



KENTUCKY DEPARTMENT OF
REVENUE

Andy Beshear, Governor
Commonwealth of Kentucky

Holly M. Johnson, Secretary
Finance and Administration Cabinet

Thomas B. Miller
Commissioner

ANNUAL REPORT

FY 2022-23

TEAM
KENTUCKY

FINANCE AND
ADMINISTRATION CABINET

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 2023 General Assembly	21



Andy Beshear
GOVERNOR

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

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Holly M. Johnson
SECRETARY

Thomas B. Miller
COMMISSIONER

January 2, 2024

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

Dear Governor Beshear:

In accordance with KRS 12.110 Annual and biennial reports, I am pleased to present to you the Kentucky Department of Revenue's 2023 Annual Report for the fiscal year ending June 30, 2023. This report provides an overview of the immense amount of work performed by the dedicated employees of the department over the last fiscal year.

There were many notable achievements over the past fiscal year but to highlight a few would include record receipts that produced a 3% increase over last fiscal years' 14.6% record breaking increase, the procurement of \$3,188,000 worth of software and hardware upgrades to enhance the Property Valuation Administrators ability to process and utilize the new digital photography that is being completed statewide, and the construction of a training facility in the State Office Building. The department also looks forward to hosting the Southeastern Association of Tax Administrators (SEATA) conference in Louisville the summer of 2024.

We are proud to be part of Team Kentucky. Revenue employees are dedicated professionals that provide fair, courteous, and efficient tax administration to fund important public services that benefit citizens of Kentucky and the Commonwealth.

With kind regards,

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

Thomas B. Miller
Commissioner



HIGHLIGHTS 2023

3% receipts increase over last fiscal year's 14.6 % record

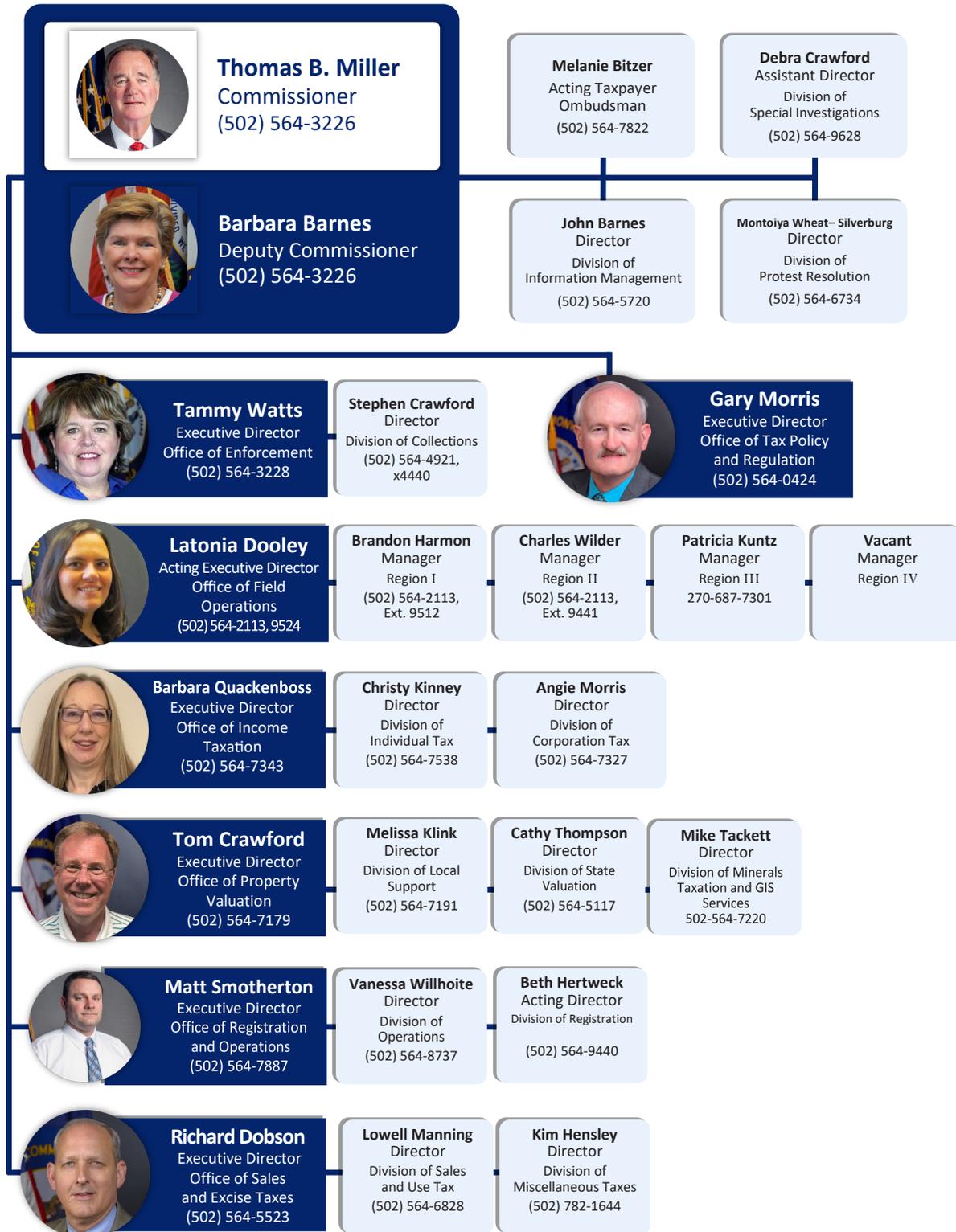
Procurement of \$3,188,000 worth of software and hardware upgrades for PVA's

