

Kentucky Tax Alert

A REVENUE PUBLICATION FOR THE TAX PROFESSIONAL

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ELECTRONIC FILING IS AN OPTION FOR 2013 CORPORATE INCOME TAX AND LLET RETURN, FORM 720

The Department of Revenue (DOR) will soon be accepting electronic filing of the first Kentucky corporate income tax returns. Availability for electronically filing the 2013 Form 720, Corporate Income Tax and LLET Return, is tentatively scheduled for the last week of February. The electronic submission will be in conjunction with the IRS MeF system.



Form 8879(C)-K, KY Corporate and PTE Declaration for Efile, is required. An authorized representative of the entity and the electronic return originator (ERO) must use Form 8879(C)-K as a declaration document and signature authorization for an electronic filing (e-filing) of a Kentucky Form 720 filed by an ERO.

Payment for the tax due on the Form 720 may be made through the electronic filing system, if payment in full is remitted. If payment by check or money order is preferred, Form 720-V, Electronic Filing Payment Voucher, must be used by an entity filing an electronic Kentucky tax return (Form 720) to pay the balance of tax due.

Electronic submission of the remaining Kentucky corporate income and limited liability tax returns will be available beginning in 2015.

Please refer to the DOR's website at www.revenue.ky.gov for additional information.

ELECTRONIC ESTIMATED TAX PAYMENTS MAY BE SCHEDULED

Taxpayers may schedule up to four equal direct debit payments of estimated tax at the time their state individual income tax return is electronically filed. The scheduled payment dates for the 2014 estimated tax payment periods are April 15, June 16, Sept. 15 and Jan. 15, 2015. Direct debit of estimated tax may be scheduled in addition to a direct debit of the tax amount due or direct deposit of refund, but the financial institution information (routing number, account number and type of account) must be the same in all the requested transactions. Direct debit of estimated tax may also be scheduled in the absence of a direct deposit of refund or direct debit of tax amount due transaction. To revoke (cancel) a payment, the taxpayer must contact the DOR at (502) 564-4581 no later than two business days prior to the payment (debit) date.

NEW ELECTRONIC PAYMENT SYSTEM

A new electronic payment system to accept and process ACH and credit card payments is being rolled into production for DOR this January. This new system will process these types of payments in the same manner as the current system, but will post faster to the taxpayers' accounts. Consequently, taxpayer's withdrawal of funds will likewise post faster from their financial institution.

CYBER MONDAY SPENDING FOR 2013 NEARLY REACHED RECORD OF \$2 BILLION

Cyber Monday for 2013 reached record territory near the \$2 billion mark representing at that point the heaviest online spending day in history. Holiday online shopping this year to date marked an approximate 25 percent increase over 2012. The DOR reminds Kentucky shoppers that when a purchase is made online from an out-of-state vendor that does not collect Kentucky tax, purchasers remain responsible for payment of the 6 percent use tax on taxable items delivered into the Commonwealth per KRS 139.310 and KRS 139.330. During the individual income tax filing season, tax professionals need to be aware of and account for that liability for themselves and their clients. As a reporting convenience, the instructions for the 2013 Kentucky state income tax return will again include a Use Tax Look-Up Table designed to allow individuals to estimate use tax owed on nonbusiness purchases during 2013 of less than \$1,000. Any purchases made in the amount of \$1,000 or greater must be accounted for on an individual basis.

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In addition, in a continuing effort to educate the public and make the collection of use tax as efficient as possible, out-of-state vendors selling into Kentucky must now notify their in-state customers of their respective use tax obligations. Effective July 1, 2013, KRS 139.450 was amended to require out-of-state retailers, with no legal requirement to collect tax in this state, to notify their Kentucky customers that use tax must be reported and paid to the DOR on applicable purchases in accordance with KRS 139.330. Such notice must be posted on the retailer's website page, on any electronic confirmation order, on invoicing documents or provided as a supplemental page or electronic link.

More information on Kentucky's 6 percent use tax is available for both consumers and sellers on the DOR's website at <http://revenue.ky.gov/individual/usetax.htm>.

