

Kentucky Tax Alert

A REVENUE PUBLICATION FOR THE TAX PROFESSIONAL

January 2005 Vol. 24, No. 6

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Gov. Ernie Fletcher announces more than \$127 million in delinquent taxes recovered in 2004

State Collects Nearly \$35 Million More Than Last Year



In early December, Gov. Ernie Fletcher announced that the Department of Revenue (DOR) had significantly increased its collection of past due taxes during the first year of his administration.

From January-November 2004, the department has collected \$127,306,279 in delinquent taxes, an increase of \$34.9 million over January-November 2003 collections. These dollars are included in the regular revenue stream and have been incorporated into revised budget estimates.

"I am very pleased with the work that Secretary Rudolph and the DOR have done to significantly increase the collection of delinquent taxes owed to the commonwealth," Governor Fletcher said. "My administration has placed an increased emphasis on the need to collect what is owed to the state as opposed to increasing the load on those law abiding taxpayers who are already paying their share."

"The DOR is charged with administering the laws of this commonwealth as they relate to revenue and taxation, one of which is the collection of delinquent taxes," Finance and Administration Cabinet Secretary Robbie Rudolph said. "We take this charge very seriously and have aggressively worked to increase our collections so far this year by 37.8 percent primarily through process improvements, collections staff increases, training and enhanced automation."

The department will post the top 200 most delinquent taxpayers on its Web site; 100 individuals and 100 businesses. This listing will include the name, address and amount of past due taxes. Over time, this list may be expanded to include a larger number of delinquent taxpayers, both individual and corporate.

Individuals and businesses who believe they may owe past due taxes and wish to keep their names off the delinquent taxpayer Web site should contact the Department of Revenue at (502) 564-4921, ext. 5367.

Use Tax Reminder



We would like to remind tax professionals and their clients of the use tax responsibilities. KRS 139.310 and 139.330 impose use tax on those out-of-state purchases for

storage, use or other consumption in Kentucky. Purchases of items such as aircraft, boats, artwork, jewelry, furniture, clothing, software, sporting goods, electronics, computers, books, and magazines are examples of personal items bought out of state that may be subject to Kentucky use tax.

Use tax purchases may be reported by individuals on line 23 of the Kentucky

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Kentucky Tax Registration Application



When an application is submitted to the Department of Revenue (DOR) for registration, please make sure that all sections of the application are complete and that it is submitted in a timely manner. Please call the DOR at (502) 564-3371 if you are uncertain which tax numbers you need.

The DOR needs an accurate description of business activity. The following items are critical in order to process the tax registration application: include the start dates for withholding and sales taxes; list the responsible parties and contact information; and include phone number where a contact can be reached.

The DOR wants to provide the best possible service. Whenever information is missing, it necessitates a phone call and/or a letter. Sometimes messages left on a machine are not returned. This results in delays in processing that can be avoided when the application is correctly completed or there is reliable contact information.

Kentucky Tax Alert is a bimonthly publication printed on recycled paper, the cost of which is paid from state funds. Comments, suggestions and mailing list additions or corrections should be addressed to the Office of Public Information, Finance Secretary's Office, Frankfort, Kentucky (502) 564-4240.

ERNIE FLETCHER, Governor

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Finance and Administration Cabinet

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The Department of Revenue can be found at www.revenue.ky.gov.

2005-2006 Homestead Exemption Set at \$29,400



The maximum Homestead Exemption (HEX) on real estate owned by qualified persons has been increased to \$29,400 for the 2005 and 2006 tax periods.

The amount of the Homestead Exemption is adjusted every two years in accordance with KRS 132.810 to compensate for changes in the purchasing power of the dollar. The 2005-2006 exemption represents a \$1,400 increase over the 2003-2004 exemption of \$28,000.

The Homestead Exemption provides state and local property tax savings of approximately \$113 million to over 375,000 elderly or disabled Kentuckians during the 2005 tax year. Property owners who do not qualify for the Homestead Exemption will absorb this amount through the compensating property tax rate process.

To qualify for the Homestead Exemption, a person must be at least 65 years old during the tax period or have been classified as totally disabled by any public or private retirement system. The property must also be owned, occupied and maintained by the taxpayer as a personal residence on the January 1 assessment date. Disabled persons less than 65 years of age must make an application on an annual basis.

