



# Kentucky Tax Alert



A KRC PUBLICATION FOR THE TAX PROFESSIONAL

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## KRC Offers Electronic Filing of 2002 Individual Income Tax Returns

In cooperation with the Internal Revenue Service (IRS), KRC offers statewide electronic filing of 2002 individual income tax returns. This is the ninth year KRC has offered statewide electronic filing.

Electronic filing offers a faster turnaround time for refunds as opposed to paper returns mailed to KRC and processed manually. With electronic filing, refund checks arrive in taxpayers' mailboxes in an average of two to three weeks. Taxpayers choosing the direct deposit option receive their refunds usually in less than 10 days.



Electronic filing for Kentucky returns is available to all interested parties who have been accepted in the federal electronic filing program and transmit returns to the IRS Cincinnati Service Center. To participate, applicants should submit Form 8633, Application to Participate in the Electronic Filing Program, to the IRS. No application form is necessary for KRC. The first day KRC will accept electronically filed returns is January 10, 2003.

KRC offers direct deposit of refunds into taxpayers' accounts at banks or other financial institutions. Taxpayers may select direct deposit for Kentucky refunds whether or not they choose this option for their federal refunds. They may also choose separate accounts for direct deposit of federal and Kentucky refunds.

The approval process for Kentucky electronic filing software packages for 2002 began in November and continues. As software packages are approved, KRC provides a certification letter to developers. KRC suggests that software companies send copies of the acceptance letter to preparers. Preparers who have questions on approved software should call KRC's Electronic Filing Help Desk at (502) 564-5370.

In a continuing effort to reduce paperwork and enhance the electronic filing of individual income tax returns, KRC has changed the requirements relating to Form 8453-K, Kentucky Individual Income Tax Declaration for Electronic Filing.

The use of advanced technology and the availability of more electronic information provides the commonwealth with more efficient methods to ensure taxpayers are complying with the applicable tax laws. Effective March 1, 2002, the electronic return originator (ERO) was not required to mail Form 8453-K to KRC as in the past. Instead KRC has established the following guidelines for Form 8453-K:

 **Fed/State E-filed Returns with a Federal PIN**—For returns filed via this method, Form 8453-K is **not** required. The use of the federal PIN meets signature requirements for the Kentucky return.

 **Fed/State E-filed Returns without a Federal PIN**—For returns filed via this method, Form 8453-K is required. This document does **not** need to be mailed to KRC. EROs must retain them for a period of three years. State copies of the wage statements, supporting schedules, documents requiring signatures, and other informational documents should be attached to Form 8453-K and be retained by the ERO for a period of three years.

 **Online Filing**—For returns filed via this method, Form 8453-K is required. This document does **not** need to be mailed to KRC. Taxpayers must retain the form for a period of three years.

These forms are to be retained in the taxpayer's or tax preparer's files for a period of three years. Do not mail any forms to KRC.

Beginning in 2003, a statement of liability will no longer be sent to the taxpayer. For balance due returns, taxpayers should complete Form 740-V, Kentucky Electronic Payment Voucher, and submit, along with the payment, to KRC. To avoid additional penalty and interest, payments must be postmarked on or before April 15, 2003. Taxpayers will also be able to pay their 2002 Kentucky individual income tax by MasterCard or Visa credit card through April 15, 2003. Access KRC's home page ([www.revenue.ky.gov](http://www.revenue.ky.gov)) to make credit card payments over the Internet. Click on the *KY E-Tax* logo or choose *Electronic Services* from the menu, then click on *Credit Card*. If the taxpayer does not have access to the Internet, you may call KRC at (502) 564-4581.

Taxpayers should keep copies of their returns and all supporting documentation for at least five years. Copies of these forms must be retained by the preparer or transmitter based on the 8453-K guidelines listed above.

To obtain a copy of the Kentucky Handbook for Electronic Filers of Individual Income Tax Returns, or for more information about the electronic filing program, including questions about approved software or participation status, contact KRC's Electronic Filing Help Desk at (502) 564-5370 or access [www.revenue.ky.gov](http://www.revenue.ky.gov) for a copy of the handbook.

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## KRC Sets 2003 Tax Interest Rate At 5 Percent

Pursuant to KRS 131.183(1), the 2003 tax interest rate charged by KRC on unpaid and delinquent taxes has been set at 5 percent. Where applicable, the same rate is paid on refunds issued by KRC.