MOTOR FUELS TAX RATE DECLINES BY 1.5 CENTS PER GALLON ON JAN. 1

Reflects Drop In Average Wholesale Prices Of Gasoline, Diesel, Ethanol

Based on the Oct. 2013 DOR survey of the average wholesale price (AWP) of gas and diesel, Kentucky's gas tax on sales of gasoline, diesel and ethanol motor fuels decreased by 1.5 cents per gallon beginning on Jan. 1, 2014. This reflected a drop in the calculated average wholesale fuel price. The last decrease in the excise tax was in October 2010.

The excise tax was enacted in 1920. In the 1980s, the Kentucky Legislature provided for a *variable* excise tax as a percentage of average wholesale price (AWP) of gas and diesel.

The variable excise tax rises, falls or stays unchanged from quarter to quarter on the basis of a survey of AWP of motor fuels. The survey is conducted by the DOR in the first month of each quarter (January, April, July and October) and the change in rate – if any – takes effect on the first day of the first month of the following quarter.

For purposes of the excise tax rate, the amount of any increase in the AWP is capped at 10 percent per year.



ESTIMATED TAX PAYMENT DEADLINES FOR 2014

The DOR would like to remind taxpayers of the estimated tax payment dates for tax year 2014. Individual income taxpayers shall make estimated tax payments if gross income from sources other than wages upon which Kentucky income tax will be withheld can reasonably be expected to exceed \$5,000. The quarterly estimated tax payments are due on April 15, 2014; June 16, 2014; Sept. 15, 2014; and Jan. 15, 2015. No declaration of estimated tax shall be required if the estimated tax liability can reasonably be expected to be \$500 or less.

Corporations and limited liability pass-through entities subject to taxation under KRS 141.040 and 141.0401 shall make a declaration of estimated tax if the tax imposed by KRS 141.040 and 141.0401 for the taxable year can reasonably be expected to exceed \$5,000. For calendar year filers, the estimated tax due dates are June 16, 2014; September 15, 2014; and Dec. 15, 2014. For fiscal year filers, the estimated taxes are due on the 15th day of the 6th month following the close of the fiscal year; the 15th day of the 9th month following the close of the fiscal year; and the 15th day of the 12th month following the close of the fiscal year. If that day falls on a weekend or holiday, the estimated tax payment is due on the next business day following the weekend or holiday.

USE TAX NOTIFICATION

A new use tax notice requirement authorized by House Bill 440 passed in the 2013 Regular Session of the Kentucky General Assembly. This provision affects retailers who make sales into Kentucky but who are not required to collect Kentucky sales and use tax. Effective July 1, 2013, out-of-state retailers with no legal requirement to collect tax in this state, and who expect more than \$100,000 in gross annual sales to Kentucky residents, must notify their Kentucky customers that use tax must be reported and paid directly to the Department of Revenue on applicable purchases in accordance with KRS 139.450. This notification must be posted on the retailer's website (includes online auction websites), in retail catalogs and on any electronic confirmation order or other invoicing documents. In addition, retailers are prohibited from stating or implying on their websites or in their catalogs that there is no Kentucky tax due on such purchases. A sample of information required on the notification is below:

1. The retailer is not required to and does not collect Kentucky sales or use tax;
2. The purchase may be subject to Kentucky use tax unless the purchase is exempt from taxation in Kentucky;
3. The purchase is not exempt merely because it is made over the internet, by catalog, or by other remote means.

Individuals and businesses who owe use tax are required to report and pay the use tax. A business may report use tax on its sales and use tax return, a consumer's use tax return, or form 51A113(O). Individuals may use form 51A113(O) or report use tax on the Kentucky individual income tax return.

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

January	15	Estimated Corporation Income Tax/Limited Liability Entity Tax/One Half Est. (FY ending 7/31)	
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	February	3	Minerals and Gas Severance Tax Returns (December Payment)
		3	Annual Report of Distilled Spirits in Bonded Warehouses (as of 1/1/07)
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	3	Watercraft Property Tax Return (as of 1/1/07)	
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May	1	Minerals and Gas Severance Tax Returns (March Payment)	
	1	Public Service Company Property Tax Returns (as of 12/31/06)	
	1	Railroad Car Line Property Tax Returns (as of 12/31/06)	
	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)	
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	20	Health Care Provider Tax Returns (April Payment)	
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	27	Monthly Motor Fuels Tax Returns (April Payment)	
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		10	Twice-Monthly Income Tax Withholding Returns (May 16 - May 31 Payment/EFT Payment)
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September	2	Minerals and Gas Severance Tax Returns (July Payment)	
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		10	Twice-Monthly Income Tax Withholding Returns (September 16 - September 30 Payment/EFT Payment)
		15	Estimated Corporation Income Tax/Limited Liability Entity Tax/One Half Est. (FY ending 4/30)
		15	Estimated Corporation Income Tax/Limited Liability Entity Tax/One Fourth Est. (FY ending 1/31)
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Kentucky Tax Alert comments and suggestions should be addressed to the Office of Income Taxation/Training Branch, Finance Cabinet, Department of Revenue, Frankfort, Kentucky, (502) 564-0937.

