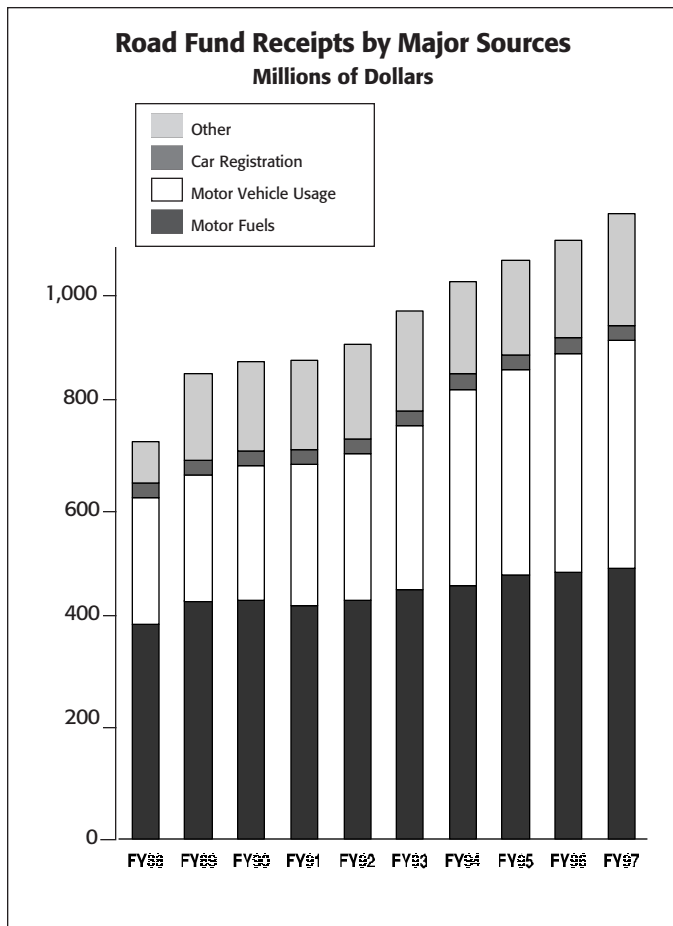
ROAD FUND

Fiscal Year	ROAD FUND TOTAL RECEIPTS ¹	
	Receipts	Percent Change
1996-97	\$960,183,780	2.2
1995-96	939,910,490	4.4
1994-95	900,619,387	4.4
1993-94	862,826,425	5.2
1992-93	820,411,480	4.9
1991-92	781,808,152	2.1
1990-91	765,598,232 ²	1.5
1989-90	754,484,154	3.5
1988-89	729,203,981 ³	16.8
1987-88	624,218,287 ³	-4.6

¹Does not include federal grants.

²Motor vehicle usage tax rate was increased to 6 percent effective July 1, 1990.

³Percent change corrected.



MOTOR FUELS TAXES

Motor Fuels Normal		
Fiscal Year	Receipts	Percent Change
1996-97	\$390,688,336	3.3
1995-96	378,142,941	1.3
1994-95	373,316,977	4.2
1993-94	358,435,307	1.4
1992-93	353,651,330	4.5
1991-92	338,517,487	3.4
1990-91	327,467,484	-2.7
1989-90	336,436,477	0.1
1988-89	336,034,614	10.5
1987-88	304,160,687	8.3

Motor Fuels Normal Use and Surtax

Fiscal Year	Receipts	Percent Change
1996-97	\$15,316,702	-32.1
1995-96	22,554,473	-2.2
1994-95	23,052,951	7.7
1993-94	21,399,126	3.9
1992-93	20,591,812	-1.9
1991-92	21,000,948	-6.0
1990-91	22,331,775	-2.7
1989-90	22,943,630	5.7
1988-89	21,713,096	20.7
1987-88	17,993,933 ¹	36.6

¹Percent change corrected.

MOTOR VEHICLE OPERATOR'S LICENSE

Fiscal Year	Receipts	Percent Change
1996-97	\$5,355,648	4.8
1995-96	5,110,387	-1.2
1994-95	5,170,423	-3.5
1993-94	5,358,710	6.7
1992-93	5,020,733	-3.8
1991-92	5,221,356	3.6
1990-91	5,038,197	-6.0
1989-90	5,361,189	0.7
1988-89	5,325,961	16.6
1987-88	4,569,624	5.2

Revenue Receipts

MOTOR VEHICLE REGISTRATIONS

Passenger Car Registration		
Fiscal Year	Receipts	Percent Change
1996-97	\$23,276,395	-0.5
1995-96	23,389,132	0.0
1994-95	23,398,303	-0.3
1993-94	23,473,690	1.7
1992-93	23,083,164	0.8
1991-92	22,893,363	1.6
1990-91	22,528,562	0.1
1989-90	22,504,662	3.5
1988-89	21,754,125	0.1
1987-88	21,726,615	5.9
1986-87	20,525,073	0.5

MOTOR VEHICLE RENTAL USAGE TAX

Fiscal Year	Receipts	Percent Change
1996-97	\$36,593,748	25.9
1995-96	29,054,964	26.5
1994-95	22,966,441	34.7
1993-94	17,055,319	40.7
1992-93	12,124,476	33.2
1991-92	9,103,767	25.3
1990-91	7,264,932 ^{1,2}	11.5
1989-90	6,517,199	-9.8
1988-89	7,228,039 ³	-29.2
1987-88	10,216,170	33.2

¹Percent change corrected.

²The tax rate was increased from 5 percent to 6 percent.

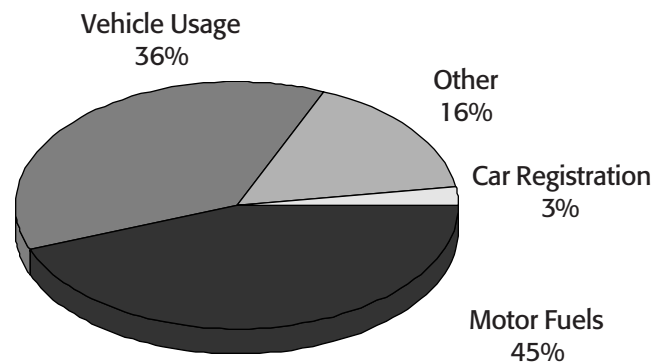
³The tax rate was reduced from 8 percent to 5 percent.

MOTOR VEHICLE USAGE TAX

Fiscal Year	Receipts	Percent Change
1996-97	\$304,868,491	2.1
1995-96	298,585,859	5.2
1994-95	283,820,829	2.0
1993-94	278,157,347	19.1
1992-93	233,527,651	11.4
1991-92	209,619,192	2.2
1990-91	205,055,084 ¹	5.8
1989-90	193,791,775	6.5
1988-89	182,035,253	0.6
1987-88	181,005,313	9.4

¹The tax rate was increased from 5 percent to 6 percent.

Makeup of FY 1997 Road Fund



Major Accomplishments

Major KRC Accomplishments in Fiscal Year 1996-97

Accomplishments during Fiscal Year 1996-97 reflect employees' commitment to KRC's goals. These accomplishments emphasize the Cabinet's mission—to provide courteous, accurate and efficient services for the benefit of Kentucky and its citizens, and administer the tax laws of the Commonwealth in a fair and impartial manner.

Specific accomplishments which underscore major progress toward KRC's strategic goals are as follows:

Taxpayer Service

- ◆ Assisted in the implementation and development of a Geographic Information System (GIS) for the Garrard County Property Valuation Administrator's Office.
- ◆ Provided telephone assistance an average of 960 times each work day. More than 230,000 telephone inquiries were received regarding the 47 different taxes and nine fees administered by KRC.
- ◆ Relocated the Northern Kentucky Taxpayer Service Center from Ft. Mitchell to a more centrally located and more accessible location in Florence.
- ◆ Relocated the divisions of Local Valuation and Technical Support and the Commissioner's Office of the Department of Property Taxation from 592 East Main Street to 200 Fair Oaks Lane in Frankfort. This consolidates all KRC offices in two locations—the Leestown Square complex on Fair Oaks Lane off Wilkinson Boulevard, and Perimeter Park West off Louisville Road.
- ◆ Initiated efforts to improve adherence to the property tax calendar in several counties which are behind schedule. This benefits property owners so they can budget their property tax obligations at about the same time each year, and also helps local taxing districts plan on a timely receipt of property tax revenues annually.
- ◆ Conducted and assisted in sponsoring various taxpayer education programs and seminars.
- ◆ Worked to simplify and in some cases eliminate tax forms, easing the filing burdens on taxpayers.
- ◆ Participated in the development of a revised vehicle identification system to re-engineer the titling, registration, and taxation of motor vehicles.
- ◆ Worked with a liaison group representing business, industry, and tax practitioners to identify issues that should be addressed by KRC or the General Assembly.
- ◆ Expanded the amount of information available on KRC's Internet site. All 1996 individual income tax forms and other commonly used tax forms were made available electronically over the Internet. An electronic mail link was established, allowing KRC to communicate with taxpayers via the Internet. The name of the Web site was changed to *Online Taxpayer Service Center* to more accurately reflect the site's mission and purpose.
- ◆ Sponsored an annual call-in show on individual income tax on Kentucky Educational Television to educate the public on income tax procedures, inform taxpayers of the benefits of electronic filing, explain changes in the tax laws, and answer taxpayer questions.
- ◆ Processed all of the 1,130,233 timely and correctly filed 1996 individual income tax returns requesting refunds by May 30, faster than the past several years.
- ◆ Provided information on tax refund status to 99,693 callers to the Automated Refund and Tax Information System (ARTIS) telephone line.
- ◆ Provided tax forms electronically to 13,808 users of the *TaxFax* forms retrieval service.



Collection of Tax Revenues

- ◆ Generated \$312,442,265 through KRC compliance programs, an increase of 48 percent from last year's total of \$210,640,928.

Major Accomplishments

- ◆ Began a W-2 Demonstration Project, in which federal data was compared to state data for compliance purposes. This project resulted in the registration of 738 employers for Kentucky withholding, and the collection of \$1,064,414 in the first year by identifying employer nonfilers and facilitating reconciliation of registered employer accounts.
- ◆ Performed an improved Federal-State Match Program, which matches federal returns with Kentucky returns in an effort to locate nonfilers of Kentucky individual income tax.
- ◆ Issued 5,692 assessments in the Freddie Freeroader vehicle registration compliance program, generating collections of \$771,689 of property tax and \$19,780 of motor vehicle usage tax.
- ◆ Collected and distributed local property revenues of \$35,552,297.
- ◆ Processed 3.7 million documents with \$6.6 billion in receipts, and made deposits into all funds on a timely basis.
- ◆ Developed and implemented a valuation methodology for limestone. Assessed and billed 148 limestone accounts for the first time.

