



# 2018 KENTUCKY STATE TAX UPDATE

## UK Income Tax Seminar

**Kentucky Department of Revenue • 501 High Street • Frankfort, KY 40601 • (502) 564-4581**

# Agenda

- **House Bill 487**
- **IRC and TCJA Conformity**
- **Individual Income Tax**
- **Withholding Tax**
- **Corporate Income Tax**
- **Tax Credits**
- **Property Tax**
- **Sales and Excise Taxes – [TaxAnswers.ky.gov](http://TaxAnswers.ky.gov)**
- **Miscellaneous**



# House Bill 487

**Became Law on April 27, 2018**

- Most substantial Kentucky tax law changes since 2006
- Sales and Excise taxes changes not covered here
- Effective Dates:
  - January 1, 2018
    - Flat 5% income tax rate for individuals and corporations
    - Elimination of many individual income tax deductions
    - IRC conformity for income tax updated to December 31, 2017 including the TCJA (Pub. L. 115-97)
    - Single sales factor
    - Market-based sourcing
  - January 1, 2019
    - Unitary combined reporting and elective consolidated group filing



# IRC and TCJA Conformity

- IRC conformity date now December 31, 2017
- Tax Cuts and Jobs Act (TCJA) provisions adopted with IRC conformity
- Kentucky Adopted from TCJA:
  - Net Operating Loss changes (IRC §172)
  - Net Interest Expense limitation (IRC §163(j))
  - Domestic Production Activity Deduction repeal (IRC §199)
  - Foreign Derived Intangible Income-FDII (IRC §250)
  - Moving Expense Deduction repeal (IRC §132)
  - Moving Expense Reimbursement Exclusion repeal (IRC §217)
  - Alimony Payment Deduction repeal (IRC §215)
  - Alimony Received Inclusion repeal (IRC §61)
- Kentucky Decoupled from TCJA:
  - Full Depreciation Expensing (IRC §168(k))
  - Pass-Through Entity Qualified Business Income (QBI) deduction (IRC §199A)



# Individual Income Tax

**Effective January 1, 2018**

- Flat tax rate of 5% for all individuals
- Pension exclusion decreased to \$31,110 from \$41,110
- \$10 personal tax credit for taxpayers and dependents eliminated
- Retained personal tax credits for ages 65+, blind, and National Guard
- Adjustments Eliminated:
  - Deduction for health insurance premiums
  - Deduction for long-term care insurance premiums
  - Master Tobacco Settlement Payments
  - Deduction for homeless shelter leasehold interest donation
- STABLE investment income now tax exempt



# Individual Income Tax

- Dollar limit cap on itemized deductions (Pease Limitation) eliminated
- Itemized Deductions Maintained:
  - Home mortgage interest, points, and qualified MIP
  - Charitable contributions
  - Several miscellaneous deductions:
    - Amortizable premium on taxable bonds (IRC §171)
    - Federal estate tax on Income in Respect of a Decedent (IRC § 691)
    - Repayments >\$3,000 under a claim of right (IRC §1341)
    - Unrecovered investment in an annuity (IRC §72)
    - Other activities loss from Schedule K-1 (Form 1065-B), box 2



# Individual Income Tax

- Itemized Deductions Eliminated:
  - Investment interest (IRC §163)
  - Taxes (IRC §164)
  - Casualty/theft and gambling losses (IRC §165)
  - Medical and dental expenses (IRC §213)
  - Moving expenses (IRC §217)
  - 2% AGI miscellaneous deductions (IRC §67)




# Individual Income Tax

- Form Changes
  - Eliminated Form 740-EZ
  - Eliminated Schedule ME
  - 740 and 740-NP were shortened and rearranged
  - Simplified Schedules A (itemized) and M (federal modifications)
  - **New** Schedule ITC for individual tax credits
    - Nonrefundable business incentive credits
    - Personal tax credits (65 or over, blind, National Guard)
    - Qualifying dependent children and claiming family size tax credit





# Form 740

**FORM 740**  **KENTUCKY INDIVIDUAL INCOME TAX RETURN Residents Only 2018**

Check if deceased:  Spouse  Taxpayer For calendar year or other taxable year beginning \_\_\_\_\_, 2018, and ending \_\_\_\_\_, 20\_\_\_\_.

A. Spouse's Social Security Number \_\_\_\_\_ B. Your Social Security Number \_\_\_\_\_

Name—Last, First, Middle-Initial (Joint or combined return, give both names and initials.) \_\_\_\_\_

Mailing Address (Number and Street including Apartment Number or PO Box) \_\_\_\_\_

City, Town or Post Office \_\_\_\_\_ State \_\_\_\_\_ ZIP Code \_\_\_\_\_

**FILING STATUS** (see instructions)

1  Single  
 2  Married, filing separately on this combined return. (If both had income.)  
 3  Married, filing joint return.  
 4  Married, filing separate returns. Enter spouse's Social Security number above and full name here.

