



KENTUCKY DEPARTMENT OF  
**REVENUE**

Andy Beshear, Governor  
Commonwealth of Kentucky

Holly M. Johnson, Secretary  
Finance and Administration Cabinet

Thomas B. Miller  
Commissioner

# ANNUAL REPORT

2021-22



[REVENUE.KY.GOV](http://REVENUE.KY.GOV)



# KENTUCKY DEPARTMENT OF REVENUE

**Fairness**

We are committed to the unbiased administration of tax laws.

**Integrity**

We conduct ourselves in a manner that promotes public confidence and safeguards taxpayer information.

**Respect**

Our goal is to treat every taxpayer interaction with the highest regard for civility.

**Service**

Serving taxpayers with expertise, pride, professionalism, and enthusiasm is our highest priority.

**Teamwork**

We pledge to work hand in hand with taxpayers and community partners. We are "One Department, One Team."

**Mission Statement**

The Kentucky Department of Revenue serves the citizens of our Commonwealth through the fair administration of tax laws; adherence to the Taxpayer Bill of Rights; and collection of revenues used to fund public services, programs, and the protection of natural resources. We perform our duties in a manner that is professional, efficient, and merits the utmost in public confidence while demonstrating the highest level of integrity.



## Table of Contents

Introduction (Letter to Governor Andy Beshear)	04
Department of Revenue Organization Chart	06
Revenue Receipts	07
Taxpayer Service Centers	08
Office of the Commissioner	09
Office of Enforcement	11
Office of Field Operations	12
Office of Income Taxation	13
Office of Property Valuation	15
Office of Sales and Excise Taxes	17
Office of Registration and Operations	19
Office of Tax Policy and Regulation	20
Summary of Tax Law Changes Enacted by the 2022 General Assembly	21
FAC Office of Legal Services for Revenue	24



**FINANCE AND ADMINISTRATION CABINET  
DEPARTMENT OF REVENUE  
OFFICE OF THE COMMISSIONER**

State Office Building  
501 High Street  
Frankfort, Kentucky 40601-3462  
Phone: (502) 564-3226  
Fax: (502) 564-3875

**Andy Beshear**  
GOVERNOR

**Holly M. Johnson**  
SECRETARY

**Thomas B. Miller**  
COMMISSIONER

December 31, 2022

The Honorable Governor Andy Beshear  
Commonwealth of Kentucky  
The State Capitol, Suite 100  
Frankfort, KY 40601

Dear Governor Beshear:

On behalf of the Kentucky Department of Revenue, I am pleased to present to you the 2022 Annual Report for the fiscal year ending June 30, 2022. This report provides an overview of the tremendous amount of work performed by the dedicated employees of the department over the last fiscal year.

While there are many achievements worth highlighting over this past fiscal year, two truly stand out; the work completed to implement 35 new services that will now be required to remit sales tax and the 14.6% increase in 2022 general fund receipts.

We are proud to be part of Team Kentucky. The work our staff performs each day through fair, courteous and efficient tax administration helps to fund important public services that benefit the citizens of Kentucky and the Commonwealth as a whole.

With kind regards,

A handwritten signature in black ink that reads "Thomas B. Miller".

**Thomas B. Miller**  
Commissioner

## HIGHLIGHTS 2022

14.6% increase in 2022 general fund receipts

**Significant work** dedicated to implementing legislatively mandated tax law changes effective in January 2023, including the imposition of sales tax on 35 professional services