Construction of a training facility at state office building

We are hosting the Southeastern Association of Tax Administrators (SEATA) conference in Louisville the summer of 2024

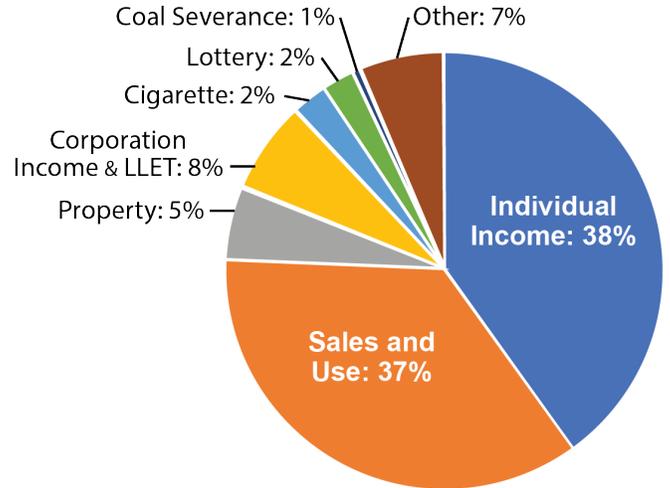


KENTUCKY DEPARTMENT OF REVENUE

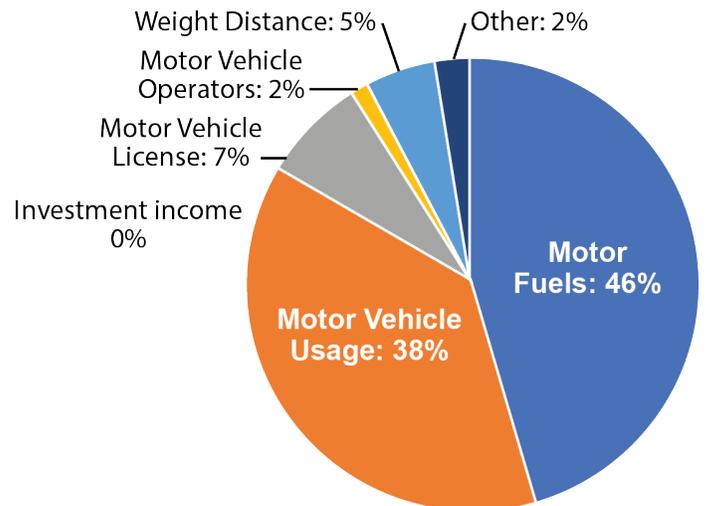


REVENUE RECEIPTS AND GROWTH RATES

General Fund Revenue Compared To Last Year (\$ Millions)			
	Full Year		Growth Rate
	FY 23	FY 22	FY 23
Individual Income	5,843.9	6,047.5	-3.4
Sales and Use	5,576.3	5,062.9	10.1
Property	774.4	723.9	7.0
Corp Income & LLET	1,221.6	1,186.6	3.0
Cigarette Taxes	299.3	324.5	-7.8
Lottery	337.0	295.0	14.2
Coal Severance	96.6	70.7	36.7
Other	998.7	991.5	.7
Total	15,147.7	14,702.5	3.0



Road Fund Revenue* Compared To Last Year (\$ Millions)			
	Full Year		Growth Rate
	FY 23	FY 22	FY 23
Motor Fuels	798.3	774.6	3.0
Motor Vehicle Usage	660.3	629.1	5.0
Motor Vehicle License	126.7	123.7	2.5
Motor Vehicle Operators	29.7	28.5	4.3
Weight Distance	87.7	87.2	.6
Investment Income	6.3	-11.0	NA
Other	44.2	43.3	2.2
Total	1,753.3	1,675.4	4.7



*Includes revenue collected and deposited by DOR and other agencies

TAXPAYER SERVICE

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



OFFICE OF THE COMMISSIONER

Division of Information Management

Division of Protest Resolution

Special Investigations Division

Division of Taxpayer Ombudsman

The Division of Information Management provides application development, business analysis, employee training, communications content development, subject matter expertise, and security services to support DOR's tax administration responsibilities. The division continues to focus on technology modernization while maintaining legacy system stability. In 2023, we also began modernizing our security approach and protocols to elevate our protection of sensitive data to the industry standard.

The division coordinated DOR's physical and electronic security internally and with other agencies and third parties, coordinated open records requests and Exchange of Information (EOI) Agreements, and worked with agency business areas to ensure compliance with IRS Publication 1075. Moreover, we launched the Zero-Trust Security Model (ZTSM) initiative this year to support legal and organizational requirements to protect sensitive agency and taxpayer data, such as Federal Tax Information (FTI), State Tax Information (STI), and other sensitive, confidential information. ZTSM, which minimizes access to data throughout all