**Check if applicable:**  Amended (Enclose copy of 1040X, if applicable.)

**POLITICAL PARTY FUND** Designating S2 will not change your refund or tax due.


**A. Spouse** **B. Yourself**

Democratic (1)  (4)   
 Republican (2)  (5)   
 No Designation (3)  (6)

**INCOME/TAX**

	A. Spouse (Use if Filing Status 2 is checked.)	B. Yourself (or Joint)
5 Enter amount from federal Form 1040, line 7 (If total of Columns A and B is \$33,383 or less, you may qualify for the Family Size Tax Credit. See instructions.)	00	00
6 Additions from Schedule M, line 6	00	00
7 Add lines 5 and 6	00	00
8 Subtractions from Schedule M, line 15	00	00
9 Subtract line 8 from line 7. This is your <b>Kentucky Adjusted Gross Income</b>	00	00
10 Itemizers: Enter itemized deductions from Kentucky Schedule A. Nonitemizers: Enter \$2,530 in Columns A and/or B	00	00
11 Subtract line 10 from line 9. This is your <b>Taxable Income</b>	00	00
12 Tax Computation: Multiply line 11 by 5% (.05) or from Schedule J <input type="checkbox"/>	00	00
13 Enter tax from Form 4972-K <input type="checkbox"/> ; Schedule RC-R <input type="checkbox"/> ; Schedule DS-R <input type="checkbox"/> ; Angel Investor Recapture <input type="checkbox"/>	00	00
14 Add lines 12 and 13 and enter total here	00	00
15 Enter amounts from Schedule ITC, Section A, lines 24E and 24F	00	00
16 Subtract line 15 from line 14. If line 15 is larger than line 14, enter zero	00	00
17 Enter personal tax credit amounts from Schedule ITC, Section B, lines 3A and 3B. Note: Use only if 65 or over, blind, or in Kentucky National Guard.	00	00
18 Subtract line 17 from line 16. If line 17 is larger than line 16, enter zero	00	00
19 Add tax amount(s) in Columns A and B, line 18 and enter here	00	00
20 Check the box that represents your total family size (see instructions before completing lines 20 and 21)	1 <input type="checkbox"/> 2 <input type="checkbox"/> 3 <input type="checkbox"/> 4 <input type="checkbox"/>	00
21 Multiply line 19 by Family Size Tax Credit decimal amount _____ (_____% ) from Schedule ITC	00	00
22 Subtract line 21 from line 19	00	00
23 Enter the Education Tuition Tax Credit from Form 8863-K	00	00
24 Subtract line 23 from line 22	00	00
25 Enter Child and Dependent Care Credit from federal Form 2441, line 9 <input type="checkbox"/> x 20% (.20)	00	00
26 Income Tax Liability. Subtract line 25 from line 24. If line 25 is larger than line 24, enter zero	00	00
27 Enter KENTUCKY USETAX due on Internet, mail order, or other out-of-state purchases (see instructions)	00	00
28 Add lines 26 and 27. Enter here and on page 2, line 29	00	00

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**FORM 740 (2018)**  Page 2 of 2

**REFUND/TAX PAYMENT SUMMARY**

29 Enter amount from page 1, line 28. This is your **Total Tax Liability** ..... 29 00

30 For amended return; overpayment, if any, shown on original return ..... 30 00

31 Add lines 29 and 30, enter here ..... 31 00

32 a Enter Kentucky income tax withheld as shown on enclosed Schedule KW-2 ..... 32a 00

b Enter 2018 Kentucky estimated tax payments ..... 32b 00

c Enter 2018 refundable certified rehabilitation credit ..... 32c 00

d For amended return; enter amount paid with original return plus additional payment(s) made after it was filed ..... 32d 00

33 Add lines 32(a) through 32(d) ..... 33 00

34 If line 31 is larger than line 33, subtract line 33 from line 31, enter **ADDITIONAL TAX DUE** ..... 34 00

35 a Estimated tax penalty  Check if Form 2210-K attached ..... 35a 00

b Estimated tax interest ..... 35b 00

c Interest ..... 35c 00

d Late payment penalty ..... 35d 00

e Late filing penalty ..... 35e 00

36 Add lines 35(a) through 35(e). Enter here ..... 36 00

37 If the total of lines 31 and 36 are more than line 33, subtract line 33 from the total of lines 31 and 36. This is the **AMOUNT YOU OWE** ..... **OWE** 37 00

38 If line 33 is more than line 31, subtract lines 31 and 36 from line 33. This is the **AMOUNT YOU OVERPAID** ..... 38 00

39 Fund Contributions; see instructions.

a Nature and Wildlife Fund ..... 00

b Child Victims' Trust Fund ..... 00

c Veterans' Program Trust Fund ..... 00

d Breast Cancer Research/ Education Trust Fund ..... 00

e Farms to Food Banks Trust Fund ..... 00

f Local History Trust Fund ..... 00

g Special Olympics Kentucky ..... 00

h Pediatric Cancer Research Trust Fund ..... 00

i Rape Crisis Center Trust Fund ..... 00

j Court Appointed Special Advocate Trust Fund ..... 00

40 Add lines 39(a) through 39(j) ..... 40 00

41 Amount of line 38 to be CREDITED TO YOUR 2019 ESTIMATED TAX ..... **CREDIT FORWARD** 41 00  
(Credit forwards not available for amended returns)

42 Subtract lines 40 and 41 from line 38. Amount to be REFUNDED TO YOU ..... **REFUND** 42 00

**REFUND OPTIONS (Not available for amended returns)**

Check here if you would like your refund issued on a Bank of America Prepaid Debit Card

Check here if you would like to receive your Debit Card material in Spanish

I, the undersigned, declare under penalties of perjury that I have examined this return, including all accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct and complete. I also understand and agree that our election to file a combined return under the provisions of Regulation 103 KAR 17.020 will result in refunds being made payable to us jointly and in each of us being jointly and severally liable for all taxes occurring under this return.