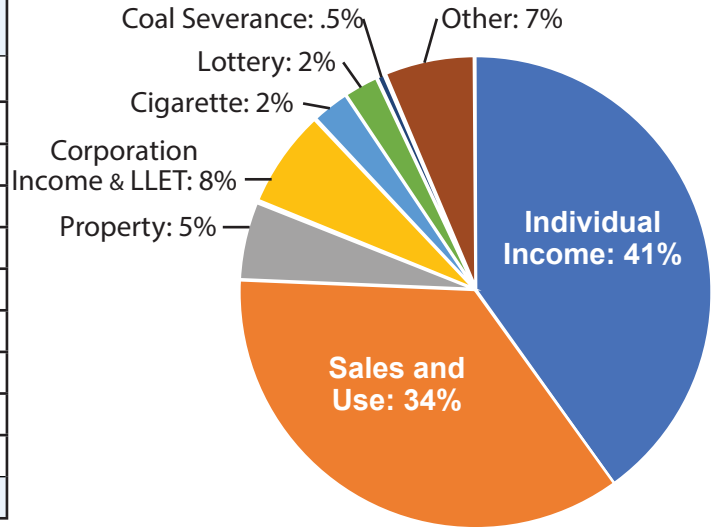


# KENTUCKY DEPARTMENT OF REVENUE

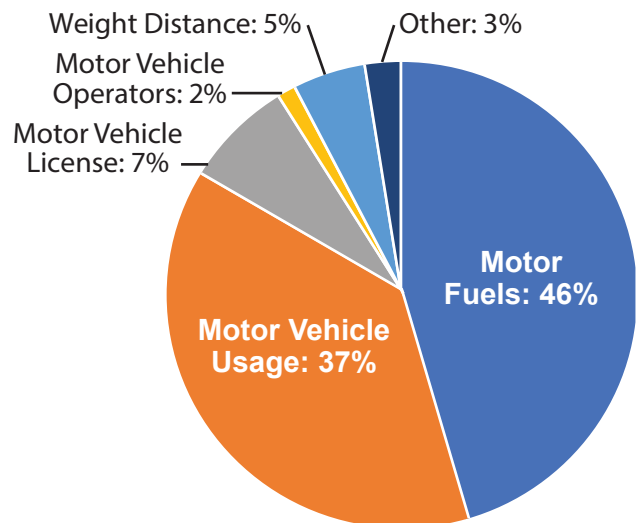


## REVENUE RECEIPTS AND GROWTH RATES

<b>General Fund Revenue Compared To Last Year (\$ Millions)</b>			
	<b>Full Year</b>		<b>Growth Rate</b>
	<b>FY 22</b>	<b>FY 21</b>	<b>FY 22</b>
Individual Income	6,047.5	5,143.8	17.6
Sales and Use	5,062.9	4,561.0	11.0
Property	723.9	702.5	3.0
Corp Income & LLET	1,186.6	882.8	34.4
Cigarette Taxes	324.5	349.9	-7.3
Lottery	295.0	289.1	2.0
Coal Severance	70.7	56.1	26.0
Other	991.5	842.2	17.7
<b>Total</b>	<b>14,702.5</b>	<b>12,827.4</b>	<b>14.6</b>



<b>Road Fund Revenue* Compared To Last Year (\$ Millions)</b>			
	<b>Full Year</b>		<b>Growth Rate</b>
	<b>FY 22</b>	<b>FY 21</b>	<b>FY 22</b>
Motor Fuels	774.6	748.4	3.5
Motor Vehicle Usage	629.1	620.9	1.3
Motor Vehicle License	123.7	125.5	-1.5
Motor Vehicle Operators	28.5	22.1	29.1
Weight Distance	87.2	83.2	4.8
Investment Income	-11.0	-0.1	NA
Other	43.3	42.5	1.9
<b>Total</b>	<b>1,675.4</b>	<b>1,642.3</b>	<b>2.0</b>

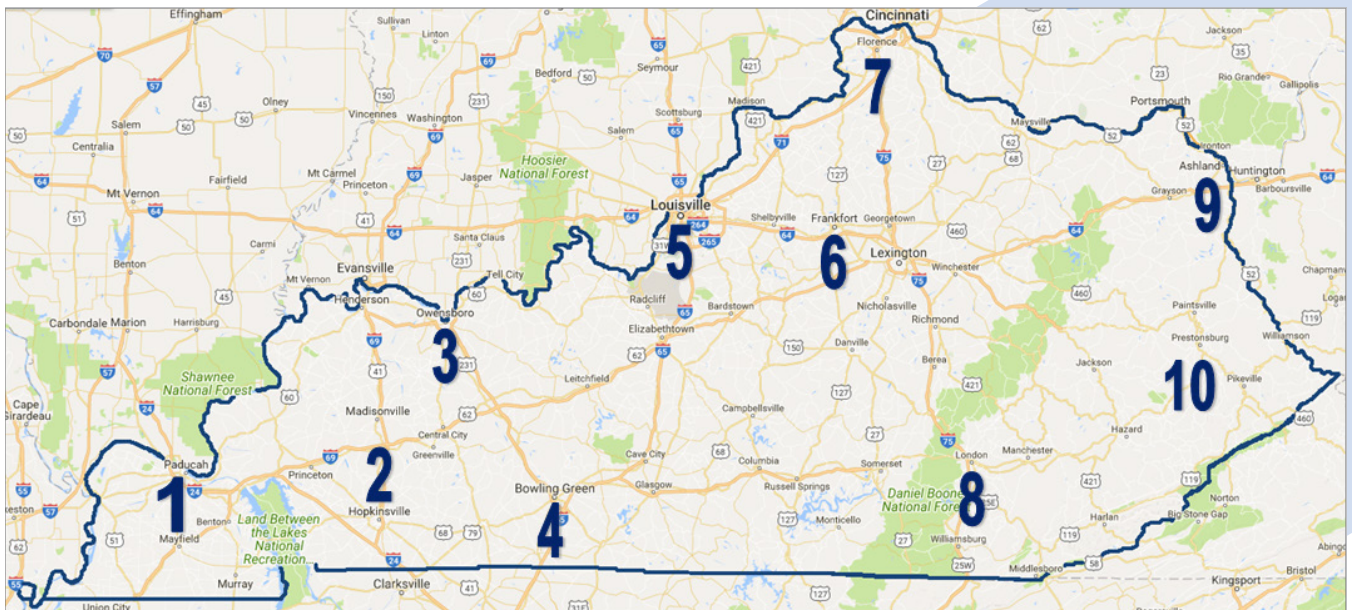


\*Includes revenue collected and deposited by DOR and other agencies

# TAXPAYER SERVICE CENTERS

The Department of Revenue supports 10 Taxpayer Service Centers (TSCs) throughout the Commonwealth. DOR employees at these TSCs assist taxpayers with a range of tax matters involving all tax types.

- |   |  |    |   |
|---|--|----|---|
| 1 | Paducah: (270) 575-7148<br>2928 Park Avenue, Suite G                     | 6  | Frankfort: (502) 564-5930<br>501 High Street, Station 38                    |
| 2 | Hopkinsville: (270) 889-6521<br>181 Hammond Drive                        | 7  | Northern Kentucky: (859) 371-9049<br>7310 Turfway Road, Suite 190, Florence |
| 3 | Owensboro: (270) 687-7301<br>401 Frederica Street, Building C, Suite 201 | 8  | Corbin: (606) 528-3322<br>15100 North US 25E, Suite 2                       |
| 4 | Bowling Green: (270) 746-7470<br>201 West Professional Park Court        | 9  | Ashland: (606) 920-2037<br>1539 Greenup Avenue                              |
| 5 | Louisville: (502) 595-4512<br>600 W. Cedar Street, 2nd Floor West        | 10 | Pikeville: (606) 433-7675<br>126 Trivette Drive, S 203                      |





# OFFICE OF THE COMMISSIONER

Division of Information Management

Division of Protest Resolution

Division of Special Investigations

Division of Taxpayer Ombudsman

**The Division of Information Management** provides application development, business analysis, employee training, subject matter expertise, and security services to support DOR's tax administration responsibilities. The division continues to focus on technology modernization and legacy system stability while protecting DOR data with strong, industry-standard security policies and processes.