levels of system and user processes, will be the framework to protect DOR and taxpayer data. To support both the DOR Integrated System (doris) integrated tax and the ZTSM initiative, we also implemented a new security access and authorization system. This will allow DOR to consolidate doris and other legacy systems into one platform for authorizing users and restricting access to sensitive information on those systems.

Other security efforts resulted in closing over 400 previous findings by the IRS, as well as upgrading the physical security system at the Kentucky State Office Building (KSOB) in Frankfort and the technology equipment in the Taxpayer Service Centers. The security efforts this year resulted in the IRS awarding Certificates of Excellence to DOR security staff.

The division continued support for over 120 DOR applications, including technology upgrades and application enhancements. We also retired some obsolete systems, such as the FileNet document management system, which was replaced by the modern, enterprise-standard system OnBase. Additionally, we implemented systems to administer three new tax types, including the taxes related to sports wagering and ride sharing legislation.

The doris project continued in 2023, with the project team completing nearly 80% of the development and configuration work to accomplish the first phase of the project. The team completed two cycles of Model Office Testing to illustrate to system users, testers, and trainers how the new system will work. The communications team worked on an entire redesign of the notice of tax due and continued revising nearly 200 letters using plain language principles. Communications staff is also working on a strategic blueprint for developing digital content for taxpayers regarding the rollout of doris. The first of the project's three phases is expected to go live by the third quarter of 2024. To support the large-scale effort to train staff on the new system, we built a new training facility at KSOB with three training rooms. These training rooms of various sizes will have state-of-the-art audiovisual equipment to allow DOR to instruct multiple sessions for large in-person or virtual groups, have breakout session areas, and allow staff to conduct remedial training to support DOR systems including doris.

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 208 new tax protest cases.
- Resolved 249 tax protest cases and collected in excess of \$34.7 million as a result.