The rate, effective Jan. 1, 2003, is based on the prime interest rate charged by Kentucky banks during October 2002. A recent survey of Kentucky banks showed that the prevailing average prime interest rate in October was 4.72 percent, which was rounded by law to the nearest full percent (5 percent).



## Franklin Circuit Court Declares Corporation License Tax Statute KRS 136.071 Unconstitutional

On December 5, 2002, the Franklin Circuit Court declared KRS 136.071 unconstitutional under the United States Constitution's Commerce Clause in the case of *Illinois Tool Works, Inc. et al v. Revenue Cabinet, et al*, Civil Action No. 00-CI-00623.

A corporation subject to Kentucky corporation license tax could take advantage of KRS 136.071 if it had a Kentucky commercial domicile and held, directly or indirectly, stock or securities in other corporations equal to or greater than 50 percent of its total assets. If the corporation met these requirements, it could then reduce its corporation license tax liability by filing on a consolidated basis or deducting from its taxable capital the book value of its investment in the stock and securities of any corporation in which it owned more than 50 percent of the outstanding stock.

Illinois Tool Works (ITW) pursued this challenge to KRS 136.071 as a class action on behalf of all corporate taxpayers denied the benefit of KRS 136.071 solely because their commercial domiciles are outside Kentucky. ITW contended that the Kentucky commercial domicile requirement of KRS 136.071 violated the Commerce Clause of the U.S. Constitution by discriminating against interstate commerce. ITW further asserted that this requirement was arbitrary and without a rational basis in violation of the Equal Protection Clause of the U.S. Constitution's Fourteenth Amendment as well as similar provisions in the Kentucky Constitution.

The Franklin Circuit Court agreed with ITW's Commerce Clause claim but rejected its Equal Protection Clause claim. The Court held that KRS 136.071 was invalid in its entirety and accordingly enjoined KRC from allowing any corporation, regardless of commercial domicile, the benefit of KRS 136.071 for any and all tax years for which a corporation license tax return is due (before extension) on or after April 15, 2004. These returns would cover corporate operations for calendar or fiscal years beginning on or after January 1, 2003. The Court declined ITW's proposal to strike just a portion of KRS 136.071 and thereby allow KRS 136.071 to be used by all corporations, those with non-Kentucky commercial domiciles as well as those with Kentucky commercial domiciles.

Thus, under this ruling, no calendar year corporation will be able to use KRS 136.071 in the computation of its corporation license tax liability on its return to be filed on April 15, 2004, and on its corporation license tax returns filed for subsequent years.

In accordance with Kentucky and United States Supreme Court case law under the U.S. Constitution's Due Process Clause, the Court ordered KRC to issue appropriate refunds and set aside assessments made for back tax years with respect to corporations who had been denied the benefit of KRS 136.071 solely because their commercial domiciles were outside Kentucky. Finally, the Court ruled that interest was not payable on the refunds because there was no statutory authority allowing it.

This case is not yet final. The Franklin Circuit Court's decision on the various issues in this case is subject to appeal to the Kentucky Court of Appeals.

## Tips for Filing 2002 Individual Income Tax Returns

- Electronically file your return for the fastest processing. Direct deposit is only available when you electronically file your return using either e-filing, online filing, or TeleFile.
- Do not alter wage and tax statements. If all copies of the wage and tax statement (Form K-2) are illegible, the taxpayer's employer must issue a corrected copy. **File** the return **when** all wage and tax statements are received. If repeated efforts to obtain a K-2 from the employer have failed, you may file substitute wage statement.
- Use the adhesive-mailing label attached to the income tax packet **only** if the name is correct. The label contains coded information about the taxpayer. Labels with an incorrect name **should not be used**. Instead, print the correct information in the space provided on the return. Labels with an incorrect address may be corrected and used. The labels enable KRC to verify receipt of the return and provide information to taxpayers using KRC's Automated Refund and Tax Information System (ARTIS), (502) 564-1600.
- Attach a complete copy of the federal return if the taxpayer received farm, business, or rental income or loss.
- Taxpayers with differences in Kentucky and federal income must file Form 740 and report those differences on Schedule M, Kentucky-Federal Gross Income Modifications.
- Attach schedules showing any Kentucky net operating loss claimed.
- Married taxpayers filing separate returns must enter their spouse's complete name and Social Security number (SSN) on page 1 of the return.
- If Form 2210-K is attached to the return, check the appropriate box on the return.
- Assemble the tax return properly. Staple returns only once in the upper left-hand corner. Place wage and tax statements horizontally in the center of the return and staple twice in the left margin of page 1 only. Make checks payable to the Kentucky State Treasurer, place on top of the wage and tax statement, and staple once in the left margin of page 1 only.
- Enter the telephone number where the taxpayer can be reached weekdays between 8 a.m. and 4:30 p.m. in the appropriate place on Form 740.
- Check all names, addresses, and SSNs for accuracy on wage and tax statements, returns, and schedules.
- Review the individual income tax return for mathematical accuracy and legibility, sign the return, and attach all wage and tax statements (Form K-2) before sealing the envelope. Both husband and wife must sign if filing separately on the combined return or if filing jointly.
- Keep copies of all state and federal returns. Exact duplicates make correspondence easier should KRC request information about the filed return. Practitioners should provide duplicate copies of returns as a part of the service rendered to clients.
- Use the blue or yellow envelope included with the income tax packet to mail the return to KRC. Use the yellow envelope for returns with payments enclosed. Use the blue envelope to file refund returns. If using other envelopes or mailing returns in bulk quantities, send returns with payments to ZIP code 40619-0008 and other returns to ZIP code 40618-0006.
- File returns as soon as possible to avoid the last-minute April rush.
- Mail completed returns to KRC on a regular basis. If filing returns in bulk quantities, mail no less than weekly.