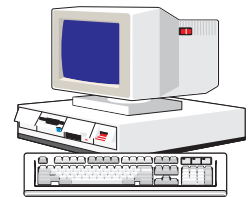
Business Practices

- ◆ Initiated the Vendor Offset Program to automate the ability of KRC and other state agencies to identify and offset payments owed to various vendors when they are indebted to the commonwealth. This endeavor is a combined effort of KRC and the Finance and Administration Cabinet.
- ◆ Organized matrix teams, composed of managerial and nonmanagerial employees from different functional areas, to review business practices on an ongoing basis.
- ◆ Initiated a swipe badge access system and installed observation cameras to improve physical security.

- ◆ Established internal consulting teams, composed of KRC management, to examine business processes in specific programmatic areas.
- ◆ Consolidated mailings of notices of tax due to save postage and provide better taxpayer service.

Technological Advancements

- ◆ Implemented TaxExchange, an electronic information exchange service offered through the Federation of Tax Administrators to state revenue agencies.
- ◆ Automated several use tax compliance programs and manual office reports.
- ◆ Installed a call management system, which aids in telephone collection efforts by screening non-productive calls, providing an automated telephone and address research mechanism, and developing comprehensive production and collection reports.
- ◆ Adopted Microsoft Windows NT 4.0 as KRC's standard operating system for network servers and user workstations, and converted approximately 200 workstations to the new system software.
- ◆ Standardized commonly used office software and computer hardware to provide ease of maintenance, support, and communication among organizational units, and began installation of these products in tandem with the installation of new workstations and the conversion to the Windows NT operating system.



KRC's *EMPOWER Kentucky* Initiatives Approved

On Jan. 15, Governor Paul E. Patton announced that KRC's proposals for the *EMPOWER Kentucky* initiative were approved for full funding.

EMPOWER Kentucky is the governor's initiative to achieve operational efficiencies, cost reductions, and improved service delivery through new technology and training. The 1996 General Assembly set aside a pool of money to fund major modernization efforts. Agencies developed detailed business cases to present their initiatives to a selection panel and compete for funding.



KRC's *EMPOWER Kentucky* initiatives, combined under a heading of *Simplified Revenue Systems*, will be funded at \$36.1 million. These initiatives are expected to generate \$445.9 million in additional General Fund receipts by Fiscal Year 2003-04.

Five specific KRC projects were funded through *EMPOWER Kentucky*. Foremost is a complete modernization of KRC's tax administration systems. This modernization is referred to as an *Integrated Tax System* or *ITS*. Also included are the Tax Gap project, an improved Corporate Officer Assessment Program, an improved Vendor Offset Program, and an expanded Bank Levy Source Program. While the integrated tax system is the major initiative, all five programs will result in processing efficiencies, improved service, and significant increases in tax collection.

Following is more detailed information on each of KRC's *EMPOWER Kentucky* initiatives:

☞ **Integrated Tax System**—This initiative touches every KRC employee. Tax administration will undergo fundamental changes in the coming years—changes in how information is provided to taxpayers, changes in how KRC receives information, and how it is processed once it is received. The cornerstone of KRC's new integrated tax system will be a centralized registration system. This system will allow linkage of data on taxpayer demographics and all tax returns, information returns, and payments. The ITS will improve taxpayer assistance and reduce

taxpayers' costs of compliance. Processing improvements will speed refunds and expanded, entity-based data will enhance communication with taxpayers. Another integral component of the ITS will be an accounting system which will capture and convey account information in a timely fashion. It will greatly improve internal controls and internal auditing.

KRC's target date for selection of a vendor for systems integration is April 1998. Preparation of the request for proposal for design of the ITS was ahead of schedule as of June 30, 1997.

☞ **Tax Gap Project**—The term *tax gap* refers to the difference between the amount of taxes due and the amount actually paid or collected. The program will identify sources of the gap and decrease its size.

The Tax Gap project consists of a new discovery and compliance system for business nonfilers and beneficiaries of income from pass-through entities. KRC will build a system which will query data from various sources, associate instances of nonfiling of state taxes, stratify the data for analysis of revenue potential, and originate a case management file. Other programs included in the tax gap initiative are the Simplified Tax and Wage Reporting System (STAWRS), also known as the W-2 Demonstration Project, and improvements in the Federal-State Match Program.

As of June 30, 1997, more than \$1 million had been collected through the W-2 Demonstration Project, and 738 employers who were not remitting withholding taxes to Kentucky were registered, exceeding the project goal of \$700,000. The Federal-State Match Program collected \$211,943, exceeding the project goal of \$187,500. The Tax Gap property tax program resulted in more than \$3.3 million in state revenue and more than \$3.6 million in revenue for local governments and taxing districts.

☞ **Corporate Officer Assessment Program**—KRC has the authority to assess corporate officers personally for past due tax obligations for withholding, sales and use, coal severance, health care provider, and controlled substance taxes. This initiative will enhance the system used to generate officer assessments and will include a

Empower Kentucky

short-term task force to address existing officer assessment case backlogs. The program will greatly improve the recovery of liabilities from corporate officers.

As of June 30, 1997, the short-term task force had collected more than \$400,000. This portion of the project is operating ahead of schedule and KRC anticipates that the resulting revenue will also be accelerated. Enhancements to KRC's receivable and collection systems, which will allow officer assessments to be created, maintained, and tracked online, will be a part of the integrated tax system.

☞ **Vendor Offset Program**—The purpose of the Vendor Offset Program is to apply funds owed by the commonwealth to vendors for services rendered to any outstanding overdue tax bills owed to the commonwealth. This will require modification to the Statewide Accounting and Reporting System (STARS) and KRC's Compliance and Receivables System (CARS).

As of June 30, 1997, KRC was purifying existing data for use with the program, which had a target implementation date of Oct. 1, 1997. In the interim, KRC implemented a manual vendor offset program to accelerate and increase projected revenues. As of June 30, 1997, 244 manual vendor offset requests were filed and \$232,696 was collected.

☞ **Bank Levy Source**—This initiative is an opportunity to enhance the current bank levy process. Currently, bank levy information is only captured for certain tax types. The bank levy database will be expanded by processing accounts receivable tax remittances in a manner required to capture bank levy source data. The bank levy database will also be expanded by capturing bank routing information from Electronic Funds Transfer (EFT) payments. Implementation of this project was scheduled to be completed by August 1997.

KRC expects to increase annual collections by more than \$1.3 million. KRC will also share bank asset information with other state agencies which have the authority to perform bank levies.

KRC also participated in *EMPOWER Kentucky* projects with other agencies. For example, KRC's Human Resources Branch participated in a pilot project with the Personnel Cabinet. KRC staff members are able to request merit registers online, review scanned electronic copies of applications, and print selected applications for further review. KRC also participated in the development of the Kentucky Vehicle Identification System with the Transportation Cabinet, and in a statewide financial system with the Finance and Administration Cabinet.



Electronic Commerce Continues to Grow

KRC made great strides during Fiscal Year 1996-97 in developing electronic commerce initiatives in an effort to expedite and make processing of tax receipts and returns more accurate. Electronic commerce provides advantages for both Kentucky taxpayers and KRC.



KRC offers a joint federal-state electronic filing program (ELF) for individual income tax returns. Within this program, KRC began a new and successful employer-sponsored ELF program. In partnership with the Internal Revenue Service (IRS), KRC provided ELF software, procedural training, and individualized on-site support to participating employers. Twenty-six employers, including state government agencies, private businesses, and educational institutions, were among the participants in the inaugural year. KRC plans to expand this program in coming years.

Also, an Electronic Funds Transfer (EFT) process allows KRC to receive and acknowledge electronic payments of sales and use and withholding taxes. This capability was expanded to the bank franchise tax.

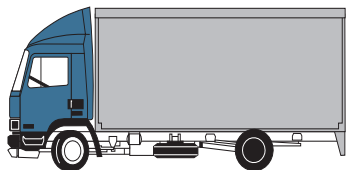
Both types of electronic commerce increased during Fiscal Year 1996-97. In the third year of state-wide ELF, the number of electronic returns sent to KRC increased 25 percent, to more than 160,000. Electronically filed returns accounted for 10 percent of the total individual income tax returns for 1996. Also, over 22,500 direct deposits of tax refunds were requested and processed through ELF.

The number of EFT accounts increased as expected, and the implementation of the bank franchise tax resulted in further increases. At the end of the fiscal year, KRC had 4,308 EFT accounts representing nearly \$1.9 billion in revenue during Fiscal Year 1996-97. This includes 3,023 withholding accounts, 1,051 sales and use tax accounts, and 167 bank franchise tax accounts.

Other initiatives are being planned and studied to expand the use of electronic commerce. For example, KRC is working with the IRS to offer a joint federal-state TeleFile program. Prototype testing of this project is scheduled for spring 1998, with full production implementation in 1999. Also, a study of online filing is taking place to increase the use of new technologies, such as enabling taxpayers to submit returns electronically from their homes.

KRC Continues Centralization of Offices

Continuing its strategic goal to improve quality service by making access to KRC offices more convenient, the centralization of KRC's Frankfort offices progressed during Fiscal Year 1996-97.



In March, the divisions of Local Valuation and Technical Support and the Commissioner's Office of the Department of Property Taxation moved from East Main Street to the fourth floor of 200 Fair Oaks Lane.

All permanent KRC Frankfort offices are located at the Fair Oaks Lane complex, off Wilkinson Boulevard, except those located at Perimeter Park West, 1266 Louisville Road.

