

# Kentucky Tax Alert

A REVENUE PUBLICATION FOR THE TAX PROFESSIONAL

January 2006; Vol. 25, No. 1

## Changes to 2005 Kentucky Individual Income Tax Forms

**Form 8863-K, Education Tuition Tax Credit**, has been revised. You may download a copy at the DOR Web site ([www.revenue.ky.gov](http://www.revenue.ky.gov)), obtain a copy at one of our local service centers or request a copy of the revised form by calling (502) 564-4581. This form replaces the Form 8863-K in the 740 booklets and Package K.

The form included in your tax booklet may be used by changing the form as follows: In Part III, mark through Column (e) Tentative Lifetime Credit. Add the Qualified Expenses on line 3, Column (d), and enter on line 4. Complete the rest of the form.

**Form 740-NP Instructions, page 1, left column.**

**WHO MUST FILE FORM 740-NP**—Form 740-NP must be used by full-year nonresidents who had income from Kentucky sources and by part-year residents who

had income while a Kentucky resident or from Kentucky sources while a nonresident. These persons must file Form 740-NP if: (1) they had **any gross income** from Kentucky sources **and gross income from all sources** in excess of modified gross income for their family size; or (2) Kentucky gross receipts from self-employment in excess of modified gross income for their family size listed on page 2 in Chart A.

### **42A740-S4 (10-05), Instructions for Filing Estimated Tax Vouchers**

The date in the upper right-hand corner should read 2006 on printed copies and in the Package K.

The corrected versions are posted on our Web site ([www.revenue.ky.gov](http://www.revenue.ky.gov)). We apologize for any inconvenience this may have caused in completing your Kentucky return.

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## Homestead Exemption Remains at \$29,400

The maximum Homestead Exemption (HEX) on real estate owned by qualified persons remains at \$29,400 for the 2006 tax period. 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 amount was set in 2005 and remains in effect for 2006. The 2005–2006 exemption represents a \$1,400 increase over the 2003–2004 exemption of \$28,000.

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.

## Employer Reporting Requirements

### Methods of Submitting Wage and Tax Statements to DOR

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.

The methods listed below are acceptable and listed in order of preference:

1. Web Filing;
2. CD;
3. 3 ½" Diskette; and
4. Paper (for employers with fewer than 100 Form W-2s).

*NOTE: MMREF-1 IS THE ONLY ACCEPTABLE FILE LAYOUT FOR WEB FILING AND CD/DISKETTE SUBMISSIONS. REFER TO <http://revenue.ky.gov/business/whtax.htm> FOR SPECIFICATIONS.*

Methods other than Web Filing require a Transmitter Report for Filing Kentucky Wage Statements (Form 42A806) when filing Kentucky wage and tax information.

### Completing Wage and Tax Statements (Form W-2/K-2)

In order to properly process W-2 forms, the following information must be provided on all W-2 forms submitted to DOR:

1. Employer's and employee's name and address
2. Employer's withholding account number
3. Employee's Social Security number
4. Total wages paid to employee
5. Federal income tax withheld
6. Kentucky tax withheld
7. Federal ID number
8. State abbreviation in box 15

The most common error found on W-2 forms is an incorrect or missing withholding tax number. This number is used to reconcile the employer's account.

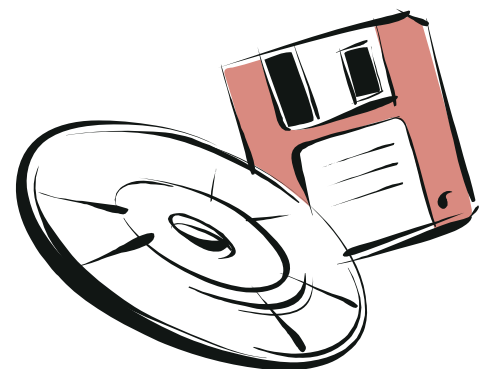
Failure to include the correct account number creates delays in reconciling the account, as well as problems when employees file their individual income tax returns. If you are unsure of the correct account number, please call (502) 564-7287 prior to issuing wage and tax statements.

An extension of 30 days for filing W-2 forms may be granted if requested in writing prior to the January 31 due date. The K-3 return and payment must be filed by January 31.

### Filing Frequency Changes

An employer's filing frequency for withholding tax is updated each year based on the prior year's withholding tax amount. Letters are sent to affected taxpayers each January advising them of the change. Filing frequencies are based upon the amount of Kentucky income tax withheld annually.

Frequency	Tax Withheld
Annual Filer	less than \$400
Quarterly Filer	\$400-\$1,999
Monthly Filer	\$2,000-\$49,999
Twice-Monthly Filer	\$50,000 or more



### DOR Sets 2006 Tax Interest Rate at 7 Percent

Pursuant to KRS 131.183(1), the 2006 tax interest rate charged by the Kentucky DOR on unpaid and delinquent taxes has been set at 7 percent. Where applicable, the same rate is paid on refunds issued by DOR.

