

Kentucky Tax Alert

A REVENUE PUBLICATION FOR THE TAX PROFESSIONAL

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DOR Offices Closed for Holidays

Pursuant to KRS 18A.190, all DOR offices will be closed Thursday and Friday, Nov. 23 and 24, in observance of Thanksgiving; Monday and Tuesday, Dec. 25 and 26, in observance of Christmas; and Friday and Monday, Dec. 29 and Jan. 1, in observance of New Year's Day. Normal hours will resume on Tuesday, Jan. 2, 2007.



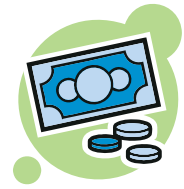
Tax Interest Rate for 2007 is 8 Percent

The tax interest rate for January 1, 2007 through December 31, 2007 will be 8 percent. KRS 131.183(1) provides, in part, that "the commissioner of revenue shall adjust the tax interest rate not later than November 15th of any year, ... if the adjusted prime rate charged by the banks during October of that year, rounded to the nearest full percent, is at least one (1) percentage point more or less than the tax interest rate which is then in effect." Under KRS 131.010(5), the definition of the adjusted prime rate charged by banks means "the average predominant prime rate quoted by commercial banks to large businesses, as determined by the board of governors of the federal reserve system." In compliance with these provisions, an annual survey is conducted of selected banks in Kentucky that charge a prime rate to their preferred customers.

The Wall Street Journal defines prime rate as "the base rate on corporate loans posted by at least 75 percent of the nation's 30 largest banks."

Kentucky's Standard Deduction; Pension Exclusion for 2007 Tax Year

Kentucky's standard deduction for individual income tax increases to \$2,050 for the 2007 tax year as authorized by KRS 141.081(2). This change represents an increase from \$1,970 for the 2006 tax year. Taxpayers who do not itemize deductions on their individual income tax return are entitled to claim this standard deduction.



Kentucky's individual income tax pension exclusion will remain unchanged at \$41,110 for the 2007 tax year. The 2005 General Assembly repealed KRS 141.0105 that provided for the pension exclusion to be adjusted annually for inflation.

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Guidelines for Registration Applications

The Department of Revenue's (DOR) Registration Branch processes over 2,000 registration applications each month. Errors and omissions to these applications cause delays in the ability to timely assign account numbers. The following is a listing of guidelines, which, if followed, will assist in the timely assignment of tax account numbers:

1. Please use the current registration application and make sure that the information supplied is printed and is legible. Current applications and associated instructions may be downloaded from the DOR's Web site link, revenue.ky.gov/business/register or may be obtained at a DOR taxpayer service center. Printing or typing the information onto the application and using dark ink assists in properly entering the information and in contacting the taxpayer when necessary.
2. Make sure that contact information is complete, including the telephone number. Incomplete information makes it difficult to contact the appropriate party when additional information is required.
3. Ownership type is an area of concern, which causes the application to be delayed. Under the section titled *Ownership Type* (Section B, Number 14) you must designate what type of business you are registering (sole proprietorship, partnership, corporation, LLC, etc.). Limited liability companies must indicate how they have elected to be taxed with the Internal Revenue Service. Also, a sole proprietorship cannot have more than one responsible party. Many times a business lists itself as a sole proprietorship and then lists a husband and a wife as the responsible parties. In this instance, another election must be made, such as partnership, corporation (if incorporated), or LLC (if qualified).
4. Ownership disclosure is very important and is one of the fields most frequently completed

incorrectly. Please list the proper officers, along with their title, residence address and Social Security number. Many times these fields are left blank or incorrect titles and addresses are used. Appropriate titles would include the following:

- Sole Proprietorship—Sole Proprietor
- Partnership—General Partner, Limited Partner, etc.
- Corporation—President, Vice President, Secretary, Treasurer, etc.
- LLCs—Manager, Member, etc.

Titles such as owner, CEO, CIO, shareholder and financial director are not considered appropriate titles.

5. A physical business location is necessary for any business requesting a sales and use tax number. Physical locations cannot be P.O. box numbers. If a business is located within a residence, then the physical location address is the residence. If a business is located in a rural area, then the road or route number is the physical location address.
6. When completing Section C—*Tell Us About Your Business or Organization*, make sure that **all** appropriate areas are complete. The most frequently omitted areas, which necessitate a follow-up telephone call, include the date wages were first paid, the date that sales began and the number of employees.
7. Finally, call anytime you have questions in completing the application. The Registration Branch has an automated system for handling incoming calls. The telephone number is (502) 564-3306.

It is the DOR's aim to serve the people of the commonwealth in the most efficient and friendly way. This may be accomplished if we all work together.

Louis A. Grief Tax Institute Scheduled for December

The Louis A. Grief Tax Planning Institute will be held on Dec. 18-20, 2006 at the University of Louisville in the College of Business. Online registration and brochure will be available on Nov. 1. Call (502) 852-5847 for more information or visit www.business.louisville.edu/taxinstitute.



