

**Commonwealth of Kentucky
Kentucky Department of Revenue**

Modernized e-File (MeF) Guide for Software Developers and Transmitters

Individual Income Tax

KY PUBLICATION 4164



**Tax Year 2013
Processing Year 2014**

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Section 1: INTRODUCTION

The material in this publication will provide software developers and transmitters the necessary information for capturing and formatting Kentucky individual income tax data and the associated federal information required as part of a Kentucky return. The information included in these specifications does not provide all the various tax booklet instructions and tax law detail necessary in the preparation of the Kentucky return. Please refer to the 2013 Kentucky individual income tax booklet (Form 740 and Form 740-NP) and Kentucky Department of Revenue (KDOR) website at www.revenue.ky.gov for additional forms, schedules and instructions.

This publication does not represent the requirements and procedures issued by the Internal Revenue Service (IRS). All IRS requirements must be adhered to in developing the Kentucky return and participating in the fed/state e-file program. See IRS Publications 4164, Modernized e-file Guide for Software Developers and Transmitters and Publication 1345, Handbook for Electronic Return Originators of Individual Income Tax Returns.

The Kentucky Department of Revenue e-File program works in conjunction with the Internal Revenue Service 1040 e-File program to allow authorized Providers, or Electronic Return Originators (ERO's) to electronically file both federal and state individual income tax returns and corresponding forms, schedules and attachments. For tax year 2013, Kentucky will accept Form 740 and Form 740-NP and their supporting schedules/forms for electronic filing through fed/state MeF.

The transmission method is a Web Service using Simple Object Access Protocol (SOAP) with attachments messaging. An e-File tax return uses schemas which are formatted using Extensible Markup Language (XML). This language defines the structure and content of an XML document to create all forms, schedules and attachments in electronic format for Modernized e-File (MeF). Business rules are created to specify requirements that cannot be defined in the XML.

The current schema version will be posted to the software developer's page on our website (<http://www.revenue.ky.gov/sdi/mef.htm>).

Kentucky follows the standards defined by the NACTP (National Association of Computerized Tax Processors). If you are not a member of the NACTP, you are encouraged to review the standards on their web-site at www.nactp.org.

The Kentucky Department of Revenue (KDOR) would like to express our appreciation to the software developers that participated during the 2012 filing season and encourage any new software developers to consider Kentucky for the 2013 filing season. We always welcome your suggestions and comments. Feel free to contact the Department of Revenue at any time.

Section 2: OVERVIEW OF 2013TY / 2014PY CHANGES

Software developer testing for tax year 2013 will begin November 4, 2013. Software developer testing for tax year 2013 will end on April 1, 2014.

Electronic Acceptance of Form 740-NP – Kentucky incorporated Form 740-NP, Schedule A (Form 740-NP), Schedule ME and Form PTE to the Kentucky MeF in July 2013. Full year residents of a reciprocal state with Kentucky income of only wages and salaries should file a Form 740-NP-R. The Form 740-NP-R is not accepted for electronic filing.

Direct deposit requests are not accepted for Form 740-NP returns. Paper checks will be mailed for all Form 740-NP refund requests.

Standard Deduction - The standard deduction increased from \$2,290 to \$2,360.

Farms to Food Banks Trust Fund Contribution Checkoff — For taxable years beginning on or after Jan. 1, 2013, taxpayers who are entitled to an income tax refund may contribute an amount, not to exceed the amount of the refund, to the Farms to Food Banks Trust Fund. Moneys received in the Farms to Food Banks Trust Fund will be used only for awarding grants that will increase access to fresh fruits and vegetables among low-income Kentuckians while supporting local farmers. For more information refer to KRS 141.448.

The new contribution has been assigned element name FarmsToFoodBanksTrustFund in the MeF schema. It is found on Form 740 and Form 740-NP on page 2, line 37.

Family Size Tax Credit – This credit provides benefit to individuals and families at incomes up to 133 percent of the threshold amount. The threshold for a family size of one is \$11,490, \$15,510 for a family of two, \$19,530 for a family of three and \$23,550 for a family of four or more.

Children of divorced or separated parents can be claimed for the FSTC based on where they resided the majority of the year, not necessarily the parent that claimed the child as a deduction.

Determining the Size of Family Unit:

- 1 - An individual either single or married living apart from his or her spouse for the entire year
- 2 - An individual with one dependent child or a married couple
- 3 - An individual with two dependent children or a married couple with one dependent child
- 4 or more - An individual with three dependent children or a married couple with two dependent children

For purposes of computing the family size tax credit, the maximum family size is 4.

The following table lists the percentage used in calculating the FSTC based on family size and modified gross income for tax year 2013. The MGI amounts in the family size tax table changed for TY2013.