Gasoline Excise Tax Rate



Under KRS 138.210 and KRS 138.220, the Department of Revenue (DOR) is responsible for establishing the average wholesale price (AWP) of gasoline for the purposes of calculating the gasoline excise tax rate. The current price calculation is based on sales data accumulated for the month of October 2004 and a grade and formulation weighted average reflecting gasoline consumption patterns.

For the quarter commencing Jan. 1, 2005, the DOR has determined the AWP of gasoline remains at \$1.22. Therefore, the rate remains 17.4 cents per gallon for gasoline and 14.4 cents per gallon for special fuels and is inclusive of the 1.4 cents Petroleum Storage Tank Environmental Assurance Fee. Additionally, the rate for liquefied petroleum remains at 16 cents per gallon.

Court Case Updates

Income Tax

The Kentucky Board of Tax Appeals (“KBTA”) rendered a decision on Nov. 22, 2004 in the Department of Revenue’s (DOR) favor in the individual income tax case of *Lee and Richelle Baugher v. Department of Revenue*, K02-R-29. The taxpayer, Lee Baugher, was a sole shareholder of Three Amigos, Inc., a Kentucky subchapter S Corporation. Three Amigos operated a restaurant in Tennessee and paid a Tennessee excise tax for its operations in that state.

The KBTA’s Nov. 22, 2004, decision upholds the DOR’s assessment based upon its denial of the credit sought by Mr. Baugher pursuant to KRS 141.070(1).

KRS 141.070(1) states:

“Whenever an individual who is a resident of this state has become liable for income tax to another state upon all or any part of his net income for the taxable year, derived, from sources without this state and subject to taxation under this chapter, the amount of income tax payable by him under this chapter shall be credited on his return with the income tax so paid by him to the other state”.

The KBTA holds that a taxpayer bears the burden of proving that the following requirements for the credit have been met:

- (1) the taxpayer must be an individual (i.e., not a business entity);
- (2) the taxpayer must be a resident of this state;
- (3) the income in question must be derived from sources without this state;
- (4) the income in question must be subject to taxation by the Commonwealth;
- (5) the taxpayer must “become liable for income tax to another state upon all or any part of this net income for the taxable year,” and
- (6) the tax must be “paid by him to the other state.”

In this case, Baugher satisfied requirements (1) through (4). However, he did not meet requirements (5) and (6), Baugher was not and could not be liable for the excise tax paid by Three Amigos. Three Amigos was a separate legal entity and there

was no authority in Tennessee law for imposing liability for the excise upon Baugher, a stockholder. It was stipulated that the Tennessee excise tax was imposed upon and paid by Three Amigos and not Baugher.

No appeals having been taken, this decision is now final.

Envelopes, Envelopes and More Envelopes



In response to a suggestion from the newly formed Practitioners Council, the Department of Revenue will provide FREE to preparers yellow and blue envelopes for mailing individual income tax returns if

picked up at any of the Taxpayer Service Centers located throughout the Commonwealth, including Frankfort.

In addition, the Department has ordered yellow and blue envelopes in a larger size (10" X 13") to accommodate larger returns. The larger envelopes also will be provided FREE. The anticipated delivery date of these envelopes is mid- to-late January.

Envelopes may still be purchased and shipped for a charge of approximately \$8 per hundred for the larger envelopes and \$3.50 per hundred for the regular size, plus sales tax.

Although the Department encourages filing of returns electronically, there are certain returns that do not qualify and providing the envelopes will benefit both the DOR and preparers.

Use Tax Reminder

(cont. from front page)

individual income tax return (740, 740EZ, 740NP). Use tax may also be reported and paid on form 51A113(O), available on the web at www.revenue.ky.gov. Businesses and entities registered for sales tax must report their use tax on line 23(a) of the Kentucky sales and use tax return. If you have any questions about use tax, please call the Division of Sales and Use Tax at (502) 564-5170.

NOTE: If a return due date falls on a scheduled holiday or weekend, returns will be due the next working day.