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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.

<b>January</b>	15	Estimated Corporation Income Tax/One Half Est. (FY ending 7/31)	
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 1/31)	
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 4/30)	
	15	Estimated Tax/Individuals/One Fourth Est.	
	21	Coal Severance Tax Returns (December Payment)	
	21	Oil Production Tax Returns (December Payment)	
	21	Monthly Sales Tax Returns (December Payment)	
	21	Quarterly Sales Tax Returns	
	21	Annual Sales Tax Returns	
	21	Health Care Provider Tax Returns (December Payment)	
	27	Monthly Motor Fuels Tax Returns (December Payment)	
	27	Monthly Sales Tax Returns (Accelerated Payment)	
	<b>February</b>	3	Income Tax Withholding Returns/Electronic Funds Transfer (EFT) Filers/Annual Reconciliation
		3	Minerals and Gas Severance Tax Returns (December Payment)
		3	Monthly Income Tax Withholding Returns (December Payment and K-2s)
		3	Quarterly Income Tax Withholding Returns (Quarterly Payment and K-2s)
		3	Annual Income Tax Withholding Returns (Annual Payment and K-2s)
		3	Annual Report of Distilled Spirits in Bonded Warehouses (as of 1/1/03)
		10	Twice-Monthly Income Tax Withholding Returns (January 1 - January 31 Payment/EFT Payment)
		17	Estimated Corporation Income Tax/One Half Est. (FY ending 8/31)
		17	Estimated Corporation Income Tax/One Fourth Est. (FY ending 2/28)
		17	Estimated Corporation Income Tax/One Fourth Est. (FY ending 5/31)
		17	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)
25		Twice-Monthly Income Tax Withholding Returns (February 1 - February 15 Payment/EFT Payment)	
25		Monthly Motor Fuels Tax Returns (January Payment)	
25	Monthly Sales Tax Returns (Accelerated Payment)		
<b>March</b>	3	Minerals and Gas Severance Tax Returns (January Payment)	
	3	Watercraft Property Tax Return (as of 1/1/03)	
	10	Twice-Monthly Income Tax Withholding Returns (February 16 - February 28 Payment/EFT Payment)	
	17	Estimated Corporation Income Tax/One Half Est. (FY ending 9/30)	
	17	Estimated Corporation Income Tax/One Fourth Est. (FY ending 3/31)	
	17	Estimated Corporation Income Tax/One Fourth Est. (FY ending 6/30)	
	17	Monthly Income Tax Withholding Returns (February Payment)	
	17	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)	
	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)		
<b>April</b>	1	Minerals and Gas Severance Tax Returns (February Payment)	
	1	Electric Plant Board Property Tax Returns (as of 1/1/03)	
	10	Twice-Monthly Income Tax Withholding Returns (March 16 - March 31 Payment/EFT Payment)	
	15	Estimated Corporation Income Tax/One Half Est. (FY ending 10/31)	
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 4/30)	
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 7/31)	
	15	Monthly Income Tax Withholding Returns (March Payment)	
	15	Quarterly Estimated Tax Returns/Individuals (One Fourth Payment)	
	15	Annual Individual Income Tax Returns	
	21	Monthly Sales Tax Returns (March Payment)	
	21	Quarterly Sales Tax Returns	
	21	Coal Severance Tax Returns (March Payment)	
	21	Oil Production Tax Returns (March Payment)	
	21	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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<b>May</b>	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 12/31/02)	
	1	Railroad Car Line Property Tax Returns (as of 12/31/02)	
	12	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)	
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 8/31)	
	15	Monthly Income Tax Withholding Returns (April Payment)	
	20	Monthly Sales Tax Returns (April Payment)	
	20	Coal Severance Tax Returns (April Payment)	
	20	Oil Production Tax Returns (April Payment)	
	20	Health Care Provider Tax Returns (April Payment)	
	27	Twice-Monthly Income Tax Withholding Returns (May 1 - May 15 Payment/EFT Payment)	
	27	Monthly Motor Fuels Tax Returns (April Payment)	
	27	Monthly Sales Tax Returns (Accelerated Payment)	
	<b>June</b>	2	Minerals and Gas Severance Tax Returns (April Payment)
		10	Twice-Monthly Income Tax Withholding Returns (May 16 - May 31 Payment/EFT Payment)
		16	Estimated Corporation Income Tax/One Half Est. (FY ending 12/31)
		16	Estimated Corporation Income Tax/One Fourth Est. (FY ending 6/30)
		16	Estimated Corporation Income Tax/One Fourth Est. (FY ending 9/30)
		16	Estimated Tax/Individuals/One Fourth Est.
		16	Monthly Income Tax Withholding Returns (May Payment)
		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)	
25		Twice-Monthly Income Tax Withholding Returns (June 1 - June 15 Payment/EFT Payment)	
