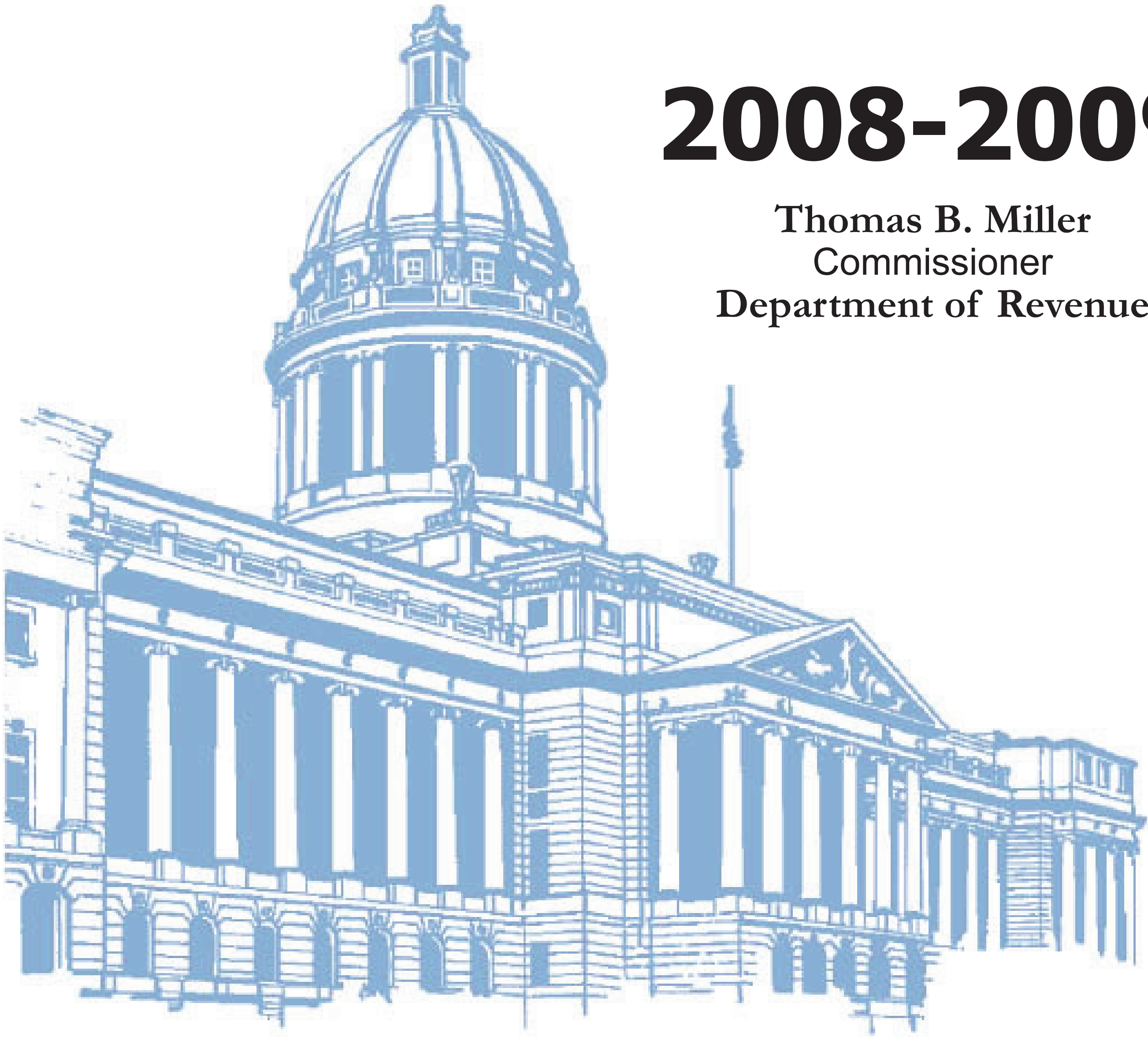
Annual Report

2008-2009

Thomas B. Miller
Commissioner
Department of Revenue



Steven L. Beshear
Governor
Commonwealth of Kentucky

Jonathan Miller
Secretary
Finance and Administration Cabinet

Kentucky
UNBRIDLED SPIRIT™

Kentucky Department of Revenue
Mission Statement

As part of the Finance and Administration Cabinet, the mission of the Kentucky Department of Revenue is to administer tax laws, collect revenue, and provide services in a fair, courteous, and efficient manner for the benefit of the commonwealth and its citizens.

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

The cost of printing this report was paid by the Kentucky Department of Revenue.

Steven L. Beshear
Governor

FINANCE AND ADMINISTRATION CABINET
DEPARTMENT OF REVENUE

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Jonathan Miller
Secretary

Thomas B. Miller
Commissioner

December 2, 2009

The Honorable Steven L. Beshear
Commonwealth of Kentucky
The State Capitol
Frankfort, Kentucky 40601

Dear Governor Beshear:

I am pleased to present the Annual Report of the Department of Revenue for fiscal year ending June 30, 2009. This report reflects the dedicated work of the many fine professionals who comprise the Department of Revenue workforce.

Approximately 64 percent of individual income tax returns were electronically filed. There were 1,178,462 electronically filed returns, an increase of 4.08 percent for the year. In addition, 220,350 2D barcode returns and 443,332 paper returns were filed resulting in a total of 1,842,144 filed returns for the 2008 tax year.

Thank you for your support of the Department of Revenue, its employees and for your confidence in our abilities.

Very truly yours,

Thomas B. Miller

Thomas B. Miller
Commissioner

Contents

Revenue Receipts

Reprinted from the Governor's Office for Economic Analysis

Quarterly Economic & Revenue Report
Fourth Quarter 2009
Fourth Quarter, FY 2009

General Fund

General Fund receipts in the fourth quarter of FY09 totaled $2.209 billion compared to $2.448 billion in the fourth quarter of FY08, a decline of 9.7 percent.

Tax law changes and weak economic conditions had an impact on collections during the fourth quarter of FY09. Tax law changes boosted tobacco and sales tax receipts while economic conditions influenced these as well as all other tax receipts.

The sales and use tax fell 3 percent in the fourth quarter of FY09 as rising unemployment and stagnant wages reduced consumers' disposable income. Offsetting this decline was the impact of HB144, enacted by the 2009 General Assembly. This legislation imposed the Kentucky sales tax on package alcohol sales, which had previously been taxed at the wholesale level but not at retail. Sales and use tax receipts were reported at $698.5 million compared to the $719.8 million collected in the fourth quarter of FY08.

Individual income tax receipts, reported at $963.6 million, were 17 percent less than what was reported in the fourth quarter of FY08. This was a decline of $197.6 million. All components of the tax (withholding, declarations, net returns and fiduciary) declined in the fourth quarter of FY09 compared to the same time last year.

Corporation income taxes posted a decline of 38.3 percent during the fourth quarter of FY09. Receipts totaled $77.1 million, $47.9 million less than collected a year earlier.

The LLET had collections of $53.1 million in the fourth quarter of the fiscal year, an increase of 11.1 percent.

The coal severance tax increased 12.7 percent in the fourth quarter on the strength of increased coal prices. Receipts of $74.7 million compare to $66.3 million collected in the fourth quarter of FY08.

Cigarette taxes increased significantly in the fourth quarter. Receipts of $82.8 million were 101.7 percent more than what was collected in the fourth quarter of FY08. Cigarette tax collections were bolstered by the provisions of HB144 which doubled the tax rate on cigarettes from 30 cents to 60 cents per pack.

Property taxes fell by 4.5 percent in the fourth quarter of FY09. Collections of $54.2 million compare to $56.8 million received in the final quarter of the prior fiscal year. Weakness in tangible property tax receipts, which were down 20.3 percent for the quarter, contributed to the decline.

Lottery receipts increased 9.0 percent, or $4.3 million, in the fourth quarter of FY09 with revenues of $52 million.

The *Other* category represents the remaining accounts in the General Fund, and combined for $153.4 million in receipts, a decline of 15.9 percent from FY08.

Seventy-seven percent of General Fund revenues were in the areas of the individual income tax and the sales tax. The next largest source of revenue was the *Other* category at 7 percent. The largest components in this category include the insurance premium tax, the inheritance tax, beer wholesale sales tax, the natural gas severance tax, investment income, abandoned property, departmental fees, and fines and forfeitures. Cigarette taxes accounted for 4 percent. The coal severance tax, property tax, corporation income tax, the LLET and lottery receipts each accounted for 3 percent or less of total General Fund receipts.

Road Fund

Road Fund receipts fell 2.1 percent in the fourth quarter of FY09 as motor vehicle usage tax receipts continued their year-long slide. On the positive side, legislation enacted by the 2009 General Assembly boosted receipts for the quarter. Receipts totaled $316.6 million compared to the $323.4 million received in the fourth quarter of FY08.

Motor fuels tax receipts increased 6.5 percent during the fourth quarter of FY09. Receipts were $150.4 million and compare to $141.2 million collected during the fourth quarter last year. Collections were aided by the enactment of HB374 that preserved the variable portion of the tax rate by freezing the statutory floor of the average wholesale price of gasoline.

Motor vehicle usage tax receipts decreased by 15.3 percent during the fourth quarter due to weak automobile sales. Receipts were $75.1 million compared to $88.7 million collected during the same period last year. Weight distance tax receipts totaled $16.9 million, a decline of 16.7 percent from the fourth quarter of last year.

Motor vehicle license tax receipts increased 31.4 percent during the fourth quarter of FY09. The large increase is due to timing issues in FY08 collections. Receipts of $38.1 million compare to $29 million received during the fourth quarter of FY08.

Investment income was down in the fourth quarter of FY09, yielding $3.3 million. The remainder of the accounts in the Road Fund combined for a decrease of 19.7 percent.

Revenue Receipts

Receipts for the *Other* category totaled $8.7 million during the fourth quarter, compared to $10.8 million in the fourth quarter of FY08.

Motor fuels taxes and motor vehicle usage taxes comprised 78 percent of Road Fund revenues in the fourth quarter.

The next-largest source of revenue was the motor vehicle license tax with 12 percent, followed by weight distance taxes with 5 percent. The *Other* category accounted for 3 percent, while investment income and motor vehicle operators each accounted for 1 percent.

Revenue Receipts

GENERAL FUND TOTAL RECEIPTS

Fiscal Year	Receipts	Percent Change
2008-09	$8,426,351,594	-2.7
2007-08	8,664,336,663	1.1
2006-07	8,573,819,250	2.4
2005-06	8,376,083,216	9.6
2004-05	7,645,046,634	9.6
2003-04	6,977,623,200	2.9
2002-03	6,783,458,295	3.4
2001-02	6,560,216,551	-1.4
2000-01	6,653,897,653	2.7
1999-00	6,478,385,032	4.5

ALCOHOLIC BEVERAGE TAXES—Distilled Spirits

Fiscal Year	Receipts	Percent Change
2008-09	$38,670,484	4.2
2007-08	37,110,587	5.0
2006-07	35,332,563	6.0
2005-06	33,518,873	8.2
2004-05	27,432,580	5.4
2003-04	26,030,680	4.7
2002-03	24,854,482	5.9
2001-02	23,477,073	1.7
2000-01	23,077,057	3.3
1999-00	22,349,780	4.3