<b>Sign Here</b>	Signature of Taxpayer	Driver's License/State Issued ID No.	Date	Telephone Number (daytime)
	Signature of Spouse	Driver's License/State Issued ID No.	Date	
<b>Paid Preparer Use</b>	Signature of Preparer	Date		
	Name of Preparer or Firm	ID Number		
	Email	Telephone No.	May the DOR discuss this return with this preparer? <input type="checkbox"/> Yes <input type="checkbox"/> No	

<b>Enclose</b>	Include a complete copy of federal Form 1040, if you received farm, business, or rental income or loss. If not required, check here. <input type="checkbox"/>	<b>Refund or No Payment</b>	Kentucky Department of Revenue P. O. Box 856970 Louisville, KY 40285-6970
<b>Payment</b>	Check Payable: <b>Kentucky State Treasurer</b> E-Pay Options: <a href="http://www.revenue.ky.gov">www.revenue.ky.gov</a> Include: Your Social Security number and "KY Income Tax—2018"	<b>With Payment</b>	Kentucky Department of Revenue P. O. Box 856980 Louisville, KY 40285-6980


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# Form 740 - Schedule A – Kentucky Itemized Deductions

**FORM 740**  
**SCHEDULE A**  
Commonwealth of Kentucky  
Department of Revenue



**KENTUCKY ITEMIZED DEDUCTIONS**  
**FULL-YEAR RESIDENTS ONLY**  
➤ Enclose with Form 740.

**2018**

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Enter name(s) as shown on Form 740, page 1. Your Social Security Number

<b>Interest Expense</b>	1 Home mortgage interest and points reported to you on federal Form 1098.....	1		00		
	2 Home mortgage interest not reported to you on federal Form 1098 (if paid to an individual, show that person's name, identifying number and address).....	2		00		
	<i>See instructions for lines 3 and 4.</i>					
	3 Points not reported to you on federal Form 1098.....	3		00		
	4 RESERVED .....	4		00		
	5 <b>Total interest.</b> Add lines 1 through 4. Enter here.....	➤ 5		00		
<b>Contributions</b> <small>Note: For any contribution of \$250 or more, see instructions.</small>	6 Contributions by cash or check.....	6		00		
	7 Other than cash or check (attach federal Form 8283 if over \$500).....	7		00		
	8 Artistic charitable contributions deduction (attach copy of appraisal) .....	8		00		
	9 Carryover from prior year.....	9		00		
	10 <b>Total contributions.</b> Add lines 6 through 9. Enter here.....	➤ 10		00		
<b>Other Miscellaneous Deductions</b>	11 Other (see instructions) .....	➤ 11		00		
<b>Total Itemized Deductions</b>	12 Add lines 5, 10, and 11. Enter here .....	➤ 12		00		

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**PART I— DIVIDING DEDUCTIONS BETWEEN SPOUSES**  
Use this schedule if married filing separately on a combined return.

1 Total itemized deductions, line 12.....	.00
2 Percent of income (Form 740, line 9, Column A) to total income (Form 740, total of line 9, Columns A and B).....	%
3 Percent of income (Form 740, line 9, Column B) to total income (Form 740, total of line 9, Columns A and B).....	%
4 Percent on line 2 times total deductions entered on line 1 (enter here and on Form 740, line 10, Column A) .....	.00
5 Percent on line 3 times total deductions entered on line 1 (enter here and on Form 740, line 10, Column B) .....	.00



# Individual Income Tax

## Fraud Deterrence Measures

- Identity Quiz Reminder
  - Participants get **two** chances to pass
  - Even if the quiz is failed, a legible photo ID and a copy of wage statements can be used to confirm identity
    - For joint returns both spouses must provide information
- Statistics on Quiz Letters
  - Less than 3% of Kentucky filers have received identity quiz letters in calendar year 2018



# Withholding Tax

- The electronic filing threshold for withholding statements (W-2, W-2G, and 1099 Series) has been lowered from 100 to 26 forms
- **DOR will no longer provide blank Forms W-2**
- ***New* Form K-5**
  - Replaces mailing individual withholding statements (W-2, W-2G, and 1099 series)
  - Beginning in early 2019, the Form K-5 can be completed online and electronically submitted at <https://revenue.ky.gov>





# Withholding Tax

- **New** Form K-4 introduced in 2018 after HB 487
- Consolidated four forms into one
- All wage earners taxed at 5% rate with an allowance for the standard deduction
- Should only be completed if declaring for one of the exemptions or requesting additional withholding



# Form K-4 – Kentucky’s Withholding Certificate

<b>FORM K-4</b> <small>Commonwealth of Kentucky Department of Revenue</small>	<b>KENTUCKY’S WITHHOLDING CERTIFICATE</b>	<b>2018</b>
Social Security Number _____		
Name—Last, First, Middle Initial _____		
Mailing Address (if Member and Street including Apartment Number or P.O. Box) _____		
City, Town or Post Office _____ State _____ ZIP Code _____		

All Kentucky wage earners are taxed at a flat 5% rate with a standard deduction allowance of \$2,530. The Department of Revenue annually adjust the standard deduction in accordance with KRS 141.081(2)(a).

Check if exempt:

1. Kentucky income tax liability is not expected this year (see instructions)

2. You qualify for the Fort Campbell Exemption Certificate. I am a resident of \_\_\_\_\_ State \_\_\_\_\_

3. You qualify for the nonresident military spouse exemption

4. You work in Kentucky and reside in a reciprocal state

Additional withholding per pay period under agreement with employer \$ \_\_\_\_\_

Under penalties of perjury, I declare that I have examined this certificate and, to the best of my knowledge and belief, it is true, correct, and complete.

\_\_\_\_\_  
Signature Date

**Instructions to Employees**

Kentucky recently enacted a new 5% flat tax rate. Due to this change all Kentucky wage earners will be taxed at this rate with an allowance for the standard deduction.

You may be exempt from withholding if any of the four conditions below are met:

1. You may be exempt from withholding for 2018 if both the following apply:

- For 2017, you had a right to a refund of all Kentucky income tax withheld because you had no Kentucky income tax liability, and
- For 2018, you expect a refund of all your Kentucky income tax withheld.