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January	18	Estimated Corporation Income Tax/One Half Est. (FY ending 7/31)	
	18	Estimated Corporation Income Tax/One Fourth Est. (FY ending 1/31)	
	18	Estimated Corporation Income Tax/One Fourth Est. (FY ending 4/30)	
	18	Estimated Tax/Individuals/One Fourth Est.	
	20	Coal Severance Tax Returns (December Payment)	
	20	Oil Production Tax Returns (December Payment)	
	20	Monthly Sales Tax Returns (December Payment)	
	20	Quarterly Sales Tax Returns	
	20	Annual Sales Tax Returns	
	20	Health Care Provider Tax Returns (December Payment)	
	25	Monthly Motor Fuels Tax Returns (December Payment)	
	25	Monthly Sales Tax Returns (Accelerated Payment)	
	February	1	Income Tax Withholding Returns/Electronic Funds Transfer (EFT) Filers/Annual Reconciliation
		1	Minerals and Gas Severance Tax Returns (December Payment)
		1	Monthly Income Tax Withholding Returns (December Payment and K-2s)
1		Quarterly Income Tax Withholding Returns (Quarterly Payment and K-2s)	
1		Annual Income Tax Withholding Returns (Annual Payment and K-2s)	
1		Annual Report of Distilled Spirits in Bonded Warehouses (as of 1/1/05)	
10		Twice-Monthly Income Tax Withholding Returns (January 1- January 31 Payment/EFT Payment)	
15		Estimated Corporation Income Tax/One Half Est. (FY ending 8/31)	
15		Estimated Corporation Income Tax/One Fourth Est. (FY ending 2/28)	
15		Estimated Corporation Income Tax/One Fourth Est. (FY ending 5/31)	
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21		Oil Production Tax Returns (January Payment)	
21		Monthly Sales Tax Returns (January Payment)	
21		Health Care Provider Tax Returns (January Payment)	
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25	Monthly Motor Fuels Tax Returns (January Payment)		
25	Monthly Sales Tax Returns (Accelerated Payment)		
March	1	Minerals and Gas Severance Tax Returns (January Payment)	
	1	Watercraft Property Tax Return (as of 1/1/05)	
	10	Twice-Monthly Income Tax Withholding Returns (February 16 - February 28 Payment/EFT Payment)	
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	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 3/31)	
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 6/30)	
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	15	Bank Franchise Tax Returns	
	21	Coal Severance Tax Returns (February Payment)	
	21	Oil Production Tax Returns (February Payment)	
	21	Monthly Sales Tax Returns (February Payment)	
	21	Health Care Provider Tax Returns (February Payment)	
	25	Twice-Monthly Income Tax Withholding Returns (March 1- March 15 Payment/EFT Payment)	
	25	Monthly Motor Fuels Tax Returns (February Payment)	
	25	Monthly Sales Tax Returns (Accelerated Payment)	
April	1	Minerals and Gas Severance Tax Returns (February Payment)	
	1	Electric Plant Board Property Tax Returns (as of 1/1/05)	
	11	Twice-Monthly Income Tax Withholding Returns (March 16 - March 31 Payment/EFT Payment)	
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	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 7/31)	
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	15	Quarterly Estimated Tax Returns/Individuals (One Fourth Payment)	
	15	Annual Individual Income Tax Returns	
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	20	Quarterly Sales Tax Returns	
	20	Coal Severance Tax Returns (March Payment)	
	20	Oil Production Tax Returns (March Payment)	
	20	Health Care Provider Tax Returns (March Payment)	
	25	Twice-Monthly Income Tax Withholding Returns (April 1 - April 15 Payment/EFT Payment)	
25	Monthly Motor Fuels Tax Returns (March Payment)		
25	Monthly Sales Tax Returns (Accelerated Payment)		

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May	2	Income Tax Withholding Returns/Electronic Funds Transfer (EFT) Filers/First Quarter Reconciliation	
	2	Quarterly Income Tax Withholding Returns	
	2	Minerals and Gas Severance Tax Returns (March Payment)	
	2	Public Service Company Property Tax Returns (as of 12/31/04)	
	2	Railroad Car Line Property Tax Returns (as of 12/31/04)	
	10	Twice-Monthly Income Tax Withholding Returns (April 16 - April 30 Payment/EFT Payment)	
	16	Intangible Personal Property Tax Return (Taxpayer will be billed later)	
	16	Tangible Personal Property Tax Return (Taxpayer will be billed later)	
	16	Estimated Corporation Income Tax/One Half Est. (FY ending 11/30)	
	16	Estimated Corporation Income Tax/One Fourth Est. (FY ending 5/31)	
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	20	Coal Severance Tax Returns (April Payment)	
	20	Oil Production Tax Returns (April Payment)	
	20	Health Care Provider Tax Returns (April Payment)	
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	25	Monthly Motor Fuels Tax Returns (April Payment)	
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		15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 9/30)
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	25	Twice-Monthly Income Tax Withholding Returns (August 1- August 15 Payment/EFT Payment)	
25	Monthly Motor Fuels Tax Returns (July Payment)		
25	Monthly Sales Tax Returns (Accelerated Payment)		