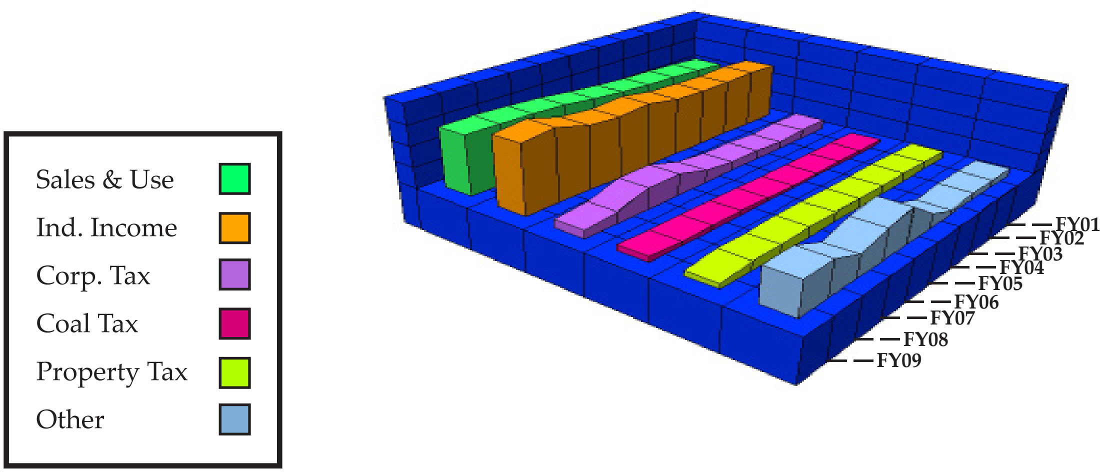
ALCOHOLIC BEVERAGE TAXES—Malt Beverage

Fiscal Year	Receipts	Percent Change
2008-09	$58,175,089	3.8
2007-08	56,066,611	5.5
2006-07	53,150,265	3.0
2005-06	51,600,592	8.6
2004-05	44,203,035	1.0
2003-04	43,760,805	3.4
2002-03	42,304,059	4.4
2001-02	40,883,326	5.2
2000-01	38,854,920	1.2
1999-00	38,385,890	4.1

ALCOHOLIC BEVERAGE TAXES—Wine

Fiscal Year	Receipts	Percent Change
2008-09	$14,748,769	2.9
2007-08	14,330,732	4.5
2006-07	13,718,442	10.0
2005-06	12,456,900	8.2
2004-05	10,115,015	8.6
2003-04	9,312,250	7.1
2002-03	8,698,754	6.3
2001-02	8,183,587	4.3
2000-01	7,846,391	2.3
1999-00	7,672,648	8.8

General Fund Receipts by Major Sources
Millions of Dollars



Revenue Receipts

CIGARETTE TAX

Fiscal Year	Receipts	Percent Change
2008-09	$186,756,010	10.1
2007-08	169,547,927	0.5
2006-07	168,778,213	-2.0
2005-06	172,069,493[1]	589.2
2004-05	24,966,880	45.7
2003-04	17,136,198	4.7
2002-03	16,367,947	17.4
2001-02	13,943,208	-0.5
2000-01	14,007,582	-1.2
1999-00	14,184,888	-3.3

[1] *Rate increase $0.27 surtax.*

CORPORATION LICENSE TAX

Fiscal Year	Receipts	Percent Change
2008-09	$9,154,338	224.4
2007-08	2,822,279	-75.9
2006-07	11,734,452	-73.0
2005-06	43,516,942	-67.6
2004-05	134,149,794	9.3
2003-04	124,096,012	8.1
2002-03	152,595,257	29.9
2001-02	117,500,770	-20.3
2000-01	147,515,402	6.0
1999-00	139,127,819	10.5

COAL SEVERANCE TAX

Fiscal Year	Receipts	Percent Change
2008-09	$292,591,094	25.6
2007-08	232,977,827	5.0
2006-07	221,952,516	-1.1
2005-06	224,490,111	21.7
2004-05	184,436,935	25.0
2003-04	147,498,230	4.1
2002-03	141,664,981	-11.5
2001-02	160,160,116	13.1
2000-01	141,553,087	-2.5
1999-00	145,139,909	-6.0

INDIVIDUAL INCOME TAX

Fiscal Year	Receipts	Percent Change
2008-09	$3,315,368,217	-4.8
2007-08	3,483,137,317	14.5
2006-07	3,041,535,604	4.2
2005-06	2,918,610,982	-3.9
2004-05	3,036,230,706	8.6
2003-04	2,796,331,049	1.8
2002-03	2,746,386,944	1.6
2001-02	2,702,510,022	-2.7
2000-01	2,778,541,444	2.8
1999-00	2,701,613,908	6.7

CORPORATION INCOME TAX

Fiscal Year	Receipts	Percent Change
2008-09	$267,984,858	-38.4
2007-08	435,222,566	-56.0
2006-07	988,064,957	-1.4
2005-06	1,001,618,543	109.3
2004-05	478,504,505	57.8
2003-04	303,262,821	9.1
2002-03	278,035,794	34.1
2001-02	207,353,777	-28.5
2000-01	289,931,017	-5.4
1999-00	306,442,050	-1.8

LIMITED LIABILITY ENTITY TAX (LLET)

Fiscal Year	Receipts	Percent Change
2008-09	$121,650,092	23.6%
2007-08	98,407,313	N/A

Revenue Receipts

INHERITANCE AND ESTATE TAX

Fiscal Year	Receipts	Percent Change
2008-09	$41,234,240	-19.2
2007-08	51,001,299	17.0
2006-07	43,578,107	-5.2
2005-06	45,990,266	-27.2
2004-05	63,174,866	-4.4
2003-04	66,083,705	-31.1
2002-03	95,864,480	15.0
2001-02	83,359,872[1]	-0.1
2000-01	83,461,499	12.0
1999-00	74,489,981	8.5

[1] *Phase out of estate tax begins.*

LOTTERY RECEIPTS

Fiscal Year	Receipts	Percent Change
2008-09	$193,500,000	3.2
2007-08	187,461,591	0.4
2006-07	186,625,113	-1.8
2005-06	190,000,000	17.8
2004-05	161,252,000	-7.2
2003-04	173,800,000	1.6
2002-03	171,000,000	1.2
2001-02	169,000,000	7.6
2000-01	157,030,000	0.5
1999-00	156,300,000	1.6

MINERALS AND NATURAL GAS TAX

Fiscal Year	Receipts	Percent Change
2008-09	$54,963,206	9.6
2007-08	50,155,157	6.3
2006-07	47,161,910	-7.0
2005-06	50,701,858	7.7
2004-05	38,801,666	7.1
2003-04	36,223,062	32.7
2002-03	27,294,398	10.7
2001-02	24,656,955	-17.9
2000-01	30,030,552	34.2
1999-00	22,369,419	18.0

OIL PRODUCTION TAX

Fiscal Year	Receipts	Percent Change
2008-09	$8,430,228	-17.4
2007-08	10,201,113	64.6
2006-07	6,198,342	-2.9
2005-06	6,386,501	35.6
2004-05	4,710,832	39.1
2003-04	3,387,884	8.7
2002-03	3,116,954	20.3
2001-02	2,590,722	-22.9
2000-01	3,358,036	13.2
1999-00	2,967,395	120.6

PARI-MUTUEL TAX

Fiscal Year	Receipts	Percent Change
2008-09	$4,387,515	-17.6
2007-08	5,327,540	-3.0
2006-07	5,489,552	-2.4
2005-06	5,626,849	19.5
2004-05	4,710,111	29.8
2003-04	3,629,292	-39.0
2002-03	5,953,247	14.9
2001-02	5,179,952	-16.2
2000-01	6,182,083	-7.0
1999-00	6,645,098	-7.4

PROPERTY TAXES—REAL ESTATE

Fiscal Year	Receipts	Percent Change
2008-09	$241,008,338	1.6
2007-08	237,153,330	3.9
2006-07	228,282,174	6.0
2005-06	215,351,439	6.5
2004-05	202,182,555	5.0
2003-04	192,534,530	3.5
2002-03	186,000,177	3.5
2001-02	179,678,050	4.8
2000-01	171,524,695	2.5
1999-00	167,326,472	3.5

Revenue Receipts

PROPERTY TAXES—TANGIBLE

Fiscal Year	Receipts	Percent Change
2008-09	$203,783,916	-1.0
2007-08	205,763,426	7.0
2006-07	192,343,695	16.1
2005-06	165,622,948	3.6
2004-05	159,883,091	7.2
2003-04	149,155,206	-0.2
2002-03	149,426,286	-1.2
2001-02	151,308,795	7.7
2000-01	140,466,295	7.3
1999-00	130,960,896	4.3

PROPERTY TAXES—INTANGIBLE

Fiscal Year	Receipts	Percent Change
2008-09	-----	-----
2007-08	-----	-----
2006-07	48,841	-99.8
2005-06	30,955,124	15.0
2004-05	26,912,813	-2.3
2003-04	27,547,183	6.4
2002-03	25,883,197	12.0
2001-02	23,113,567	2.5
2000-01	22,551,153	-0.8
1999-00	22,721,743	25.5

SALES AND USE TAX

Fiscal Year	Receipts	Percent Change
2008-09	$2,857,665,168	-0.7
2007-08	2,877,814,014	2.1
2006-07	2,817,652,253	2.5
2005-06	2,749,765,011	6.0
2004-05	2,594,966,373	6.0
2003-04	2,447,584,698	3.5
2002-03	2,364,182,478	2.8
2001-02	2,299,990,621	2.3
2000-01	2,248,471,100	3.5
1999-00	2,171,397,969	4.1

BANK FRANCHISE TAX

Fiscal Year	Receipts	Percent Change
2008-09	$73,339,144	1.9
2007-08	71,976,055	12.6
2006-07	63,912,315	7.2
2005-06	59,603,147	-6.6
2004-05	63,837,587	15.1
2003-04	55,467,195	3.2
2002-03	53,747,906	6.3
2001-02	50,549,168	1.9
2000-01	49,610,220	-6.5
1999-00	53,061,789	12.8

ROAD FUND TOTAL RECEIPTS

Fiscal Year	Receipts	Percent Change
2008-09	$1,191,982,894	-5.6
2007-08	1,262,798,750	3.0
2006-07	1,225,943,515	5.2
2005-06	1,165,409,505	3.4
2004-05	1,126,554,402	0.9
2003-04	1,116,734,272	-0.6
2002-03	1,123,103,133	0.4
2001-02	1,119,005,317	5.2
2000-01	1,064,181,565	-2.4
1999-00	1,090,777,822	3.2

MOTOR FUELS TAXES—Motor Fuels Normal

Fiscal Year	Receipts	Percent Change
2008-09	$585,871,307[1, 2]	2.4
2007-08	571,983,920[1, 2]	6.1
2006-07	539,147,756[1, 2]	7.3
2005-06	502,494,550[1, 2]	7.0
2004-05	469,621,779[1, 2]	6.4
2003-04	441,382,996	0.6
2002-03	438,564,438	2.0
2001-02	429,812,296	5.1
2000-01	408,801,115	-3.6
1999-00	423,876,351	-0.9

[1] *Figures reflect annual rate increase capped at 10% of average wholesale prices.*
[2] *Reflects correction in reporting method.*