The division coordinates DOR's physical and electronic security internally and with other agencies and third parties, oversees open records requests and Exchange of Information (EOI) Agreements, and works with agency business areas to ensure compliance with IRS Publication 1075.

- Continued support for over 120 DOR applications, including technology upgrades and application enhancements.
- Expanded Modernized Front End (MFE) application to process corporate returns to replace the process that was previously outsourced to a vendor.
- Continued first phase of implementing an integrated tax system to consolidate DOR's outdated legacy systems.
- Onboarded over 500 new hires, contractors, and temporary employees.
- Completed an audit with the Auditor of Public Accounts (APA). The APA found no issues or weaknesses, and DOR resolved all findings from the previous audit, so APA issued no findings to DOR.
- Processed nearly 300 combined Open Record and Exchange of Information requests, as well as 12 subpoenas.
- Completed reviews and revisions of remaining 200 letters in release one for the integrated tax system project with the goal of improving clarity and plain-language readability for taxpayers.
- Established a graphic design coordinator position and hired the first designer for DOR.
- Created overall training plan for release one of the integrated tax system project, which includes new user-friendly format for training materials and user resources.
- Drafted a communications plan to inform thousands of taxpayers, tax preparers, government officials, and others about the new MyTaxes.ky.gov portal slated to go live in late 2023.

**The Division of Protest Resolution** is responsible for managing all formal protests filed with DOR (except residential real estate protests). The Division of Protest Resolution independently reviews each case before attempting to resolve the matter directly with the taxpayer. Protests can encompass all tax types and typically involve a taxpayer disagreement regarding a legal interpretation and/or action taken by DOR. Tax protests relate to assessments and denials of full or partial tax refund requests.

- Received 240 new tax protest cases.
- Resolved 267 tax protest cases and collected in excess of \$21.3 million as a result.

# OFFICE OF THE COMMISSIONER

Division of Information Management

Division of Protest Resolution

Division of Special Investigations

Division of Taxpayer Ombudsman

**The Division of Special Investigations** investigates allegations of tax law violations (particularly tax evasion, tax preparer fraud, theft of trust taxes, and tendering of cold checks for tax payment), recommends criminal prosecution when warranted, and works with prosecutors around the Commonwealth to take legal action against tax law violators. The division represents the legal interests of DOR in criminal tax cases and coordinates its efforts with law enforcement agencies and Commonwealth Attorneys to indict and prosecute criminal activity throughout the state. In fiscal year 2021-22, the division continued to deal with a 50% decrease in investigative staff, due in part to the difficulty in attracting applicants with experience in both criminal investigations and taxes. Despite being understaffed, the division opened 28 new criminal cases; investigated more than 320 additional tips received by mail, telephone tipline, and DOR's website; and collected over \$266,000 in court-ordered restitution resulting from the division's criminal convictions. The restitution funds were paid directly to DOR. Additionally, once the courts reopened, the division obtained indictments in seven criminal cases, involving 15 Class D felony counts of Willfully Filing or Making False Tax Returns or Failure to Pay Tax, KRS 141.990 (5). The following is a representation of the criminal case:

- A Jefferson County woman was indicted by a Franklin County grand jury on four Class D Felony counts of failing to pay tax and filing fraudulent tax returns. These charges range from years 2016-2019. The total tax liability owed, including interest, fees, and penalties, is in excess of \$322,600.

**The Division of the Taxpayer Ombudsman** receives thousands of telephone, written, and electronic inquiries from taxpayers, tax practitioners, and other government agencies, including the legislative constituent office. The Division of the Taxpayer Ombudsman also maintains the Practitioner Hotline, which provides an avenue of communication between tax practitioners and DOR. The division responds to inquiries encompassing all tax types and acts as a liaison between taxpayers and DOR to ensure protection of taxpayer rights. The Taxpayer Ombudsman provides essential services to citizens of the Commonwealth who need assistance with issues that are not resolved through regular channels.

- Responded to more than 3,500 total telephone inquiries received by the Taxpayer Ombudsman.
- Responded to approximately 500 telephone inquiries received by the Practitioner Hotline.

# OFFICE OF ENFORCEMENT

## Division of Collections

**The Division of Collections** works with taxpayers to resolve their tax liabilities and debts. The division implements all administrative and legal actions available to enforce the collection of unpaid tax obligations owed to the Commonwealth. The Division of Collections stopped enforced collection action from March 2020 to August 2021 due to COVID-19. The division resumed enforced collection action in September 2021.

The division collected a total of over \$281.3 million in FY 2022.

Businesses and individuals affected by the tornadoes in western Kentucky in December 2021 and those affected by the flooding in eastern Kentucky in July 2022 were removed from enforced collection action. The Division of Collections engages in collection efforts for external enterprise agencies as contractually agreed upon and collected more than \$13.5 million of debt on their behalf. Effective March 31, 2022, the division no longer collects on behalf of University of Kentucky Healthcare, per their request. A breakdown of agencies and collected amounts are below.