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September	1	Minerals and Gas Severance Tax Returns (July Payment)	
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	20	Coal Severance Tax Returns (November Payment)	
	20	Oil Production Tax Returns (November Payment)	
	20	Monthly Sales Tax Returns (November Payment)	
	20	Health Care Provider Tax Returns (November Payment)	
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	30	Monthly Motor Fuels Tax Returns (November Payment)	
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2004 FEDERAL/KENTUCKY INDIVIDUAL INCOME TAX DIFFERENCES

Kentucky income tax law is based on the federal income tax law in effect on December 31, 2001. The Department of Revenue generally follows the administrative regulations and rulings of the Internal Revenue Service in those areas where no specific Kentucky law exists.

The chart below provides a quick reference guide to the major federal/Kentucky differences. It is not intended to be all inclusive. Items not listed may be referred to the Department of Revenue to determine Kentucky tax treatment.

PROVISION	FEDERAL TAX TREATMENT	KENTUCKY TAX TREATMENT
1. Interest from Federal Obligations	Taxable	Exempt
2. Retirement Income from:		-----
Commonwealth of Kentucky Retirement Systems	Taxable	Partially exempt if retired after December 31, 1997; exempt if retired before January 1, 1998; Schedule P may be required
Kentucky Local Government Retirement Systems	Taxable	
Federal and Military Retirement Systems	Taxable	-----
3. Pensions and Annuities Starting After 7/1/86 and Before 1/1/90	3-year recovery rule eliminated	3-year recovery rule retained
4. Other Pension and Annuity Income	Taxable	100% excludable up to \$40,200; Schedule P may be required
5. Benefits from U.S. Railroad Retirement Board	May be taxable	Exempt; Schedule P may be required
6. Social Security Benefits	May be taxable	Exempt
7. Capital Gains on Sale of Kentucky Turnpike Bonds	Taxable	Exempt
8. Other States' Municipal Bond Interest Income	Exempt	Taxable
9. Kentucky Local Government Lease Interest Payments	Taxable	Exempt
10. Long-Term Care Insurance Premiums Paid With After-Tax Dollars	Limited deduction as self-employed health insurance	100% adjustment to gross income
11. Medical and Dental Insurance Premiums Paid With After-Tax Dollars	Limited deduction as self-employed health insurance	100% adjustment to gross income
12. Capital Gains on Property Taken by Eminent Domain	Taxable	Exempt
13. Election Workers—Income for Training or Working at Election Booths	Taxable	Exempt
14. Artistic Contributions	Noncash contribution allowed as itemized deduction	Appraised value allowed as itemized deduction or adjustment to income
15. State Income Taxes	Deductible	Nondeductible
16. Leasehold Interest—Charitable Contribution	May be deductible	Deductible; Schedule HH required
17. Kentucky Unemployment Tax Credit	No credit allowed	\$100 per certified employee; Schedule UTC required
18. Work Opportunity Credit (federal Form 5884)	Tax credit allowed; wage expense reduced by amount of credit	No credit allowed; entire wage expense is deductible
19. Welfare to Work Credit (federal Form 8861)	Tax credit allowed; wage expense reduced by amount of credit	No credit allowed; wage expense reduced by amount of federal credit
20. Child and Dependent Care Credit	Tax credit based on expenses	20% of federal credit
21. Low Income Credit	No credit allowed	Decreasing tax credit allowed
22. Recycling and/or Composting Equipment Tax Credit	No credit allowed	Tax credit allowed; Schedule RC or RC(K-1) required
23. Taxpayer who may be Claimed as Dependent on Another's Return (i.e., full-time student)	May not claim self	May claim self
24. Child's Income Reported by Parent	Permitted; taxed at parent's rate	Not permitted
25. National Tobacco Settlement and TLAP Income	Taxable	Exempt
26. Skills Training Investment Tax Credit Kentucky Investment Fund Tax Credit Employer GED Incentive Tax Credit	No credit allowed	Tax credit allowed; Schedule TC required
27. Bonus Depreciation/Additional Section 179	Deductible	Nondeductible
28. Reservist Expenses	Adjustment to gross income	Deductible; Schedule A required
29. Health Savings Accounts Contributions Interest and Archer MSA Rollovers Nonqualified Distributions	Deductible Exempt Taxable	Nondeductible Taxable Exempt
30. Educator Expenses	Adjustment to gross income	Deductible; Schedule A required

DEPARTMENT OF REVENUE CONCERNS FOR PRACTITIONERS



- The DOR plans to have fill-in-the-blank forms available on the Internet for most of the individual income tax forms for tax year 2004.