Estimated Tax Payment Deadlines

Individual income taxpayers are reminded that final 2006 quarterly estimated tax payments are due on Jan. 16, 2007. Final 2006 estimated corporation income tax payments of 25 percent are due on Dec. 15, 2006.



Taxpayers who have not yet made their April 17, June 15 or Sept. 15, 2006 estimated payments should submit those payments on or before Jan. 15, 2007 to minimize underestimation penalties.



Employers Encouraged to Release Forms W-2/K-2 Early

In an effort to speed the issuance of individual income tax refunds, employers are encouraged to release Employee's Wage and Tax Statements, Forms W-2/K-2, at the earliest possible date. This allows taxpayers to file their income tax returns earlier, thereby avoiding backlogs and delay of refunds. Fewer returns are filed at the beginning of the tax season than near the April 16 deadline. By increasing the number of tax returns filed early, refunds may be processed more efficiently.

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.

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The Department of Revenue's Web site is www.revenue.ky.gov.

**KENTUCKY INCOME TAX
FORMS REQUISITION**



**FROM: Department of Revenue
Frankfort, KY 40620**

The label at right will be used to mail your forms. **Do not detach.**
Please prepare a duplicate address below for our files.

Name _____
Street _____
City, State _____
and ZIP _____
Phone () _____
Date Ordered _____

TO: Name _____
Street _____
City, State _____
and ZIP Code _____

Check one: Individual Attorney CPA Tax Practitioner Other _____

Package K (contains all individual, fiduciary, partnership, corporation and S corporation income tax forms, schedules and instructions) Quantity **➤** _____

FORMS	I	N	C	S	ISSUANCE NO.	QUANTITY
740-Kentucky Individual Income Tax Return					42A740	
740/740-EZ-Instructions					42A740-S11	
740-EZ-Kentucky Individual Income Tax Return					42A740-EZ	
740-X-Amended Kentucky Individual Income Tax Return for Tax Year 2005 or 2006					42A740-X	
740-XP-Amended Kentucky Individual Income Tax Return for Tax Year 2003 or 2004					42A740-XP	
740-NP-Nonresident or Part-Year Resident Income Tax Return					42A740-S9	
Schedules A & ME (740-NP)-Itemized Deductions/Moving Expense and Reimbursement					42A740-S9 (A & ME)	
740-NP Packet					42A740-NP(P)	
740-NP-R-Nonresident Income Tax Return-Reciprocal State					42A740-S9-R	
740-ES-2007 Estimated Tax Voucher					42A740-ES	
740-ES-Instructions					42A740-S4	
Schedule A (740)-Itemized Deductions					42A740-A	
Schedule J-Kentucky Farm Income Averaging					42A740-J	
Schedule KNOL-Kentucky Net Operating Loss Schedule					42A740-KNOL	
Schedule M-Kentucky Federal Adjusted Gross Income Modifications					42A740-M	
Schedule P-Pension Income Exclusion					42A740-P	
Schedule UTC-Unemployment Tax Credit					42A740-UTC	
2210-K-Underpayment of Estimated Tax by Individuals					42A740-S1	
4972-K-Kentucky Tax on Lump-Sum Distributions					42A740-S21	
8453-K-Kentucky Individual Income Tax Declaration for Electronic Filing					42A740-S22	
740-V-Kentucky Electronic Payment Voucher					42A740-S23	
8582-K-Kentucky Passive Activity Loss Limitations					42A740-S18	
8863-K-Kentucky Education Tuition Tax Credit					42A740-S24	
Application for Extension of Time to File Return (Individual, General Partnership, Fiduciary)					40A102	

Total Forms-Pages 1 and 2..... ➤ _____

Package K _____ x \$9.00 (includes UPS shipping) or \$5.00 (no shipping)

Up to 250 Forms **No Charge**

251 Forms (flat rate) **\$15.00**

Over 251 (quantity) _____ x \$.05 each

ENVELOPES (Available in groups of 100 only)

Refund 6" x 9" Blue -Enter number of groups here ➤ _____

Payment 6" x 9" Yellow-Enter number of groups here ➤ _____

Envelopes _____ x \$5.00 per group of 100

Subtotal

Sales Tax (6%) (Kentucky residents only)

TOTAL..... ➤ _____

Forms Cost Schedule	
Up to 250	NC
251 (flat rate)	\$15.00
Over 251	\$.05 each

Make check payable to:
Kentucky State Treasurer

Mail order form and check to: Kentucky Department of Revenue
FORMS
P.O. Box 518
Frankfort, Kentucky 40602-0518