Revenue Receipts

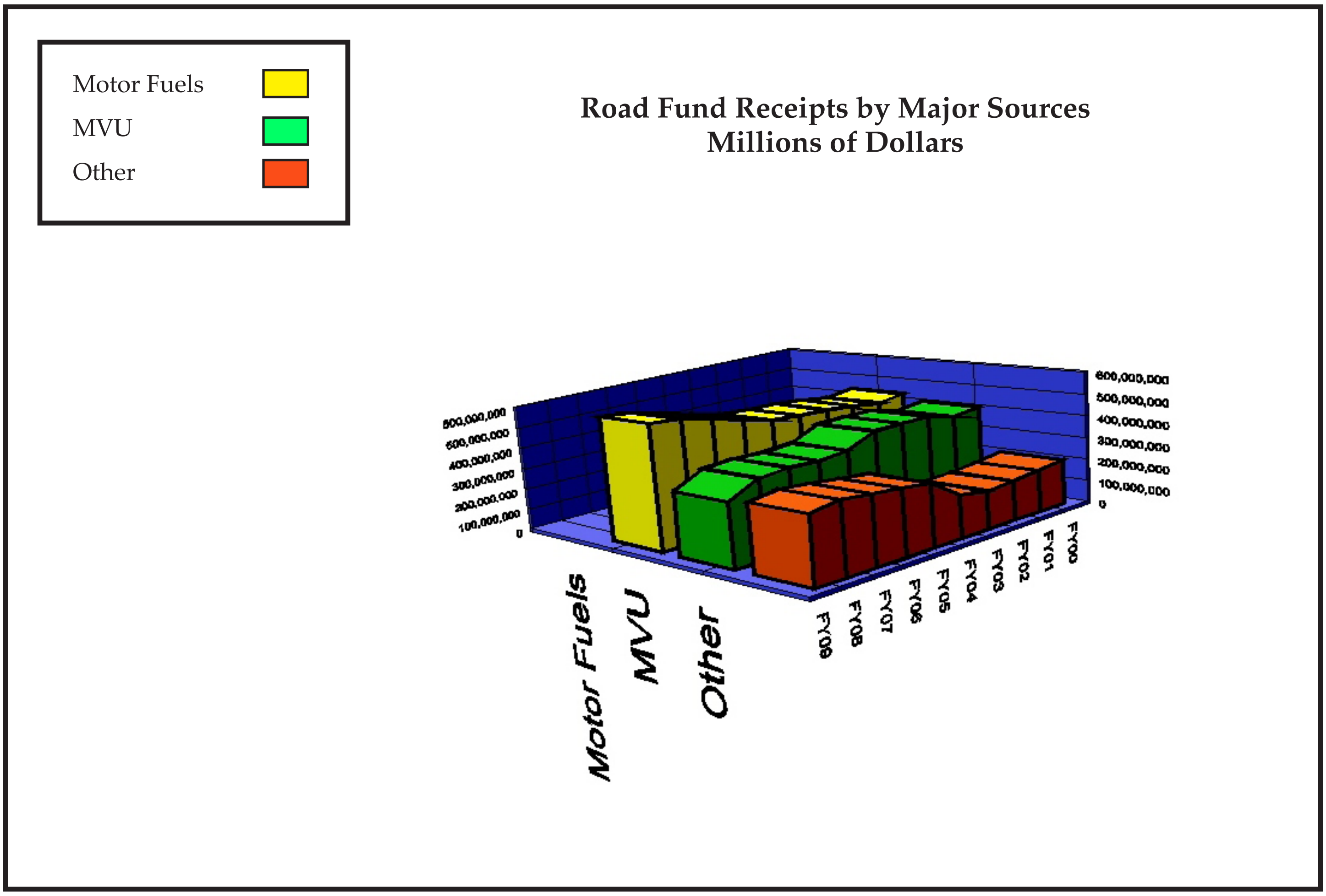
MOTOR VEHICLE OPERATOR'S LICENSE FEE

Fiscal Year	Receipts	Percent Change
2008-09	$15,521,191	1.0
2007-08	15,372,618	-2.8
2006-07	15,811,880	8.6
2005-06	14,553,623	146.7
2004-05	5,899,247	4.9
2003-04	5,623,874	0.2
2002-03	5,610,829	0.8
2001-02	5,564,009	-0.5
2000-01	5,592,769	-1.7
1999-00	5,689,329	5.3

MOTOR VEHICLE USAGE TAX

Fiscal Year	Receipts	Percent Change
2008-09	$296,062,866[1]	-18.2
2007-08	361,723,956[1]	-2.5
2006-07	370,943,429[1]	1.9
2005-06	363,976,577[1]	-2.4
2004-05	373,034,898[1]	-4.6
2003-04	390,976,367	0.5
2002-03	388,959,153	2.0
2001-02	381,398,176	10.5
2000-01	345,120,799	-4.0
1999-00	359,437,723	8.5

[1] *Reflects correction in reporting method.*



Accomplishments

MAJOR ACCOMPLISHMENTS IN FISCAL YEAR 2008-2009

Office of Sales and Excise Taxes

Taxpayer Service

- The Division of Sales and Use Tax staff: Answered 75,724 phone calls and 7,821 e-mails relating to sales and use tax inquiries.
- Participated in training at the county clerks' annual conference.
- Made 12 distributions of the telecommunications tax totaling $36,407,934 to over 1,300 local political subdivisions.
- Verified and transferred $16,260,205 to the Kentucky Horse Racing Authority from the sales tax on equine breeding fees.
- Transferred $8,072,136 to the Road Fund from motor vehicle supplementary schedules.
- Collected $2,623,538 in clerk's use tax transfers, including compliance of affidavits forwarded by the clerks.
- Verified and issued 17 refunds totaling $2,687,459 in response to requests relating to completed Kentucky Enterprise Initiative Act (KEIA) projects.
- Verified and issued ten approved tourism project refunds totaling $5,968,025.
- The Division of Miscellaneous Tax: Administered the utility gross receipts license (UGRL) tax and distributed $212,129,374 to 158 local school districts throughout the Commonwealth.

Technological Advances

- Division of Sales and Use Tax staff has been involved in mapping sales and use tax activities and meetings with third party computer contractors and COT staff to prepare for Comprehensive Tax System (CTS) new integrated tax system.

Use of Electronic Filing Increases

- Received and processed 75,597 electronically filed sales and use tax returns, approximately a 24 percent increase over FY08.

Compliance Initiatives

- Participation in the Streamlined Sales and Use Tax Agreement (SSUTA) continues to yield benefits. For fiscal year end June 2009, there were 485 newly registered SST filers who remitted $6,309,001 to Kentucky. The total paid by all SST filers for the fiscal year was $12,024,282.
- The Division of Sales and Use Tax prepared and mailed four newsletters during the year, the *Kentucky Sales Tax Facts*, with sales and use tax returns. Information included legislative updates, updates on business-specific issues, and filing tips. The newsletters are also archived on the DOR Web site for future reference.
- The Division of Miscellaneous Taxes successfully implemented tobacco tax rate increases that became effective April 1, 2009 with the enactment of House Bill 144. In particular, the inventory floor tax with installment payment dates of April 10, May 10 and June 10 was administered in a timely fashion.

Office of Income Taxation

- Responded to 1,386 Live Chat conversations and 7,671 Webmaster inquiries from individuals requesting individual income tax assistance.
- Completed the implementation of electronic capture of all filed 2007 corporation income tax returns for the purpose of compliance and taxpayer assistance programs.
- Completed the review of 4,684 requests for letters of good standing submitted by entities needing reinstatement with the Secretary of State.
- Continued the partnership with the University of Kentucky and the IRS in presenting up-to-date income tax information for Kentucky tax practitioners, CPAs, attorneys, insurance adjusters, realtors and other interested parties.
- Continued to participate in the University of Louisville's Louis A. Grief Tax Institute by presenting up-to-date income tax information to tax practitioners, CPAs, attorneys and other interested parties.
- Received 136,172 telephone inquiries for individual income tax and 55,232 telephone inquiries for withholding tax for a total of 191,404 telephone inquiries received by the Division of Individual Income Tax. The Division of Corporation Tax received 22,333 telephone inquiries.

Accomplishments

- o Due to technological advances in electronic processing and data capture of corporate return information the Office of Income Taxation billed $34.7 million in compliance initiatives. The comparable amount from FY 2007-2008 was $12.2 million.

Division of Registration and Data Integrity

- o Answered 33,812 telephone calls relating to registration inquiries.
- o Completed 30,736 Kentucky tax registration applications and 6,185 additional correspondence requests from the taxpayers.
- o Reviewed approximately 47,000 possible noncompliant taxpayer cases, contacted over 26,500 new businesses for registration, and $84,582,854 in revenues were attributed to compliance efforts.

Office of Property Valuation

Local Valuation Branch

- o With the passage of House Bill 262 by the 2009 General Assembly, delinquent property tax bill transfers became more streamlined. Beginning in 2010, the annual sheriff's sale will be eliminated and delinquent bills will go to the county clerk's office being offered for sale to interested parties. Consumer protections were added for owners of property whose delinquent property tax bills were bought by third-party purchasers. These protections included better guidelines for contacting the bill's purchasers, and better explanations of notices sent by purchasers to property owners.

State Valuation Branch

- o Locally assessed tangible personal property assessments for calendar 2008 totaled $56.8 billion. These assessments yielded an estimated $82.5 million in state and local taxes.
- o Omitted personal property tax assessments totaled $7.86 billion and approximately $34.5 million in state and local property taxes were collected on these omitted assessments.
- o Combined state and local motor vehicle property tax collections for FY09 were $108.6 million and 202.4 million, respectively.
- o Public Service company assessments for 2008 were set at $29.2 billion and are expected to yield approximately $59.6 million in state and local property tax revenues.

Minerals Taxation and GIS Services Branch

Cartography/GIS Section

The Cartography/GIS Section helps counties that do not have GIS software. Update their parcel file with new changes made on their paper maps. Print new maps for the office and store digital parcel files on our server for future use. Print PVA Maps for sale from scans, print PVA Maps from digital parcel files, and print large posters for all of the Dept. of Revenue as needed. Map sales for PVA Office maps generates approximately $10,000 to $16,000 yearly, of which 80 percent received is returned to the county PVAs. The section also assists PVA offices with data sales when needed and all monies go to the PVA office. Total maps sale receipts for tax year 2008 were $13,015.

Minerals Severance Section

Severance tax receipts for FY09 totaled $356,538,531. One half of these receipts are distributed back to counties with mining activity.

Coal:	$290,780,750
Gas:	43,996,113
Oil:	8,614,150
Minerals:	13,147,518

The coal severance tax has been selected as the first tax type to be integrated into the new Comprehensive Tax System (CTS).

Minerals Resource Valuation Branch

Total unmined minerals 2009 tax receipts (2008 tax year):

Total:	$37,627,626
Gas:	$17,701,471
Oil:	2,685,667
Limestone:	426,056
Clay:	6,839
Coal:	16,807,593

Division of Collections

- o During the last two fiscal years ending June 30, 2009 the Division of Collections collected a total of $352,137,807; compared to a total of $326,375,740 for the preceding two fiscal years.
- o The Division of Collections continues to collect child support for the Cabinet for Health and Family Services. For the last two fiscal years ending June 30, 2009 a total of $35,219,078 was collected; compared to a total of $18,677,803 for the preceding two fiscal years.

- o The Division of Collections continues to collect debts on behalf of other state and local government agencies under the authority of KRS 45.237(4) and KRS 45.241(6). For FY09 a total of $2,566,320 was collected through this program.

- o The Division of Collections continues to use the data match process whereby financial institutions are required to match lists of their account holders to lists of DOR debtors and provide the matched account information to DOR for possible levy sources. This authority is granted under KRS 131.676. For FY09, a total of $6,500,313 has been collected through this process. To date, 741 agreements have been signed with financial institutions.

Division of Operations

Approximately 64 percent of individual income tax returns were electronically filed. There were 1,178,462 electronically filed returns, an increase of 4.08 percent for the year.

Total requested direct deposits were 568,833. This equals approximately 62.2 percent of the refunds requested on electronically filed returns (914,918).

In addition, 220,350 2D barcode returns and 443,332 paper returns, for a total of 1,842,144 returns, were filed for FY09.

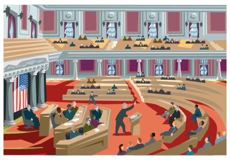
The Division of Operations also processed over 41,000 prior year and amended individual income tax returns during FY09.

2009 General Assembly

Kentucky Legislation

A Review of Tax Law Changes

Enacted by the 2009 General Assembly



NOTE: This 2009 legislative summary presents only general information concerning tax provisions enacted by the General Assembly during the 2009 Regular Session and does not represent a complete analysis of the law changes. The 2009 Regular Session did not result in any major tax changes, but tax changes were made and most of the changes will be effective during 2009. Full text of the enacted bills is available on the legislative home page at *www.lrc.ky.gov*.

The 2009 General Assembly created, amended or repealed numerous statutes. A total of 734 bills were introduced, and 101 bills became law; an enactment rate of 13.76 percent. Twelve bills had tax implications, with some affecting all taxpayers. This review summarizes the tax portion of each bill and its impact on taxes or programs administered by the Department of Revenue (DOR).

GENERAL INFORMATION

Office of Ombudsman *(Effective July 1, 2009)*—KRS 131.020 is amended to abolish the Office of Taxpayer Ombudsman. However, taxpayer services will continue to be provided by the Ombudsman through the Office of the Commissioner.