The rate, effective Jan. 1, 2006, through Dec. 31, 2006, is based on the prime rate charged by Kentucky banks during October 2005. A recent survey of Kentucky banks showed that the average prime interest rate in October was 6.75 percent, which was rounded to the nearest whole percent (7 percent).

### Gasoline Excise Tax Rate

Under KRS 138.210 and KRS 138.220, the 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 2005 and a grade and formulation weighted average reflecting gasoline consumption patterns.



For the quarter commencing Jan. 1, 2006, the DOR has determined the AWP of gasoline remains at \$1.34. Therefore, the rate remains 18.5 cents per gallon for gasoline and 15.5 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 17.1 cents per gallon.

### 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 27 of the Kentucky individual income tax return (740 and 740-NP) or line 9 (740EZ). Use tax may also be reported and paid on Form 51A113(O), available on the Web site. 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.

**Kentucky Tax Alert** comments and suggestions should be addressed to the Office of Public Information, Finance Secretary's Office, Frankfort, Kentucky, (502) 564-9165, ext. 4500.

**ERNIE FLETCHER, Governor**

**ROBBIE RUDOLPH, Secretary  
Finance and Administration Cabinet**

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

January	17	Estimated Corporation Income Tax/One Half Est. (FY ending 7/31)
	17	Estimated Corporation Income Tax/One Fourth Est. (FY ending 1/31)
	17	Estimated Corporation Income Tax/One Fourth Est. (FY ending 4/30)
	17	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)
	31	Income Tax Withholding Returns/Electronic Funds Transfer (EFT) Filers/Annual Reconciliation
	31	Monthly Income Tax Withholding Returns (December Payment and K-2s)
	31	Quarterly Income Tax Withholding Returns (Quarterly Payment and K-2s)
	31	Annual Income Tax Withholding Returns (Annual Payment and K-2s)
February	1	Minerals and Gas Severance Tax Returns (December Payment)
	1	Annual Report of Distilled Spirits in Bonded Warehouses (as of 1/1/06)
	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)
	15	Monthly Income Tax Withholding Returns (January Payment)
	20	Coal Severance Tax Returns (January Payment)
	20	Oil Production Tax Returns (January Payment)
	20	Monthly Sales Tax Returns (January Payment)
	20	Health Care Provider Tax Returns (January Payment)
	27	Twice-Monthly Income Tax Withholding Returns (February 1 - February 15 Payment/EFT Payment)
	27	Monthly Motor Fuels Tax Returns (January Payment)
	27	Monthly Sales Tax Returns (Accelerated Payment)
March	1	Minerals and Gas Severance Tax Returns (January Payment)
	1	Watercraft Property Tax Return (as of 1/1/06)
	10	Twice-Monthly Income Tax Withholding Returns (February 16 - February 28 Payment/EFT Payment)
	15	Estimated Corporation Income Tax/One Half Est. (FY ending 9/30)
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 3/31)
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 6/30)
	15	Monthly Income Tax Withholding Returns (February Payment)
	15	Bank Franchise Tax Returns
	20	Coal Severance Tax Returns (February Payment)
	20	Oil Production Tax Returns (February Payment)
	20	Monthly Sales Tax Returns (February Payment)
	20	Health Care Provider Tax Returns (February Payment)
	27	Twice-Monthly Income Tax Withholding Returns (March 1 - March 15 Payment/EFT Payment)
	27	Monthly Motor Fuels Tax Returns (February Payment)
	27	Monthly Sales Tax Returns (Accelerated Payment)
April	3	Minerals and Gas Severance Tax Returns (February Payment)
	3	Electric Plant Board Property Tax Returns (as of 1/1/06)
	10	Twice-Monthly Income Tax Withholding Returns (March 16 - March 31 Payment/EFT Payment)
	17	Estimated Corporation Income Tax/One Half Est. (FY ending 10/31)
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	17	Quarterly Estimated Tax Returns/Individuals (One Fourth Payment)
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	20	Monthly Sales Tax Returns (March Payment)
	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	1	Income Tax Withholding Returns/Electronic Funds Transfer (EFT) Filers/First Quarter Reconciliation	
	1	Quarterly Income Tax Withholding Returns	
	1	Minerals and Gas Severance Tax Returns (March Payment)	
	1	Public Service Company Property Tax Returns (as of 12/31/05)	
	1	Railroad Car Line Property Tax Returns (as of 12/31/05)	
	10	Twice-Monthly Income Tax Withholding Returns (April 16 - April 30 Payment/EFT Payment)	
	15	Intangible Personal Property Tax Return (Taxpayer will be billed later)	
	15	Tangible Personal Property Tax Return (Taxpayer will be billed later)	
	15	Estimated Corporation Income Tax/One Half Est. (FY ending 11/30)	
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 5/31)	
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	22	Monthly Sales Tax Returns (April Payment)	
	22	Coal Severance Tax Returns (April Payment)	
	22	Oil Production Tax Returns (April Payment)	
	22	Health Care Provider Tax Returns (April Payment)	
	25	Twice-Monthly Income Tax Withholding Returns (May 1 - May 15 Payment/EFT Payment)	
	25	Monthly Motor Fuels Tax Returns (April Payment)	
	25	Monthly Sales Tax Returns (Accelerated Payment)	