If both the above statements apply you are exempt, check box 1. Your exemption for 2018 expires February 15, 2019.

2. Under the provisions of Public Law 105–261, pay and compensation earned at the Fort Campbell, Kentucky, military base is exempt from Kentucky income tax if you are not a resident of Kentucky. KRS 141.010(17) defines “resident” as an individual domiciled within this state or an individual who is not domiciled in this state, but maintains a place of abode in this state and spends in the aggregate more than one hundred eighty-three (183) days of the taxable year in this state.

Check box 2 if you certify that you are not a resident of Kentucky and only earn wages as an employee at Fort Campbell, Kentucky. This exemption must be revoked within 10 days of a move or change of address to Kentucky.

42A804 (K-4)(2018)

3. You may be exempt from withholding, if you meet the conditions set for under the Servicemember Civil Relief Act as amended by the Military Spouses Residence Relief Act. You must complete the worksheet below to determine if you are eligible.

In order to qualify you must complete this form in full, certify that the you are not subject to Kentucky withholding tax because you met the conditions set forth below, and provide a copy of your spouse’s military picture ID issued to the employee by the U.S. Department of Defense.

\_\_\_\_\_

1. My spouse is a military servicemember ..... (check one)  YES  NO

2. I am NOT a military servicemember ..... (check one)  YES  NO

3. My military servicemember spouse has a current military order assigning him or her to a military location in Kentucky ..... (check one)  YES  NO

4. I and my military servicemember spouse live at the same address ..... (check one)  YES  NO

5. My domicile is a state other than Kentucky ..... (check one)  YES  NO

If yes, enter the 2-letter state code of your state \_\_\_\_\_

6. My military servicemember spouse’s domicile is the same as mine ..... (check one)  YES  NO

7. I am present in Kentucky solely to be with my military servicemember spouse ..... (check one)  YES  NO

**If you checked “YES” to all the statements above, your earned income is exempt from Kentucky withholding tax.**

Check box 3 if you checked “YES” to all the statements listed in the worksheet. You are exempt from Kentucky income tax withholding. This exemption will terminate if any of the answers to the questions changes to “NO”. In general, the exemption termination date will be the earlier of:

- The day the military servicemember is no longer in the military;
- The day the employee enlists in the military;
- The day the employee and the military servicemember no longer live at the same address; or
- The day the military servicemember’s permanent duty station changes to a location outside of Kentucky.

4. You may be exempt from withholding if you work in Kentucky but reside in one of the following reciprocal states: Illinois, Indiana, Michigan, West Virginia, Wisconsin, Virginia and you commute daily or Ohio and you are not a shareholder-employee who is a “twenty (20) percent or greater” direct or indirect equity investor in a S corporation.

In order to qualify you must complete the worksheet below:

\_\_\_\_\_

I have not been a resident of Kentucky during the year. (Check block in front of applicable statement.) I work and reside in:

Illinois,  Indiana,  Michigan,  West Virginia,  Wisconsin

Virginia and commute daily to my place of employment in Kentucky. (Must commute daily to apply)

Ohio and I am not a shareholder-employee who is a “twenty (20) percent or greater” direct or indirect equity investor in an S corporation.

\_\_\_\_\_

Check box 4 if you certify you work in Kentucky and reside in a reciprocal state.

**If you meet any of the four exemptions you are exempted from Kentucky withholding. However, you must complete this form and file it with your employer before withholding can be stopped. You will need to maintain a copy of the K-4 for your permanent records.**

**Instructions to Employees**

Upon receipt of this form, properly completed, you are authorized to discontinue withholding for an employee who qualifies for one of the four exemptions. Retain a copy of all K-4’s received from employees.

\_\_\_\_\_

42A804 (K-4)(2018)





# Corporate Income Tax

**Effective January 1, 2018**

- Flat tax rate of 5% for all corporations
- Single sales factor apportionment
- Market-Based Sourcing:
  - Receipts from **tangible personal property** are in Kentucky if it is shipped or delivered to a purchaser, other than the U.S. Government, in Kentucky
  - Receipts from **services** and the **sale of intangibles** are in Kentucky if the market is in Kentucky:
    - Sale, rental, lease, or license of real property in Kentucky
    - Sale, rental, lease, or license of tangible personal property in Kentucky
    - Service delivered or intangible property used in Kentucky (throw-out rule for intangible receipts if not taxable or indeterminable)
  - Kentucky Administrative Regulation (KAR) coming soon



# Corporate Income Tax

- 3-Factor Apportionment Retained for “Providers” (KRS 141.121(1)(e):
  - Communication services per KRS 136.602
  - Cable services per KRS 136.602
  - Internet access per 47 USC §51

**Note:** A 2-digit code is required on the face of the return to indicate provider qualification
- Special Apportionment Definitions:
  - Passenger airlines
  - Qualified freight forwarders
- Alternative Apportionment:
  - Taxpayer must prove by clear and convincing evidence that statutory apportionment requirements unfairly represent activity in Kentucky



# Schedule A – Kentucky Apportionment

**SCHEDULE A** **APPORTIONMENT AND ALLOCATION** **2018**  
 (For corporations and pass-through entities taxable both within and without Kentucky.)

▶ See instructions.  
 ▶ Attach to Form 720, 720S, 725, 765, or 765-GP.

Name of Corporation or Pass-through Entity: \_\_\_\_\_ Federal Identification Number: \_\_\_\_\_ Kentucky Corporation/LEET Account Number: \_\_\_\_\_

Check this box and complete page 2, Apportionment and Allocation – Continuation Sheet: (i) if the corporation filing this tax return is a partner or member of a limited liability pass-through entity or general partnership (organized or formed as a general partnership after January 1, 2006) doing business in Kentucky; or (ii) if the pass-through entity filing this tax return is a partner or member of a pass-through entity doing business in Kentucky; or (iii) if the corporation is filing a mandatory nexus consolidated tax return per KRS 141.200(11).