Tax Interest Rate Calculation *(Effective July 1, 2009)* — House Bill 704 enacted by the 2008 General Assembly is repealed and re-enacted in the 2009 General Assembly by the passage of House Bill 216, effective March 24, 2009. This legislation contains the same provisions and effective dates that were contained within HB 704. ***(HB 216)***

PROPERTY TAX

City Collecting Property Taxes *(Effective July 1, 2009)*— KRS 132.0225 is amended to allow a city that does not elect to have its property taxes collected by the sheriff to be exempt from establishing a tax rate within 45 days of the department's certification of the county's property tax roll; KRS 132.285 is amended to require the Property Valuation Administrator (PVA) to provide copies of recapitulations of property assessments to a city when a city uses the county assessments for its tax collection; and KRS 133.040 is amended to require the PVA to provide copies of property recapitulations to the chief executive officers of charter counties, unified local governments, consolidated local governments and mayors or cities. ***(HB 186)***

Watercraft Property Taxes (Effective July 1, 2009)—KRS 136.1803 is amended to require that on or before May 15 each year, each corporation operating watercraft within this state during the previous calendar year shall file on forms prescribed by the department, a detailed description of all watercraft it operated as of January 1 of the current year. ***(HB 202)***

Property Taxes *(Effective March 17, 2009 and July 1, 2009)*—KRS 134.010 is amended to create a "certificate of delinquency" and a "personal property certificate of delinquency," which means a real property claim or personal property tax claim, respectively, that: (i) remains unpaid on April 15 under the regular collection schedule, or three months and 15 days from the date the taxes were due under an alternative collection schedule; and (ii) has been filed with the county clerk. Also, KRS Chapter 134 is revised by amending sections and creating new sections to: (a) transfer the sale of certificates of delinquency from the sheriff's office to the county clerk's office; (b) establish a temporary procedure to address issues with the sale of certificates of delinquency for 2009; (c) establish procedures for third–party purchasers to register with the DOR and with county clerks prior to participating in the sale of certificates of delinquency; (d) establish notification requirements for third–party purchasers when they inform the delinquent taxpayers that their delinquent tax bill has been purchased; (e) clarify procedures relating to the payment of certificates of delinquency held by third–party purchasers when third–party purchasers cannot be located; and (f) clarify collection and reporting processes and procedures for sheriffs. ***(HB 262)***

Motor Vehicles Property Tax *(Effective July 1, 2009)*— KRS 132.485 is amended to provide that when a motor vehicle is purchased in one year, but registration takes place after January 1 of the following year through no fault of the owner, the department shall assess the motor vehicle and shall send a notice of the assessment to the January 1 owner in accordance with KRS 186A.035. If the month of registration has passed for the current year, the assessment shall be due and payable 45 days from the date of the notice. Payments made after the due date shall carry the normal penalty and interest for motor vehicles. ***(HB 340)***

SALES AND USE TAX

Packaged Liquors *(Effective April 1, 2009)*—Repeals KRS 139.470(23) to eliminate the sales tax exemption for the sale of packaged distilled spirits, wine and malt beverages not consumed on the premises licensed for their sale per KRS 243. Effective April 1, 2009, the sale of packaged liquor, including beer, wine and distilled spirits, is subject to the 6 percent Kentucky sales and use tax. Deductions previously taken for sales of beer, alcoholic beverages, or packaged liquor are no longer allowable beginning with the filing of the April 2009 sales and use tax return. The statutory change does not affect receipts from the sale of alcohol by the drink, which remains subject to the 6 percent sales and use tax. ***(HB 144)***

Charitable Auctions *(Effective July 1, 2009)*—Amends KRS 139.010 to provide that the church, school, civic club or other resident, nonprofit charitable, religious or educational organization sponsoring an auction shall be the retailer for purposes of the sales made at a charitable auction and not the person making the sales if: (a) the organization, not the person making the sales at the auction, is sponsoring the auctions; (b) the purchaser of tangible personal property at the auction directly pays the organization sponsoring the auction for the property and not the person making the sales at the auction; and (c) the sponsoring organization, not the person making the sales at the auction, is responsible for the collection, control and disbursement of the auction proceeds. ***(HB 216)***

Streamlined Sales Tax Agreement *(Effective July 1, 2009)*—Amends KRS Chapter 139 to incorporate changes and definitions that need to be made to maintain conformity with the national Streamlined Sales and Use Tax Agreement (SSUTA). The two basic components of the bill are: 1) the creation of an exemption for durable medical equipment (DME) including hospital beds purchased by private individuals with a prescription; and 2) the adoption of digital product definitions to preserve the treatment of digital equivalents previously considered as electronically delivered tangible personal property.

Kentucky has taxed digital equivalents under the category of tangible personal property since July 1, 2004. The newly adopted category of digital property includes digital audio works, digital books, finished artwork, digital photographs, periodicals, newspapers, magazines, video greeting cards, audio greeting cards, video games, electronic games, and digital code related to this property. As of July 1, 2009 the retail sale of digital property accessed or obtained (transferred electronically) by the purchaser is subject to the 6 percent sales and use tax. ***(HB 347)***

Vendor's Compensation *(Effective June 25, 2009)* —Amends KRS 139.570 with a retroactive clause to affirm and ensure that the $1,500 cap for sales tax vendor compensation applies retroactively to past periods (July 1, 2003–June 30, 2004 and July 1, 2005–June 30, 2008) previously covered under budget bill provisions.

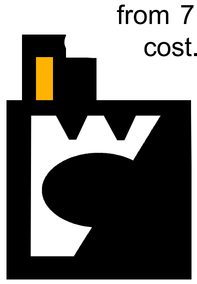
This preserves the vendor compensation cap that began July 1, 2003 and was codified by HB 538 during the 2008 session. ***(HB 429)***

TOBACCO PRODUCT TAXES

MSA Retail Compliance *(Effective July 1, 2009)* —Requires the confiscation of non-approved, Nonparticipating Manufacturers (NPM) cigarette brands at retail 60 days after being removed from the approved directory list. Stamping agents and distributors must notify retail customers of removal notices within seven days of receipt and provide the DOR with the list of retail customers to whom the removal notices were sent.

This measure also prohibits stamping agents and distributors from buying cigarettes from an NPM the day after the Attorney General posts a notice in the directory of the intent to remove. ***(SB 48)***

Tobacco Tax Modifications *(Effective April 1, 2009)* —Increases the cigarette tax to a total of $0.60 per pack of 20 cigarettes. Other tobacco products (OTP) tax is increased from 7.5 percent to 15 percent of the wholesale cost. The tax on a unit of snuff is increased from $0.095 to $0.19.

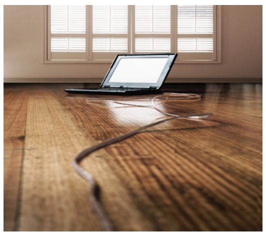


This legislative change also establishes an inventory floor stock tax to properly address all affected products held for sale at the time of the rate increases. All cigarette licensees and retailers were to take a physical inventory as of March 31, 2009 at 11:59 p.m. and then file and pay the inventory floor stock tax. The installment due dates for the inventory floor tax are April 10, May 10 and June 10 of this year. ***(HB 144)***

Taxpayers requiring assistance with tobacco-related questions may contact the Excise Tax Section at 502-546-6823 or by e-mail at *DOR.WEBResponseExciseTax@ky.gov.*

TELECOMMUNICATIONS and UTILITY GROSS RECEIPTS LICENSE TAXES (UGRLT)

Internet Protocol Television (IPT) *(Effective July 1, 2009)*—Amends the applicable sections of KRS Chapter 136 and 160 to clarify that "multi-channel video programming service" includes IPT with resulting taxability for both telecommunications excise and gross revenues taxes and the UGRLT.

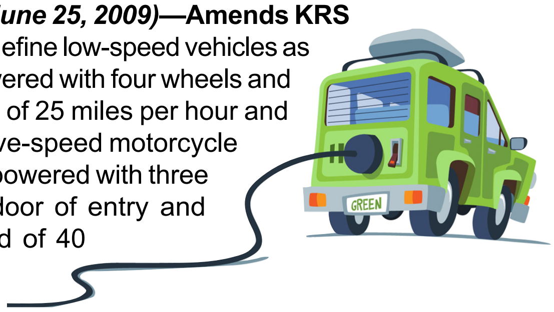


This measure preserves the base of the Telecommunications and Utility Gross Receipts License Taxes by ensuring the tax treatment for IPT is consistent with how comparable services such as cable and direct broadcast satellite services are treated. ***(HB 236)***

ROAD FUND TAXES

Average Wholesale Price Motor Fuels *(Effective April 1, 2009)*—Sets in statute the currently calculated average wholesale price (AWP) of $1.786 per gallon as the minimum floor in the calculation of the motor fuels tax rates for the quarter beginning April 1, 2009 forward. ***(HB 374)***

Low–Speed–Electric Vehicles, Motor Vehicle Usage Tax *(Effective June 25, 2009)*—Amends KRS 186.010 to define low-speed vehicles as electric-powered with four wheels and a top speed of 25 miles per hour and an alternative-speed motorcycle as electric-powered with three wheels, a door of entry and a top speed of 40 miles per hour.



Requires low–speed–electric vehicles that are used on the public highways to be registered and licensed as motor vehicles. ***(HB 21)***

Titling of All–Terrain Vehicles (ATV) *(Effective July 1, 2010)*—Amends KRS 186A.070 to require any state resident who purchases a new all–terrain vehicle or creates a security interest in an all–terrain vehicle after July 1, 2010 to apply for a certificate of title through the local county clerk. The bill maintains the existing prohibition against the operation of an all–terrain vehicle on the roadway, except as provided by KRS 189.515. ***(HB 53)***

RETRACTION

It was reported in the May 2008 Tax Alert, the tax credit for construction of an ENERGY STAR home or sale of an ENERGY STAR manufactured home effective for taxable years beginning after December 31, 2008 could be used to offset the tax imposed by KRS 141.020. However, last minute changes in the Legislation were made after press time repealing the credit allowance to individuals. This nonrefundable credit can be used only to offset the taxes imposed by KRS 141.040 and KRS 141.0401.

Legal Issues

Office of Legal Services for Revenue (OLS)

OLS performs a wide range of other services and functions, which include: rendering advice and written legal opinions to DOR personnel and other government personnel and officials, as well as taxpayers; reviewing and drafting proposed statutes and regulations; interpreting and analyzing the Commonwealth's tax laws and assisting with their implementation and administration; assisting with the preparation of DOR informational publications; providing advice and assistance on open records and disclosure matters; and providing assistance and advice in connection with audits, protest conferences, and other stages of the enforcement and administration of the tax laws. OLS is not responsible for personnel, bankruptcy, collection and criminal matters, which are handled elsewhere in DOR or the Finance and Administration Cabinet.

Office of Legal Services for Revenue
Legal Developments and Court Decisions

OLS represents DOR in all cases and appeals other than personnel, bankruptcy, collection and criminal cases. In fulfilling this role, the Division's attorneys appear on behalf of DOR before the Kentucky Board of Tax Appeals (KBTA) and Board of Claims and at all levels of the state and federal court systems. This representation of DOR embraces the handling of all phases of the litigation process, including discovery, trials, oral argument, motion practice, briefing, hearings and appeals.

During this past year, OLS again handled a number of cases having significant fiscal impact or precedential value. These cases presented a wide range of issues and involved a number of the taxes administered by DOR. OLS continues to experience an increase in both the complexity of the issues and amounts of money at stake in the cases it handles.

The cases handled by the OLS address issues or have resulted in precedents of significant importance and interest to taxpayers and the Commonwealth. Some of these cases are summarized below.

Directv, Inc. v. Treesh, 2007-SC-00714-DG, Kentucky Supreme Court

In this case, providers of direct satellite broadcast (DBS) and wireless cable service "DBS providers" challenged the imposition of the school utility gross receipts license tax upon them. The Franklin Circuit Court ruled that this taxation, pursuant to KRS 160.614, was preempted by §602(a) of the federal Telecommunications Act of 1996. This federal law exempts DBS providers from fees or taxes imposed by local taxing jurisdictions.

In an opinion rendered on Sept. 7, 2007, the Court of Appeals reversed the circuit court's judgment and held that the tax was not preempted by the federal law. The Court held that Kentucky's law fell within the preservation of state authority set forth in §602(c) of the Telecommunications Act, which provides that a tax imposed and collected by a state and distributed to local jurisdictions was not preempted.

The DBS providers' motion for discretionary review of the Court of Appeals' opinion was granted by the Kentucky Supreme Court. The parties submitted briefs and oral argument was held on Dec. 10, 2008.

On June 25, 2009, the Supreme Court rendered an opinion reversing the Court of Appeals. The Court held that the school tax was a local tax and not a state one. Accordingly, it ruled that this tax was preempted by §602(a) of the Telecommunications Act of 1996 and thus unconstitutional under the United States Constitution's Supremacy Clause (Art. VI, cl. 2).