Family Size If MGI...	One		Two		Three		Four or More		Credit Percentage is
	is over	is not over	is over	is not over	is over	is not over	is over	is not over	
TY 2 0 1 3		11,490		15,510		19,530		23,550	100%
	11,490	11,950	15,510	16,130	19,530	20,311	23,550	24,492	90%
	11,950	12,409	16,130	16,751	20,311	21,092	24,492	25,434	80%
	12,409	12,869	16,751	17,371	21,092	21,874	25,434	26,376	70%
	12,869	13,328	17,371	17,992	21,874	22,655	26,376	27,318	60%
	13,328	13,788	17,992	18,612	22,655	23,436	27,318	28,260	50%
	13,788	14,248	18,612	19,232	23,436	24,217	28,260	29,202	40%
	14,248	14,592	19,232	19,698	24,217	24,803	29,202	29,909	30%
	14,592	14,937	19,698	20,163	24,803	25,389	29,909	30,615	20%
	14,937	15,282	20,163	20,628	25,389	25,975	30,615	31,322	10%
	15,282	-	20,628	-	25,975	-	31,322	-	0%

Schedule A Limitations

The medical and dental limitation remains at 7.5% for Kentucky purposes for tax year 2013.

The limitation on the itemized deduction threshold is \$178,150 (\$89,075 if married filing separate returns) for the tax year 2013. If your Kentucky adjusted gross income is above this threshold then your itemized deductions (excluding medical and dental, investment interest, losses for casualty or theft and gambling losses) will be limited. In general, if the limitation applies, itemized deductions are reduced by the lesser of: 3% of the adjusted gross income that exceeds the threshold or 80% of the allowable itemized deductions. A worksheet has been included with the Schedule A to help determine the amount of deductions you are allowed to take if you cross the threshold.

The limitation was eliminated by EGTRRA (2001) and extended by the 2010 Tax Relief Act. However, it had a sunset provision that ended EGTRRA on December 12, 2012. The federal government introduced new legislation to raise the limiting threshold. Kentucky, however, has not updated to the current code and is subject to the original limit of 100,000 adjusted for inflation. For 2013, that threshold amount is \$178,150(\$89,075 if married filing separate returns).

Form 5695-K - Energy Efficiency Products Tax Credit (KRS 141.436)

Credit Carry Forward: If you qualified for the Energy Efficiency Products Tax Credit in 2012 and could not utilize your entire approved credit, the balance may be carried forward to apply against your 2013 Kentucky tax liability. Unused amounts are limited to a one-year carry forward period.

Form 8863-K - Kentucky Education Tuition Tax Credit

Any unused credit carryforward remaining from the 2007 tax return is no longer eligible for a carryforward on Form 8863K.

Electronic Estimate Tax Payments

Taxpayers who file electronically can now authorize the Kentucky Department of Revenue to directly debit their payment(s) of estimate tax. Taxpayers may schedule up to four equal payments with the following debit dates with the electronic filing of their return: April 15, 2014, June 16, 2014, September 15, 2014 and January 15, 2015. This must be initiated at the time of filing.

Direct debit of estimate tax can 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 estimate 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 Kentucky Department of Revenue at (502) 564-4581 no later than 2 business days prior to the payment (debit) date.

Form 8879-K

The Declaration Control Number (DCN) on the 8879-K has been changed to the Submission Identification Number (SID) which mirrors the federal 8879 form language. Information on making electronic payments for estimate tax through direct debit was added.

The Form 8879-K has been revised to include the authorization for direct debit of estimate tax. Please see the Form 8879-K instructions for additional information.

Refunds

For 2013TY / 2014PY, Kentucky will not allow taxpayers to split their refund into different accounts. At this time, Kentucky does not allow direct deposits for Form 740-NP filers.

Income and Withholding Tax Statements

All Kentucky withholding claimed must be supported by an income and withholding tax statement. The following income and withholding tax statements are available as schemas when filing a Kentucky tax return: W-2, W-2G, 1099-R, 1099-G, 1099-INT, 1099-MISC, 1099-OID, 1099-DIV and Form PTE-WH.

We will accept PDF documents limited to those documents that contain Kentucky withholding tax, but we strongly suggest that the data be provided in XML format if a schema is available. Receipt and review of a PDF document will delay processing.

A valid Kentucky withholding account number (EmployerStateIdNumber) is a maximum of six digits in length.

Unsupported Kentucky withholding tax claimed or an invalid Kentucky withholding account number may cause the submission to be rejected or result in denial of the unsupported Kentucky withholding tax amount.

Federal Tax Information (FTI) - IRSSourceSubmissionID

The IRSSourceSubmissionId in the state manifest is considered FTI. If it is provided in the submission, we will delete that data from the submission. We will no longer use the IRSSourceSubmissionID to determine whether the submission is a Linked or Unlinked return. A new element (element LinkedReturn) has been added to our schema in order to determine the type of submission. The element will be a Boolean type and will be mandatory. Please indicate True for Linked and False for Unlinked. See Section 6 for additional information on Linked and Unlinked submissions.