25		Monthly Motor Fuels Tax Returns (May Payment)	
25	Monthly Sales Tax Returns (Accelerated Payment)		
<b>July</b>	1	Minerals and Gas Severance Tax Returns (May Payment)	
	1	Cigarette License Annual Renewal Applications and License Fee	
	10	Twice-Monthly Income Tax Withholding Returns (June 16 - June 30 Payment/EFT Payment)	
	15	Estimated Corporation Income Tax/One Half Est. (FY ending 1/31)	
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 7/31)	
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 10/31)	
	15	Monthly Income Tax Withholding Returns (June Payment)	
	21	Coal Severance Tax Returns (June Payment)	
	21	Oil Production Tax Returns (June Payment)	
	21	Monthly Sales Tax Returns (June Payment)	
	21	Quarterly Sales Tax Returns	
	21	Health Care Provider Tax Returns (June Payment)	
	25	Twice-Monthly Income Tax Withholding Returns (July 1 - July 15 Payment/EFT Payment)	
	25	Monthly Motor Fuels Tax Returns (June Payment)	
	25	Monthly Sales Tax Returns (Accelerated Payment)	
	31	Income Tax Withholding Returns/Electronic Funds Transfer (EFT) Filers/Second Quarter Reconciliation	
31	Minerals and Gas Severance Tax Returns (June Payment)		
31	Quarterly Income Tax Withholding Returns		
<b>August</b>	11	Twice-Monthly Income Tax Withholding Returns (July 16 - July 31 Payment/EFT Payment)	
	15	Estimated Corporation Income Tax/One Half Est. (FY ending 2/28)	
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 8/31)	
	15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 11/30)	
	15	Monthly Income Tax Withholding Returns (July Payment)	
	20	Coal Severance Tax Returns (July Payment)	
	20	Oil Production Tax Returns (July Payment)	
	20	Monthly Sales Tax Returns (July Payment)	
	20	Health Care Provider Tax Returns (July Payment)	
	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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<b>September</b>	2	Minerals and Gas Severance Tax Returns (July Payment)	
	10	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.	
	15	Monthly Income Tax Withholding Returns (August Payment)	
	22	Coal Severance Tax Returns (August Payment)	
	22	Oil Production Tax Returns (August Payment)	
	22	Monthly Sales Tax Returns (August Payment)	
	22	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)	
	<b>October</b>	1	Minerals and Gas Severance Tax Returns (August Payment)
		10	Twice-Monthly Income Tax Withholding Returns (September 16 - September 30 Payment/EFT Payment)
		15	Estimated Corporation Income Tax/One Half Est. (FY ending 4/30)
		15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 1/31)
		15	Estimated Corporation Income Tax/One Fourth Est. (FY ending 10/31)
		15	Monthly Income Tax Withholding Returns (September Payment)
		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)
		27	Twice-Monthly Income Tax Withholding Returns (October 1 - October 15 Payment/EFT Payment)
		27	Monthly Motor Fuels Tax Returns (September Payment)
	27	Monthly Sales Tax Returns (Accelerated Payment)	
	<b>November</b>	3	Income Tax Withholding Returns/Electronic Funds Transfer (EFT) Filers/Third Quarter Reconciliation
3		Minerals and Gas Severance Tax Returns (September Payment)	
3		Quarterly Income Tax Withholding Returns	
10		Twice-Monthly Income Tax Withholding Returns (October 16 - October 31 Payment/EFT Payment)	
17		Estimated Corporation Income Tax/One Half Est. (FY ending 5/31)	
17		Estimated Corporation Income Tax/One Fourth Est. (FY ending 2/28)	
17		Estimated Corporation Income Tax/One Fourth Est. (FY ending 11/30)	
17		Monthly Income Tax Withholding Returns (October Payment)	
20		Coal Severance Tax Returns (October Payment)	
20		Oil Production Tax Returns (October Payment)	
20		Monthly Sales Tax Returns (October Payment)	
20		Health Care Provider Tax Returns (October Payment)	
25		Twice-Monthly Income Tax Withholding Returns (November 1 - November 15 Payment/EFT Payment)	
25		Monthly Motor Fuels Tax Returns (October Payment)	
25	Monthly Sales Tax Returns (Accelerated Payment)		
<b>December</b>	1	Minerals and Gas Severance Tax Returns (October Payment)	
	10	Twice-Monthly Income Tax Withholding Returns (November 15 - November 30 Payment/EFT Payment)	
	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)	
	22	Coal Severance Tax Returns (November Payment)	
	22	Oil Production Tax Returns (November Payment)	
	22	Monthly Sales Tax Returns (November Payment)	
	22	Health Care Provider Tax Returns (November Payment)	
	29	Twice-Monthly Income Tax Withholding Returns (December 1 - December 15 Payment/EFT Payment)	
	29	Monthly Motor Fuels Tax Returns (November Payment)	
	29	Monthly Sales Tax Returns (Accelerated Payment)	