FORMS	ISSUANCE NO.	QUANTITY
Kentucky Individual Income Tax Installment Agreement Request	12A200	
741—Kentucky Fiduciary Income Tax Return	42A741	
741—Instructions	42A741(I)	
741-D—Capital Gains and Losses	42A741-D	
Schedule K-1 (741)—Beneficiary’s Share of Income, Deductions, Credits, etc.	42A741 (K-1)	
765-GP—Kentucky General Partnership Income Return	42A765-GP	
765-GP—Instructions	42A765-GP(I)	
Schedule K-1 (765-GP)—Partner’s Share of Income, Credits, Deductions, etc.	42A765-GP (K-1)	
720—Kentucky Corporation Income Tax Return	41A720	
720—Instructions	41A720(I)	
720S—Kentucky S Corporation Income Tax Return	41A720S	
720S—Instructions	41A720S(I)	
Schedule K-1 (720S)—Shareholder’s Share of Income, Credits, Deductions, etc.	41A720S (K-1)	
720X—Amended Kentucky Corporation Income Tax and Corporation License Tax Return (To be used for tax periods beginning prior to January 1, 2005.)	41A720X	
720AMENDED—Amended Kentucky Corporation Income Tax Return (To be used for tax periods beginning on or after January 1, 2005.)	41A720AM	
720XX—Amended Kentucky Corporation Income Tax Return (To be used for tax periods beginning on or after January 1, 2005.)	41A720XX	
720ES—Corporation Estimated Income Tax Voucher	41A720ES	
720ES—Instructions	41A720-S4	
725—Kentucky Single Member LLC Individually Owned Corporation Income Tax Return	41A725	
725—Instructions	41A725(I)	
725CP—Kentucky Single Member LLC Individually Owned Composite Return Schedule	41A725CP	
765—Kentucky Partnership Income Tax Return (LLC, LLP and LP Taxed as a Corporation)	41A765	
765—Instructions	41A765(I)	
Schedule K-1 (765)—Partner’s Share of Income, Credits, Deductions, etc.	41A765 (K-1)	
Schedule A (720, 720S, 725, 765, 765-GP)—Apportionment and Allocation	41A720A	
Schedule AMC (720, 720S, 725, 765)—Alternative Minimum Calculation	41A720AMC	
Schedule CR (720)—Pro Forma Federal Consolidated Return Schedule	41A720CR	
Schedule CR-C (720)—Pro Forma Federal Consolidated Return Schedule (Continuation Sheet)	41A720CRC	
Schedule EZC—Kentucky Enterprise Zone Tax Credit	41A720EZC	
Schedule KCR (720)—Kentucky Consolidated Return Schedule	41A720KCR	
Schedule KCR-C (720)—Kentucky Consolidated Return Schedule (Continuation Sheet)	41A720KCR-C	
Schedule KCR (725)—Kentucky Nexus Consolidated Return Schedule	41A725KCR	
Schedule KCR-C (725)—Kentucky Nexus Consolidated Return Schedule (Continuation Sheet)	41A725KCR-C	
Schedule KCR (720S or 765)—Kentucky Nexus Consolidated Return Schedule	41A765KCR	
Schedule KCR-C (720S or 765)—Kentucky Nexus Consolidated Return Schedule (Cont. Sheet)	41A765KCR-C	
Schedule NOL (720)—Net Operating Loss Schedule	41A720NOL	
Schedule NOL (720S, 725 or 765)—Net Operating Loss Schedule	41A725NOL	
Schedule RC—Application for Income Tax Credit for Recycling and/or Composting Equipment or Major Recycling Project	41A720RC	
Schedule RC(C)—Continuation Sheet for Schedule RC	41A720RC(C)	
Schedule RC—Instructions	41A720RC(I)	
Schedule RC (K-1)—Distributive Share of Approved Recycling and/or Composting Equipment Tax Credit	41A720RC (K-1)	
Schedule RC-R—Kentucky Disposition of Recycling or Composting Equipment Schedule	41A720RC-R	
Schedule RC-R (K-1)—Pro Rata/Distributive Share of Disposition of Recycling and/or Composting Equipment Tax Credit/Recapture	41A720RC-R (K-1)	
Schedule TCS (720, 720S, 725, 765)—Tax Credit Summary Schedule	41A720TCS	
Application for Extension of Time to File Kentucky Corporation Income Tax Return	41A720SL	
851-K—Kentucky Affiliations and Payment Schedule	41A851-K	
851-N (720S, 725 or 765)—Kentucky Affiliations and Payment Schedule	41A851-N	
2220-K—Underpayment of Estimated Tax by Corporations	41A720-S1	
8903-K—Kentucky Domestic Production Activities Deduction	41A720-S5	
PTE-WH—KY Nonresident Income Tax Withholding on Net Income Distributive Share Income	40A200	
740NP-WH—KY Nonresident Income Tax Withholding on Net Distributive Share Income Transmittal Report	40A201	
Total Forms—Page 2 (enter here and on page 1)		▶