Form 740-V Electronic Filing Payment Voucher

At this time the Form 740-V is still under development. The form will be a scannable document this year and the specifications will be available soon on the Substitute Forms web page on our website (<http://revenue.ky.gov/sdi/sfd.htm>).

Same-Sex Married Couples Filing Status

Recent United States Supreme Court decisions and the Internal Revenue Service (IRS) Revenue Ruling issued thereafter have resulted in changes in the filing status for certain same-sex couples for federal income tax purposes. If a same sex couple lives in Kentucky and has been married in a state that recognizes such unions, their filing status will be “married filing jointly” or “married filing separately” for federal income tax purposes. However, this change in federal tax treatment has no effect on same-sex couples for state tax purposes at this time. In 2004, the Constitution of the Commonwealth of Kentucky was amended to prohibit the recognition of same-sex marriages (Section 233A). Therefore, same-sex couples legally married in a different state will still be required to file separate Kentucky income tax returns.

Each taxpayer must provide the same federal income tax information on the Kentucky state return that would have been provided prior to the issuance of IRS Revenue Ruling 2013-17, 2013-38 I.R.B. 201 (August 30, 2013).

Each deduction on the Federal Form 1040 Schedule A return that is claimed jointly shall be separated in accordance with individual ownership, expenses, and/or charitable gifts when filing a Kentucky income tax return and reported on the individual's single return. Itemized deductions related to joint ownership should be separated by agreement or some other acceptable method of division between the two parties.

Tax Information for the Future:

Personal Tax Credits – Tax Year 2014

House Bill 440 amended KRS 141.020 to provide that for taxable years beginning on or after Jan. 1, 2014, the individual personal tax credits as provided by KRS 141.020(3) shall be reduced as follows: (i) from \$20 to \$10 for an unmarried individual; (ii) from \$20 to \$10 for a married individual filing a separate return, from \$20 to \$10 for the spouse of the taxpayer filing a separate return, and from \$40 to \$20 for married persons filing a joint return; (iii) from \$20 to \$10 for each dependent; and (iv) from \$20 to \$10 for an

estate. This amendment did not affect the individual personal tax credits for the elderly, blind, National Guard, or trusts.

Food Donation Tax Credit – Tax Year 2014

The Food Donation Tax Credit applies to taxable years beginning on or after Jan. 1, 2014, but before Jan. 1, 2018. During that time, a qualified taxpayer will be allowed a nonrefundable credit against their Individual Income Tax in an amount equal to 10 percent of the value of donated edible agriculture products to a nonprofit organization operating a food program in Kentucky. This organization must be exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. A qualified taxpayer means a person responsible for and deriving income from: growing fruits, vegetables, or other edible agriculture products; or raising beef, poultry, pork, fish, or other edible agriculture products. Edible agriculture products means fruits, vegetables, beef, poultry, pork, fish, or any other edible product raised or grown in Kentucky that is intended for and fit for human consumption. For more information refer to KRS 141.0205.

Section 3: SOFTWARE DEVELOPER'S RESPONSIBILITIES

Kentucky will accept returns electronically from any IRS approved software provider upon completion of testing with the Kentucky Department of Revenue.

Each year vendors are required to update the following information before they begin testing with the Kentucky Department of Revenue:

- SoftwareID
- Primary / Secondary contact name
- Primary / Secondary e-mail addresses
- Primary / Secondary telephone numbers
- Primary fax number
- Software Company Name / Market Name
- Mailing Address
- Company web address

A contact name and e-mail address must be provided for test result notification. The company information is needed for the approval list posted to the web. The type of software is used by our system for statistical purposes to determine the number of professionally prepared returns filed and the number of nonprofessional online returns filed per year.

Developed software must meet the following requirements:

1. Adhere to all federal and state procedures, requirements and specifications. These requirements are specified in IRS Publication 4164, *Modernized e-File Guide for Software Developers and Transmitters*.
2. Successfully complete all testing.
3. Be developed in accordance with statutory requirements and Kentucky Department of Revenue return preparation instructions.
4. Provide accurate Kentucky tax returns in correct electronic format.
5. Provide data validation, verification, and error detection to prevent transmission of incomplete, inaccurate, or invalid return information.
6. Software provider must be available to correct any software errors, which may occur after production begins, and work with the Kentucky Department of Revenue to follow up on any processing issues that may arise during filing season. If software providers need to re-release corrected software, it should be done in a timely manner and proper notification should be made to all customers.