	<b>FY 2022</b>	<b>Cumulative Total</b>
Board of Nursing	\$13,541.16	\$360,087.05
CHFS – Legal Services	\$1,727.33	\$43,722.16
Crime Victims Compensation Board	\$30,767.50	\$179,449.94
Department of Medicaid Services	\$14,213.14	\$1,217,845.46
Department of Financial Institutions	\$8,044.55	\$133,833.70
Eastern Kentucky University	\$1,210,340.37	\$6,507,791.41
Kentucky Community and Technical College Systems	\$4,755,459.94	\$86,553,730.36
Kentucky Higher Education Assistance Authority	\$464,892.58	\$4,655,659.27
Kentucky Labor Cabinet	\$441,315.55	\$910,878.97
Kentucky State University	\$19,481.78	\$229,772.89
Morehead State University	\$647,801.85	\$14,873,445.69
Murray State University	\$632,623.85	\$4,212,916.39
Northern Kentucky University	\$1,076,938.28	\$12,421,270.15
The University of Kentucky	\$1,634,926.26	\$10,062,233.33
University of Kentucky Healthcare	\$1,227,143.62	\$85,608,650.13
Western Kentucky University	\$1,342,126.82	\$8,947,382.97

### 2022 Statistics

Incoming and Outgoing Phone Calls: 534,970

Outgoing Correspondence: 445,981

In-person Conferences: 71

Correspondence Received and Worked: 26,644

# OFFICE OF FIELD OPERATIONS

4 Regional Divisions  
10 Taxpayer Service Centers

The Office of Field Operations (OFO) consists of 10 Taxpayer Service Centers (TSCs) strategically located throughout the Commonwealth of Kentucky. Through its TSCs, OFO serves two critical functions: (1) to provide direct assistance to taxpayers in close physical proximity to the localities where they live and work; and (2) to implement DOR compliance measures, primarily in the form of field audits.

Services available to taxpayers at the TSCs include receiving assistance to help understand and resolve tax bills or outstanding collection matters; receiving answers related to filing or amending returns; registering a tax account for a new business; receiving temporary permits for transient vendors engaging in sales within the Commonwealth; and having a local DOR liaison with the Central Office on other tax matters. Also, OFO partners with the Internal Revenue Service (IRS) and each TSC serves as a Volunteer Income Tax Assistance (VITA) site that provides free tax return preparation and filing assistance to eligible low-income individuals and families as well as employees of the Commonwealth.

The Office of Field Operations serves an essential role in DOR compliance initiatives and has developed audit and compliance functions that ensure fair and equitable tax treatment for taxpayers. OFO selects and conducts field audits throughout all 120 Kentucky counties as well as many of the contiguous United States.

- Assessed more than \$59 million of tax due as a result of the 886 audits conducted.
- Assessed over \$1.2 million of tax due as a result of other compliance measures.
- Collected more than \$1.4 million from approximately 4,000 out-of-state or unregistered transient vendors identified by OFO staff at over 675 local events across the Commonwealth.
- Collected \$8.3 million in payments through taxpayer assistance programs.
- Received and responded to more than 44,000 phone calls from taxpayers and tax professionals.
- Received and responded to over 11,400 in-person inquiries from taxpayers who visited TSCs.
- Prepared approximately 1,560 individual income tax returns through OFO VITA sites.



# OFFICE OF INCOME TAXATION

Division of Individual Tax

Division of Corporation Tax

After DOR receives tax returns and inputs the information and images into its databases, the Office of Income Taxation assumes responsibility for the continued processing and careful review of individual, corporate, and withholding tax returns. In calendar year 2022, DOR received more than:

- 2 million individual income tax returns
- 278,000 corporate income and limited liability entity tax returns
- 896,000 withholding tax returns

The Office of Income Taxation consists of two divisions: the **Division of Individual Tax** and the **Division of Corporation Tax**. Although one is focused on individuals and the other on businesses, both divisions carefully review tax returns; implement compliance measures; assist thousands of taxpayers and preparers with general and specific issues; coordinate efforts with other DOR offices and government agencies; administer millions of dollars of tax credits; implement federal and state government cooperative compliance programs; and develop income and withholding tax forms and instruction booklets, among a number of other operational tasks.

## Compliance Initiatives

- Assessed over \$86 million of individual income tax due and refund request reductions through compliance measures.
- Assessed over \$80 million of corporate income tax due and refund request reductions through compliance measures.
- Assessed over \$61.5 million of withholding tax due through compliance measures.

## Taxpayer and Preparer Assistance

- Received and responded to approximately 20,100 webmaster inquiries from taxpayers.
- Received and responded to over 58,300 other inquiries from taxpayers.
- Received and responded to more than 116,400 phone calls involving individual and withholding tax inquiries from taxpayers and preparers.
- Received and responded to approximately 22,000 calls involving corporate tax inquiries from taxpayers and preparers.
- Processed over 9,300 corporate “Letter of Good Standing” requests.

## Electronic Filing of Income Tax Return

- 92% of individual income tax returns were filed electronically in calendar year 2022.
- 8% of corporate income tax returns were filed electronically in calendar year 2022.

# OFFICE OF INCOME TAXATION

Division of Individual Tax  
Division of Corporation Tax

## Tax Credits

The **Division of Corporation Tax** administers many incentive tax credits for the Commonwealth. Some examples and the tax credit amounts claimed in Fiscal Year 2021-22 are listed below.

### Examples of Economic Development Tax Credits Managed by DOR (FY 2021-22)

Kentucky Business Investment	\$39,280,173
Kentucky Industrial Development Act	\$992,935
Kentucky Industrial Revitalization Act	\$1,577,062
Kentucky Jobs Retention Act	\$720,000
Kentucky Reinvestment Act	\$2,192,384
Kentucky Rural Economic Development Act	\$6,936,226

### Examples of Additional Tax Credits Managed by DOR (FY 2021-22)

Distilled Spirits Ad Valorem	\$274,501
Film	\$2,814,710
Skills Training Investment	\$183,554

# OFFICE OF PROPERTY VALUATION

Division of Local Support  
 Division of Minerals Taxation and GIS Services  
 Division of State Valuation

The Office of Property Valuation (OPV) is composed of three divisions: (1) Local Support, (2) Minerals Taxation and GIS Services, and (3) State Valuation. All three divisions oversee and address different aspects of state and local property valuation and property tax matters.

