



# Kentucky Tax Alert



A KRC PUBLICATION FOR THE TAX PROFESSIONAL

March 2003 • Vol. 22, No. 2

## Common Errors on Individual Income Tax Returns

Following is a list of the most common errors appearing on 2002 Kentucky individual income tax returns. If errors are avoided, processing time is minimized and refunds, if due, are received more quickly.



- ✍ **Handwritten Changes on Tax Preparation Software**—If it is necessary to make changes to your return after you have printed the form using tax software, make changes in the software program and reprint. Do not write changes on the return.
- ✍ **Wrong Standard Deduction Taken**—Many taxpayers are not taking the 2002 standard deduction of \$1,800, but instead continue to use last year's deduction of \$1,750.
- ✍ **Low Income Credit**—Taxpayers are using the Kentucky taxable income instead of the Kentucky adjusted gross income (AGI) as the basis for computing the low-income credit. For married couples, the low-income credit is based on the combined Kentucky AGI. Many taxpayers fail to take advantage of this credit when entitled to it.
- ✍ **Child and Dependent Care Credit**—The Kentucky child and dependent care credit is 20 percent of the federal child care credit, not the child care expense.
- ✍ **Incorrect Health Insurance Premiums Deducted**—Health insurance payments made with pretax dollars cannot be deducted on Schedule M or Schedule A. These premiums have not been included in box 1 (Wages) on your W-2 so they are already deducted from your federal adjusted gross income.
- ✍ **Withholding Statements Not Attached**—Taxpayers should attach wage or other withholding statements to their returns. Be sure to attach Kentucky copies of the wage and tax statements. Local statements that do not list Kentucky withholding are being sent in error. Staple the statements to the top page only of the return.
- ✍ **Withholding Amounts Reported in Error**—Withholding amounts reported on tax returns should match the amounts reported on withholding statements.
- ✍ **Returns Not Signed**—Taxpayers should be sure to sign their returns.
- ✍ **Copies of Federal Returns Not Attached**—If you had income from Schedule C—Business Income, Schedule E—Rental Income, or Schedule F—Farm Income, copies of federal returns and schedules must be attached to your Kentucky

return. Make sure that the original Kentucky form is sent to KRC and the original federal return with schedules is sent to the Internal Revenue Service.

- ✍ **Wrong Envelope Used**—Taxpayers should use the blue envelope for refund returns and the yellow envelope for pay returns.
- ✍ **Failure to Report Use Tax**—Taxpayers are failing to report Kentucky use tax on purchases made from the Internet, catalogs, mail-order, or in other states. A 6 percent use tax is due if a tangible item has been purchased from an out-of-state retailer for use, storage, or consumption in Kentucky and sales tax was not collected at the time of the purchase.
- ✍ **Tax Tables**—Taxpayers should recheck the tax table to ensure the correct line was used for their taxable income and number of tax credits claimed, and the correct amount of tax was entered in the proper place on the return.
- ✍ **Incorrect Mathematical Calculations**—Taxpayers should review their calculations to ensure the totals are correct.
- ✍ **Underestimated Tax Penalty and Use of Form 2210-K**—Taxpayers should calculate any underestimated tax penalties and pay the penalty when returns are filed. The minimum

*(continued on page 2)*

### TABLE OF CONTENTS

Common Errors on Individual Income Tax Returns .....	1
Kentucky Consumer Use Tax .....	2
Guidelines for Requesting Extensions to File 2002 Kentucky Individual Income Tax Returns .....	2
IRS Reminds Kentucky Residents to Mail Returns to the Correct Address .....	2
KRC Taxpayer Service Center Locations .....	3
Franklin Circuit Court Decision Declaring Corporation License Tax Statute KRS 136.071 Unconstitutional Is Now Final .....	3
Tax Refund Information Available by Phone .....	3

### Common Errors on Individual Income (continued from page 1)

penalty is \$25. Underestimated tax penalties must be reported on Form 2210-K, which should be attached to Form 740. If Form 2210-K is attached, the appropriate box on Form 740 must be checked.

**Labels Used Improperly**—Taxpayers should use the preprinted labels received with their tax forms. Taxpayers should also make sure they place the labels in the proper locations. One label is intended for the return itself; the other should be used on the envelope in which the return is mailed to KRC. Taxpayers should verify the information printed on the labels. If the address is incorrect, mark through it and write in the correct address. If the name or taxpayer identification number is incorrect, do not use the label. Use of preprinted labels does not increase the chances for an audit. Instead, it speeds processing and the mailing of any refund due the taxpayer.