John Bradford Freeman, Jessamine County Property Valuation Administrator v. St. Andrew Orthodox Church, Inc., 2007-SC-00640-DG, Kentucky Supreme Court

At issue in this case was whether two houses on five-acre tracts owned by a church and rented to private tenants were exempt from ad valorem taxation under Ky. Const. §170 as real property owned and occupied by a religious institution. The KBTA found that the real property in question was not occupied by the church in question, rejecting the church's arguments that its occasional uses of the property (including the storage of personal property in one of the houses) and its annual picnic on the property, all with the tenants' permission or acquiescence, constituted the necessary occupancy. The Jessamine Circuit Court agreed with the KBTA as to the houses and their curtilages, but not as to the balance of the property.

In an opinion rendered on Aug. 10, 2007, the Court of Appeals held that both properties were exempt in their entirety. The Court reasoned that as "there was no evidence that [the church] intended to use the property for investment purposes or to construct anything other than a church," the property should have been granted the exemption.

The motion for discretionary review of the Court of Appeals' opinion filed by OLS was granted by the Kentucky Supreme Court. Briefs were filed by the parties and oral argument held on Feb. 12, 2009.

On May 21, 2009, the Supreme Court rendered an opinion that reversed the Court of Appeals in part and affirmed it in part and reinstated the circuit court's decision. The

Court agreed with the position advocated by OLS that real property must, in fact, be both owned and occupied by a religious institution to be exempt from taxation. It rejected the position expressed in an Attorney General (OAG 91-216), relied upon by the church in this case, that the exemption could apply to property owned by a church, but intended for *future occupation*. The Court further expressed concern that the exemption not be granted "to property owned by the church and rented as commercial real estate, including shopping centers and other commercial enterprises" or that the exemption be construed to "allow churches to compete in commercial land speculation."

With respect to the houses and their curtilages, the Court found them to be "occupied by tenants who pay rent to the church" and thus were not exempt. The Court ruled that the remaining property was exempt because it had been subjected to some use by the church. The Court found that while the church's use of the property was not regular or continuous, it nevertheless used the property "like a park, although not on either a daily or weekly basis," and "with the same frequency as many, if not most, churches use outdoor land that adjoins their main sanctuaries."

The Supreme Court's opinion is not final. The church's petition for rehearing or modification of the opinion is pending.

Miller v. Johnson Controls, Inc., 2006-SC-416-DG and 2007-SC-819-DG, Kentucky Supreme Court

At issue in this corporation income tax case is the constitutionality of a 2000 amendment to KRS 141.200 (House Bill 541), which provided that:

> [n]o claim for refund of a tax overpayment for any taxable year ending on or before Dec. 31, 1995, made by an amended return or any other method after Dec. 22, 1994, and based on a change from any initially filed separate return or returns to a combined return under the unitary business concept or to a consolidated return, shall be effective or recognized for any purpose.

KRS 141.200(9). A similar provision was contained in KRS 141.200(10). (These statutory provisions were later recodified at KRS 141.010(16) and (17)). The taxpayers challenging these provisions in this case had filed amended corporation income tax returns after Dec. 22, 1994, seeking refunds under the unitary business concept based upon the Kentucky Supreme Court's decision in *GTE and Subsidiaries v. Revenue Cabinet*, 889 S.W.2d 788 (Ky. 1994).

The Court of Appeals rejected the taxpayers' contentions that the statutory provisions in question amounted to special legislation in violation of Ky. Const. §59; contravened the separation of powers sections of the Kentucky Constitution (§§27 and 28); and denied the taxpayers the equal protection of the laws under the Kentucky and United States Constitutions. The Court did agree with the taxpayers that "the period of retroactivity contained in HB 541 is so lengthy as to constitute a due process violation in violation of the United States Constitution's Fourteenth Amendment."

The Supreme Court granted both DOR's motion for discretionary review of the Court of Appeals' opinion and the taxpayers' cross motion for discretionary review of that opinion. Briefs have been filed and oral argument heard on Dec. 12, 2008.

Monumental Life Insurance Co. v. Department of Revenue 2008-SC-000739-D Kentucky Supreme Court

In this case, the taxpayer was a domestic life insurance company subject to ad valorem taxation under KRS 136.320 by the Commonwealth of Kentucky, Jefferson County and the City of Louisville. The tax suffered from a similar constitutional infirmity addressed in *St. Ledger v. Revenue Cabinet,* 912 S.W.2d 34 (Ky. 1995), *vacated and remanded,* 517 U.S. 1206, *on remand,* 942 S.W.2d 893 (Ky. 1997), *cert. dism'd,* 521 U.S. 1146 (1997). Specifically, shares of stock owned by the taxpayer were included in its taxable capital under KRS 136.320 and its shares of stock in corporations paying at ad valorem taxes on at least 75 percent of their property were then exempted under the statutory computation, as permitted under KRS 136.030, the statute held unconstitutional in *St. Ledger.*

Finding that the principle upheld in *St. Ledger* also applied to KRS 136.320, DOR allowed the taxpayer a refund of $1,470,357. The taxpayer disagreed with DOR's action; it argued that its refund should instead be $8,107,668 based upon its theory that its shares of stock should be excluded from taxable capital altogether.

DOR also determined that the taxpayer had improperly failed to report as taxable under KRS 136.320 an account entitled *separate accounts*, the taxpayer argued that the assets consisted primarily of pension and retirement assets held in the taxpayer's name for future payout to retirees. This determination resulted in an increase in the taxpayer's liability for 1998 from $48,672 to $3,061,280 and in assessments totaling $2,895,878 for the tax years 1995 through 1998.

The KBTA upheld DOR's assessments and its denial of the taxpayer's refund claims. The Franklin Circuit Court affirmed the KBTA's decision.

In an opinion rendered on June 27, 2008, the Court of Appeals affirmed the circuit court's ruling. The Court rejected the taxpayer's reading of St. Ledger as declaring all stock nontaxable and requiring the exclusion theory it advocated. The Court found this to be "an excessively extravagant extension of *St. Ledger*." The Court held that DOR's calculation of the refunds legitimately due the taxpayer was correct. The taxpayer's method of computing the refunds resulted in a "manifestly illogical result."

The Court of Appeals also agreed that the separate accounts were properly subjected to taxation. These accounts constituted taxable capital owned by the taxpayer for which no exemption was provided by statute. The accounts were properly assessed as omitted property because the taxpayer failed to disclose in its filings those accounts' taxable nature. The Court further rejected a variety of arguments based upon the doctrine of contemporaneous construction, accord and satisfaction, ERISA and unlawful discrimination under Ky. Const. §171, because of their lack of merit or the taxpayer's failure to preserve them for appellate review.

Finally, the Court rejected the taxpayer's claim that interest on the assessments should be abated under KRS 131.081(8) of the Kentucky Taxpayers' Bill of Rights. The taxpayer could not point to any written advice from DOR that it relied upon in failing to report its separate accounts.

The Court of Appeals' June 27, 2008 opinion is not yet final. The taxpayer has filed a motion for discretionary review with the Kentucky Supreme Court.

Curtsinger v. Department of Revenue, 2007-SC-00875-D, Kentucky Supreme Court

At issue in this case was a Franklin Circuit Court judgment ordering refunds of state ad valorem taxes paid on motor vehicles for the tax years 1995 through 2002, where the vehicles in question were purchased in December but not registered until after the ensuing January 1 assessment date. The refunds were based upon an earlier decision by the Kentucky Supreme Court, *Revenue Cabinet v. O'Daniel,* 153 S.W.3d 815 (Ky. 2005). The circuit court had certified this case as a class action and the plaintiffs in this case had sought refunds in excess of $7,700,000 in state and local taxes, plus interest, for a class of more than 26,000 persons. The circuit court's judgment declined to order refunds of local refunds and to require the payment of interest on the state tax refunds it did order. The circuit court also did not order the refunds requested by the plaintiffs for the 2003 tax year. The court ruled that legislation enacted in 2002 (2002 Ky. acts, ch. 316 (HB 812)) governed that tax year and rendered the actions taken valid by DOR with respect to that year.

The Court of Appeals' Oct. 26, 2007 opinion in this case did not reach all of the issues raised by the parties on appeal. Instead, it focused upon the refund statute, KRS 134.590, and agreed with DOR that any taxpayer seeking a refund based upon *O'Daniel* must have applied to DOR for a refund within two years of payment and exhausted their administrative remedies. The Court accordingly reversed the circuit court's judgment and remanded the case to the circuit court for factual findings as to whether these requirements were met.

The plaintiffs' motion for discretionary review of the Court of Appeals' opinion was denied on Aug. 13, 2008.

Department of Revenue v. Rohm and Haas Company, 2009–SC–00142, Kentucky Supreme Court

At issue in this case is the sales and use tax energy exemption provided for in KRS 139.480(3). Under this exemption, a taxpayer's purchases of energy or energy-producing fuels used in the course of manufacturing, processing, mining, or refining and any related distribution, transmission and transportation services are exempt from tax to the extent that the cost of this energy or fuels bill to the user exceed 3 percent of the cost of production. The cost of production is to be computed on the basis of plant facilities which shall mean all permanent structures affixed to real property at one location.

The taxpayer in this case produced three types of items at its plant. One item––distilled methyl methacrylate or MMA––was used in the production of the other two. The taxpayer did not include in its cost of production of the other two items the cost of its acquisition and distillation of the crude MMA. This, in turn, increased the taxpayer's energy exemption. DOR challenged the taxpayer's refund claims based upon this increase.

The taxpayer contended that the production of the distilled MMA was separate and distinct from its production of the other two items at its plant and relied upon the Supreme Court's prior decision of *Revenue Cabinet v. James B. Beam Distilling Co.,* 798 S.W.2d 134 (Ky. 1990). The Court of Appeals agreed with the taxpayer in an opinion rendered on Feb. 6, 2009. It found that the production of the other two items was not dependent upon the distilled MMA produced by the taxpayer because that material could be purchased from third parties. Therefore, the cost of the acquisition and distillation of the MMA did not have to be included by the taxpayer in the cost of production of the other two items.

DOR has filed a motion for discretionary review of the Court of Appeals' opinion with the Kentucky Supreme Court.

Legal Issues

Department of Revenue v. Hyden Citizens Bank, 2006-CA-001824-MR, Kentucky Court of Appeals

House Bill 380, a budget bill enacted by the 2006 General Assembly, contained a provision creating a permanent section of the KRS requiring DOR to modernize its collection procedures by electronically collecting delinquent taxes from taxpayers having funds in banks. The plaintiffs in this case, Hyden Citizens Bank and others, filed suit asserting that these provisions of HB 380 were unconstitutional under the same subject requirement of Ky. Const. §51.

The 2007 General Assembly later enacted HB 443, "a stand-alone bill" that "mimic[ed]" the provisions of HB 380 challenged in this case. The Court of Appeals in an opinion rendered on May 8, 2009, held that the plaintiffs' suit was therefore no longer "a present, ongoing controversy" and thus was moot. The Court accordingly dismissed the plaintiffs' appeal from the circuit court judgment below and reversed and remanded that judgment with instructions to dismiss the case as moot.

This decision is now final.