The **Division of Local Support** supervises and assists the property valuation administrators (PVAs), sheriffs, and county clerks in all 120 Kentucky counties with property tax assessment and collection duties. Further, the Division of Local Support provides guidance and establishes policies involving budgets, payroll, accounting, and administrative support for all PVA offices

The Division of Local Support hosted 22 in-person property tax training courses for 343 participants during the 2021-22 fiscal year as well as two virtual trainings for 120 participants. The annual OPV Conference on Assessment Administration was held virtually in calendar year 2021.

The statewide PVA qualifying examination was conducted in November 2021.

- OPV collected in excess of \$723 million in property tax receipts on behalf of the Commonwealth through sheriffs' offices.
- Assisted county fiscal courts across the state with the receipt of more than \$378.1 million in property tax revenue.
- Assisted school districts across the state with the receipt of over \$2.1 billion of property tax revenue.
- Assisted local jurisdictions in all counties with the receipt of more than \$3.2 billion in property tax revenue.

The **Division of Minerals Taxation and GIS Services** is responsible for administering the mineral severance taxes and the unmined minerals property taxes. The division also coordinates mapping project requirements utilizing geographical information systems (GIS) mapping efforts.

- Collected in excess of \$98.267 million in severance tax receipts from mining and extraction companies, which includes over:
  - o \$7.725 million of natural gas tax
  - o \$64.365 million of coal severance tax
  - o \$20.437 million of solid minerals severance tax
  - o \$5.738 million of oil production tax
- Assessed more than \$408.63 million of unmined mineral property, which includes:
  - o \$157.03 million of oil assessments
  - o \$168.58 million of natural gas assessments
  - o \$82.58 million of limestone assessments
  - o \$443,600 million of clay assessments

# OFFICE OF PROPERTY VALUATION

Division of Local Support

Division of Minerals Taxation and GIS Services

Division of State Valuation

The software used to process unmined coal assessments was determined to be inoperable and a contract with a vendor to develop an updated system was initiated. Therefore, all unmined coal assessment and billing work is on hold until the new software system is developed. All sheriffs and taxpayers involved in the unmined coal assessment and billing process have been notified about this issue and they are aware that an accelerated schedule will be necessary once the software system is up and running so that all revenues from these assessments can be brought up to date.

The **Division of State Valuation** administers all state-assessed property taxes, including public service property tax and motor vehicle property tax, as well as tangible and intangible tax programs. The Division of State Valuation also plays a critical role in the valuation of property of public service companies, valuation of motor vehicle property tax, and the valuation of tangible and intangible property.

- Determined assessment values of over \$52 billion related to public service and centrally assessed companies and collected more than \$98 million in associated taxes, which includes:
  - \$74.6 million collected from public service companies
  - \$17.6 million collected from telecommunications and video providers
  - \$1.9 million collected from distilled spirit companies
  - \$4.8 million from commercial watercraft companies
- Determined assessment values of \$93 billion related to bank deposits and collected more than \$944,000 in associated taxes.
- Assessed domestic life insurance company capital and reserve values in excess of \$1.08 billion.
- Assessed tangible, omitted tangible, and compliance tangible personal property values and collected over \$107.5 million in related taxes, which includes:
  - \$97 million of tangible personal property tax
  - \$8.2 million of omitted tangible personal property tax
  - \$2.3 million of compliance tangible personal property tax
- Collected payments related to \$8.8 million of Tennessee Valley Authority (TVA) in Lieu of Tax distributions.
- Determined assessment values of over \$40 billion related to motor vehicles and boats and collected more than \$184.2 million in associated taxes, which includes:
  - \$173.6 million of motor vehicle property tax
  - \$5.6 million of motor boat property tax
  - \$5 million of apportioned vehicle tax

In accordance with the Governor's Executive Order 2022-096 and the enactment of House Bill 6, DOR, the Commonwealth Office of Technology, the Office of the State Treasurer, county clerks and property valuation administrators worked collaboratively to develop a process for refunding a portion of the motor vehicle property tax payments made in January, February, and part of March 2022. These refunds reflected the difference in the amount of tax paid based on the vehicle's 2022 assessed value and the amount that would have been due based on the vehicle's 2021 assessed value. The state issued more than 220,000 refund checks totaling more than \$9.2 million.



# OFFICE OF SALES AND EXCISE TAXES

## Division of Sales and Use Tax Division of Miscellaneous Taxes

The Office of Sales and Excise Taxes (OSET) is composed of two divisions: Sales and Use Tax and Miscellaneous Taxes. Both divisions carefully review tax returns; implement compliance measures; assist taxpayers and tax preparers with general and specific issues; coordinate efforts with other DOR offices and outside agencies; and develop sales, use, and miscellaneous tax publications. OSET participates in workgroups and related initiatives sponsored through the national Streamlined Sales Tax Governing Board and the Federation of Tax Administrators.

The **Division of Sales and Use Tax** is responsible for administering the sales and use tax, the telecommunications excise and gross revenues taxes, a number of economic development incentive programs involving tax exemptions and tax refunds, and the Commercial Mobile Radio Service 911 fee. The Division of Sales and Use Tax implements compliance measures, including office or “desk” audits; administers a number of tax exemption and authorization programs; receives, adjusts, and responds to taxpayer inquiries; and reviews and processes requests for tax refunds.