- Tax Practitioners should advise e-filers not to send a copy of the return with the payment. Form 740-V should accompany the payment to ensure processing to the proper return. The check should include the Social Security numbers (SSNs) and the tax year. Numerous individual income tax return copies (the second return mailed with the payment) are processed as original returns. This results in the original return being billed for non-payment.

- Attach forms together with one staple in the upper left hand corner to Forms 740 or 740 NP in the following order:

- Pages 1 and 2 of the form;
- Any extension to file;
- Kentucky schedules, alphabetically;
- Other tax forms in numerical order, smallest first; and
- Copies of the federal return, if required.
- Kentucky copies of wage and tax statements must be attached to the return. Failure to attach the wage statement verifying Kentucky withholding will delay the processing of the return.
- Wage and Tax Statements should be attached to Forms 740-EZ, 740 or 740-NP on page 1 of the tax return. Staple the wage and tax statements to the top page only with two staples. Care should be taken to

avoid tearing the tax forms and there should not be any markings on the return outside of the fields allowed for writing.

Wage statements that are faxed or copied are not allowable statements.

- Envelopes:
 - Use the yellow envelope for pay returns.
 - Use the blue envelope for refund returns and for other returns without payments.
 - Fold the return in half. This reduces the thickness of the envelope and increases the efficiency of the department's mail opening equipment.
 - Provide all of your clients with copies of the taxpayer's income tax return including copies of all applicable schedules and wage and tax statements.
 - The Social Security numbers are not on the preprinted labels. Print the Social Security numbers in the appropriate boxes on the returns.
 - It is important to use the preprinted labels, if correct, as it speeds up processing and helps with accuracy.
 - Changes in filing status may render the preprinted label unusable. For instance, if the filing status for the prior year was married filing jointly and the current filing status is single.
 - When applicable, use Form 2210-K, Underpayment of Estimate Tax by Individuals, to calculate any underestimated tax penalties or to claim a waiver of penalty. Check appropriate box on Forms 740 when Form 2210-K is attached.
 - If a pay agreement is needed, attach Kentucky Individual Income Tax Installment Agreement Request (or statement) to the front of return.

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**DEPARTMENT OF REVENUE
CONCERNS FOR PRACTITIONERS**
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- Attach copies of returns for other states when credit is claimed paid to another state. A supplemental statement signed by the tax manager of an S-Corporation or partnership is also accepted. Without the other state's return copy, DOR employees must request these copies, which delays the processing of the taxpayer's return.
- Attach a copy of the letter sent to the taxpayer from DOR when responding for a client. This ensures the correspondence will be matched to the return and completion of the return's processing will be promptly resumed .
- Attach all schedules affected by a change reported on an Amended Income Tax Return.
- Attach wage statements to 2D barcode returns. The DOR has received numerous 2003 2D barcode returns that did not have wage statements attached. Although the information is in the barcode, the wage statements need to be attached for verification of withholding claimed.
- Staple Form 1045-K to the front of the loss-year return copy. Write "Copy; do not process" on the return copy.

Enterprise Zone Update



Effective Dec.31, 2004, enterprise zones in Covington and Ashland expired. The Department of Revenue is revising the enterprise zone exemption certificates (Forms 51A151 and 51A152) to remind both purchasers and vendors of these changes.

Qualified businesses in the Covington and Ashland enterprise zones will no longer be able to buy machinery and equipment exempt from sales and use

tax effective Jan. 1, 2005. Likewise, building material purchases for installation in the enterprise zone in Covington or Ashland will be taxable as of Jan. 1, 2005.

For a sale to qualify as exempt for use in the Covington or Ashland zones, there must be either the transfer of title or possession of the property to the customer on or before Dec. 31, 2004. In addition, the appropriate exemption form must be provided to the supplier. **As a reminder, the Louisville and Hickman (Fulton County) enterprise zones expired effective Dec. 31, 2003.**

Web Filing of Wage and Tax Statements (W-2s)

Save the cost of a CD or diskette and third party delivery, use Web Filing and receive an e-mail acknowledging receipt and acceptance. Web Filing is the Kentucky Department of Revenue's (DOR) secure Web site that streamlines processing of employees' annual wage and tax information and offers an easy and secure way to meet the filing requirements.