Department of Revenue

Expenditures for FY2009 - All Funds

(Excluding PVAs)

Expenditure Category	General Fund	Road Fund	Agency Fund	Tobacco Settlement Fund	Total
Regular Salaries & Wages	29,493,098.41	1,740,259.60	2,162,839.48		33,396,197.49
Other Salaries & Wages	420,225.69				420,225.69
Employer FICA	2,173,188.68	123,569.84	125,039.04		2,421,797.56
Employer Retirement	3,031,700.31	170,552.93	176,985.14		3,379,238.38
Health Insurance	4,162,385.57	244,592.10	279,521.72		4,686,499.39
Life Insurance	14,828.41	900.95	887.88		16,617.24
Subtotal Salaries & Fringe	*39,295,427.07*	*2,279,875.42*	*2,745,273.26*	-	*44,320,575.75*
Worker's Compensation	141,686.00				141,686.00
Other Personnel Costs	392,914.16		2,098.15		395,012.31
Auditing Services			182,300.00		182,300.00
Other Professional Services Contracts	3,789,999.81	-			3,789,999.81
Total Personnel Costs	**43,620,027.04**	**2,279,875.42**	**2,929,671.41**	**-**	**48,829,573.87**
Utilities & Heating Fuels	901,605.07				901,605.07
Facilities and Support Services Charges	1,986,948.46				1,986,948.46
Other Rentals	976,455.39		47,034.53		1,023,489.92
Maintenance and Repairs	1,299,069.00		5,338.34		1,304,407.34
Postage & Related Services	3,839,969.52		(57,977.98)		3,781,991.54
Miscellaneous Services	1,346,525.58		49,133.22	275,000.00	1,670,658.80
Telecommunications	78,823.46		177,622.24		256,445.70
Computer Services	11,382,949.50	44,100.58	197,756.93		11,624,807.01
Supplies	245,325.09	-	38,896.67		284,221.76
Commodities	255,788.90	-	669,949.25		925,738.15
Travel	500,801.37	1,024.00	65,938.63		567,764.00
Miscellaneous Commodities	160,026.02	-	262,713.13		422,739.15
Total Operating Expenses	**22,974,287.36**	**45,124.58**	**1,456,404.96**	**275,000.00**	**24,750,816.90**
Furniture			294,285.00		294,285.00
Server Hardware			7,225.00		7,225.00
Motor Vehicles			47,124.00		47,124.00
Total Capital Outlay	**-**	**-**	**348,634.00**	**-**	**348,634.00**
Total Expenditures	**66,594,314.40**	**2,325,000.00**	**4,734,710.37**	**275,000.00**	**73,929,024.77**

DOR Administration

DOR Offices, Divisions and Their Duties

Office of Processing & Enforcement

The Office of Processing and Enforcement is responsible for promoting the enterprise services available to the Commonwealth related to document processing, depositing of funds and collecting debt. Additionally, the office is responsible for coordinating, planning and implementing a data integrity strategy. The office consists of the following three divisions:

The **Division of Operations** is responsible for opening all incoming tax returns, preparing the returns for data capture, coordinating the data capture process, depositing receipts and maintaining the tax data. Additionally, the division assists other agencies with similar operational aspects as negotiated with that agency.

The **Division of Collections** is responsible for enforced collection activities related to tax and other debts owed to the Commonwealth. The division also collects delinquent child support referred by the Cabinet for Families and Children.

The **Division of Registration and Data Integrity** is responsible for registering taxpayers and ensuring that the data entered into the tax systems is accurate and complete. The Registration Branch processes all business tax applications and assists registrants as needed. This branch also ensures that all taxpayers, who may have overlooked their tax registration obligations, are contacted and brought into compliance. The Program Improvement Branch is responsible for maintaining data integrity for DOR processes and prepares requested reports and statistics for both DOR personnel, cabinet personnel and any legislative inquiries. Both branches assist the taxing areas in proper procedures to make sure that data remains accurate over time.

The Office of Property Valuation

The Office of Property Valuation supervises and assists Kentucky's 120 property valuation administrators in the valuation of real and personal property throughout the Commonwealth, values the property of public service companies, values unmined coal and other mineral resources, values motor vehicles and supervises the collection of delinquent taxes. It consists of three branches:

1. **Local Valuation,** which oversees the real property tax assessment and collection process throughout the state in each county's property valuation administrator's and sheriff's office;

2. **State Valuation,** which administers all state–assessed taxes, including public service property tax, motor vehicle property tax and the tangible and intangible tax program; and

3. **Minerals Taxation and GIS Services,** which administers the severance tax and unmined minerals property tax programs and coordinates the department's geographical information system (GIS).

Office of Sales and Excise Taxes

The Office of Sales and Excise Taxes is responsible for administering all matters related to sales and use tax and the miscellaneous excise taxes. This includes technical tax research, compliance, taxpayer assistance, tax specific training, public announcements, publications, forms and any other matter related to those taxes. It includes the Division of Sales and Use Tax, Division of Miscellaneous Taxes and the office of the executive director.

- The **Division of Sales and Use Tax** is responsible for administering the sales and use tax and telecommunications excise and gross revenue taxes. It has two branches: Program Compliance and Taxpayer Assistance. The branches are responsible for conducting office audits, administering various exemption and refund incentive programs, initiating compliance activities, assisting taxpayers, verifying and preparing refunds and discovery of nonfiler populations.

- The **Division of Miscellaneous Taxes** is responsible for administering the following taxes: affordable housing trust fund fee; alcoholic beverage taxes; cigarette enforcement fee; cigarette papers tax, license, excise tax and surtax; other tobacco products and snuff taxes; gasoline tax; liquefied petroleum gas; special fuels taxes; petroleum storage tank environmental assurance fee; health care provider tax; inheritance and estate tax; insurance premiums and insurance surcharge taxes; bank franchise tax; legal process; marijuana and controlled substance; motor vehicle tire fee; motor vehicle usage taxes; loaner-rental program; PSC annual assessment; pari-mutuel excise, racing license and admissions taxes; RECC and RTCC; transient room tax; and utility gross receipts license tax. It consists of two branches: Road Fund Branch and Miscellaneous Tax Branch.

Office of Income Taxation

The Office of Income Taxation was established pursuant to KRS 131.020(1)(g). The Office is responsible for administering all matters related to the individual income, withholding, corporation income, corporation license and limited liability entity taxes. Those responsibilities include but are not limited to: technical tax research, compliance, taxpayer assistance, tax specific training, public announcements, publications, creating and updating forms, analyzing legislation and drafting legislation and regulations. The Office is comprised of the Division of Individual Income Tax, the Division of Corporation Income Tax and the office of the executive director.

- The **Division of Individual Income Tax** is comprised of the individual income tax branch, withholding tax branch, and the director's office. The division has the primary responsibility of providing taxpayer assistance for individual income and individual income withholding taxes, including handling taxpayer inquiries received over the phone, by written correspondence, via e-mail and via live chat. The Division is also responsible for compliance programs for individual income and individual withholding taxes and assisting the Office of Processing and Enforcement in the processing of returns.

- The **Division of Corporation Tax** is responsible for the administration of corporation income and license taxes, limited liability entity tax, pass-through entity withholding, economic development income tax credits and other types of income tax incentives. The Division is divided into two branches: the Corporate Income and License Tax Branch and the Pass-through Entity Branch. The two branches perform the same basic functions for taxpayer assistance and compliance but for different types of corporation and pass-through entity tax returns.

Office of Field Operations

The Office of Field Operations is responsible for managing the regional taxpayer service centers and field audit program.

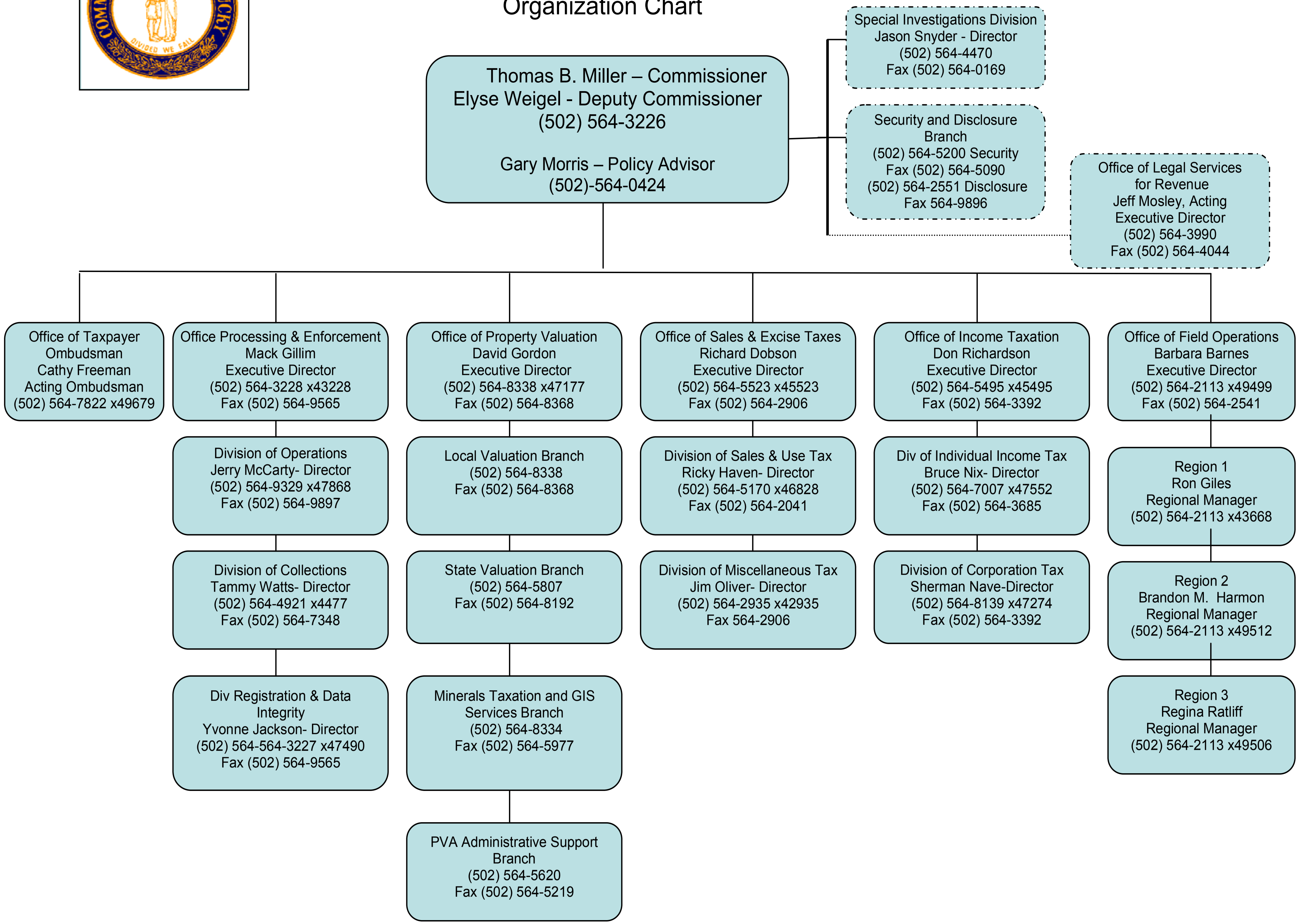
The **Audit Support and Training Branch** is responsible for supporting the work of DOR field auditors and compliance officers throughout the Commonwealth, including the support related to computer-assisted audits, audit selection and training.

The 10 regional offices are geographically divided among three regional managers to oversee the field operations of the Commonwealth. Region 1 consists of Ashland, Northern Kentucky and Pikeville Taxpayer Service Centers. Region 2 consists of Louisville, Corbin and Bowling Green Taxpayer Service Centers and the Audit Selection Section. Region 3 consists of Hopkinsville, Central Kentucky, Owensboro and Paducah Taxpayer Service Centers.

PVA Offices (Accounting)

This office provides budget, fiscal, personnel and payroll administration for PVAs in all 120 counties and more than 680 deputies throughout the Commonwealth. It also coordinates open enrollment for health and life insurance and directs property tax educational KY-Courses. It conducts workshops during summer and fall PVA conferences and meetings.

FINANCE & ADMINISTRATION CABINET
KENTUCKY DEPARTMENT OF REVENUE
Organization Chart



Taxes Administered

Affordable Housing Trust Fund Fee (KRS 64.012) ***(Effective Aug. 1, 2006)*****—**Collected by agreement between DOR and the Kentucky Housing Corporation, $6 of each $12 fee imposed on the recording with the county clerk of a 1) Deed of trust or assignment for the benefit of creditors; 2) Deed; 3) Real estate mortgage; 4) Deed of assignment; 5) Real estate option; 6) Power of attorney; 7) Revocation of power of attorney; 8) Lease which is recordable by law; 9) Deed of release of a mortgage or lien under KRS 382.360; 10) United States lien; 11) Release of a United States lien; 12) Release of any recorded encumbrance other than state liens; 13) Lis pendens notice concerning proceedings in bankruptcy; 14) Lis pendens notice; 15) Mechanic's and artisan's lien under KRS Changer 376; 16) Assumed name; 17) Notice of lien issued by the IRS; 18) Notice of lien discharge issued by the IRS; 19) Original, assignment, amendment, or continuation financing statement; 20) Making a record for the establishment of a city, recording the plan or plat thereof, and all other service incident; 21) Survey of a city, or any part thereof, or any addition to or extensions of the boundary of a city; 22) Recording with statutory authority for which no specific fee is set, except a military discharge; and 23) Filing with statutory authority for which no specific fee is set shall be paid to the affordable housing trust fund established in KRS 198A.710 and shall be remitted by the county clerk.