The **Division of Miscellaneous Taxes** administers over 40 taxes; conducts systematic field audits; receives and responds to taxpayer inquiries; reviews, adjusts, and processes tax refund requests; and implements compliance measures. The Division of Miscellaneous Taxes administers both General Fund and Road Fund taxes, including:

- Affordable housing trust fund fee
- Alcoholic beverage taxes
- Cigarette enforcement fee
- Other tobacco products
- Vapor products
- Gasoline tax
- Liquefied petroleum gas tax
- Special fuels taxes
- Petroleum storage tank environmental assurance fee
- Health care provider tax
- Inheritance tax
- Insurance premiums and surcharge taxes
- Legal process tax
- Marijuana and controlled substance tax
- Motor vehicle tire fee
- Motor vehicle usage tax
- Loaner-rental program tax
- Public Service Commission annual assessment
- Pari-mutuel excise tax
- Racing license and admissions tax
- Advanced deposit wagering tax
- Rural Electric Cooperative Corporation tax annual assessment
- Rural Telephone Cooperative Corporation tax annual assessment
- Transient room tax
- Utility gross receipts license tax (UGRLT)

# OFFICE OF SALES AND EXCISE TAXES

## Division of Sales and Use Tax Division of Miscellaneous Taxes

- Collected in excess of \$48.7 million through tax compliance programs and refund request reductions.
- Distributed over \$10.4 million to the Kentucky 911 Services Board.
- Continued registration of out-of-state retailers and collected \$191.8 million from remote retailers, including \$91.6 million from third-party marketplace sales and \$100.2 million from remote retailer sales.
- Implemented numerous tax law changes:
  - Began enforcement of the mandate for electronic filing and payment. DOR now receives electronically –
    - 99% of all monthly and quarterly sales tax returns
    - 99% of all transient tax returns
    - 97% of all tire fee returns
  - Registered and issued over 30,000 agricultural exemption permits to facilitate changes required in Senate Bill 121, which requires issuance of agricultural exemption numbers by January 1, 2023 for farmers to make exempt purchases.
- Collected more than \$118.9 million in sales and use tax through the national Streamlined Sales Tax Registration System (20% increase compared to prior fiscal year).
- Over \$91.3 million collected from newly registered voluntary streamlined sales tax sellers.
- Distributed over \$16 million of transient room taxes to the Tourism, Arts, and Heritage Cabinet.
- Distributed more than \$36.4 million of telecommunications payments to over 1,300 local jurisdictions across the Commonwealth.
- Distributed more than \$6.5 million from tire tax fees to the Energy and Environment Cabinet.
- Verified and issued 13 sales tax Tax Increment Financing refunds totaling over \$5.8 million.
- Verified and issued 19 tourism attraction project tax refunds totaling more than \$5.5 million.
- Verified and issued 32 Kentucky Enterprise Initiative Act refunds totaling over \$7.5 million.
- Received and responded to more than 104,000 phone calls and over 33,800 electronic inquiries from taxpayers and tax professionals.
- Distributed in excess of \$15.8 million from Public Service Commission assessments to the Public Service Commission.
- Conducted 474 retail cigarette inspections to ensure compliance with the Tobacco Master Settlement Agreement.
- Collected and distributed more than \$264 million of utility gross receipts license payments to school districts across the Commonwealth.
- Distributed over \$1 million from legal process fees to the Kentucky Department for Libraries and Archives.

# OFFICE OF REGISTRATION AND OPERATIONS

## Division of Registration

## Division of Operations

The Office of Registration and Operations is composed of two divisions: Registration and Operations. Both divisions work closely with all DOR offices in addition to external agencies.

The **Division of Registration** receives and processes all business tax applications, those received on paper as well as those submitted electronically through Kentucky Business One Stop. The division also receives and processes all business update/cancellation applications. Additionally, the Division of Registration identifies businesses that need to register for business taxes through a variety of compliance programs.

- Processed more than 10,800 tax registration applications and reviewed over 38,700 tax registrations completed through Kentucky Business One Stop.
- Administratively registered over 19,900 non-compliant businesses.
- Reviewed and processed over 12,000 update/cancellation applications.
- Completed more than 210,000 tax account maintenances.
- Compliance efforts resulted in \$461 million in additional revenue (30.4 % increase over fiscal year 2021).
- Answered more than 87,000 calls from taxpayers and preparers and made over 9,000 outgoing calls regarding business tax registration.

The **Division of Operations** is responsible for receiving documents (including tax returns), capturing and storing relevant data, receiving and depositing payments, and the processing of tax returns for all tax types.

- Average processing time for individual income tax returns was 6.1 days in calendar year 2022.
- Processed more than 2 million individual income tax returns in calendar year 2022.
- Processed over \$393.7 million of individual income tax refunds to taxpayers in calendar year 2022 (the average refund amount was \$389 per taxpayer).
- Deposited receipts in excess of \$13.3 billion electronically.
- In 2022, the Division of Operations insourced the processing of all paper filed corporate tax returns from a third-party vendor, which includes return processing and remittance deposit for over 150,000 tax returns.
- Prevented the issuance of more than \$30 million in fraudulent individual income tax requested refunds through identity theft and fraud prevention efforts.

# OFFICE OF TAX POLICY AND REGULATION

DOR's Office of Tax Policy and Regulation develops and implements tax policies and programs. It also reviews and provides guidance regarding proposed tax policies, regulations, legislation, and determinations. The Office of Tax Policy and Regulation provides economic and policy analysis for tax policy decisions and acts as a liaison between DOR, the Finance and Administration Cabinet (FAC), and other agencies, especially the Kentucky Legislative Research Commission and Cabinet for Economic Development.