If apportionment method other than statutory formula is used:  
 Check this box: (i) if the Department has granted written approval to use an alternative allocation and apportionment method per KRS 141.120(12)(a), and attach a copy of the approval letter to the tax return; or (ii) if the company has made an irrevocable five year election to use an allocation and apportionment method per KRS 141.121(4)(a), and attach a copy of the election to the tax return.

PART I—COMPUTATION OF APPORTIONMENT FRACTION Required for All Companies—Sales Factor Computation				PART II—APPORTIONMENT AND ALLOCATION OF INCOME (FORM 720 ONLY)			
Convert line 3 to a percentage carried to four decimal places.				1 Net income (from Form 720, Part III, line 18)..... 1 00			
1	Kentucky sales	1	00	2 Deduct non-apportionable income (if applicable):			
2	Total sales	2	00	(a) Interest..... 2(a) 00			
3	Sales factor (line 1 divided by line 2)..... 3		%	(b) Rents..... (b) 00			
Required for PROVIDERS (KRS 141.121—see instructions) (For informational purposes for all other companies.)				(c) Royalties..... (c) 00			
Convert lines 4, 7, 10, 11, and 12 to a percentage carried to four decimal places.				(d) Net gain or loss on sale or exchange of capital assets..... (d) 00			
4	Double-weighted Sales factor (line 3 multiplied by 2)..... 4		%	(e) Total (lines (a) through (d))..... (e) 00			
5	Average value of Kentucky real/tangible property (Part III)..... 5		00	(f) Less Kentucky related expenses (attach schedule)..... (f) ( 00)			
6	Average value of total real/tangible property (Part IV)..... 6		00	3 Net non-apportionable income..... 3 00			
7	Property factor (line 5 divided by line 6)..... 7		%	4 Apportionable income (line 1 less line 3)..... 4 00			
8	Kentucky payrolls..... 8		00	5 Apportionable income apportioned to Kentucky (line 4 multiplied by Part I, line 3)(providers see instructions)..... 5 00			
9	Total payrolls..... 9		00	6 Add Kentucky non-apportionable income (if applicable):			
10	Payroll factor (line 8 divided by line 9)..... 10		%	(a) Interest..... 6(a) 00			
11	Total (add lines 4, 7, and 10)..... 11		%	(b) Rents..... (b) 00			
12	Apportionment fraction—line 11 divided by 4 or number of factors present (sales representing 2 factors)..... 12		%	(c) Royalties..... (c) 00			
				(d) Net gain or loss on sale or exchange of capital assets..... (d) 00			
				(e) Total (lines (a) through (d))..... (e) 00			
				(f) Less Kentucky related expenses (attach schedule)..... (f) ( 00)			
				7 Kentucky net non-apportionable income..... 7 00			
				8 Taxable net income (line 5 plus line 7) (enter here and on Form 720, Part III, line 20)..... 8 00			

PART III—KENTUCKY REAL/TANGIBLE PROPERTY				PART IV—TOTAL REAL/TANGIBLE PROPERTY			
PROPERTY	A. Beginning of Year	B. End of Year		PROPERTY	A. Beginning of Year	B. End of Year	
1 Inventories..... 1	00	00	00	1 Inventories..... 1	00	00	00
2 Buildings..... 2	00	00	00	2 Buildings..... 2	00	00	00
3 Machinery and equipment..... 3	00	00	00	3 Machinery and equipment..... 3	00	00	00
4 Land..... 4	00	00	00	4 Land..... 4	00	00	00
5 Other tangible assets..... 5	00	00	00	5 Other tangible assets..... 5	00	00	00
6 Total (lines 1 through 5)..... 6	00	00	00	6 Total (lines 1 through 5)..... 6	00	00	00
7 Average value of real/tangible property owned in Kentucky, total of line 6, columns A and B divided by 2..... 7			00	7 Average value of real/tangible property owned everywhere, total of line 6, columns A and B divided by 2..... 7			00
8 Leased property (Eight times the annual rental rate less subrentals)..... 8			00	8 Leased property (Eight times the annual rental rate less subrentals)..... 8			00
9 Total (lines 7 and 8) (enter on Part I, line 5)..... 9			00	9 Total (lines 7 and 8) (enter on Part I, line 6)..... 9			00


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PART I—COMPUTATION OF APPORTIONMENT FRACTION Required for All Companies—Sales Factor Computation			
Convert line 3 to a percentage carried to four decimal places.			
1	Kentucky sales	1	00
2	Total sales	2	00
3	Sales factor (line 1 divided by line 2)..... 3		%
Required for PROVIDERS (KRS 141.121—see instructions) (For informational purposes for all other companies.)			
Convert lines 4, 7, 10, 11, and 12 to a percentage carried to four decimal places.			
4	Double-weighted Sales factor (line 3 multiplied by 2)..... 4		%
5	Average value of Kentucky real/tangible property (Part III)..... 5		00
6	Average value of total real/tangible property (Part IV)..... 6		00
7	Property factor (line 5 divided by line 6)..... 7		%
8	Kentucky payrolls..... 8		00
9	Total payrolls..... 9		00
10	Payroll factor (line 8 divided by line 9)..... 10		%
11	Total (add lines 4, 7, and 10)..... 11		%
12	Apportionment fraction—line 11 divided by 4 or number of factors present (sales representing 2 factors)..... 12		%