Taxpayer Service

March Flood Affects Taxpayers and KRC Operations, Employees

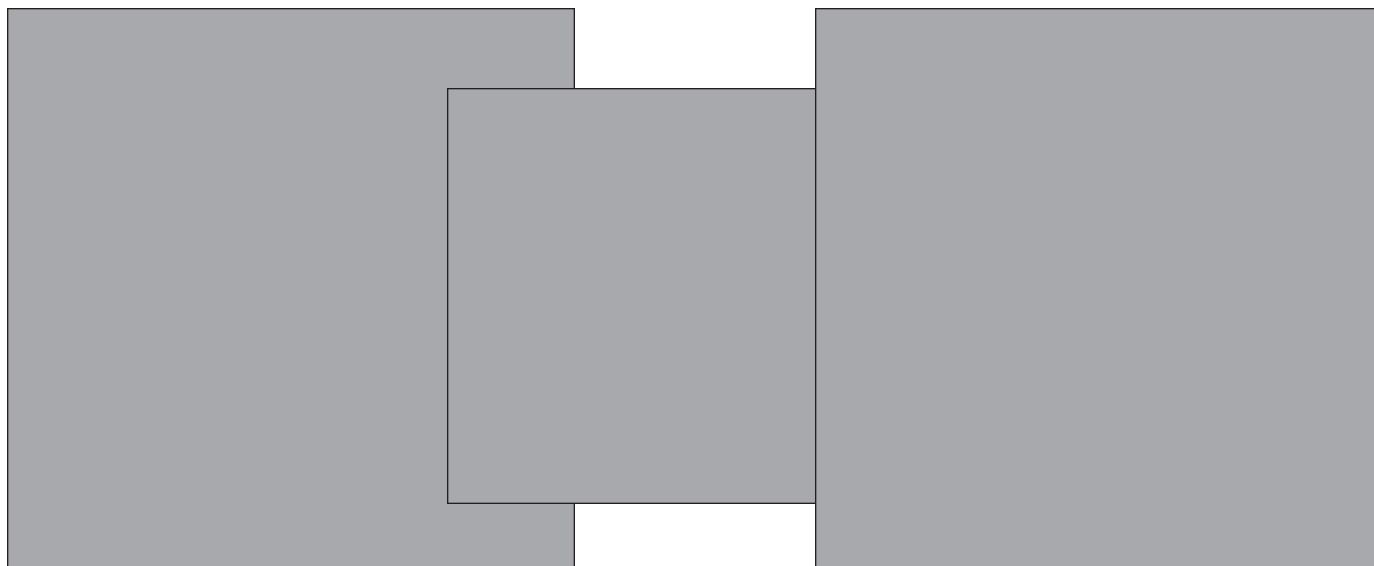
The heavy rainfall and subsequent flooding which hit Kentucky the first weekend of March significantly impacted Kentucky taxpayers, as well as KRC operations and employees.

Floodwaters covered the parking lot and both entrances at Leestown Square, where most KRC offices are located at 100 and 200 Fair Oaks Lane. Work was cancelled for KRC and other state agency employees in both Fair Oaks buildings from Monday, March 3, through Wednesday, March 5. Some employees were assigned to work at other KRC locations, and others came to the office to retrieve work to take home. Portions of the parking lot were still submerged when employees returned on Thursday, March 6.

The fear that rising water might enter the 200 Fair Oaks building caused some anxious moments on Sunday, March 2. Many KRC employees and their

family members came to the office that day to move equipment, files, and supplies from the first floor of that facility. However, water never entered the building and KRC facilities suffered no damage.

Individual taxpayers sustaining flood damage in the 101 counties declared federal disaster areas because of flooding were granted special extensions for filing 1996 individual income tax returns. Individual taxpayers sustaining flood losses were also given the opportunity to claim the losses on their 1996 individual income tax returns, even though the losses occurred in 1997. Corporate taxpayers in the disaster area counties sustaining flood damage were granted special extensions for filing their sales and use tax and withholding tax returns for March and April 1997. Governor Paul E. Patton signed Executive Order 97-306 on March 12, 1997, granting the tax filing extensions for flood victims.



Office of Taxpayer Ombudsman Helps Resolve Problems

The Office of Taxpayer Ombudsman's primary function is to serve as an advocate for the taxpayer when a taxpayer or his representative requests assistance in obtaining a fair and impartial resolution of a tax matter with KRC. The Office of Taxpayer Ombudsman not only steps in when a taxpayer or his representative requests assistance, but when an impasse between departments occurs, KRC staff may request an independent voice or assistance to facilitate the resolution of a tax matter. The Office of Taxpayer Ombudsman also serves as the liaison for problem resolution when requested by the Office of the Governor and the Legislative Research Commission.



Requests for Fiscal Year 1996-97 included waiver of civil penalties when reasonable cause for waiver was demonstrated; removal of wage and bank levies when the taxpayer would have suffered significant hardship as a result of the levy; settlement of cases resulting in refunds or reductions in assessments, penalties and fees; release and removal of tax liens from taxpayer records when the lien was improperly filed; and facilitating the review of protests that had not been resolved.

Throughout the year, the staff of the Ombudsman's Office participated in various KRC projects. Staff members assisted with the training of staff and served as coordinators for employers participating in the electronic filing program; provided input for various legislative subcommittees; served on the individual income tax forms committee; participated on an internal consulting team; served as EEO coordinator for KRC; and participated on various teams for the development of an integrated tax system.

As a result of recommendations from the Ombudsman's Office, two locations in Frankfort for taxpayers to obtain temporary sales tax permits were provided by KRC; procedures for handling accelerated filers of sales tax were revised; a policy on the election to waive carryback of net operating loss was revised; refunds of overpayment were accelerated; instructions for computing the low income tax credit were revised; the *Notice of Tax Due* and *Explanation of Notice* were revised to provide taxpayers with clearer and more concise information; the number of days for processing payments in CARS was increased; and additional voice mail and training were provided to improve telephone service to taxpayers.

KRC Hosts Foreign Tax Officials

During Fiscal Year 1996-97, KRC hosted two foreign tax officials from former communist European republics which are establishing democracies and free-market economies.

On May 19, KRC hosted Vasili Dolgieru, a tax attorney with the Main State Tax Inspectorate, Chief Juridical Department, Ministry of Finance with the former Soviet republic of Moldova. He sought ways to improve tax compliance and met with KRC representatives to learn about forms design, tax processing, and collection programs.

Dolgieru was one of several Moldovans who visited Kentucky as part of the Community Connections project, sponsored by the United States Information Agency and the Louisville International Cultural Center. This project tries to assist countries formerly part of the Soviet Union before it separated.

Moldova is the second smallest of the former Soviet republics, yet is the most densely populated

of the former republics, with a population of 4.5 million.



On June 19, KRC hosted Zorica Bozinovska, representing the Ministry of Finance of the Former Yugoslav Republic of Macedonia. She is an associate professor of economics and is working on her doctorate at the University of St. Cyril and Methodius in Skopje. She received explanations of returns processing, audit selection criteria, desk audit procedures, field audit procedures, principles of auditing, the Taxpayers' Bill of Rights, and the role of internal auditing in tax administration.

Her month-long visit to the United States was sponsored by the National Association of State Auditors, Controllers and Treasurers.

Macedonia declared its independence from Yugoslavia in 1991 and its population is 2 million. It is currently working to establish accounting standards and a system of taxation and compliance.

Legal Issues

Court Decisions and Developments

KRC's Division of Legal Services handles a substantial number of cases presenting a variety of issues arising under and concerning Kentucky's tax laws. The division continues to experience an increase in both the complexity of the issues and amounts of money at stake in these cases. The division's responsibilities have been expanded in recent years to include litigation and other legal services concerning the ad valorem taxation of intangible and tangible property and unmined minerals.



The division represents KRC in tax cases before the Kentucky Board of Tax Appeals (KBTA), and state and federal courts. This representation includes handling all phases and levels of tax litigation, including trials, hearings, and appeals. The division also handles personnel litigation and related matters, as well as other litigation other than bankruptcy and collection cases.

The court cases handled by this division address issues or result in precedents of great importance and interest to both taxpayers and the commonwealth. A number of these cases are discussed below.

St. Ledger v. Commonwealth, **Kentucky Supreme Court**

This case presents constitutional challenges to KRS 132.020 and 132.030, which apply a one-tenth of 1 cent per \$100 property tax rate to bank deposits "in any bank, trust company, or combined bank and trust company organized under the laws of this state, or in any national bank of this state" and a 25 cent per \$100 property tax rate to all other bank deposits; and KRS 136.030, which exempts from the property tax imposed by KRS 132.020 shares of stock in corporations that pay property taxes to Kentucky on at least 75 percent of their total property, wherever located. The taxpayers in this class action invoked various state and federal constitutional provisions in support of their claims—the U.S. Constitution's commerce and equal protection clauses and §§ 3 and 171 of the Kentucky Constitution.

The Kentucky Supreme Court held that the bank deposits property tax system created by KRS 132.020 and 132.030 was unconstitutional under the commerce clause. The court rejected the contentions that this system was invalid under the equal protection clause or §§ 3 and 171 of the Kentucky Constitution. Disagreeing with the Court of Appeals, which had upheld these statutes, the court held that out-of-state bank deposits were interstate commerce and protected by the commerce clause. The court further held that KRS 132.020 and 132.030 foreclose tax-neutral decisions and create both an advantage for Kentucky banks and a discriminatory burden on commerce (i.e., banks) of Kentucky's sister states. The court further held that the taxpayers were "entitled to apply for refunds pursuant to KRS 134.590."

The Kentucky Supreme Court upheld KRS 136.030, however. The court specifically relied upon the U.S. Supreme Court's decision in ***Darnell v. Indiana***, 226 U.S. 390, 33 S.Ct. 120, 57 L.Ed. 267 (1912).

The taxpayers petitioned the U.S. Supreme Court for review of the Kentucky Supreme Court's decision on KRS 136.030. The U.S. Supreme Court on May 20, 1996, granted certiorari, vacated the Kentucky Supreme Court's judgment, and remanded the case to the Kentucky Supreme Court for reconsideration of its decision in light of ***Fulton Corp. v. Faulkner***, 516 U.S. ___, 116 S.Ct. 858, ___L.Ed.2d___, 64 U.S.L.W. 4088 (1996).

The Kentucky Supreme Court issued a decision on remand from the United States Supreme Court on Jan. 30, 1997. The court held that the property tax on corporate shares of stock under KRS 132.020 and the exemption from that tax under KRS 136.030 for stock in corporations that pay tax to Kentucky on at least 75 percent of their property were unconstitutional. KRC had conceded the unconstitutionality of KRS 136.030 due to the recent change in the law as set forth in ***Fulton Corp. v. Faulkner, supra***, and had conceded that refunds were due.

KRC had argued, however, that in light of the requirement of the Kentucky Constitution that all property must be subjected to property tax unless exempted by the constitution, the remedy for the invalidity of KRS 136.030 was that all corporate shares were taxable under the relevant provision of KRS 132.020. The Kentucky Supreme Court nevertheless held that KRS 136.030 and the portion of KRS 132.020 taxing corporate shares of stock were not severable, the result being that both statutes were struck as unconstitutional, thereby effectively leaving Kentucky without an intangible property tax on corporate stock.

The court further held under KRS 134.590, applications for refunds of intangible property taxes paid on corporate shares and bank deposits had to be filed with KRC within two years of payment. In addition, the court rejected the taxpayers' contention that they should be awarded their attorney fees and costs under KRS 453.260 or 42 U.S.C. § 1988.