Agricultural Products

- In Hands of Producer or Agent **(KRS 132.020(1)(e), 132.200(6))—**1.5 cents (per $100 of assessment). State rate only.
- Tobacco Not at Manufacturer's Plant (Storage)–**(KRS 132.020(1)(d), 132.200(6))—**1.5 cents (per $100 of assessment). Also subject to county and city rates.
- Other Agricultural Products Not at Manufacturer's Plant (Storage) **(KRS 132.020(1)(e), 132.200(6))—**1.5 cents (per $100 of assessment). Also subject to county and city rates.

Aircraft

- Not used in the Business of Transporting Person or Property for Compensation or Hire **(KRS 132.020(1)(p), 132.200(18))—**1.5 cents (per $100 of assessment). Local option.
- For Hire Nonpublic Service Company **(KRS 132.020(1)(r))—**45 cents (per $100 of assessment). Subject to full local rates.
- Public Service Company Aircraft **(KRS 136.120, KRS 136.180(3))—**Subject to annual adjustment. Multiplier applied to local rates and subject to annual adjustment.

Alcoholic Beverage Wholesale Sales Tax (KRS 243.884)—11 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 136.500 et seq.)—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 users 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 up to 300,000 barrels per annum.

Cigarette Enforcement and Administration Fee (KRS 365.390)—0.001 cent per pack (rate subject to change annually). Fee paid by cigarette wholesalers to provide for the expenses of the DOR in administering the cigarette tax law.

Cigarette Excise 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. The unclassified acquirer pays the tax by purchasing and affixing stamps within 24 hours of receipt of the cigarettes. A nonresident wholesaler must affix the tax stamps prior to importing them into Kentucky.

Cigarette Inventory Floor Stocks Tax (KRS 138.143)—$0.30 per 20 cigarettes. A one-time surtax on cigarette inventory on hand at 11:59 p.m. on March 31, 2009.

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 DOR for any dealer or handler depending upon the diversity of his business and the number of established places of business.

Cigarette Paper Tax (KRS 138.140(6)*(Effective June 1, 2006)*—$0.25 per 32 sheets of cigarette papers or proportionally for units other than 32 sheets. This tax is paid by the wholesaler.

Cigarette Surtax (KRS 138.140)—$0.57 per 20 cigarettes, proportioned for other quantities. A surtax on cigarettes paid concurrently with the cigarette excise tax at the time of stamp purchases. A portion is allocated to cancer research.

Coal Severance 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. Partial exemptions from the tax may apply to newly permitted production from thin seam.

Corporation Tax (KRS 141.010 et seq., 155.170)—For tax years beginning on or after Jan. 1, 2005 and before Jan. 1, 2007, corporation means a C corporation, S corporation, Limited Liability Company (LLC), Professional Limited Liability Partnership (PLLP), Limited Partnership (LP), Limited Liability Partnership (LLP), Real Estate Investment Trust (REIT), Regulated Investment Company (RIC), Real Estate Mortgage Investment Conduit (REMIC), Finance Asset Securitization Investment Trust (FASIT), or similar entities created with limited liability for the partners, members or shareholders. Corporation tax is the greater of the tax computed based on net income; alternative minimum calculation (AMC); or $175. Corporation income tax rates: first $50,000 of net income—4 percent; next $50,000—5 percent; and all over $100,000—7 percent. The AMC is the lesser of $0.095 per $100 of a corporation's Kentucky gross receipts, or $0.75 per $100 of a corporation's Kentucky gross profits. For tax years beginning on or after Jan. 1, 2006, if gross receipts or gross profits from all sources are $3 million or less, no AMC is due. Also, marginal AMC tax relief is provided if gross receipts or gross profits from all sources are in excess of $3 million, but less than $6 million. For taxable years ending on or after Dec. 31, 1995, and before Dec. 31, 2005, KRS 141.200 allows an affiliated group to elect to file a consolidated Kentucky income tax return with the election binding for 96-consecutive calendar months. KRS 141.200 prohibits affiliated groups from filing a combined Kentucky corporation income tax return using the unitary business concept.

For tax years beginning on or after Jan. 1, 2005, an affiliated group of corporations must file a nexus consolidated return as provided by KRS 141.200.

For tax years beginning on or after Jan. 1, 2007 all pass-through entities will be treated the same for Kentucky income tax purposes as they are treated for federal income tax purposes, except for differences between Kentucky law and federal law. The AMC was repealed and a new limited liability entity tax (LLET) is imposed on every corporation and limited liability pass-through entity doing business in Kentucky. "Corporation means "corporation" as defined in Section 7701(a)(3) of the Internal Revenue Code.

The LLET is the greater of $175 or the lesser of $0.095 per $100 of a corporation's or pass-through entity's Kentucky gross receipts, or $0.75 per $100 of a corporation's or pass-through entity's Kentucky gross profits.

For tax years beginning on or after Jan. 1, 2007, if gross receipts or gross profits from all sources are $3 million or less, a $175 minimum payment is due. Also, marginal LLET tax relief is provided if gross receipts or gross profits from all sources are in excess of $3 million, but less than $6 million.

An individual that is a partner, member or shareholder of a limited liability pass-through entity is allowed an LLET credit against the income imposed by KRS 141.020 equal to the individual's proportionate share of LLET computed on the gross receipts or gross profits of the limited liability pass-through entity as provided by KRS 141.0401(2), after the LLET is reduced by the minimum tax of $175 and by any other credits for which the limited liability pass-through entity may be allowed.

The credit allowed a corporation or individual that is a partner, member or shareholder in a limited liability pass-through entity shall be applied only to the income tax assessed on the corporation's or individual's proportionate share of distributive income from the limited liability pass-through entity as provided by KRS 141.0401(3)(a) and KRS 141.0401(3)(b), respectively. Any remaining credit shall be disallowed and shall not be carried forward to the next year.

A corporation that is a partner or member of a limited liability pass-through entity is allowed a LLET credit against the income tax imposed by KRS 141.040 equal to the LLET computed on its gross receipts or gross profits as provided by KRS 141.0401(2)(c), after the LLET is reduced by the minimum tax of $175 and by any other credits for which the corporation may be allowed. Corporation income tax rates: first $50,000 of net income—4 percent; next $50,000—5 percent; and all over $100,000—6 percent.

Distilled Spirits (KRS 132.020(1)(n), 132.097, 132.099, 132.180 and 132.200(4))—Except for inventories qualifying for goods in transit to an out-of-state destination within six months and certain products in course of manufacture, subject to 5 cents (per $100 of assessment) state rate and full local rates.

Distilled Spirits and Wine Consumer Taxes (KRS 243.720 et seq.)—Distilled spirits containing over 6 percent alcohol by volume: per gallon—$1.92; per liter—0.5069; distilled spirits containing 6 percent or less alcohol by volume: per gallon—$0.25; per liter—0.0660; wine—per gallon—$0.50; per liter—0.1320.

(Proportionate amount charged on smaller quantities, but not less than 4 cents on any retail container of wine.)

Excise tax imposed upon the use, sale or distribution by sale or gift of distilled spirits and wine. There are statutory exemptions.

Distilled Spirits Case Sales Tax (KRS 243.710)—5 cents per case. Excise tax on distilled spirits sold by wholesalers to retailers in Kentucky.

Farm Machinery Used in Farming (KRS 132.020(1)(f))— .1 cent (per $100 of assessment). State rate only.

Goods Held for Sale in the Regular Course of Business (KRS 132.020(1)(n))—5 cents (per $100 of assessment). Subject to local rates.

Health Care Provider Tax (KRS 142.301 to 142.359) (*Effective July 1, 2006*)—2.5 percent of gross receipts for hospital services **for facilities not in operation during FY06. For facilities in operation during FY06, the monthly tax is one-twelfth of the total paid during FY06;** 2 percent of gross receipts for home health agency services; 5.5 percent of gross receipts for Medicaid managed care services, ICF/MR services, and support for community living services; $1.50-$10.60 per nonMedicare patient bed day for nursing facilities services.

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; next $67,000—5.8 percent. In excess of $75,000—6 percent.

Graduated tax upon an individual's taxable 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 trust not distributed or distributable to beneficiaries.

Tax base is the federal adjusted gross income adjusted for differences in Kentucky and federal laws, including U.S. government bond interest, limited pension/retirement income exclusion, Social Security benefits and Railroad Retirement Board benefits and deductions for long-term care and health insurance premiums. Taxable income is computed by using the standard deduction or Kentucky itemized deductions. Tax credits include personal credits of $20, child and dependent care, family size and various business credits. Standard deduction: 2008—$2,100 and 2009—$2,190.

Inheritance and Estate Taxes (KRS 140.010 et seq.)—

Inheritance tax— 4–16 percent; The Kentucky inheritance tax is a tax on the right to receive property upon the death of another person. The rate of tax and the exemptions allowed depend on the legal relationship of the beneficiary to the decedent. If the date of death is after June 30, 1998, the following list of beneficiaries are exempt from paying inheritance tax: (1) Surviving spouse, parent; (2) Child (adult or infant)—child by blood, stepchild, child adopted during infancy, or a child adopted during adulthood who was reared by the decedent during infancy; (3) Grandchild—issue of child by blood, stepchild, child adopted during infancy, or of a child adopted during adulthood who was reared by decedent during infancy; (4) Brother, sister (whole or half).

Estate tax— Beginning in 2005, the state death tax credit was replaced by a deduction for state death taxes paid until the repeal of the federal estate tax in 2010. Therefore, the Kentucky estate tax is effectively repealed for the estates of decedents who die after Dec. 31, 2004.

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 136.320, 136.330 to 136.390, 299.530, 304.3-270, 304.4-030, 304.11-050, 304.49220)—All domestic and foreign life companies 1.5 percent tax rate. Annuities are exempt from tax. All other insurance companies 2 percent tax rate. Fire insurance*—0.75 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.

Leasehold Interest (KRS 132.020(1)(b), 132.200(2))—Privately owned leasehold interest in industrial buildings. 1.5 cents (per $100 of assessment). State rate only.

Livestock and Poultry (KRS 132.020(1)(g))—.1 cent (per $100 of assessment). State rate only.

Taxes Administered

Legal Process Taxes (KRS 142.010 et seq.)*(Effective Jan. 1, 2007)*—Conveyances of real property (deeds) - $4; mortgages, financial statements and security agreements - $4; marriage licenses*- $4.50; powers of attorney to convey real or personal property - $4; lien or conveyance of coal, oil, gas or other mineral right or privilege - $4. Taxes imposed on the filing of an instrument subject to tax or the issuance of a marriage license. Collected by county clerk.

* A $10 Spouse Abuse Shelter Fund fee levied on marriage licenses by KRS 209.160 is, by agreement between the DOR and the Cabinet for Health and Family Services, also reported and paid to the DOR by county clerks as part of the monthly report of legal process taxes due.

Loaner-Rental Tax (KRS 138.460 & KRS 138.4605)—Loaner-Rental tax is paid by a dealer who is regularly engaged in the servicing or repair of motor vehicles and loans or rents a motor vehicle to a retail customer while the customer's motor vehicle is at the dealership for repair or service. Dealers must make application to be in the program. Upon acceptance into the program, the dealer will be required to file a monthly return and remit $25 per vehicle for as long as the vehicle is used as a Loaner-Rental. A vehicle log must be maintained by the dealer; loan/rental dates, mileage in and out, customer names and description of repairs completed for the customer.

Manufacturing Machinery (KRS 132.020(1)(i), 132.200(4))—15 cents (per $100 of assessment). State rate only.

Marijuana and Controlled Substance Tax (KRS 138.870 et seq.)—$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.

Commonwealth's or county attorneys who obtain a conviction of, or guilty or Alford plea from an offender must notify the DOR if the product that was the subject of the conviction or plea does not bear the tax stamp.

Motor Fuels Tax—Gasoline (KRS 138.210 et seq.)—9 percent of average wholesale price of gasoline, but not less than 12.1 cents per gallon. Rate is determined quarterly. A 5 cent per gallon Supplemental Highway User Motor Fuel Tax also applies. It is an excise tax paid by licensed dealers on all gasoline received in this state. There are statutory provisions for tax credits and 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 Environmental and Public 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 taxable gasoline and special fuel reported 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 Tire Fee (KRS 224.50-868)—$1 per tire sold at retail. 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.