# Provider Business Reason Codes – 3-Factor Apportionment

FORM <b>720</b> <small>Commonwealth of Kentucky Department of Revenue</small>		KENTUCKY CORPORATION INCOME TAX AND LLET RETURN	<b>2018</b>
▶ See instructions. Taxable period beginning _____, 201 ____, and ending _____, 201 ____ .			
<b>A</b> LLET Exemption Code Enter Code _____	<b>D</b> Federal Identification Number _____	<b>E</b> Kentucky Corporation/LLET Account Number <b>(Required)</b> _____	
<b>B</b> Income Tax Exemption Code Enter Code _____ <input type="checkbox"/> Mandatory NEXUS	Name of Corporation _____ <input type="checkbox"/> Change of Name Number and Street _____ City _____ State _____ ZIP Code _____ Telephone Number _____		<b>Taxable Year Ending</b> ____ / ____ M M Y Y State and Date of Incorporation _____
<b>C</b> Check if applicable: <input type="checkbox"/> Amended return <input type="checkbox"/> Amended return—RAR Provide explanation of changes in Part V— Explanation of Amended Return Changes.	<b>F</b> Name of Common Parent _____ Kentucky Corporation/LLET Account Number _____		Principal Business Activity in KY _____
	<b>G</b> Check if applicable: <input type="checkbox"/> Initial return <input type="checkbox"/> Short-period return (Complete Part IV) <input type="checkbox"/> Change of accounting period <input type="checkbox"/> Final return (Complete Part IV)		<b>H</b> Provider 3-Factor Apportionment Code _____ NAICS Code Number in KY (See <a href="http://www.census.gov">www.census.gov</a> )

## REASON CODE

## PROVIDER BUSINESS

- 31 Communications service as defined in KRS 136.602;
- 32 Cable service as defined in KRS 136.602;
- 33 Internet service as defined in 47 U.S.C. sec. 151; or
- 34 Other (attach statement)



# Corporate Income Tax

## Net Operating Losses

- 50% NOL limitation for mandatory nexus consolidated group filers until December 31, 2018
- Beginning on or after January 1, 2018, the NOLD is limited to 80% of taxable income without regard to the NOL deduction per IRC §172(a)
- Unlimited unused NOL carryforward per TCJA for NOL generated on or after January 1, 2018
- Kentucky disallows NOL carryback since January 1, 2005
- Guidance coming soon



# Corporate Income Tax

## Filing Requirements

- Mandatory Nexus Consolidated otherwise Separate Entity still **required until December 31, 2018** for corporations
- Tax years beginning on or after **January 1, 2019** for corporations:
  - Unitary combined group; *unless*
  - Same-as-federal consolidated group election; *otherwise*
  - Separate entity filing if not part of a unitary or consolidated group
- e-Filing required if federal gross receipts >\$1,000,000
  - Applies to corporations and pass-through entities
- Forms Changes:
  - Updated Schedule A for apportionment factor changes
  - Various updates for tax law changes



# Tax Credits

- **Inventory Tax Credit:**

- Ad valorem (property) tax paid on inventory
- Must be timely paid
- Phased-in 25% per year from 2018 through 2021
- Calculator will be posted at <https://revenue.ky.gov/>

- **Film Tax Credit:**



- Nonrefundable and nontransferable for applications approved after April 27, 2018
- Annual approval cap of \$100 million for 2018 and after
- Commercials no longer qualify

- **Credits Eliminated:**

- Kentucky Environmental Stewardship Act (KESA)
- Kentucky Economic Opportunity Zone Tax Credit (KEOZ)
- Incentives for Energy Independence Act (IEIA)
- Coal Incentive Tax Credit
- Food Donation Tax Credit (2018 is final year to use any 2017 carryover)
- Kentucky Housing for Homeless Families



# Schedule INV – Inventory Tax Credit

<b>SCHEDULE</b> <b>INV</b> <small>Department of Revenue</small>		<b>KENTUCKY</b> <b>INVENTORY TAX CREDIT</b> <small>(Ad Valorem)</small>	<b>2018</b>	
<p>▶ See instructions.</p> <p>▶ Attach to Form 720, 720S, 725, 740, 740-NP, 741, 765, or 765-GP <span style="float: right;">KRS 141.408</span></p>				
Name of Taxpayer	Federal Identification Number or Social Security Number	Kentucky Corporation/LLLET Account Number (if applicable)		
Mailing Address	Taxed as: <input type="checkbox"/> Corporation <input type="checkbox"/> Limited Liability Pass-through Entity <input type="checkbox"/> General Partnership <input type="checkbox"/> Individual <input type="checkbox"/> Other _____			
<b>PART I – Qualifications</b>				
<ul style="list-style-type: none"> <li>• Did you pay ad valorem (inventory) tax to a taxing jurisdiction within Kentucky? ..... <input type="checkbox"/> Yes <input type="checkbox"/> No</li> <li>• Was part or all of the inventory tax timely paid to the taxing jurisdiction on or before December 31? <b>Note:</b> The credit can only be claimed on timely paid tax ..... <input type="checkbox"/> Yes <input type="checkbox"/> No</li> </ul> <p>If you answered "No" to either question above, <b>STOP!</b> You do not qualify for the credit.          If you answered "Yes" to both questions above, go to Part II.</p>				
<p><b>PART II – Amount of Credit</b>  Visit <a href="http://revenue.ky.gov">revenue.ky.gov</a> for a worksheet to calculate the amount of allowable inventory tax credit.</p>				
Enter the total amount reported on all Forms 62A500 (Lines 1-6).	<b>Taxpayer's Valuation of Inventory</b>	<b>Tax Timely Paid on Inventory</b>		
1 Line 31, Merchants Inventory.....	1	00	1	00
2 Line 32, Manufacturing Finished Goods .....	2	00	2	00
3 Line 33, Manufacturers Raw Materials/Goods in Process .....	3	00	3	00
4 Line 34, Motor Vehicles Held for Sale (dealers only), New Farm Machinery Held Under a Floor Plan, New Boats and Marine Equipment Held Under a Floor Plan, Salvage Titled Vehicles (insurance companies only), Recreational Vehicles Held in Retailer's Inventory, Biotechnology Products Held in a Warehouse (manufacturers and affiliates only), and Nonferrous Metal Located in a Commodity Warehouse and Held on Warranty.....	4	00	4	00
5 Line 35, Goods Stored in Warehouse/Distribution Center .....	5	00	5	00
6 Line 36, Inventory - In Transit.....	6	00	6	00
7 Total (add lines 1 through 6).....	7	00	7	00
8 Allowable percentage.....	8		8	<b>25%</b>
9 Allowable <b>Inventory Tax Credit</b> (Line 7 multiplied by Line 8).....	9		9	00
41A720INV (8-27-18 DRAFT) <span style="float: right;">Page 1 of 1</span>				