The taxpayers subsequently filed various motions with the Jefferson Circuit Court seeking an award of attorney fees to be taken out of the tax refunds issued pursuant to the Kentucky Supreme Court's decision and to direct KRC to withhold a percentage of these tax refunds to satisfy this award. Relying upon KRS 412.070, the circuit court awarded the taxpayers' counsel a fee of 6 percent of the amount of taxes (but not including interest) to be refunded. Postjudgment motions are pending.

The taxpayers have also again petitioned the United States Supreme Court for review of the Kentucky Supreme Court's Jan. 30, 1997, opinion. The particular issue for which review is sought is whether the Kentucky Supreme Court's decision that refund applications had to be filed within two years of payment was unconstitutional. This petition for review is still pending.

***Gillig v. Revenue Cabinet,* Kentucky Supreme Court**

In this case, the taxpayers filed an action in Franklin Circuit Court questioning the constitutionality of the method of assessing unmined coal for

property taxation purposes employed by KRC for 1989, 1990, and 1991. This method was an interim one, to be used pending the implementation of a Geographic Information System approach. The interim method was based upon a self-reporting approach using an informational tax return sent to owners of unmined coal, coal operators, lessees, and permit holders.

Invoking Ky. Const. § 172 and relying on *Dolan v. Land*, Ky., 667 S.W.2d 684 (1984), the taxpayers contended that the interim approach failed to take into account a number of factors in the assessment of the unmined coal. The Court of Appeals agreed, rejecting KRC's arguments that the taxpayers had failed to demonstrate that their unmined coal properties were in fact overvalued; that the interim method provided a fair estimate of fair cash value; and that the taxpayers could establish the effect of any particular factor upon their properties' assessments or valuations via the protest and appeal procedure prescribed in KRS Chapter 131.

KRC's motion for discretionary review of the Court of Appeals' decision was granted. Following the submission of briefs and presentation of oral argument on Jan. 23, 1997, KRC is awaiting a decision by the Kentucky Supreme Court.

***Revenue Cabinet v. Lyon County Fiscal Court,* Franklin Circuit Court**

The Franklin Circuit Court ruled that KRC's equalization increase of 8 percent to the aggregate assessment of property in Lyon County for tax year 1994 should be upheld. The circuit court reversed the decision of the KBTA which had held that the increase was unlawful. The circuit court held that the fiscal court had not met its burden of proving that the 8 percent increase overvalued the aggregate assessment of the property beyond its fair cash value. Motions to alter or amend the circuit court's decision are pending before the circuit court.

***Revenue Cabinet v. Blackberry Creek Coal Company,* Court of Appeals**

The Kentucky Court of Appeals held that KRC must follow the federal statute of limitations (i.e.,

Legal Issues

Section 6511(d)(2) of the Internal Revenue Code) for the carryback of net operating losses. Under this ruling, the period for applying for refunds based upon the carryback of a net operating loss begins to run from the loss year and not from the year to which the loss is being carried back. This case is now final.

Revenue Cabinet v. Rohm and Haas Kentucky, Inc. Kentucky Court of Appeals

At issue in this case was the corporation income and license tax treatment of dock sales, which are sales where the purchaser picks up the goods sold at the warehouse or dock of the seller. The Kentucky Court of Appeals held that dock sales by Rohm and Haas Kentucky, Inc. to its parent Rohm and Haas Company, Inc. could not be considered sales within the state of Kentucky for purposes of the apportionment provisions (KRS 141.120(8)(c)(1) and 136.070(3)(d)(1)) of the Kentucky corporation income and license taxes. The court relied upon appellate court decisions from a number of other states in arriving at its decision. This case is now final.

Revenue Cabinet v. Humana, Inc., Kentucky Court of Appeals

In this case, the taxpayers, for-profit hospitals, challenge the application of the sales and use tax exemptions provided for in KRS 139.472 for prescription medicine and prosthetic devices and physical aids. KRC determined that these exemptions did not apply to the purchases at issue in this case because

the requirements prescribed in KRS 139.472(1)(a) and (2) were not met.

The KBTA ruled in the taxpayers' favor, holding that the doctrine of contemporaneous construction precluded KRC from rectifying its previous interpretation of KRS 139.472, and that KRC's rescission of its previous policy violated KRS 13A.130.

The Franklin Circuit Court affirmed the KBTA's action. KRC has appealed the circuit court's decision to the Kentucky Court of Appeals, where briefing is now underway.

USX v. Revenue Cabinet, Franklin Circuit Court

USX Corporation has filed an action in Franklin Circuit Court seeking a judicial determination that the corporation license tax statute, KRS 136.071, is unconstitutional as a violation of the U.S. Constitution's commerce, due process, and equal protection clauses and also a violation of various provisions of the Kentucky Constitution. Furthermore, USX seeks an order enjoining KRC from implementing the provisions of KRS 136.071 which allow corporations with commercial domiciles inside Kentucky (but not those with commercial domiciles outside Kentucky) to exclude, under certain circumstances, their investments in other corporations from the computation of their taxable capital. This case is currently in the pretrial stage.

KRC Administration

Administrative Expenditures

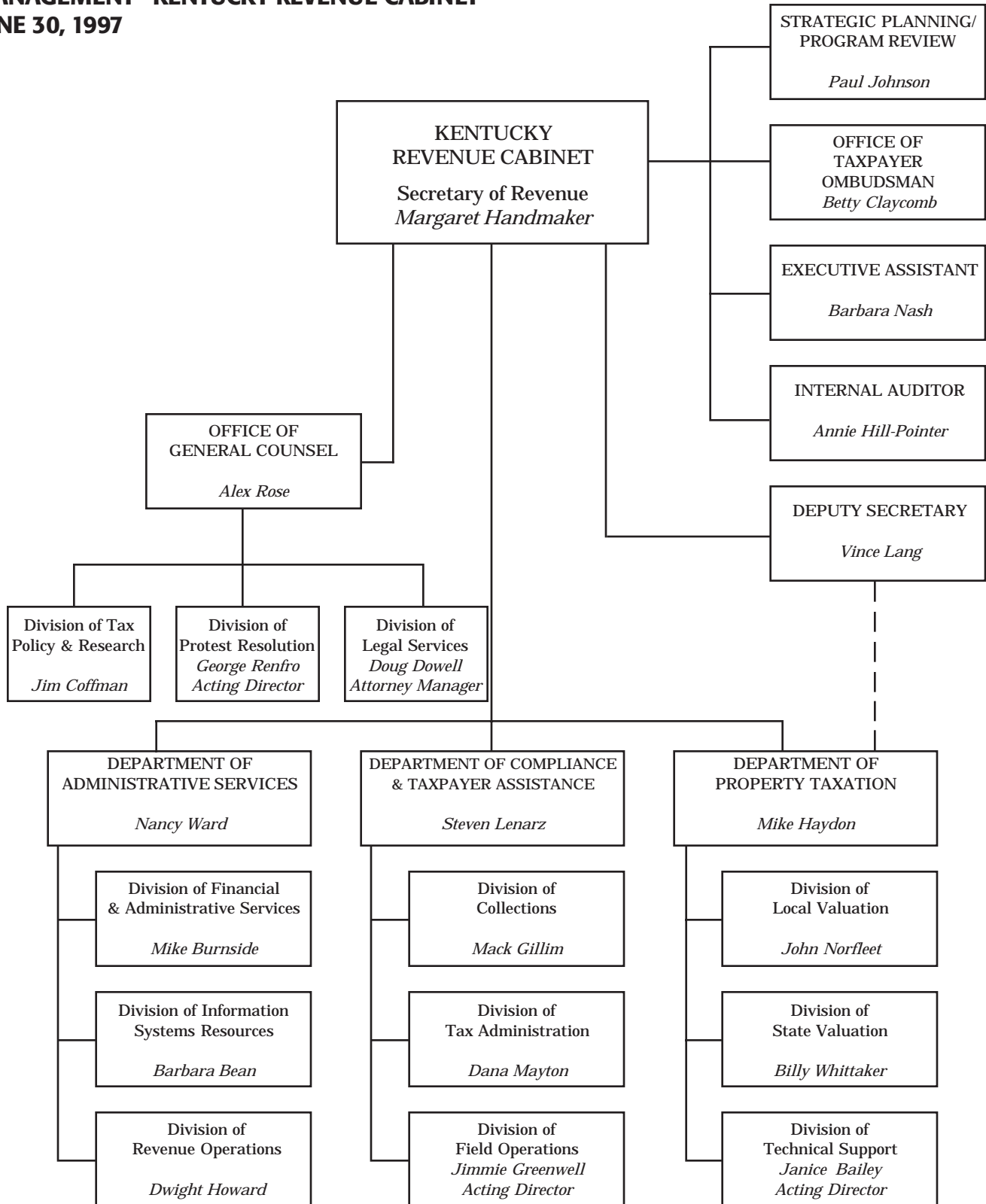
KRC's administrative costs for Fiscal Year 1996-97 totaled \$58,663,821 for personnel, operating costs, and capital outlay. General Fund appropriations represent 93 percent of the total expenditures. Restricted agency, Road Fund, and federal funds represent the balance of expenditures. The administrative costs for Fiscal Year 1996-97 consist of personnel costs of \$39,345,917, operating costs of \$19,192,135, and capital outlay of \$125,769. In addition, Capital Construc-

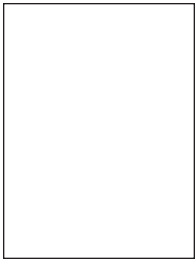
tion Funds of \$570,000 were appropriated during Fiscal Year 1996-97 to purchase and install a predictive dialer system for the Division of Collections. KRC's personnel cap for permanent, full-time personnel was 1,033 for Fiscal Year 1996-97. The permanent staff level on June 30, 1997, was 983, with 50 vacant positions. Approximately 180 seasonal employees, costing \$1,406,203, were hired during the year to support ongoing operations. The year-end General Fund operating lapse was \$463,700.