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The Department of Revenue may be found at...

www.revenue.ky.gov



2013 FEDERAL/KENTUCKY INDIVIDUAL INCOME TAX DIFFERENCES

Kentucky income tax law is based on the federal income tax law in effect on December 31, 2006. The Department of Revenue generally follows the administrative regulations and rulings of the Internal Revenue Service in those areas where no specific Kentucky law exists.

The chart below provides a quick reference guide to the major federal/Kentucky differences. It is not intended to be all inclusive. Items not listed may be referred to the Department of Revenue to determine Kentucky tax treatment.

PROVISION	FEDERAL TAX TREATMENT	KENTUCKY TAX TREATMENT
1. Interest from Federal Obligations	Taxable	Exempt
2. Retirement Income from: Commonwealth of Kentucky Retirement Systems Kentucky Local Government Retirement Systems Federal and Military Retirement Systems	Taxable Taxable Taxable	Partially exempt if retired after December 31, 1997; exempt if retired before January 1, 1998; Schedule P may be required
3. Pensions and Annuities Starting After 7/1/86 and Before 1/1/90	3-year recovery rule eliminated	3-year recovery rule retained
4. Other Pension and Annuity Income	Taxable	100% excludable up to \$41,110; Schedule P may be required
5. Benefits from U.S. Railroad Retirement Board	May be taxable	Exempt; Schedule P may be required
6. Social Security Benefits	May be taxable	Exempt
7. Capital Gains on Sale of Kentucky Turnpike Bonds	Taxable	Exempt
8. Other States' Municipal Bond Interest Income	Exempt	Taxable
9. Kentucky Local Government Lease Interest Payments	Taxable	Exempt
10. Long-Term Care Insurance Premiums Paid With After-Tax Dollars	Limited deduction as self-employed health insurance	100% adjustment to gross income
11. Medical and Dental Insurance Premiums Paid With After-Tax Dollars	Limited deduction as self-employed health insurance	100% adjustment to gross income
12. Capital Gains on Property Taken by Eminent Domain	Taxable	Exempt
13. Election Workers—Income for Training or Working at Election Booths	Taxable	Exempt
14. Artistic Contributions	Nontax contribution allowed as itemized deduction	Appraised value allowed as itemized deduction or adjustment to income
15. State Income Taxes	Deductible	Nondeductible
16. Leasehold Interest—Charitable Contribution	May be deductible	Deductible; Schedule HH required
17. Kentucky Unemployment Tax Credit	No credit allowed	\$100 per certified employee; Schedule UTC required
18. Work Opportunity Credit (federal Form 5884)	Tax credit allowed; wage expense reduced by amount of credit	No credit allowed; entire wage expense is deductible
19. Welfare to Work Credit (federal Form 8861)	Tax credit allowed; wage expense reduced by amount of credit	No credit allowed; wage expense reduced by amount of federal credit
20. Child and Dependent Care Credit	Tax credit based on expenses	20% of federal credit
21. Family Size Tax Credit	No credit allowed	Decreasing tax credit allowed
22. Education Tuition Tax Credit	Tax credit based on expenses	Credit allowed Form 8863-K 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 TLAP Income Quota Buyout (including imputed interest)	Taxable	Exempt
26. Bonus Depreciation/Additional Section 179 Expense	Deductible	Nondeductible
27. Mortgage Debt Forgiveness	Exempt	Taxable
28. Domestic Production Activities Deduction	Deductible	Deductible; may be limited
29. Active Duty Military Pay	Taxable	Exempt
30. Certain Business Expenses of Reservists	Deductible	Nondeductible