- Assisted the FAC Office of the Secretary and the DOR Office of the Commissioner with various research assignments.
- Assisted the Commissioner and other DOR offices with the implementation of House Bill 6, 8, 284, 500, 594, 607, and 659; Senate Bill 133 and 249; and HJR 41; which made multiple changes to several taxes and established new tax programs, including new exemptions and new tax credits.
- Filed a Statement of Consideration for two regulations with the General Assembly.
- Filed one new emergency administrative regulation with the General Assembly.
- Initiated DOR legislative proposals with assistance from various DOR offices and provided explanations to FAC Office of the Secretary.
- Completed 21 reviews on 21 bills pre-filed for 2022 Regular Session of the General Assembly.
- Reviewed and provided analysis on 179 bills, bill amendments, and committee substitutions introduced in the 2022 Regular Session of the General Assembly.
- Prepared legislative summaries with explanation of the bills that passed, budgetary impact, and implementation dates.
- Tracked monthly interim meetings of various legislative committees for potential DOR impacts.
- Prepared, reviewed, and participated in presentations to be given by DOR.
- Issued administrative guidance outside of the regulation process to help further explain law and tax treatment on complex tax issues, including four private letter rulings.
- Reviewed over 50 proposed letters on complex tax topics for DOR's new integrated tax system project.
- Continued to lead DOR's role in the administration of 30 Tax Increment Financing (TIF) projects, including working to implement the new West End TIF and frequently working with the Cabinet for Economic Development and local jurisdictions.
- Received four inquiries requesting the use of alternative apportionment for corporation income tax and responded to two pending requests.
- Reviewed and provided suggestions on all 2022 corporation income tax forms and registration applications.
- Reviewed federal interest rates and provided recommendation to the Commissioner for the 2022 tax interest rate.
- Maintained and updated legislative mandates calendar and reviewed reports as they were received.
- Provided information and assisted with press releases on various types of disaster relief available after natural disasters occurred.
- Responded to hundreds of taxpayer email questions on DOR Tax Policy email account.
- Worked with KyCPA on numerous requests received from members.
- Responded to email tax questions from sister states via membership in Federation of Tax Administrators.
- Reviewed and responded to tax questionnaires for inclusion in multi-state tax guides.
- Assisted with Open Records Requests.

# SUMMARY OF TAX LAW CHANGES ENACTED BY THE 2022 GENERAL SESSION

## Sales and Use Tax

### House Bill 8

- Expands sales tax base by adding over 35 additional taxable services effective January 1, 2023.
- Amends sales tax exemption on residential utilities to apply only to those services purchased for a resident's place of domicile.
- Creates sales tax exemption for drugs and over-the-counter drugs for certain livestock.
- Beginning January 1, 2023, all farmers must obtain an agriculture exemption license number and must provide the retailer the license number at the time of purchase in order to exempt the purchases from sales and use tax.
- Requires event coordinators of festivals and events to provide DOR with a list of vendors at the festival or event.

## Individual Income Tax

### House Bill 8

- Establishes rate reduction conditions for individual income tax.
- Based on rate reduction conditions, individual income tax rate will decrease to 4.5% for tax years beginning on or after January 1, 2023.
- Future individual income tax rate reductions must be enacted by the Kentucky General Assembly.

## Individual and Corporate Taxes

### House Bill 8

- Updates Internal Revenue Code conformity date from December 31, 2018 to December 31, 2021.
- Increases historic preservation tax credit limits and allows the credit to be transferred to financial institutions subject to corporation income tax.
- Establishes new refundable decontamination tax credit for tax years beginning on or after January 1, 2022 but before January 1, 2032.

### Senate Bill 249

- Amends Kentucky Investment Fund Act (KIFA) to allow taxpayer to claim tax credit the year in which the investment was made.

## Property Taxes

### House Bill 6

- Amended valuation method for motor vehicles to be the average trade-in value, not the rough or clean trade-in value.
- Allows PVAs to adjust motor vehicle valuations when evidence is provided that the standard value does not reflect the condition, options, mileage, or certificate of title issued.
- For the January 1, 2022 and January 1, 2023 assessment dates, exempts any increase in a motor vehicle's valuation from state and local ad valorem taxes. Provides for refunds to be issued to taxpayers who had already paid their property taxes based on the increased valuation.

### House Bill 8

- Allows a property tax exemption for retailers and wholesalers to exclude prefabricated homes held in inventory from the inventory tax.
- Establishes special protest rules for public service corporations (PSC) assessed property tax under KRS 136.120-136.180. These changes require DOR to finalize a protest received from a PSC within one year from the date the protest was filed.

# SUMMARY OF TAX LAW CHANGES ENACTED BY THE 2022 GENERAL SESSION

- Amends tax interest rate charged on property tax assessments issued to PSCs in accordance with KRS 136.180(2). The interest rate on these assessments will be equal to the federal short-term rate applicable each quarter that begins in the date the protest was filed by the taxpayer.

## Senate Bill 133

- Authorizes the aerial mapping project that was funded in the budget bill, HB 1.
- Requires DOR's Division of Geographic Information Systems to make all reasonable efforts to collect and present geographic information in a manner that meets the needs of all state agencies.

## Miscellaneous Taxes

### House Bill 8

- Establishes new excise tax on peer-to-peer car sharing companies and motor vehicle rental companies effective January 1, 2023.
- Establishes new excise tax on electric vehicle car charging stations effective January 1, 2024.
- Expands the local transient room taxable accommodations to include campsites and any other accommodations charged by campgrounds and recreational vehicle parks.
- Reinstates the requirement that taxpayers owing insurance premiums tax make estimated tax payments.

### House Bill 284

- Requires the Transportation Cabinet to establish an electronic title application and registration system. Will require changes to AVIS/KAVIS. This bill primarily impacts the Transportation Cabinet, but employees of DOR's motor vehicle usage tax section will require access to the new system.