# Inventory Tax Credit Worksheet

Commonwealth of Kentucky  
DEPARTMENT OF REVENUE  
2018 Computation of Inventory

**1** Need some basic INFO below

**TAXPAYER INFO**

Taxed as: Corporation

Name of Business: Business Name Here

Number & Street: Address Here

Number & Street: Address Here

City, State, Zip: Address Here

FEIN Number: 000000000

KY Corp/LLET Account: 000000

**6** -- CLICK below when you are done!

SAVE as PDF

**5** If necessary, CLICK below to DELETE a location.

DELETE A LOCATION

**4** If necessary, CLICK below to ADD another location. Then repeat STEP #3

ADD ANOTHER LOCATION

**2** Read this part carefully!

**RED AREAS** - ALL red areas should be completed!

**PINK AREAS** only need to be completed when necessary.

**GREEN NUMBERS** are your LOCATION #'s within this program!

	1	2	3
LOCATION #			
COUNTY / DISTRICT		Scott (DIST 02)	Franklin (DIST 01)
PVA PHONE NUMBER	#N/A	(502) 863-7885	(502) 875-8780
Tax Paid Timely?		YES	YES
Paid within discount period?		NO	YES

**3** -- input LOCATION 1's Inventory Data based upon the FILED TPT RETURNS

Complete all the LOCATION's RED areas. Complete PINK areas of relevance.

	1	2	3
Grand Totals			
\$ 9,000,000		\$ 8,000,000	\$ 1,000,000
\$ 11,000,000		\$ 9,000,000	\$ 2,000,000
\$ 13,000,000		\$ 10,000,000	\$ 3,000,000
\$ 15,000,000		\$ 11,000,000	\$ 4,000,000
\$ 17,000,000		\$ 12,000,000	\$ 5,000,000
\$ 19,000,000		\$ 13,000,000	\$ 6,000,000
\$ 21,000,000		\$ 14,000,000	\$ 7,000,000
\$ 105,000,000	\$ -	\$ 77,000,000	\$ 28,000,000
\$ 405,808.16	\$ -	\$ 294,880.00	\$ 110,928.16

Total Inventory Value (per Taxpayer) \$ 105,000,000

Estimated total **TIMELY** Tangible Personal Property Tax Paid on Inventory (APPLY to FORM xxxx, Line 7) \$ 405,808 (rounded)

## 1. Enter Taxpayer Info

- Taxed as
- Name
- Address
- FEIN
- KY Corp/LLET Account Number

## 2. Fill-in Inventory Tax Information

- Select: County/District
- Timely paid: Yes/No
- Paid within discount period: Yes/No
- Enter value of inventory property for each category (follows lines from 62A500)

## 3. Input Each Location in a Separate Column

- Keep adding columns until all locations entered
- Tax automatically computes

## 4. Click to save worksheet work paper as a PDF and retain for your records

## 5. Click to generate a mock-up Sch INV

- Save as a PDF



# Electronic Filing Statistics

- Individual
  - 88% of the 1.96 million returns received through September were e-filed
- Corporate
  - 42% of the Corporate returns received through September were e-filed
- Kentucky follows the IRS for when e-file returns may begin to be electronically submitted & accepted



# Forms Filed Electronically

Filing Year	Form	Payment/Refund
2018, 2017, & 2016	Form 740 *	E-Pay & Direct Deposit of Refund
2018, 2017, & 2016	Form 740-NP *	E-Pay
2018, 2017, & 2016	Form 740-NP-R (cannot e-file amended)	E-Pay
2018, 2017	Form 741 *	E-Pay
2018, 2017, & 2016	Form 720 *	E-Pay
2018, 2017, & 2016	Form 720 (consolidated) *	E-Pay
2018, 2017, & 2016	Form 720S *	E-Pay
2018, 2017	Form 725 / 725-EZ *	E-Pay
2018, 2017, & 2016	Form 765 *	E-Pay
2018, 2017, & 2016	Form 765-GP *	E-Pay

\*including amended



# Property Tax

- Pre-written computer software is subject to state and local property tax
- Reminders:
  - Form 62A500 returns are due for all businesses each year on May 15 for property held on January 1
  - Returns must be filed with the Property Valuation Administrator in each county per Form 62A500 instructions, **not** the DOR
    - Returns mailed to the DOR are forwarded via mail at the state's expense to the PVA offices
  - **Late or amended returns** must be filed with the Office of Property Valuation at DOR
  - No *de minimus* value standard
  - All personal property must be reported and depreciated per the instructions