ADMINISTRATIVE COSTS, FISCAL YEAR 1996-97

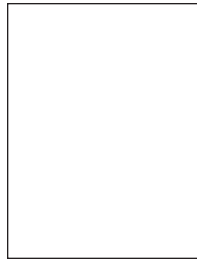
	General Fund	Agency Fund	Road Fund	Federal Fund	Total
Salaries full-time (inc. benefits)	\$ 33,432,040	\$ 1,673,400	\$ 850,000	\$43,729	\$35,999,169
Seasonal employees	1,406,203	0	0	0	1,406,203
Overtime/block 50s	360,321	0	0	0	360,321
Legal/audit services/consultants	554,454	50,000	0	0	604,454
Janitorial services	235,977	0	0	0	235,977
Temporary services	254,716	0	0	0	254,716
Other personnel costs	485,077	0	0	0	485,077
Total Personnel	\$ 36,728,788	\$1,723,400	\$ 850,000	\$ 43,729	\$39,345,917
Utilities	\$ 278,055	\$ 8,000	\$ 5,200	\$ 0	\$ 291,255
Rent/rentals/carpool	2,593,075	70,800	35,200	0	2,699,075
Maintenance and repairs	800,675	10,000	8,000	0	818,675
Postage	2,410,486	120,100	289,300	0	2,819,886
Printing/other services	1,323,404	329,683	12,600	0	1,665,687
Telecommunications	393,444	11,100	6,200	0	410,744
D.I.S. costs	5,796,653	392,200	90,000	0	6,278,853
Computer equipment	577,975	0	0	0	577,975
Supplies	434,518	66,100	10,400	0	511,018
Commodities/furniture	582,241	38,135	5,334	0	625,710
Software/telephone equipment	478,794	0	0	0	478,794
Travel	1,108,831	40,108	806	0	1,149,745
Filing/lien/collection fees	165	222,868	0	0	223,033
Dues/subscription/other	495,846	107,151	38,688	0	641,685
Total Operating	\$ 17,274,162	\$1,416,245	\$ 501,728	\$ 0	\$19,192,135
Furniture/fixtures/equipment	\$ 9,995	\$ 0	\$ 0	\$ 0	\$ 9,995
Computer equipment	115,774	0	0	0	115,774
Total Capital Outlay	\$ 125,769	\$ 0	\$ 0	\$ 0	\$ 125,769
Total Administrative Costs	\$ 54,128,719	\$3,139,645	\$ 1,351,728	\$ 43,729	\$58,663,821
Capital construction project funding—major equipment purchases	\$ 569,488	\$ 0	\$ 0	\$ 0	\$ 569,488
Total Funds	\$ 54,698,207	\$3,139,645	\$ 1,351,728	\$ 3,729	\$59,233,309
PVA	19,067,520	2,080,310	0	0	21,147,830
Grand Total	\$ 73,765,727	\$5,219,955	\$ 1,351,728	\$ 43,729	\$80,381,139

MANAGEMENT—KENTUCKY REVENUE CABINET
JUNE 30, 1997

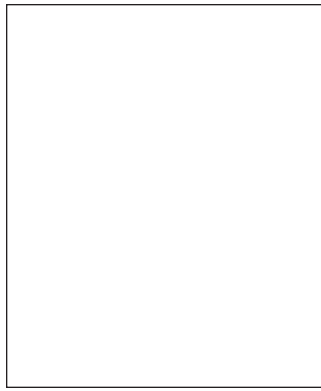




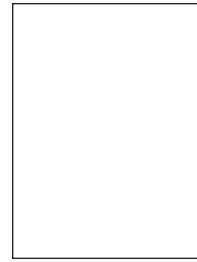
J. Bailey



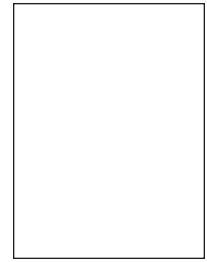
B. Bean



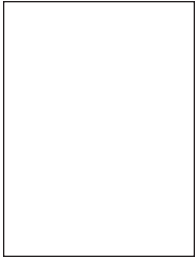
Secretary Margaret Handmaker



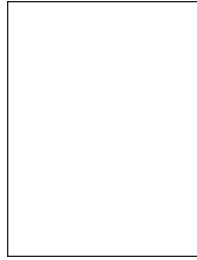
M. Burnside



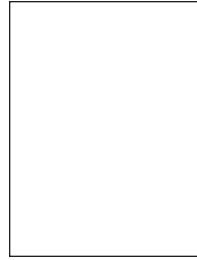
B. Claycomb



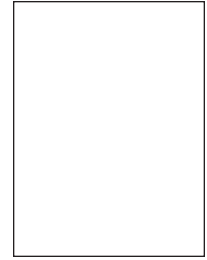
J. Coffman



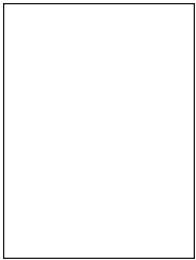
D. Dowell



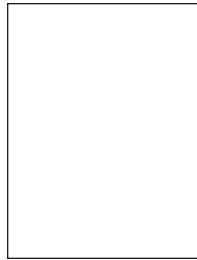
M. Gillim



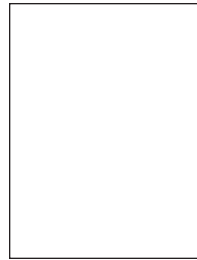
J. Greenwell



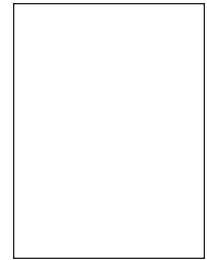
M. Haydon



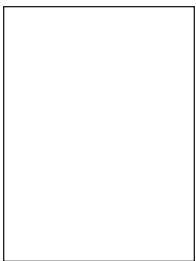
A. Hill-Pointer



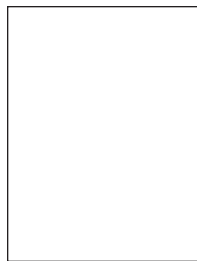
D. Howard



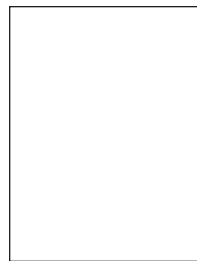
P. Johnson



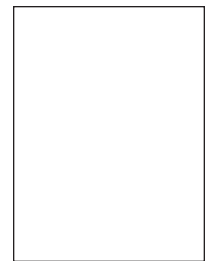
V. Lang



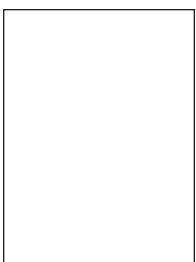
S. Lenarz



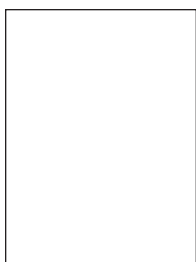
D. Mayton



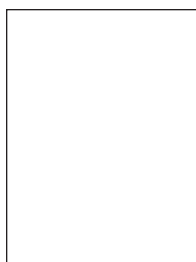
B. Nash



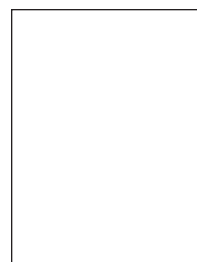
J. Norfleet



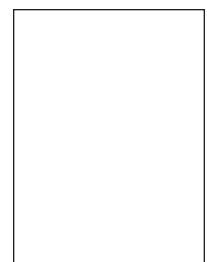
G. Renfro



A. Rose



N. Ward



B. Whittaker

KRC Administration

KRC Management Appointments

On *Aug. 1, 1996*, Dana Bynum Mayton was appointed director of the Division of Tax Administration.

Mayton joined KRC in March 1993 as a paralegal with the Division of Tax Policy and Research. Upon passing the Kentucky bar examination, she moved to the Division of Legal Services, where she concentrated on sales and use taxes, interstate commerce, and the health care provider tax.

Prior to joining KRC, Mayton worked for the Arkansas Legislative Counsel, that state's equivalent of Kentucky's Legislative Research Commission. She staffed the Revenue and Taxation Committees of both the Arkansas House and Senate.

Mayton holds a bachelor of arts degree in criminology from Arkansas State University, and a juris doctorate degree from the University of Arkansas at Little Rock.

On *Oct. 16, 1996*, Barbara Bean was appointed director of the Division of Information Systems Resources.

Bean came to KRC from the Kentucky Department of Education, where she was involved in implementing the technology aspect of the Kentucky

Education Reform Act. She had previously worked for the Department of Information Systems and the former Department of Revenue, as well as in the quality control field in the private sector.

She holds a bachelor of science degree in mathematics from Centre College, and a master's degree in public administration from Kentucky State University.

On *Oct. 16, 1996*, James F. Coffman was appointed director of the Division of Tax Policy and Research.

Coffman, a 20-year KRC employee, served in several technical and administrative positions, including seven years as commissioner of the Department of Property Taxation, prior to his appointment. He previously worked as training director for a mass appraisal and cadastral mapping firm and as a university teacher. He is also a veteran of the U.S. Air Force.

Coffman received his bachelor's degree from Eastern Kentucky University, and his master's and doctorate degrees in geography from the University of Wisconsin-Milwaukee.

KRC Departments and Their Duties

The Kentucky Revenue Cabinet consists of 12 divisions, headed by the Office of the Secretary. The divisions are organized into three departments—Administrative Services, Compliance and Taxpayer Assistance, and Property Taxation—and an Office of General Counsel.

Office of the Secretary

The Secretary of the Revenue Cabinet is the agency's top administrative official. The Office of the Secretary is established under Chapter 131 of the Kentucky Revised Statutes. The Secretary of the Revenue Cabinet is authorized under the statute to appoint assistants and personnel as necessary to perform functions of the office.

The Office of the Secretary includes the offices of Internal Audit, Strategic Planning/Program Review, and Taxpayer Ombudsman. For administrative purposes, the Office of General Counsel is also attached to the Office of the Secretary.

The **Internal Audit** office is responsible for auditing the accounting, control, and custodial activities of KRC to ensure compliance with applicable federal and state laws, administrative regulations, policies, and procedures.

The **Strategic Planning/Program Review** office directs and coordinates the long-term planning of KRC and recommends strategies to achieve goals and objectives. The planner also coordinates work of the commissioners with respect to long-term planning and is responsible for guiding plan implementation throughout KRC.

The **Office of Taxpayer Ombudsman** is responsible for coordinating the resolution of taxpayer complaints and problems if requested by taxpayers or their representatives; recommending publications and education programs to improve voluntary compliance with Kentucky's tax laws; and otherwise ensuring the rights of taxpayers under KRS 131.041-131.081, the Kentucky Taxpayers' Bill of Rights.

Office of General Counsel

The Office of General Counsel administers KRC's tax policy and legal services, settles protested issues and performs tax research studies. It consists

of the Division of Legal Services, the Division of Protest Resolution, and the Division of Tax Policy and Research.