OFFICE OF THE COMMISSIONER

Division of Information Management

Division of Protest Resolution

Special Investigations Division

Division of Taxpayer Ombudsman

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.

The Special Investigations Division 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 prosecute criminal activity around the state.

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 collected a total of over \$300 million in Fiscal Year 2022-23.

The Division of Collections engages in collection efforts for external enterprise agencies as contractually agreed upon and collected more than \$10.1 million of debt on their behalf. A breakdown of agencies and collected amounts are below.

	FY 2022-23	Cumulative Total
Board of Nursing	\$11,277.01	\$371,364.06
CHFS – Legal Services	\$1,300.00	\$45,022.16
Crime Victims Compensation Board	\$14,330.77	\$176,554.37
Department of Medicaid Services	\$41,637.84	\$1,259,480.30
Department of Financial Institutions	\$15,418.46	\$149,252.16
Eastern Kentucky University	\$1,783,424.42	\$8,291,215.83
Kentucky Community and Technical College Systems	\$1,463,020.71	\$88,016,751.07
Kentucky Higher Education Assistance Authority	\$515,652.54	\$5,171,311.81
Kentucky Labor Cabinet	\$367,647.81	\$1,597,772.90
Kentucky State University	\$10,833.03	\$240,605.92
Morehead State University	\$525,166.65	\$15,458,612.34
Murray State University	\$816,623.50	\$5,029,539.89
Northern Kentucky University	\$1,337,041.52	\$13,758,311.67
The University of Kentucky	\$1,945,114.00	\$12,007,347.33
Western Kentucky University	\$1351,322.30	\$10,298,705.27

2023 Statistics

- Incoming and Outgoing Phone Calls: 308,819.
- Outgoing Correspondence: 409,432.
- In-Person Conferences: 1064.
- Correspondence Received and Worked: 109,911.

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.

OFO 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 \$100 million of tax due as a result of the 705 audits conducted.
- Assessed over \$2.8 million of tax due as a result of other compliance measures.
- Collected more than \$1.7 million from approximately 4,500 out-of-state or unregistered transient vendors identified by OFO staff at over 750 local events across the Commonwealth.
- Collected \$13.2 million in payments through taxpayer assistance programs.
- Received and responded to more than 37,000 phone calls from taxpayers and tax professionals.
- Received and responded to over 14,000 in-person inquiries from taxpayers who visited TSCs.
- Prepared approximately 1,450 individual income tax returns through OFO VITA sites.



OFFICE OF INCOME TAXATION

Division of Individual Tax Division of Corporation Tax

The Office of Income Taxation consists of two divisions: (1) Individual Tax and (2) 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, pass-through entity, and withholding tax returns. In calendar year 2023, DOR received more than:

- 2 million individual income tax returns.
- 310,000 corporate income and pass-through entity tax returns.
- 960,000 withholding tax returns.

The **Division of Individual Tax** and the **Division of Corporation Tax** each perform a vast array of common services for taxpayers across the Commonwealth. Although one division 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 \$62.3 million of individual income tax due and refund request reductions through compliance measures.
- Assessed more than \$33 million of corporate income and pass through entity tax due and refund request reductions through compliance measures.
- Assessed over \$73 million of withholding tax due through compliance measures.

Taxpayer and Preparer Assistance

- Received and responded to approximately 20,406 webmaster inquiries from taxpayers.
- Received and responded to over 24,602 other correspondence inquiries from taxpayers.
- Received and responded to more than 134,124 phone calls involving individual and withholding tax inquiries from taxpayers and preparers.
- Received and responded to approximately 22,500 calls involving corporate and pass through entity tax inquiries from taxpayers and preparers.
- Processed over 13,000 corporate “Letter of Good Standing” requests.

Electronic Filing of Income Tax Returns

- 93% of individual income tax returns were filed electronically in calendar year 2023.
- 58% of corporate income tax returns were filed electronically in calendar year 2023.