	June	1	Minerals and Gas Severance Tax Returns (April Payment)
		12	Twice-Monthly Income Tax Withholding Returns (May 16 - May 31 Payment/EFT Payment)
		15	Estimated Corporation Income Tax/One Half Est. (FY ending 12/31)
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		15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 9/30)
		15	Estimated Tax/Individuals/One Fourth Est.
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		20	Monthly Sales Tax Returns (May Payment)
		20	Coal Severance Tax Returns (May Payment)
		20	Oil Production Tax Returns (May Payment)
		20	Health Care Provider Tax Returns (May Payment)
		26	Twice-Monthly Income Tax Withholding Returns (June 1 - June 15 Payment/EFT Payment)
		26	Monthly Motor Fuels Tax Returns (May Payment)
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	July	3	Minerals and Gas Severance Tax Returns (May Payment)
		3	Cigarette License Annual Renewal Applications and License Fee
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25	Monthly Sales Tax Returns (Accelerated Payment)		
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	10	Twice-Monthly Income Tax Withholding Returns (July 16 - July 31 Payment/EFT Payment)	
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	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 11/30)	
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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)	
	11	Twice-Monthly Income Tax Withholding Returns (August 16 - August 31 Payment/EFT Payment)	
	15	Estimated Corporation Income Tax/One Half Est. (FY ending 3/31)	
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 9/30)	
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 12/31)	
	15	Estimated Tax/Individuals/One Fourth Est.	
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	20	Coal Severance Tax Returns (August Payment)	
	20	Oil Production Tax Returns (August Payment)	
	20	Monthly Sales Tax Returns (August Payment)	
	20	Health Care Provider Tax Returns (August Payment)	
	25	Twice-Monthly Income Tax Withholding Returns (September 1 - September 15 Payment/EFT Payment)	
	25	Monthly Motor Fuels Tax Returns (August Payment)	
	25	Monthly Sales Tax Returns (Accelerated Payment)	
	October	2	Minerals and Gas Severance Tax Returns (August Payment)
		10	Twice-Monthly Income Tax Withholding Returns (September 16 - September 30 Payment/EFT Payment)
		16	Estimated Corporation Income Tax/One Half Est. (FY ending 4/30)
		16	Estimated Corporation Income Tax/One Fourth Est. (FY ending 1/31)
		16	Estimated Corporation Income Tax/One Fourth Est. (FY ending 10/31)
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		20	Coal Severance Tax Returns (September Payment)
		20	Oil Production Tax Returns (September Payment)
		20	Monthly Sales Tax Returns (September Payment)
		20	Quarterly Sales Tax Returns
		20	Health Care Provider Tax Returns (September Payment)
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25	Monthly Sales Tax Returns (Accelerated Payment)		
31	Income Tax Withholding Returns/Electronic Funds Transfer (EFT) Filers/Third Quarter Reconciliation		
31	Quarterly Income Tax Withholding Returns		
November	1	Minerals and Gas Severance Tax Returns (September Payment)	
	13	Twice-Monthly Income Tax Withholding Returns (October 16 - October 31 Payment/EFT Payment)	
	15	Estimated Corporation Income Tax/One Half Est. (FY ending 5/31)	
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 2/28)	
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 11/30)	
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December	1	Minerals and Gas Severance Tax Returns (October Payment)	
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	15	Estimated Corporation Income Tax/One Half Est. (FY ending 6/30)	
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 3/31)	
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 12/31)	
	15	Monthly Income Tax Withholding Returns (November Payment)	
	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)	
	27	Twice-Monthly Income Tax Withholding Returns (December 1 - December 15 Payment/EFT Payment)	
27	Monthly Motor Fuels Tax Returns (November Payment)		
27	Monthly Sales Tax Returns (Accelerated Payment)		

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2005 FEDERAL/KENTUCKY INDIVIDUAL INCOME TAX DIFFERENCES

Kentucky income tax law is based on the federal income tax law in effect on December 31, 2004. 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 Kentucky Local Government Retirement Systems Federal and Military Retirement Systems	Taxable	Partially exempt if retired after December 31, 1997; exempt if retired before January 1, 1998; Schedule P may be required
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 \$41,110; 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. Family Size Tax Credit	No credit allowed	Decreasing tax credit allowed
22. Education Tuition Tax Credit	Tax credit based on expenses	25% of federal credit for Kentucky undergraduate studies
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 TLAP Income Quota Buyout	Taxable	Exempt
26. Bonus depreciation/additional Section 179 expense	Deductible	Nondeductible
27. Sales tax deduction	Schedule A deduction in lieu of state and local income tax	Nondeductible