The **Division of Legal Services** represents KRC in administrative proceedings before the Kentucky Board of Tax Appeals and Personnel Board and in legal actions involving tax and a variety of other issues at every level of the state and federal court system. The division also performs a wide range of other services and functions which include rendering oral and written advice and written legal opinions to KRC personnel, other state government personnel, and taxpayers concerning the state's tax laws as well as other relevant areas of the law; reviewing and drafting proposed statutes and regulations; analyzing tax law and assisting with the preparation of publications and other documents utilized in the administration of the state's tax laws; and providing assistance and advice in connection with audits, protest conferences, and other prelitigation matters.

The **Division of Protest Resolution** reviews and bills tax audits performed by the audit staffs of KRC's 11 taxpayer service centers. The division is responsible for responding to and resolving taxpayers' protests of the field audit adjustments and resulting tax assessments. In resolving protests, the division conducts conferences and issues final rulings upon request or whenever deemed necessary. The division is also required to resolve protests of office audits conducted by other taxing sections within KRC.

The **Division of Tax Policy and Research** is responsible for providing oral and written technical advice on Kentucky tax law; drafting proposed tax legislation and regulations; testifying before legislative committees on tax matters; analyzing tax legislation; performing tax research and analysis; developing tax reporting forms; drafting and reviewing tax articles and publications; reviewing and approving final ruling letters; providing expert witnesses in tax litigation; providing consultation and assistance in protested tax cases; and conducting training and tax seminars.

KRC Administration

Department of Administrative Services

The Department of Administrative Services assists KRC in personnel and fiscal services, training and development, communication services, information management, disclosure, security, returns processing, and file storage. It consists of the Division of Financial and Administrative Services, the Division of Information Systems Resources, and the Division of Revenue Operations, plus the Disclosure Section and the Security Section which are attached to the commissioner's office.

The **Division of Financial and Administrative Services** provides office supplies and equipment, educational, budget and fiscal, personnel, and communication services for KRC.

The **Division of Information Systems Resources** provides direction for development of information resource policies and offers overall technical support for information technologies used within KRC. The division also has responsibility for the efficient delivery of information services to support fulfillment of the agency mission and objectives.

The **Division of Revenue Operations** is responsible for receiving and processing revenues for deposit into the state treasury, registering firms for business taxes, processing tax returns, and making additional assessments or refunds. This division also has responsibility for records management.

The **Disclosure Section** and the **Security Section** are attached to the commissioner's office. The Disclosure Section coordinates the disclosure of confidential tax information between state and federal agencies. The Security Section is responsible for physical and information security at all KRC locations.

Department of Compliance and Taxpayer Assistance

The Department of Compliance and Taxpayer Assistance administers KRC's taxpayer assistance, general tax administration, field operations, collections, and criminal investigation efforts. It consists of the Division of Collections, the Division of Field Operations, and the Division of Tax Administration, plus the Criminal Investigation Section which is attached to the commissioner's office.

The **Division of Collections** is responsible for the collection of delinquent taxes and the administration of collection-related compliance programs including Voluntary Disclosure and Offers in Settlement.

The **Division of Field Operations** is responsible for providing quality taxpayer service from the 11 taxpayer service centers. The centers provide taxpayer assistance and education, prepare returns, distribute forms, collect delinquent taxes, and perform field audits. The division also provides instructors, develops training materials, and coordinates training for most in-house tax schools.

The **Division of Tax Administration** is responsible for providing taxpayer assistance, administering taxes levied under the Kentucky Revised Statutes, managing compliance programs, and conducting office audits.

The **Criminal Investigation Section** is attached to the commissioner's office. It is responsible for investigating and prosecuting violations of Kentucky's tax laws.

Department of Property Taxation

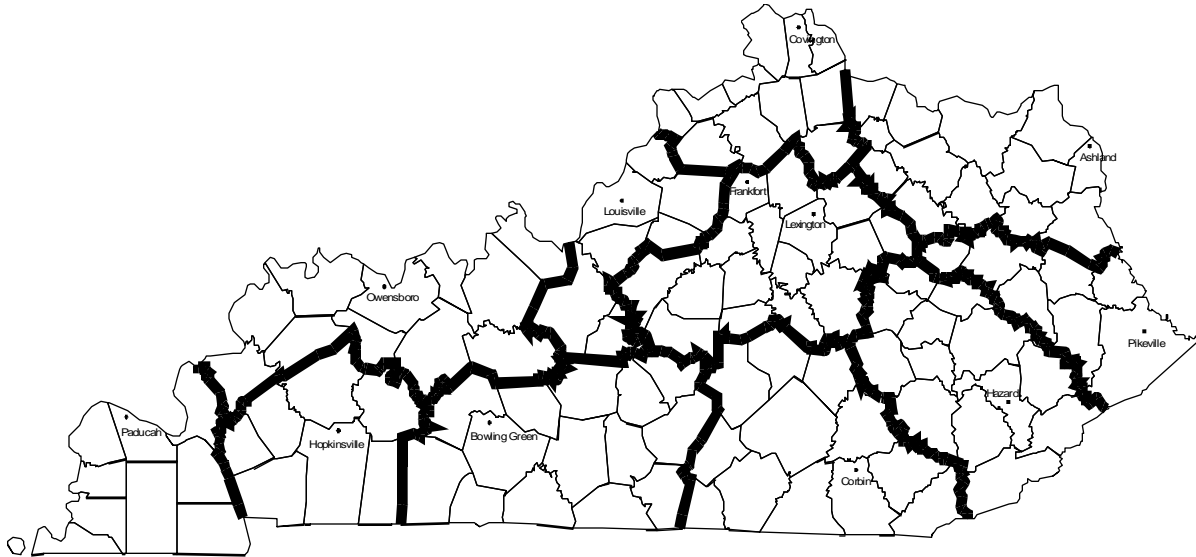
The Department of Property Taxation administers all property taxation matters. It is composed of the Division of Local Valuation, the Division of State Valuation, and the Division of Technical Support.

The **Division of Local Valuation** is responsible for certifying property valuations submitted by property valuation administrators (PVAs), coordinating property tax collection, and providing technical and administrative support to PVAs, county clerks, sheriffs, county attorneys, and local taxing districts.

The **Division of State Valuation** is responsible for overseeing the assessment of intangible and tangible personal property, motor vehicles, public service company property, and omitted personal property.

The **Division of Technical Support** is responsible for providing assistance to the 120 PVAs in the areas of mapping projects, mineral valuation and compliance, and computer technology.

KENTUCKY TAXPAYER SERVICE CENTERS



• Taxpayer Service Center

———— District Boundary

Ashland, 41105-0687

P.O. Box 687
134 Sixteenth Street
Telephone: (606) 920-2037
Fax: (606) 920-2039

Bowling Green, 42102-2040

P.O. Box 2040
1502 Westen Street
Telephone: (502) 746-7470
Fax: (502) 746-7847

Corbin, 40702-3298

P.O. Box 1298
Falls Road Plaza, Suite 5
1707 18th Street
Telephone: (606) 528-3322
Fax: (606) 523-1972

Frankfort, 40620

200 Fair Oaks Lane, Second Floor
Individual Income Tax Branch
Telephone: (502) 564-4581
Fax: (502) 564-3685

Hazard, 41702-4194

P.O. Box 419
233 Birch Street
Telephone: (606) 435-6017
Fax: (606) 435-6018

Hopkinsville, 42241-0695

P.O. Box 695
105 Hammond Plaza
4011 Ft. Campbell Blvd.
Telephone: (502) 889-6521
Fax: (502) 889-6563

Lexington, 40507-1556

301 East Main Street
Suite 500
Telephone: (606) 246-2165
Fax: (606) 246-2164

Louisville, 40202-2446

620 South Third Street
Suite 102
Telephone: (502) 595-4512
Fax: (502) 595-4205

Northern Kentucky, 41042-1385

Turfway Ridge Office Park
7310 Turfway Rd., Suite 190
Florence
Telephone: (606) 371-9049
Fax: (606) 371-9154

Owensboro, 42302-0128

P.O. Box 128
401 Frederica Street
Building C, Suite 201
Telephone: (502) 687-7301
Fax: (502) 687-7244

Paducah, 42002-2336

P.O. Box 2336
555 Jefferson Street, Suites 302/306
Telephone: (502) 575-7148
Fax: (502) 575-7027

Pikeville, 41501-8230

5333 North Mayo Trail
Telephone: (606) 433-7675
Fax: (606) 433-7679

TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 1997)

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION
Alcoholic Beverage Wholesale Sales Tax	KRS 243.884	9 percent of wholesale sales of distilled spirits, wine and malt beverages.	A wholesale sales tax on alcoholic beverage wholesalers/distributors to be reported monthly. There are statutory exemptions.
Bank Franchise Tax	KRS 136	1.1 percent of net capital. Minimum tax is \$300 per year.	Tax is imposed on every financial institution regularly engaged in business in Kentucky at any time during the calendar year. A financial institution is presumed to be regularly engaged in business in Kentucky if during any taxable year it obtains or solicits business with 20 or more persons within Kentucky, or if receipts attributable to sources in Kentucky equal or exceed \$100,000. Tax is in lieu of all city, county and local taxes except for the real estate transfer taxes, real property and tangible personal property taxes upon user of utility services and the local deposit franchise tax.
Beer Consumer Tax	KRS 243.720 et seq.	\$2.50 per barrel of 31 gallons.	An excise tax imposed on distributors or retailers of malt beverages who purchase malt beverages directly from a brewer. There are statutory exemptions and credits. There is a 50 percent discount for domestic brewers.
Breeders' Award Fund Allocation	KRS 230.380	34 percent of commission.	Simulcast facilities remit to the Revenue Cabinet no later than the fifth business day following the close of each week of racing.
Cigarette Enforcement and Administration Fee	KRS 365.390	.001 cent per pack (rate subject to change annually).	Fee paid by cigarette wholesalers and unclassified acquirers to provide for the expenses of the Revenue Cabinet in administering the Cigarette Tax Law.
Cigarette Licenses	KRS 138.195	Resident wholesaler \$500 Nonresident wholesaler \$500 Subjobber \$500 Vending machine operator \$ 25 Transporter \$ 50 Unclassified acquirer \$ 50	Annual license fee imposed upon various dealers and handlers of cigarettes. More than one license may be required by the Revenue Cabinet for any dealer or handler depending upon the diversity of his business and the number of established places of business.
Cigarette Tax	KRS 138.130 et seq.	3 cents per 20 cigarettes, proportioned for other quantities.	An excise tax on cigarettes paid by resident and nonresident wholesalers and unclassified acquirers. The tax is paid by purchasing stamps within 48 hours after cigarettes are received by a resident wholesaler. A nonresident wholesaler must affix the tax stamps prior to importing them into Kentucky.
Coal Tax	KRS 143.010. 143.020 et seq.	50 cents per ton minimum or 4.5 percent of gross value. (The minimum tax shall not apply to a taxpayer who only processes coal.)	Tax is based on the gross value of coal severed and/or processed in Kentucky.

TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 1997)

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION
<p>Corporation Income Tax</p>	<p>KRS 141.010 et seq., 155.170</p>	<p>First \$25,000 3 percent 4 percent* Next \$25,000 4 percent 5 percent* Next \$50,000 5 percent 6 percent* Next \$150,000 6 percent 7 percent* All Over \$250,000 7.25 percent 8.25 percent* Business Development Corporations 4.5 percent</p> <p>*Rate changes effective January 1, 1990. Fiscal year taxpayers must prorate based on number of days in taxable year before and after January 1, 1990.</p>	<p>Annual tax on the entire net income of the corporation apportioned and allocated to Kentucky. Corporations whose estimated tax liability will exceed \$5,000 must file a declaration of estimated tax due and pay the estimated tax in three installments. Banking institutions, except bankers banks organized under KRS 287.135, insurance companies and religious, educational and charitable institutions are exempt from corporate income tax.</p> <p>An "electing small business corporation," as defined in Section 1371(b) of the Internal Revenue Code, is recognized as being exempt from Kentucky corporation income tax except for tax on net capital gain of such corporation as provided in KRS 141.040(5).</p> <p>For taxable years ending on or after December 31, 1995, House Bill 599 allows an affiliated group to elect to file a consolidated Kentucky income tax return with the election binding for ninety-six consecutive calendar months. House Bill 599 prohibits affiliated groups from filing a combined Kentucky corporation income tax return using the unitary business concept.</p>
<p>Corporation License Tax</p>	<p>KRS 136.070 et seq.</p>	<p>\$2.10 per each \$1,000 of capital employed in the business. Kentucky tax is based on the amount of such capital apportioned to Kentucky. Minimum tax is \$30.</p>	<p>Annual license tax levied against any corporation owning or leasing property or having an employee in Kentucky. Public service companies and corporations exempt from income tax (except S corporations) are also exempt from license tax.</p> <p>A corporation with gross income of \$500,000 or less is allowed a credit against the license tax of \$1.40 on each \$1,000 of the first \$350,000 of capital employed.</p>
<p>Distilled Spirits Case Sales Tax</p>	<p>KRS 243.710</p>	<p>5 cents per case.</p>	<p>Excise tax on distilled spirits sold by wholesalers to retailers in Kentucky.</p>
<p>Distilled Spirits and Wine Consumer Taxes</p>	<p>KRS 243.720 et seq.</p>	<p>Distilled spirits containing over 6 percent alcohol by volume per gallon \$ 1.92 per liter 0.5073 Distilled spirits containing 6 percent or less alcohol by volume per gallon \$ 0.25 per liter 0.0661 Wine per gallon \$ 0.50 per liter 0.1321</p> <p>(Proportionate amount charged on smaller quantities, but not less than 4 cents on any retail container of wine.)</p>	<p>Excise tax imposed upon the use, sale or distribution by sale or gift of distilled spirits and wine. There are statutory exemptions.</p>

TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 1997)

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION
Health Care Provider Tax	KRS 142.301 to 142.359	2.5 percent of gross receipts for hospital services. 2.0 percent of gross receipts for nursing facility services, licensed home health agency services, HMO services (excluding premium receipts) and ICF/MR services. 1996-97: 1.5 percent of gross receipts for physician services. 25 cents per outpatient prescription.	Effective July 1, 1993, a provider tax is imposed on providers of taxable medical services. Registration is required prior to the beginning of operations.
Individual Income Tax	KRS 141.010 et seq.	First \$3,000 2 percent Next \$1,000 3 percent Next \$1,000 4 percent Next \$3,000 5 percent In excess of \$8,000 6 percent	Graduated tax upon an individual's net income. Residents must pay on their entire taxable income. Nonresidents must pay on that portion of their income attributable to Kentucky sources. Fiduciaries must pay on that portion of income of an estate or trusts not distributed or distributable to beneficiaries.
Inheritance and Estate Taxes	KRS 140.010 et seq.	Inheritance tax 2-16 percent Estate tax an amount by which the state death tax credit allowable under the federal tax law exceeds the inheritance tax.	The inheritance tax is a tax upon the right to receive property upon the death of another person. The rate of tax and the exemptions allowed vary according to the legal relationship of the beneficiary to the decedent. The total inheritable interest of a surviving spouse is fully exempted. Also, if the date of death was after June 30, 1995, the tax is being totally phased out for certain other beneficiaries over a four-year period. The Kentucky estate tax is the amount by which the allowable federal state death tax credit exceeds the Kentucky inheritance tax.
Insurance Premium Surcharge	KRS 136.392	1.5 percent of premiums.	An insurance premium surcharge on insured Kentucky risks. There are statutory exemptions.
Insurance Premium Taxes	KRS 136.330 to 136.390, 299.530, 304.3-270, 304.4-030	All insurance except domestic life 2 percent Fire insurance* 75 percent *Represents additional tax on applicable premiums.	Annual tax imposed on insurance companies and risk retention groups based upon premium receipts on business done. There are statutory exemptions.
Legal Process Taxes	KRS 142.010 et seq.	Conveyances of real property (deeds) \$3.00 Mortgages, financial statements and security agreements \$3.00 Marriage licenses* \$3.50 Powers of attorney to convey real or personal property \$3.00 Lien or conveyance of coal, oil, gas or other mineral right or privilege \$3.00	Taxes imposed on the filing of an instrument subject to tax or the issuance of a marriage license. Collected by county clerk. *A \$10 SpouseAbuse Shelter Fund fee levied on marriage licenses by KRS 209.160 is, by agreement between the Revenue Cabinet and the Cabinet for Human Resources, also reported and paid to the Revenue Cabinet by county clerks as part of the monthly report of legal process taxes due.

TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 1997)

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION
Marijuana and Controlled Substance Tax	KRS 138.870	\$3.50 per gram on marijuana, loose. \$1,000 per marijuana plant. \$200 per gram controlled substance by weight. \$2,000 per 50 dosage units of controlled substance.	Growers, sellers, dealers, buyers and manufacturers must obtain a tax stamp to affix to the product. Law enforcement agencies must notify the Revenue Cabinet of seizure of product not bearing tax stamp.
Motor Fuels Tax—Gasoline	KRS 138.210 et seq.	9 percent of average wholesale price of gasoline, but not less than 10 cents per gallon. Rate determined quarterly. A 5 cent per gallon "Supplemental Highway User Motor Fuel Tax" also applies.	An excise tax paid by licensed dealers on all gasoline received in this state. There are statutory provisions for partial or full tax refunds for designated users.
Motor Fuels Tax—Liquefied Petroleum Gas	KRS 234.310 to 234.440	Variable rate same as gasoline. The 5 cent per gallon supplemental tax also applies to liquefied petroleum gas.	An excise tax paid by licensed dealers on all liquefied petroleum motor fuel withdrawn to propel motor vehicles on the public highways, unless the carburetion system has been approved by the Natural Resources and Environmental Protection Cabinet.
Motor Fuels Tax—Petroleum Storage Tank Environmental Assurance Fee	KRS 224.60-145	1.4 cents per gallon.	A petroleum storage tank environmental assurance fee is levied on all gasoline and special fuel received in this state by licensed dealers. There are provisions for exemptions or refunds for qualifying gasoline or special fuels not to be used on the public highways.
Motor Fuels Tax—Special Fuels	KRS 138.210 et seq.	Variable rate same as gasoline. A 2 cent per gallon "Supplemental Highway User Motor Fuel Tax" also applies.	An excise tax is levied on all special fuels received in this state by licensed dealers. There are statutory provisions for tax credits and partial or full tax refunds for designated users.
Motor Vehicle Usage Tax	KRS 138.450 et seq.	6 percent of the retail price as defined in KRS 138.450. Optional tax payment method available for U-Drive-It operators based on 6 percent of the gross rental or lease charges.	Tax imposed on new and used motor vehicles when registered for the first time in this state and when ownership is transferred. There are statutory exemptions and credits. Regular usage tax payments are made to the county clerk and forwarded to the Revenue Cabinet. U-Drive-It usage tax payments are made directly to the Transportation Cabinet on a monthly basis.

TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 1997)

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION
Natural Resources Severance and Processing Taxes (Minerals, Natural Gas and Natural Gas Liquids)	KRS 143A.010, 143A.020 et seq.	4.5 percent of gross value. 12 cents per ton (clay production).	Tax of 4.5 percent of the gross value is imposed on every taxpayer engaged in the business of severing and/or processing minerals (including natural gas and natural gas liquids) in Kentucky with the exception of clay. Clay production is taxed at 12 cents per ton. A credit equal to the tax of 12 cents per ton is granted to those taxpayers who sever or process clay sold to and used as a component of landfill construction by an approved waste disposal facility within this state. Also, no tax is imposed on the processing of ball clay. This tax does not apply to fluorspar, lead, zinc, tar sands and barite severed for any purposes; or to rock, limestone, or gravel used for privately maintained but publicly dedicated roads; or limestone when sold or used by the taxpayer for agricultural purposes so as to qualify for exemption from sales and use tax. A credit equal to the tax is allowed on the gross value of limestone which is severed or processed within this state and sold to a purchaser outside this state. This credit is extended only to taxpayers who sever or process limestone through the rip-rap construction aggregate of agricultural limestone stages, and who sell in interstate commerce not less than 60 percent of such stone. The credit shall not be allowed to a taxpayer who processes the limestone beyond the agricultural limestone stages.
Oil Production Tax	KRS 137.120 et seq.	4.5 percent of market value of crude petroleum produced in Kentucky.	Tax on the production of crude petroleum is attached when the crude petroleum is first transported from the tanks or other receptacle located at the place of production. Transporter of crude petroleum, as agent, pays tax for all persons owning any interest in such oil.
Property Taxes:			
Agricultural Products In hands of producer or agent Tobacco not at manufacturer's plant (Storage) Other agricultural products not at manufacturer's plant (Storage)	KRS 132.020(1) KRS 132.020(1), 132.200(6) KRS 132.020 (1), 132.200(6)	1.5 cents (per \$100 of assessment). 1.5 cents (per \$100 of assessment). 1.5 cents (per \$100 of assessment).	State rate only. Also subject to local rates. Also subject to local rates.
Annuities or Rights to Receive Income	KRS 132.215(2)	0.1 cent (per \$100 of assessment).	State rate only.

TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 1997)

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION
Bank Deposits			
Domestic	KRS 132.030(1)	0.1 cent (per \$100 of assessment).	Tax is based on deposits as of January 1 and may be paid by the institution on behalf of the depositors. State rate only.
Out-of-State	KRS 132.020(1)	0.1 cent (per \$100 of assessment).	
Brokers' Accounts Receivable (Also see Margin Accounts)	KRS 132.050	10 cents (per \$100 of assessment).	State rate only.
Car Lines (Private)	KRS 136.120(4)	Subject to annual adjustment.	Subject to annual adjustment. Local tax collected and distributed by the Revenue Cabinet effective January 1, 1994.
Distilled Spirits	KRS 132.020(10)	5 cents (per \$100 of assessment).	Subject to full local rates.
Farm Machinery Used in Farming	KRS 132.020(1)	0.1 cent (per \$100 of assessment).	State rate only.
Goods Held for Sale in the Regular Course of Business	KRS 132.020(11)	5 cents (per \$100 of assessment).	Subject to local rates.
Intangibles			
Money in hand, notes, bonds, accounts and other credits, except those arising from out-of-state business, and other not specified elsewhere.	KRS 132.020(1), 136.120(1)	25 cents (per \$100 of assessment).	State rate only.
Accounts receivable, notes, bonds, credits, nondomestic bank deposits and other intangibles arising from out-of-state business, patents and copyrights, and tobacco base allotments.	KRS 132.020(2), 132.120(2)	1.5 cents (per \$100 of assessment).	State rate only.

TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 1997)

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION
Leasehold Interest (Owned by tax-exempt governmental unit)	KRS 132.020(1)	1.5 cents (per \$100 of assessment).	State rate only.
Life Insurance Companies (Domestic) Capital Reserves Policy Proceeds on Deposit (Individual)	KRS 136.320 KRS 132.216	70 cents (per \$100 of assessment). 0.1 cent (per \$100 of assessment). 25 cents (per \$100 of assessment).	Also subject to county and city rates. State rate only. State rate only.
Livestock and Poultry	KRS 132.020(1)	0.1 cent (per \$100 of assessment).	State rate only.
Manufacturing Machinery (Owned and used by manufacturers)	KRS 132.020(1) KRS 132.200(4)	15 cents (per \$100 of assessment).	State rate only.
Margin Accounts (See Brokers' Accounts Receivable)	KRS 132.060	25 cents (per \$100 of assessment).	State rate only.
Mobile Homes (Real Property)	KRS 132.750	Subject to annual adjustment. Taxed at real estate rate.	Subject to full local rates.
Motor Vehicles	KRS 132.487	45 cents (per \$100 of assessment).	Full local rates. Collected upon registration.
Pollution Control Facilities	KRS 132.020(1)	15 cents (per \$100 of assessment).	State rate only.

TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 1997)

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION
Public Warehouses Property in storage except goods in transit Goods in transit	KRS 132.260(1) KRS 132.095	5 cents (per \$100 of assessment). 0.1 cent (per \$100 of assessment).	Full local rates. State rate only.
Radio, Television and Telephonic Equipment	KRS 132.020(1)	15 cents (per \$100 of assessment).	State rate only.
Railroads (Intrastate)	KRS 132.020	10 cents (per \$100 of assessment both real and tangible). Subject to annual adjustment. Effective January 1, 1991.	State rate. Local rate.
Raw Materials and Products in Course of Manufacture	KRS 132.020(11), 132.200(4)	5 cents (per \$100 of assessment).	State rate only.
Real Estate not Elsewhere Specified	KRS 132.020(1)	Adjusted annually (by July 1) per KRS 132.020(8); the state real estate rate for 1991 was 18.7 cents per \$100 of assessment, for 1992 was 18.4 cents, for 1993 was 18.0 cents, for 1994 was 17.2 cents, for 1995 was 16.7 cents and for 1996 was 16.3 cents.	Full local rates.
Recreational Vehicles	KRS 132.750, OAG 82-504	Classification depends on permanency of location. 45 cents (per \$100 of assessment).	Subject to full local rates.
Recycling	KRS 132.020(1)	45 cents (per \$100 of assessment).	State rate only.
Retirement Plan or Profit- Sharing Plan Tax	KRS 132.043	0.1 cent (per \$100 of assessment).	State rate only. Taxable to individual participant.
Savings and Loan Associations (Domestic) (Foreign included effective January 1, 1990)	KRS 136.300(1)	10 cents (per \$100 of assessment).	State rate only.

TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 1997)

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION																
Stocks and Bonds (See Intangibles)																			
Tangible Property not Elsewhere Specified	KRS 132.020(1)	45 cents (per \$100 of assessment).	Full local rates.																
Trucks, Tractors, Trailers, Semi-Trailers and Buses (Interstate)	KRS 136.183	Subject to annual adjustment.	Local tax collected and distributed by the Revenue Cabinet effective January 1, 1993.																
Unmined Coal	KRS 132.020(5)	18.7 cents (per \$100 of assessment) for 1991, 18.4 cents for 1992, 18.0 cents for 1993, 17.2 cents for 1994, 16.7 cents for 1995 and 16.3 cents for 1996.	Full local rates.																
Watercraft Commercial Individual	KRS 136.181 KRS 132.020(1)	45 cents (per \$100 of assessment). 45 cents (per \$100 of assessment).	Full local rates. Full local rates.																
Public Service Commission Assessment	KRS 278.130 et seq.	Maximum assessment 2.0 mills Minimum assessment \$50	Assessment imposed annually on utility companies under the jurisdiction of the Public Service Commission based on proportionate share of gross intrastate revenues by each company.																
Public Service Company Property Taxes	KRS 136.115 et seq.	Property of public service corporations taxed at the same rate as property owned by any individual or corporation (see rates under Property Taxes).	Ad valorem tax based on the fair cash value of the property.																
Racing Taxes: (1) License Tax	(1) KRS 137.170 et seq.	(1) Per day of races. <table border="0" style="margin-left: auto; margin-right: auto;"> <tr> <td style="text-align: center;">Average Daily Mutuel Handle (for preceding year)</td> <td style="text-align: center;">Tax Rate Per Day</td> </tr> <tr> <td style="text-align: center;">\$ 0 — \$ 25,000</td> <td style="text-align: center;">\$ 0</td> </tr> <tr> <td style="text-align: center;">25,001 — 250,000</td> <td style="text-align: center;">175</td> </tr> <tr> <td style="text-align: center;">250,001 — 450,000</td> <td style="text-align: center;">500</td> </tr> <tr> <td style="text-align: center;">450,001 — 700,000</td> <td style="text-align: center;">1,000</td> </tr> <tr> <td style="text-align: center;">700,001 — 800,000</td> <td style="text-align: center;">1,500</td> </tr> <tr> <td style="text-align: center;">800,001 — 900,000</td> <td style="text-align: center;">2,000</td> </tr> <tr> <td style="text-align: center;">900,001 and above</td> <td style="text-align: center;">2,500</td> </tr> </table>	Average Daily Mutuel Handle (for preceding year)	Tax Rate Per Day	\$ 0 — \$ 25,000	\$ 0	25,001 — 250,000	175	250,001 — 450,000	500	450,001 — 700,000	1,000	700,001 — 800,000	1,500	800,001 — 900,000	2,000	900,001 and above	2,500	(1) License tax imposed upon the operation of a track at which horse races are run under the jurisdiction of the Kentucky Racing Commission. Reported and paid within 30 days of end of each race meeting. An annual recapitulation report is due on or before December 31 each year for the race year ended November 30.
Average Daily Mutuel Handle (for preceding year)	Tax Rate Per Day																		
\$ 0 — \$ 25,000	\$ 0																		
25,001 — 250,000	175																		
250,001 — 450,000	500																		
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900,001 and above	2,500																		

TAXES ADMINISTERED BY THE REVENUE CABINET (In Effect as of June 30, 1997)

TAX	LEGAL REFERENCE	STATE RATE	DESCRIPTION
<p>Racing Taxes: (continued)</p> <p>(2) Admission Tax</p> <p>(3) Pari-Mutuel Tax</p>	<p>(2) KRS 138.480 et seq., 139.100(2)(c)</p> <p>(3) KRS 138.510 et seq.</p>	<p>(2) Tracks under jurisdiction of the Kentucky Racing Commission 15 cents/person</p> <p>(3) 3.5 percent of total wagered at all thoroughbred tracks under Kentucky Racing Commission jurisdiction with average daily handle of \$1.2 million or more; 1.5 percent if average daily handle is less than \$1.2 million.</p> <p>3.75 percent of total wagered at all standardbred tracks under Kentucky Racing Commission jurisdiction with average daily handle of \$1.2 million or more; 1.75 percent if average daily handle is less than \$1.2 million.</p> <p>3 percent of telephone account wagering and the total wagered at "receiving" tracks.</p>	<p>(2) Excise tax on each paid admission to race track. There are statutory exemptions. Reported and paid within 30 days of end of each race meeting.</p> <p>(3) Excise tax is imposed on every person, corporation or association which operates a horse race track at which betting is conducted.</p> <p>Excise tax is also imposed on receiving tracks participating in intertrack wagering on simulcast races.</p> <p>Average daily handle is computed from the amount wagered at the host track, excluding money wagered at receiving tracks and all telephone account wagering.</p> <p>A portion of the pari-mutuel tax is allocated to the following:</p> <ul style="list-style-type: none"> • Equine Drug Research • Equine Industry Program • Higher Education Equine Trust and Revolving Fund • Thoroughbred Development Fund • Standardbred, Quarterhorse, Appaloosa and Arabian Development Fund <p>Reported and paid weekly.</p>
Rural Cooperative Annual Tax	KRS 279.200, 279.530	\$10.	Annual payment by corporations (RECCs and RTCCs) formed under KRS Chapter 279 in lieu of certain taxes.
Sales and Use Tax	KRS 139.010 et seq.	<p>Sales tax 6 percent</p> <p>Use tax 6 percent</p>	<p>Sales tax is imposed on the retailer for the privilege of making retail sales of tangible personal property or taxable services within Kentucky.</p> <p>Use tax is imposed on the use, storage or other consumption in the state of tangible personal property purchased for use, storage or other consumption in this state.</p> <p>There are statutory exemptions.</p>
Waste Tire Fee	KRS 224.2613	\$1 per tire sold at retail.	<p>Applies to the retail sale of new motor vehicle tires sold in Kentucky. Does not apply to new cars brought into the state for sale or use. Sales of recapped tires are exempt from the fee.</p> <p>Retailers may apply to the Natural Resources and Environmental Protection Cabinet for exemption.</p> <p>All retailers must report volume of waste tires disposed even if exempt from fee.</p>