OFFICE OF INCOME TAXATION

Division of Individual Tax
Division of Corporation Tax

Tax Credits

The Division of Corporation Tax administers different incentive tax credits for the Commonwealth. Some examples and the tax credit amounts claimed in Fiscal Year 2022-23 are listed below.

Examples of Economic Development Tax Credits Managed by DOR (FY 2022-23)

Kentucky Business Investment	\$22,321,305
Kentucky Industrial Development Act	\$292,927
Kentucky Industrial Revitalization Act	\$578,741
Kentucky Rural Economic Development Act	\$584,276

Examples of Additional Tax Credits Managed by DOR (FY 2022-23)

Distilled Spirits Ad Valorem	\$679,083
Film	\$11,609,010
Skills Training Investment	\$27,514

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) consists 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 28 in-person property tax training courses for 566 participants during the 2022-23 fiscal year as well as two virtual trainings for 120 participants. The annual OPV Conference on Assessment Administration was held in Bowling Green in calendar year 2022.

- Collected in excess of \$774.4 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 \$388 million in property tax revenue.
- Assisted school districts across the state with the receipt of over \$2.2 billion of property tax revenue.
- Assisted local jurisdictions in all counties with the receipt of more than \$3.3 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 \$156.62 million in severance tax receipts from mining and extraction companies, which includes over:
 - \$16.826 million of natural gas tax.
 - \$104.592 million of coal severance tax.
 - \$27.093 million of solid minerals severance tax.
 - \$8.109 million of oil production tax.
- Assessed more than \$919.37 million of unmined mineral property, which includes:
 - \$377.70 million of oil assessments.
 - \$440.07 million of natural gas assessments.
 - \$100.98 million of limestone assessments.
 - \$620,259 of clay assessments.

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 revenue from these assessments can be brought up to date.

OFFICE OF PROPERTY VALUATION

Division of Local Support

Division of Minerals Taxation and GIS Services

Division of State Valuation

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 \$59 billion related to public service and centrally assessed companies and collected more than \$104 million in associated taxes, which includes:
 - \$80.9 million collected from public service companies.
 - \$16.6 million collected from telecommunications and video providers.
 - \$2.5 million collected from distilled spirit companies.
 - \$4.9 million from commercial watercraft companies.
- Determined assessment values of \$97 billion related to bank deposits and collected more than \$971,000 in associated taxes.
- Assessed domestic life insurance company capital and reserve values in excess of \$1.5 billion.
- Assessed tangible, omitted tangible, and compliance tangible personal property values and collected over \$118 million in related taxes, which includes:
 - \$106 million of tangible personal property tax.
 - \$12 million of omitted tangible personal property tax.
- Collected payments related to \$9.4 million of Tennessee Valley Authority (TVA) in Lieu of Tax distributions.
- Determined assessment values of over \$46 billion related to motor vehicles and boats and collected more than \$203 million in associated taxes, which includes:
 - \$191 million of motor vehicle property tax.
 - \$6 million of motorboat property tax.
 - \$6.8 million of apportioned vehicle fees.

OFFICE OF SALES AND EXCISE TAXES

Division of Sales and Use Tax Division of Miscellaneous Taxes

The Office of Sales and Excise Taxes (OSET) consists of two divisions: (1) Sales and Use Tax and (2) 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 CMRS 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 and responds to taxpayer inquiries; and reviews, adjusts, 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 insurance surcharge taxes
- Legal process tax
- Marijuana and controlled substance tax
- Motor vehicle rental / ride share 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)
- Spouse abuse shelter fund