Regulation 103 KAR 18:050 requires any employer who issues **100 or more** Form W-2s annually to utilize an acceptable form of electronic or magnetic media filing. Employers with **fewer than 100** Form W-2s are encouraged, but not required, to utilize electronic or magnetic media filing.

A Kentucky DOR assigned Personal Identification Number (PIN) and the Federal Employer Identification Number (FEIN) of the company submitting the information is required for a secure log on to the Web site. Apply for a PIN by completing Form 42A808. This PIN does not expire. If a PIN was previously assigned for FTP or Web Filing purposes, the PIN is still valid as long as the FEIN of the business has not changed.

For more information about Web Filing, MMREF-1 specifications, or to apply for a PIN, go to <http://revenue.ky.gov/electronicervices.htm#esub>

WHAT'S NEW

STANDARD DEDUCTION—For 2004, the standard deduction is increased to \$1,870.

RETIREMENT INCOME—For 2004, the retirement income exclusion is increased to \$40,200.

INTERNAL REVENUE CODE—Kentucky's income tax law is based on the Internal Revenue Code in effect December 31, 2001, exclusive of any amendments made subsequent to that date, other than amendments that extend provisions in effect on December 31, 2001, that would otherwise expire. Changes to federal income tax law made after the Internal Revenue Code reference date in KRS 141.010(3) do not apply unless adopted by the Kentucky General Assembly. The following acts and related provisions do not apply to Kentucky returns. Bullets describe Kentucky tax treatment for some of the provisions.

Victims of Terrorism Tax Relief Act of 2001 signed on January 23, 2002.

Job Creation and Worker Assistance Act of 2002 (JCWAA) signed on March 9, 2002.

- The 30 percent special depreciation is not allowable for Kentucky income tax purposes.

Trade Act of 2002 signed on August 6, 2002.

- Reduce health insurance premiums by the amount of Health Coverage Tax Credit claimed on federal Form 8885, Health Coverage Tax Credit, and any advance payments from Form 1099-H, box 1, before deducting on Schedule M.

Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) signed on May 28, 2003.

- Section 179 expense allowance is limited to \$25,000 and the phase-out threshold is \$200,000 for Kentucky income tax purposes.
- Depreciate off-the-shelf computer software for Kentucky purposes.
- The 50 percent special depreciation is not allowable for Kentucky income tax purposes.

Military Family Tax Relief Act of 2003 signed November 11, 2003.

- The excludable amount of military death benefits is \$3,000 for Kentucky.
- The exclusion of certain income and death benefits of astronauts who have lost their lives on a space mission is not allowable.
- The exclusion for amounts received by certain employees and members of the armed forces under the federal Department of Defense Homeowners Assistance Program is not allowable.
- The above-the-line deduction for overnight transportation, meals and lodging expenses of National Guard and Reserve members who must travel away from home more than 100 miles and who must stay overnight is not allowable. Kentucky National Guard and Reserve members may deduct expenses as a miscellaneous itemized deduction. Form 2106 is required.
- The suspension of the five-year test period for ownership and use of a residence for up to 10 years in excluding gain from the sale or exchange of a principal residence is not applicable for Kentucky.

Medicare Prescription Drug, Improvement and Modernization Act of 2003 signed on December 8, 2003.

- A deduction is not allowed for the amount contributed to a health savings account for an individual.
- Earnings on the health savings account are taxable to the individual.
- Amounts distributed from the health savings account are not taxable to Kentucky, regardless of whether or not the amount is used to pay medical expenses.
- Medical expenses paid with a distribution from a health savings account are allowed in the computation of Kentucky itemized deductions.
- A rollover from an Archer medical savings account to a health savings account results in a taxable transaction.
- Amounts contributed by an employer to a health savings account for an employee are taxable wages to the employee.
- Amounts contributed to a health savings account pretax by an employee under IRC Section 125 (cafeteria plan) are taxable wages for Kentucky.

Working Families Tax Relief Act of 2004 (WFTRA) signed October 4, 2004.

- Teacher's classroom expense deduction is not allowable for Kentucky income tax purposes.

American Jobs Creation Act of 2004 enacted October 11, 2004.

- The Department of Revenue is currently reviewing the provisions of the Act.

SERVICEMEMBERS CIVIL RELIEF ACT (SCRA) signed on December 19, 2003. This Act is not included in the Internal Revenue Code; therefore, Kentucky conforms to all provisions.

TOBACCO QUOTA BUYOUT—Proceeds from a national tobacco buyout are exempt from Kentucky income tax.