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## 2002 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 Revenue Cabinet 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 Revenue Cabinet 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 \$38,775; 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	Limited deduction as self-employed health insurance	100% adjustment to gross income
11. Medical and Dental Insurance Premiums	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	No credit allowed	Tax credit allowed; Schedule TC required
27. Kentucky Investment Fund Tax Credit	No credit allowed	Tax credit allowed; Schedule TC required
28. Employer GED Incentive Tax Credit	No credit allowed	Tax credit allowed; Schedule TC required
29. 30% Bonus Depreciation/ New York Liberty Zone Benefits	Deductible	Nondeductible
30. Educator Expenses	Deductible	Nondeductible

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**Correction**

**Attention:** There is an error on Form 42A740-S4 (10-02), page 2, the 2003 Estimated Tax Worksheet. Line 12 refers to estimated tax for 2002 instead of 2003. Please take this into consideration when completing this form for tax year 2003. Access [www.revenue.ky.gov](http://www.revenue.ky.gov) to download a corrected form. We apologize for any inconvenience this may cause.

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**Tuition and Fees Deduction**

KRC has received a call from a tax practitioner asking if Kentucky allows a deduction of education tuition and fees on Schedule M if the taxpayer claims an education credit on the federal return. Kentucky does not allow the taxpayer to take a deduction for tuition and fees if the credit is elected on the federal return.



For tax year 2002, taxpayers may deduct tuition and fees as an adjustment to total income on page 1 of the federal Form 1040 **or** take a tax credit for education expenses on page 2 of Form 1040.

A taxpayer may not claim both the tuition and fees deduction and a tax credit for education expenses for the same student in one year. If the taxpayer elects a page 1 deduction, it will lower the federal AGI and the lower FAGI will flow to the Kentucky return. If the taxpayer elects to take a credit, there is no reduction of federal AGI and no deduction on the Kentucky return.

Paul E. Patton, Governor  
Dana B. Mayton, Secretary

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The mission of the Kentucky Revenue Cabinet is to...  
Provide courteous, accurate and efficient services for the benefit of the Commonwealth and administer Kentucky tax laws in a fair and impartial manner.

The Kentucky Revenue Cabinet  
Mission Statement

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