### House Bill 500

- Requires a direct shipper licensee selling alcoholic beverages to charge the consumer all applicable taxes and sell the alcoholic beverages with all applicable taxes included in the selling price. Requires the total amount of applicable taxes to be identified on the consumer's invoice and the amount of applicable taxes included in the invoice to be separately stated.

### House Bill 607

- Permits local occupational taxes to apply to "racetrack extension facilities" that conduct pari-mutuel wagering on historical horse racing terminals. These sections do not add responsibilities to DOR.
- Sets the pari-mutuel tax rate on live racing at 1.5% of all money wagered. The tax rate on simulcast wagering was reduced from 3% to 1.5%. The tax rate on advanced deposit wagering was increased from 0.5% to 1.5%. The pari-mutuel tax rate changes in HB 607 were all effective beginning August 1, 2022.
- The \$0.15 tax on racetrack admissions under KRS 138.480 was repealed, effective July 14, 2022.

### House Bill 659

- Increases the amount of compensation allowed to licensed wholesalers for cigarette tax evidence, effective August 1, 2022.

## Collections

### House Bill 8

- Establishes a tax amnesty program for taxes administered by DOR. More information will be forthcoming in the future.
- Clarifies that DOR does not have the authority to collect consumer debt owed for healthcare goods and services.

# SUMMARY OF TAX LAW CHANGES ENACTED BY THE 2022 GENERAL SESSION

## **Administrative Regulations**

### House Bill 594

- Enacts changes to the administrative regulation process that will apply to all Executive Branch agencies that promulgate administrative regulations.
- Requires Executive Branch agencies to consider the cost that a regulation may cause “regulated entities.”
- Changes the cost analysis statement to require a second part to be included for projected cost or cost savings to the regulated entities affected by the regulation. Requires the agency to conclude if the regulation will have a major economic impact to state and local government and regulated entities.

# FAC OFFICE OF LEGAL SERVICES FOR REVENUE

The Office of Legal Services for Revenue (OLS), which is part of the Finance and Administration Cabinet's Office of General Council, represents the Department of Revenue (DOR) in administrative and court proceedings involving tax matters and controversies. OLS renders legal advice on a wide range of matters involving the administration of taxes on behalf of the Commonwealth, including the promulgation of regulations and other guidance to assist taxpayers in the understanding of, and compliance with Kentucky's tax laws.

OLS assists in the resolution of tax cases, representing DOR in all administrative and court proceedings. Recent legal cases addressing state tax issues that are of significant importance and interest to taxpayers and the Commonwealth are highlighted below.

Revenue v. Marathon Pipe Line, LLC, 2021-CA-0626

Tax type: ad valorem property tax – public service corporation

This ad valorem tax case presented significant issues relating to the ad valorem taxation of underground crude oil transmission pipelines owned by a public service corporation (PSC) by challenging DOR's 85+ year classification of underground pipelines. Specifically, Marathon Pipe Line, LLC ("Marathon") challenged whether a 292-mile long, 24" crude oil transmission underground pipeline it owned and operated should be classified as real property, as classified by DOR, or tangible personal property, as argued by Marathon, for purposes of ad valorem taxation. See KRS 136.010(1) and (2) and KRS 132.010(3) and (4) and 103 KAR 8:090.

In its Final Order, the Kentucky Claims Commission, Tax Appeals (the KCC), ruled in favor of Marathon. On Appeal, Franklin Circuit Court and the Kentucky Court of Appeals affirmed the KCC's decision. A subsequent motion for discretionary review at the Kentucky Supreme Court was denied; thus, the case is now final.

As a result of the decision, PSC owned and operated underground pipelines transmitting oil, gas and water shall be subject to the ad valorem tax rate imposed on tangible personal property for purposes of both state and local property taxes.

**Commonwealth v. Akia McNeary, et al., 2021-SC-0518; 0519; 0520; and 0522. (a.k.a., Council for Better Education, Inc., et al. v. Holly M. Johnson (in her official capacity as Secretary of the Finance and Administration Cabinet) et al., No. 21-CI-00461 (Franklin Circ. Ct.)**

Tax type: Kentucky income tax – tax credit for contributions to Account Granting Organizations for use in funding Education Opportunity Accounts

This case is a challenge to the constitutionality of the Education Opportunity Account Program enacted by the Kentucky General Assembly during the 2021 legislative session (House Bill 563). The bill created a tax credit program where donations to qualifying organizations could be utilized to obtain educational services, including financial assistance to pay tuition to private schools (for those children who reside in eight designated geographic areas with a population over 90,000).



## FAC OFFICE OF LEGAL SERVICES FOR REVENUE

The plaintiffs allege this enactment violates various provisions of the Kentucky Constitution, including Sections 3, 59, 171, 183, 184, and 186 and sought injunctive relief. Franklin Circuit Court granted permanent injunctive relief to the plaintiffs, finding the enactment violates Sections 59 and 184 of the Kentucky Constitution.

Intervening Defendants appealed and the case was transferred to the Kentucky Supreme Court. The Kentucky Supreme Court rendered its Opinion on December 15, 2022, affirming the Franklin Circuit Court's Opinion and Order that the Education Opportunity Account Act violates Section 184 of the Kentucky Constitution and granting permanent injunctive relief to the plaintiffs.

# ANNUAL REPORT



Kentucky Department of Revenue  
501 High Street  
Frankfort, Kentucky 40601  
(502) 564-4581  
[revenue.ky.gov](http://revenue.ky.gov)

The Kentucky Department of Revenue does not discriminate on the basis of race, color, national origin, sex, age, religion, disability, sexual orientation, gender identity, veteran status, genetic information, or ancestry in employment or the provision of services.