OFFICE OF SALES AND EXCISE TAXES

Division of Sales and Use Tax Division of Miscellaneous Taxes

- Collected in excess of \$49.6 million through tax compliance programs and refund request reductions.
- Distributed over \$9.8 million to the Kentucky 911 Services Board.
- Continued registration of out-of-state retailers and collected \$321.7 million from remote retailers, including \$215.5 million from third party marketplace sales and \$106.2 million from remote retailer sales.
- Implemented numerous tax law changes:
 - Registered and issued over 11,000 agricultural exemption permits during the fiscal year to facilitate changes required by Senate Bill 121, which extended the deadline until 01/01/2023 for farmers with agricultural exemption permits to make authorized sales tax-exempt purchases. The cumulative total of exemption permits is over 42,000.
 - Administered the expansion of the sales tax base to an additional 34 services and provided detailed FAQ guidance at [TaxAnswers.ky.gov](https://taxanswers.ky.gov).
 - Began administration of the new motor vehicle rental/ride share excise tax, effective 01/01/2023 and collected \$14.16 million for the fiscal year.
 - Expanded the state-wide transient room tax base to include campgrounds and RV parks.
- Collected more than \$151.3 million in sales and use tax through the national Streamlined Sales Tax Registration System (21% increase compared to prior fiscal year).
 - Collected over \$106.3 million of the overall total from newly registered voluntary Streamlined Sales Tax sellers.
- Distributed over \$18.8 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 almost \$7 million from tire tax fees to the Energy and Environment Cabinet.
- Verified and issued 9 sales tax TIF refunds totaling over \$13.7 million.
- Verified and issued 21 tourism attraction project tax refunds totaling more than \$10.2 million.
- Verified and issued 21 Kentucky Enterprise Initiative Act (KEIA) refunds totaling over \$2.8 million.
- Received and responded to more than 107,000 phone calls and over 35,300 electronic inquiries from taxpayers and tax professionals.
- Distributed in excess of \$11.9 million from Public Service Commission assessments to the Public Service Commission.
- Conducted 630 retail cigarette inspections to ensure compliance with the Tobacco Master Settlement Agreement.
- Collected and distributed more than \$266.4 million of UGRLT payments to school districts across the Commonwealth.
- Distributed over \$865,000 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 consists of two divisions: (1) Registration and (2) Operations and Data Integrity. 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 12,800 tax registration applications and reviewed over 39,700 tax registrations completed through Kentucky Business One Stop.
- Administratively registered over 24,900 non-compliant businesses.
- Reviewed and processed over 12,900 update/cancellation applications.
- Completed more than 222,800 tax account maintenances.
- Generated over \$533 million in additional revenue through compliance efforts (15.6% increase over fiscal year 2022).
- Answered more than 101,000 calls from taxpayers and preparers and made over 13,000 outgoing calls regarding business tax registration.

The **Division of Operations and Data Integrity** 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.

- Processed more than 2 million individual income tax returns in calendar year 2023 (the average processing time was 6.5 days).
- Processed over \$439.7 million of individual income tax refunds to taxpayers in calendar year 2023 (the average refund amount was \$419 per taxpayer).
- Deposited receipts in excess of \$14.9 billion electronically.
- Prevented the issuance of more than \$30.3 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.

SUMMARY OF TAX LAW CHANGES ENACTED BY THE 2023 GENERAL SESSION

House Bill 1

Income Taxes

- Codifies the individual income tax rate to 4.5% for tax years beginning on or after 01/01/2023.
- Reduces the individual income tax rate to 4.0% for tax years beginning on or after 01/01/2024.
- Rate reduction also addressed in House Bill 360.

House Bill 5

Income Taxes

- Modifies distilled spirits inventory tax credit for tax years beginning on or after 01/01/2024.
 - DOR must determine the accumulated distilled tax credit for each taxpayer.
 - Establishes an election for a taxpayer to make for tax years beginning on or after 01/01/2024.
 - Forms must be modified.
- Repeals pass-through entity (PTE) level tax from House Bill 360 and re-enacts with new provisions including a 100% refundable credit.
 - Forms must be created for PTE level tax election.
 - New receipts account has been created and programming must be completed on legacy systems.
 - Retroactive to 01/01/2022.
 - DOR has already received several questions from stakeholders.

Property Taxes

- Establishes a gradual phase-out of ad valorem taxes on distilled spirits stored or aging in barrels beginning in 2026.
- Full exemption will be in place for 2043.
- Requires any renegotiated settlement agreement regarding distilled spirits in a bonded warehouse to be promulgated in an administrative regulation.
- Establishes an annual replacement tax to cover loss of revenue for school districts and fire protection districts.
 - Includes a formula for how replacement tax is calculated.
 - Replacement tax begins in 2026.