Motor Vehicle Usage Tax (KRS 138.450 et seq.)—6 percent of the consideration given or retail value as defined in KRS 138.450. Value is dependent on the type of transaction. 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 DOR. U-Drive-It usage tax payments are made directly to the Transportation Cabinet on a monthly basis.

Other Tobacco Products Tax (KRS 138.140(4))*(Effective April 1, 2009)*—15 percent of the gross receipts from the wholesale sale of other tobacco products.

Pollution Control Facilities (KRS 132.020(1)(k), 132.200(8)—15 cents (per $100 of assessment). State rate only.

Public Service Commission Assessment (KRS 278.130 et seq.)—1.603 mills (subject to change annually up to 2 mills). Maximum assessment—2 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 Warehouses—Goods held for sale except goods in transit. **(KRS 132.020(1)(n))—**5 cents (per $100 of assessment). Subject to local rates.

Goods in Transit to an out-of-state destination within six months. **(KRS 132.097, 132.099)**

Exempt from state, county, school and city tax. Special taxing districts only may levy a rate.

Racing Taxes

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

Race Track License Tax (KRS 137.170 et seq.)—License tax imposed upon the operation of a track at which horse races are run under the jurisdiction of the Kentucky Horse Racing Authority. 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.

Admission Tax (KRS 138.480 et seq., 139.100(2)(c))— Tracks under jurisdiction of the Kentucky Horse Racing Authority (KHRA)—15 cents/person. 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. Race track admission tax is in lieu of sales tax.

Pari-Mutuel Tax (KRS 138.510 et seq.)—3.5 percent of total wagered at all thoroughbred tracks under KHRA jurisdiction with average daily handle of $1.2 million or more; 1.5 percent if average daily handle is less than $1.2 million.

3.75 percent of total wagered at all standardbred tracks under KHRA jurisdiction with average daily handle of $1.2 million or more; 1.75 percent if average daily handle is less than $1.2 million.

3 percent of telephone account wagering and the total wagered at receiving tracks.

Excise tax is imposed on every person, corporation or association that operates a horse race track at which betting is conducted.

Excise tax is also imposed on receiving tracks participating in intertrack wagering on simulcast races.

Average daily handle is computed from the amount wagered at the host track, excluding money wagered at receiving tracks and all telephone account wagering.

A portion of the pari-mutuel tax is allocated to the following:

- Equine Drug Research;
- Equine Industry Program;
- Higher Education Equine Trust and Revolving Fund;
- Thoroughbred Development Fund; and
- Standardbred, Quarterhorse, Appaloosa and Arabian Development Fund.

Reported and paid weekly.

Radio, Television and Telephonic Equipment (KRS 132.020(1)(j), 132.200(5))—15 cents (per $100 of assessment). State rate only.

Railroads–Interstate (KRS 136.120, 136.180(4))—Subject to annual adjustment. Multiplier applied to local rates and subject to annual adjustment.

Raw Materials and Products in Course of Manufacture (KRS 132.020(1)(n), 132.200(4)—5 cents (per $100 of assessment). State rate only.

Real Estate Not elsewhere Specified (KRS 132.020(1)(a))—Adjusted annually (by July 1) per KRS 132.020(4). The state real estate rate was 13.3 cents (per $100 assessment) for 2003, 13.1 cents for 2004 and 2005, 12.8 cents for 2006 and 12.4 cents for 2007. Full local rates.

Recreational Vehicles (KRS 132.485(1)(b), 132.730. 132.751)—Classification depends on permanency of location. 45 cents (per $100 of assessment). Full local rates.

Recycling Machinery (KRS 132.020(1)(r), 132.200(15))— 45 cents (per $100 of assessment). State rate only.

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 Taxes (KRS 139.010 et seq.)—Sales tax—6 percent; Use tax—6 percent. Sales tax is imposed on the retailer for the privilege of making retail sales of tangible personal property or taxable services within Kentucky. (KRS 139.200)

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. (KRS 139.310)

Vendor's compensation is allowed up to $1,500 per timely filed and paid return. Deduct 1.75 percent of the first $1,000 and 1 percent of the amount in excess of $1,000.

There are statutory exemptions.

Snuff Tax—(KRS 138.140(5))—Effective April 1, 2009, $0.19 per unit of snuff sold. A unit is defined as a hard container containing no more than 1 1/2 ounce of snuff. This tax is paid by the wholesaler.

Tangible Property Not Elsewhere Specified (KRS 132.020(1)(r))—45 cents (per $100 of assessment). Full local rates.

Telecommunications Tax (KRS 136.600–136.600)—The telecommunications excise and gross revenues tax became effective Jan. 1, 2006. The telecommunications excise tax is imposed at the rate of 3 percent on the retail purchase of multi-channel video programming services. The telecommunications gross revenues tax is imposed at the rate of 2.4 percent of gross revenues received for the provision of multi-channel video programming services and at the rate of 1.3 percent of gross revenues received for the provision of communications services. The rates and tax computations are reported on one return that is due by the 20th day of the month following the end of the reporting period.

Vendor's compensation is allowed up to $1,500 per timely filed and paid return for the excise tax portion of the telecommunications tax return. Deduct 1.75 percent of the first $1,000 and 1 percent of the amount in excess of $1,000.

Transient Room Tax (KRS 142.400 et seq.)—1 percent of rent. A tax on every occupancy of any suite, room, rooms or cabins charged by all persons, companies, corporations, groups or organizations doing business as motor courts, motels, hotels, inns, tourist camps or like or similar accommodations businesses. The receipts from this tax are used for the tourism, meeting and convention marketing fund.

Trucks and Tractors-Interstate (KRS 136.188, 132.487, 132.760)—Subject to annual ad valorem fee as of Jan. 1, 2007. Fee subject to annual adjustment. State and local fees are collected by Department of Transportation and distributed by DOR. Buses and nonapportioned Kentucky registered vehicles are subject to KRS 132.487. Semi-trailers of interstate motor carriers are exempt.

Unmined Coal, etc. same as for real estate.

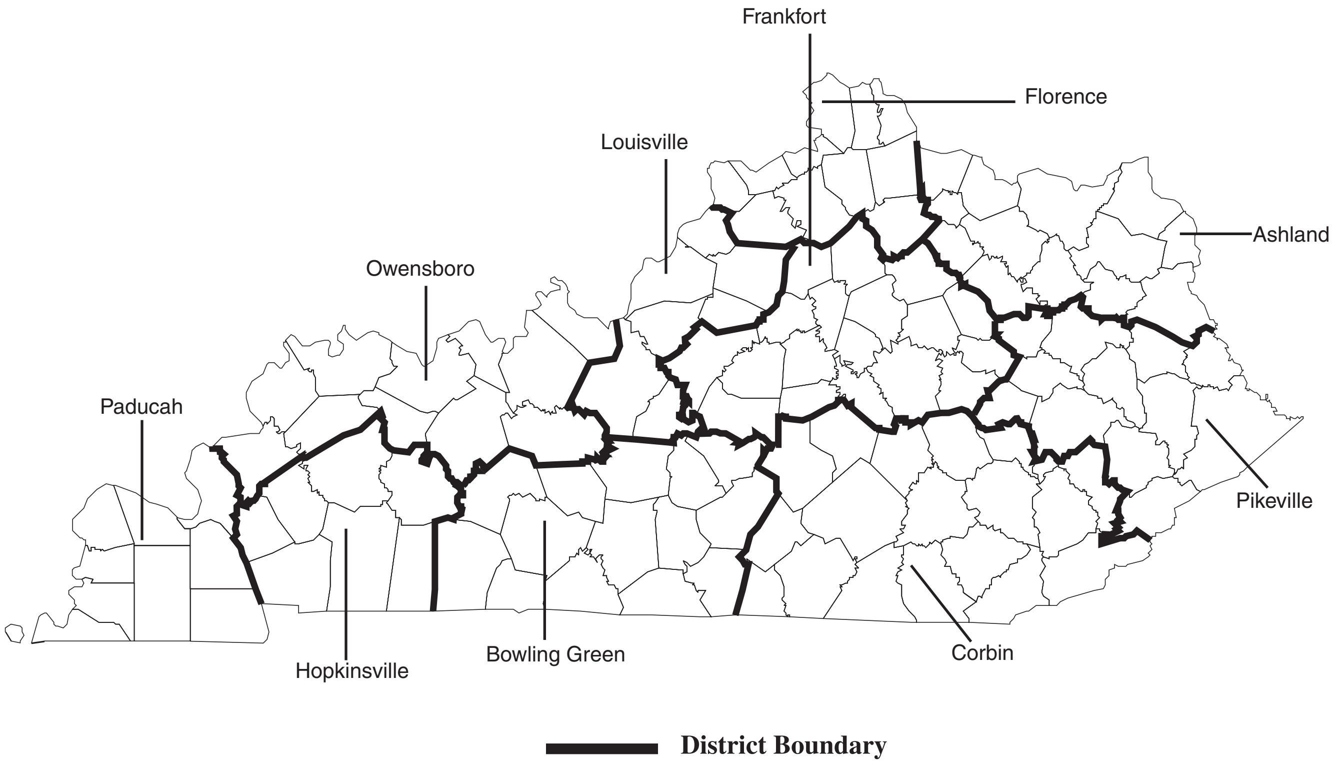
Unmined Coal, Oil and Gas Reserves and Other Mineral or Energy Resources Held Separately from Surface Real Property (KRS 132.820)—Adjusted annually (by July 1) per KRS 132.020(8). The state real estate rate was 12.4 cents for 2007, 12.8 cents for 2006, 13.1 cents for 2005, 13.1 cents for 2004 (per $100 assessments). Full local rates.

Utility Gross Receipts License Tax—(KRS 160.613, 160.6131, 160.614, 160.6145, 160.615, 160.6151, 160.6152, 160.6153, 160.6154, 160.6155, 160.6156, 160.6157, 160.6158, 160.617)—The rate is determined by each school district, but cannot exceed 3 percent. Utility gross receipts license tax for schools is assessed on gross receipts derived from the furnishing of utility services and/or cable and direct broadcast satellite services within a school district. The service provider collects the tax based on the rate established by the local authority. The service provider or Energy Direct Pay holder submits payment to the DOR with a breakdown of the tax collected by school district. The DOR captures the district information and the corresponding tax collections and distributes the amount to the appropriate school district.

Watercraft

- Commercial **(KRS 138.1801–136.1806)—**45 cents (per $100 of assessment). Full local rates.
- Individual **(KRS 132.020(1)(r), 132.488)—**45 cents (per $100 of assessment). Full local rates.
- Federally Documented **(KRS 132.020(1)(q), 132.200(19))—**1.5 cents (per $100 of assessment). Local option.

KENTUCKY TAXPAYER SERVICE CENTERS



Ashland, 41101-7670
134 Sixteenth Street
Telephone: (606) 920-2037
Fax: (606) 920-2039

Bowling Green, 42104-3278
201 West Professional Park Court
Telephone: (270) 746-7470
Fax: (270) 746-7847

Central Kentucky
501 High Street, Tenth Floor
Frankfort, 40620
Fax: (502) 564-8946

Corbin, 40701-6188
15100 North US25E
Suite 2
Telephone: (606) 528-3322
Fax: (606) 523-1972

Frankfort, 40620
501 High Street, Sixth Floor
Taxpayer Assistance Branch
Telephone: (502) 564-4581
Fax: (502) 564-3685

Hopkinsville, 42240-7926
181 Hammond Drive
Telephone: (270) 889-6521
Fax: (270) 889-6563

Louisville, 40202-2310
600 West Cedar Street
2nd Floor WEST
Telephone: (502) 595-4512
Fax: (502) 595-4205

Northern Kentucky
Turfway Ridge Office Park
7310 Turfway Rd., Suite 190
Florence, 41042-4871
Telephone: (859) 371-9049
Fax: (859) 371-9154

Owensboro, 42301-0734
311 West Second Street
Telephone: (270) 687-7301
Fax: (270) 687-7244

Paducah, 42001-4024
2928 Park Avenue
Clark Business Complex, Suite G
Telephone: (270) 575-7148
Fax: (270) 575-7027

Pikeville, 41501-1275
126 Trivette Drive
Uniplex Center, Suite 203
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Fax: (606) 433-7679