For assistance in completing your Kentucky individual income tax return, contact the Individual Income Tax Assistance Section, (502) 564-4581, our KRC Web site, [www.revenue.ky.gov](http://www.revenue.ky.gov), or any of KRC's taxpayer service centers.

### Kentucky Consumer Use Tax

KRC is asking once again for assistance in improving taxpayer awareness and compliance with Kentucky's use tax laws. While use tax was enacted in 1960 at the same time as Kentucky's sales tax, many Kentuckians are simply not aware of their possible use tax liability when they purchase items over the Internet or by catalog.

Both Internet and catalog purchases are growing. As a result, it has been estimated that Kentucky will lose over \$137 million in sales tax receipts in FY03. This loss is expected to reach over \$286 million by FY06. This impacts us all, including many *main-street* retailers who simply cannot compete with the 6 percent difference in total sales price. In fact, advertisements of *no-tax* shopping have become common place with online retailers looking to persuade consumers to click-and-charge. However, most Internet and catalog sales of tangible goods are subject to tax and Kentucky consumers have a responsibility to report and remit 6 percent Kentucky use tax on these purchases directly to the state if the online retailer does not collect the tax at the time of sale.

KRC believes that the overwhelming majority of Kentuckians, when educated about their personal obligations, want to comply with the law when it is simple to do. Therefore, KRC has provided two options. Individuals may report use tax liability on individual income tax returns or by filing a Kentucky Consumer's Use Tax Return, Form 51A113, which is available for downloading at [www.revenue.ky.gov](http://www.revenue.ky.gov).

For more information about use tax, contact the Sales and Use Tax Branch at (502) 564-5170 or e-mail us at [KRCWEBResponseSalesTax@mail.state.ky.us](mailto:KRCWEBResponseSalesTax@mail.state.ky.us).



### Guidelines for Requesting Extensions to File 2002 Kentucky Individual Income Tax Returns

Taxpayers may obtain an extension of time within which to file their Kentucky income tax returns by filing an Application for Extension of Time to File, Form 40A102. KRC also accepts a federal extension. If tax is due, attach a check made payable to the Kentucky State Treasurer to either Form 40A102 or a copy of the federal extension and mail by April 15, 2003. (A copy of the application for federal extension should not be mailed to KRC on April 15, 2003, unless tax is due.)

When the Kentucky individual income tax return is filed, a copy of Form 40A102, the automatic federal extension, or approved federal extension must be attached to the Kentucky individual income tax return to avoid a late filing penalty.

An extension of time to file a return does not extend the time to pay a tax liability. Interest will accrue on the tax liability unpaid as of April 15, 2003, until paid. In addition to interest, KRC will assess a late payment penalty. If a taxpayer can demonstrate that the delay in filing the return or remitting the payment is due to reasonable cause, penalties—but not interest—may be reduced or waived. Individual income tax filers are also reminded that the first quarterly estimated payment for taxable year 2003 is due April 15, 2003.



### IRS Reminds Kentucky Residents to Mail Returns to the Correct Address

As Kentucky taxpayers begin to prepare their tax returns, the Internal Revenue Service (IRS) reminds them that they will be sending their returns to a different service center from last year. However, those who received a tax instruction booklet from the IRS in the mail and use the labels included with the booklet can be assured that their tax returns will go to the correct address.

Taxpayers who did not receive an instruction booklet in the mail and are mailing a paper tax return should be aware of the change. Kentucky taxpayers will mail their returns to Internal Revenue Service Center, Austin, TX 73301.

Taxpayers enclosing a check should add -0102 to the ZIP code listed above if sending a Form 1040, -0115 for Form 1040A, or -0114 for Form 1040EZ. Those not enclosing a check should add -0002 if sending Form 1040, -0015 for Form 1040A, or -0014 for Form 1040EZ.

The IRS continues to redistribute workload among the eight service centers that process individual income tax returns. Redistributing work among the centers is an example of the commitment of the IRS to provide better service to taxpayers.

Taxpayers who e-file will not be affected by these changes.