# Sales & Excise Taxes

- Information on tax changes can be found at:
  - <https://TaxAnswers.ky.gov>
- Including:
  - Listing of new services subject to sales tax
  - Industry specific FAQs
  - Video tutorials
  - Links to Register for a Sales and Use Tax Account

Sales and Use Taxes	(502) 564-5170
Telecommunications Tax	(502) 564-5170
911 Prepaid Service Charge	(502) 564-5170
Financial Tax	(502) 564-4810
Motor Vehicle Tax	(502) 564-3853
Motor Vehicle Usage Tax	(502) 564-4455
Excise Tax	(502) 564-6823
Tobacco Tax	(502) 564-6823



# TaxAnswers.ky.gov

Ky.gov An Official Website of the Commonwealth of Kentucky

Search



Tax Answers

Income Taxes ▾ Sales and Excise Taxes ▾ Other Changes Contact Us



## TaxAnswers.ky.gov

The Kentucky Department of Revenue is committed to answering your questions and keeping you updated on recent tax law changes made during the 2018 session of the General Assembly.

Do you need to register for a Sales and Use Tax account? [Find out here](#)



### Income Taxes

Important changes have been made to state and federal taxes. More information is available here.



### Sales and Excise Taxes

Multiple changes have been made to sales and excise taxes. Visit this page for more information.




### Other Changes

A summary of 2018 law changes that impact tax administration, property taxes, and smaller taxes.



# Miscellaneous

- Kentucky Court Appointed Special Advocates (CASA) new refund designation checkoff 
- Final federal audit determination due in 180 days
  - Previously 30 days
- Assessment and refund denial protests due in 60 days
  - Previously 45 days
- Bonds no longer required to suspend collection activity when appealing an order sustaining a tax assessment to the Kentucky Claims Commission



# Interest Rates

The adjusted prime rate charged by banks is used to set the tax interest rate that the Kentucky Department of Revenue charges on unpaid taxes and pays on refunds that are subject to interest due.

- **Increased 1% from last year**
- **Interest rates for 2019:**
  - Rate charged on unpaid taxes is 7%
    - Base rate of 5% plus 2%
  - Rate paid when interest is due on a refund is 3%
    - Base rate of 5% minus 2%
- **KRS 131.183**





# Procedural Reminders

- No staples, check stubs, hole punches
- Review the DOR website for the newest version of forms
- Use the mailing address shown on the tax form you are sending
- Non-Revenue mail is not processed by DOR
- Do not use DOR envelopes for other personal or business mailings
- Mail each return separately – every single return and/or voucher should be mailed in its own envelope
- No envelopes (sealed or unsealed) inside another envelope
- Do not mail anything to 100 or 200 Fair Oaks Lane, Frankfort, KY
- Cut forms to size when instructed (vouchers, etc.)



# Stay in Touch

- **Twitter**

- @RevenueKY



- **Kentucky Business One Stop Portal**

- <https://onestop.ky.gov>



- **Tax Alert**

- <https://revenue.ky.gov>

- News Tab → Publications Section → Tax Alerts





# Taxpayer Service Centers

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**Ashland Taxpayer Service Center**

1539 Greenup Avenue, 41101-7695  
(606) 920-2037

**Bowling Green Taxpayer Service Center**

201 West Professional Park Court, 42104-3278  
(270) 746-7470

**Corbin Taxpayer Service Center**

15100 North US25E, Suite 2, 40701-6188  
(606) 528-3322

**Frankfort Taxpayer Service Center**

501 High Street, 40601-2103  
(502) 564-4581 (*Taxpayer Assistance*)

**Hopkinsville Taxpayer Service Center**

181 Hammond Drive, 42240-7926  
(270) 889-6521

**Louisville Taxpayer Service Center**

600 West Cedar Street, 2nd Floor West, 40202-2310  
(502) 595-4512

**Northern Kentucky Taxpayer Service Center**

Turfway Ridge Office Park  
7310 Turfway Road, Suite 190, Florence, 41042-4871  
(859) 371-9049

**Owensboro Taxpayer Service Center**

401 Frederica Street, Building C, Suite 201, 42301-6295  
(270) 687-7301

**Paducah Taxpayer Service Center**

Clark Business Complex, Suite G  
2928 Park Avenue, 42001-4024  
(270) 575-7148

**Pikeville Taxpayer Service Center**

Uniplex Center, 126 Trivette Drive, Suite 203, 41501-1275  
(606) 433-7675



# Revenue Contact Phone Numbers

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Collections	(502) 564-4921	Motor Fuels	(502) 564-3853
Corporation Tax	(502) 564-8139	Motor Vehicle Usage	(502) 564-4455
DOR One Stop Help Line	(502) 564-5053	Ombudsman	(502) 564-7822
E-Filing Assistance (Business Forms)	(502) 564-7926	Property Tax	(502) 564-8338
E-Filing Assistance (Individual Forms)	(502) 564-7862	Protest Resolution	(502) 564-6734
Field Operations	(502) 564-2113	Registration	(502) 564-3306
Forms and Envelopes	(502) 564-3658	Sales & Use Tax	(502) 564-5170
Individual Income Tax	(502) 564-4581	Special Investigations	(502) 564-4470
Inheritance Tax	(502) 564-4810	State Operator	(502) 564-3130
Local Government & County Fees	(502) 564-8785	Withholding (also use for WRAPS)	(502) 564-7287
Miscellaneous Tax	(502) 564-2935		



# Questions, Comments, or Concerns



**Thank You!**



# 2018 Kentucky State Tax Update

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**Office of Income Taxation**  
**501 High Street • Station 55 • Frankfort, KY 40601**  
**(502) 564-4581**