Sales and Excise Taxes

- Removes social media that was included in House Bill 360's definition of "telemarketing services."

SUMMARY OF TAX LAW CHANGES ENACTED BY THE 2023 GENERAL SESSION

House Bill 28

Alcoholic Beverage Excise Taxes

Income Taxes

- Modifies wage assessment language to bring it in line with the 2022 House Bill 8 changes to reduce the individual income tax rate.
- Modifies continuous film tax credit by adding definitions and setting aside \$25 million of the annual cap for approved continuous film production companies.

Sales Taxes

- Allows hydrogen transmission pipelines to be eligible for sales tax refunds through the Kentucky Enterprise Initiative Act (KEIA).
- Bill effective 06/29/2023.

House Bill 360

Income Taxes

- Establishes an election for a pass-through entity level tax (repealed in House Bill 5).
- Updates Internal Revenue Code to the Code in effect on 12/31/2022.
- Adds language to treat restaurant revitalization grants the same as federal (Proposal).
- Codifies individual income tax rate reduction beginning 01/01/2024 and 01/01/2025, modifies conditions, and removes DOR from the process.
- Each rate reduction requires updating withholding tables and programming changes, including on legacy systems.
- Amends Tax Increment Financing (TIF) language for certain TIFs to hold projects with withholding increments harmless.
 - Only includes TIFs under KRS Chapter 154.
- Modifies decontamination credit requirements and limits amount that may be awarded for 2022-23 and 2023-24.

SUMMARY OF TAX LAW CHANGES ENACTED BY THE 2023 GENERAL SESSION

House Bill 360 (Continued)

Property Taxes

- Clarifies that the final rate must be set within 45 days from DOR's certification of the county property tax rolls (Proposal).
- Exempts certain types of property from the state and local ad valorem taxes (Proposal to exempt property taxed at one-tenth of one cent).
- Establishes property valuation methodology for multi-unit rental housing subject to government restriction use.

Sales and Excise Taxes

- Exempts "human service transportation delivery" from the ride sharing tax (Proposal).
- Clarifies filing deadline for ride sharing tax (Proposal).
- Clarifies the following sales tax definitions (Proposal):
 - Cosmetic surgery services
 - Executive employee recruitment services
 - Extended warranty services
 - Lobbying services
 - Telemarketing services
- Removes marketing services as a taxable service (Proposal).
- Clarifies that residential utilities exemption applies to an owner/operator of a multi-unit residential rental facility.
- Adds additional sales and use tax exemptions for the construction of municipal water and sewer facilities and pre-written software for print technology.
- Excludes certain nonprofits from sales and use tax for concessions and fundraising purposes for leisure, recreational, and athletic services.
- Extends tourism development agreements entered into with a tourism attraction and in effect on 01/01/2020 for one year if certain conditions are met.
- Allows road and travel services providers to not separately state the tax from the sales price.
- Includes recreational vehicles in the definition of "motor vehicles."
- Requires DOR to submit a report to the Interim Joint Committee of Appropriation & Revenue related to a centralized tax reporting and distribution system for state and local transient room taxes.
- Sales and excise tax changes are either retroactive or effective immediately upon becoming law due to emergency clause.

House Bill 551

Excise Taxes

- Legalizes sports wagering.
- Establishes a sports wagering administration fund.
- Establishes a new excise tax of 9.75% on the adjusted gross revenue of wagers placed at the licensed tracks and 14.25% on the adjusted gross revenue on wagers placed online.
- All receipts from the excise tax will be appropriated to the sports wagering administration fund.
- Effective 06/29/2023.

SUMMARY OF TAX LAW CHANGES ENACTED BY THE 2023 GENERAL SESSION

House Joint Resolution 39

Taxpayer Assistance

- Addresses recommendations from the Benefits Cliff Task Force.
- Allows the Cabinet for Health and Family Services to partner with DOR to help educate eligible individuals on the Earned Income Tax Credit and free e-filing of returns.
- May lead to increased demand for DOR's free e-filing service through the Taxpayer Service Centers.
- Effective 06/29/2023.



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