## KRC Taxpayer Service Center Locations

Following is a list of KRC's taxpayer service centers that will assist taxpayers in preparing their individual income tax returns:

### Ashland, 41101-7670

134 Sixteenth Street  
Telephone: (606) 920-2037  
Fax: (606) 920-2039

### Bowling Green, 42104-3278

201 West Professional Park Court  
Telephone: (270) 746-7470  
Fax: (270) 746-7847

### Central Kentucky, 40620

200 Fair Oaks Lane  
Frankfort, KY 40620  
Telephone: (502) 564-4581  
Fax: (502) 564-8946

### Corbin, 40701-6188

15100 North US25E  
Suite 2  
Telephone: (606) 528-3322  
Fax: (606) 523-1972

### Hopkinsville, 42240

181 Hammond Drive  
Telephone: (270) 889-6521  
Fax: (270) 889-6563

### Louisville, 40202-2446

620 South Third Street  
Suite 102  
Telephone: (502) 595-4512  
Fax: (502) 595-4205

### Northern Kentucky

Turfway Ridge Office Park  
7310 Turfway Rd., Suite 190  
Florence, KY 41042-1385  
Telephone: (859) 371-9049  
Fax: (859) 371-9154

### Owensboro, 42302

401 Frederica Street  
Building C, Suite 201  
Telephone: (270) 687-7301  
Fax: (270) 687-7244

### Paducah, 42001-4024

2928 Park Avenue  
Clark Business Complex, Suite G  
Telephone: (270) 575-7148  
Fax: (270) 575-7027

### Pikeville, 41501-1275

Uniplex Center  
126 Trivette Dr., Suite 203  
Telephone: (606) 433-7675  
Fax: (606) 433-7679

## Franklin Circuit Court Decision Declaring Corporation License Tax Statute KRS 136.071 Unconstitutional Is Now Final

The Franklin Circuit Court's decision in the *Illinois Tool Works* case (described in the January 2003 *Kentucky Tax Alert*) has not been appealed and is therefore now final. Under this decision, for tax years for which a corporation license tax return is due (before any extension) on or after April 15, 2004, no corporation will be able to utilize KRS 136.071 in computing its corporation license tax liability.



For earlier tax years, those for which a corporation license tax return is due (before any extension) before April 15, 2004, corporations denied the use of KRS 136.071 solely because of a non-Kentucky commercial domicile will be allowed appropriate backward-looking relief in the form of refunds or the setting aside of tax assessments. This backward-looking relief does not automatically flow from the circuit court's decision. For example, to obtain a refund, a taxpayer must submit a refund claim or application to KRC within two years of the payment of the corporation license tax for which a refund is being sought. The taxpayer will also need to demonstrate that it meets the requirements of KRS 136.071 other than that of a Kentucky commercial domicile.

There remains in this case the issue of the attorney fees for the successful plaintiffs. Until such time that this question is resolved by the court, KRC will not be issuing or voiding corporation license tax refunds or assessment based upon the invalidity of KRS 136.071 to or for corporations that were members of the class in this class action.

## Tax Refund Information Available by Phone

Information on Kentucky individual income tax refunds is available 24 hours per day through KRC's Automated Refund and Tax Information System (ARTIS). Call (502) 564-1600 from a touch-tone telephone to verify KRC's receipt of the return or when the refund was mailed.



To use ARTIS, taxpayers must know the Social Security number listed first on the return and the exact whole-dollar amount of the refund.

Acknowledgment of receipt of a return is available for taxpayers using both labels provided by KRC on their tax form packets. Labels are provided for the envelope and the tax return.

For taxpayers not using both labels, acknowledgment is not available until the return is processed. These taxpayers should wait eight weeks after mailing returns before calling ARTIS.

Callers who do not receive a refund mailing date from ARTIS should allow seven days before calling again.

ARTIS is automatically available to all taxpayers filing their individual income tax returns electronically.



**Kentucky Tax Alert** is a bimonthly publication printed on recycled paper, the costs of which are paid from state funds.

Comments, suggestions and mailing list additions or corrections should be addressed to the Public Information and Communication Services Branch, Revenue Cabinet, Station 14, Frankfort, Kentucky 40620, (502) 564-4592.

Editors .....	Sarah S. Gilkison Betty R. Sanford
Writer .....	Sarah S. Gilkison
Production .....	Alice A. Bryant Betty R. Sanford
Mailing List .....	Ladonna C. Ware

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

*The Kentucky Revenue Cabinet does not discriminate on the basis of race, color, national origin, sex, religion, age or disability in employment or the provision of services.*

KRC can be found on the [www.revenue.ky.gov](http://www.revenue.ky.gov)