Section 4: SOFTWARE ACCEPTANCE, TESTING & APPROVAL

1. Software developers that meet the current testing requirements set forth by the IRS are invited to test for Kentucky Department of Revenue acceptance. No formal application is necessary, although, a secondary check against our records will be performed prior to acceptance. The Kentucky test package will be available by mid-October.
2. All transmissions must contain the 'SoftwareID'. If you do not currently have a Kentucky Software ID contact Audrey Terry. This identification must be verified before the first test file is transmitted. The SoftwareID must be all upper case within the XML or it will cause the submission to reject.
3. After your software is accepted, an acceptance letter will be issued which must be provided to all software users with the final version of the software.
4. The Kentucky Department of Revenue will accept test returns for tax year 2013 beginning November 4, 2013 and ending April 1, 2014. The Kentucky MeF testing system is subject to IRS availability and dates are subject to change. Please e-mail Audrey Terry when sending test returns and include your Software ID, the Submission id's associated with the test returns being submitted and any software limitations.
5. The test package will consist of PDF copies of state test returns and may also include scenarios for special test conditions.
6. Software developers are encouraged to support all schedules, forms and occurrences. It is important that customers are provided with the complete range of services. Please submit linked and unlinked returns within your test package. If you participate as a Free File provider with Kentucky, please submit at least one test as a free filed return with the Special Program element marked appropriately (<SpecialProgram>Freefile</SpecialProgram>).
7. If your software does not support all forms and schedules or occurrences, please inform the Kentucky Department of Revenue before the first transmission so we can take the limitations into consideration when reviewing your test submission.
8. Business Rules – Kentucky created a list of business rules and issued a reject code for any business rule that will cause a submission to be rejected. The business rules include the element name in an effort to benefit the software developer and tester. The reject code text was created without the element name and reworded in an effort to make the rejection code more understandable for the taxpayer and/or tax preparer receiving the reject code.

A separate set of business rules and reject codes was created for the Form 740 Series and Form 740-NP Series. The rules for the forms and schedules that are shared by the Form 740 and 740-NP are the same but may have different rejection codes depending on the series.

Most of the business rules will be verified in Kentucky's test system before your software is approved. A business rule failure could result in the return being adjusted by our backend processes.

Business Rules and Reject codes can be found on the MeF web page (<http://revenue.ky.gov/sdi/mef.htm>).

9. Acknowledgements will be provided for all test returns. The acknowledgement may be manual or automated. The return will be either accepted or rejected. An 'Accepted' acknowledgement does not mean your software is approved for release, it merely means that the system acknowledges having accepted the return for processing.
10. The Kentucky Department of Revenue will provide test results in a timely manner, usually within two working days of receipt of the submission. A software provider who successfully completes testing will receive an approval letter via an e-mail. The e-mail will be sent to the software developer contacts provided.

Section 5: ACKNOWLEDGEMENT SYSTEM

The Kentucky Department of Revenue will send acknowledgments through the IRS. The acknowledgement record will be in a format approved and agreed upon by the IRS, state agencies, transmitters and software developers.

Kentucky will generate an acknowledgement of receipt of the return immediately upon retrieval of the submission. This does not mean the submission has been accepted for processing. It only means we are in receipt of the submission.

We will generate an acknowledgement of acceptance or rejection for each state submission after it goes through the schema validations/business rules engine. Acknowledgement of acceptance means the submission has been accepted for processing. It does not mean the submission is free of errors. Acknowledgement of rejection means the submission failed to process. A reject code will be returned with the acknowledgement record giving the reason for the rejection. The transmitter may retrieve Kentucky's acknowledgements from the IRS.

Acknowledgement Reconciliation Process

Transmitters and software developers should allow two working days from the date the submission status is placed in "Made Available" before contacting us to determine why an acknowledgement has not been received.

To check on the status of a Kentucky submission, contact Audrey Terry or the Electronic Filing Helpdesk by phone or e-mail. Please be prepared to provide the following information in order to track the status of the submission:

- Transmission Date
- Submission ID

If there are numerous acknowledgements (hundreds/thousands) to be checked, please send the information in an Excel spreadsheet via e-mail.

Section 6: GENERAL INFORMATION

Federal Forms & Schedules Required

Kentucky requires a complete copy of the XML federal return and income and withholding tax statements to be sent along with the Kentucky XML return whether sent as a “linked” or “unlinked” submission.

Types of Filing

Kentucky’s MeF program accepts two types of submissions.

- **Linked Submissions**

A linked submission is when an original federal return is submitted with one original state return in one transmission to the IRS. The IRS validates and verifies the federal return data. The IRS will either accept or reject the federal return. The state return is made available to Kentucky only if the federal return is accepted by the IRS.

If a federal return is rejected in a Linked submission, the state return is not made available to Kentucky. In this case, the re-transmission should include both the state return and a copy of the federal return.

- **Unlinked Submissions**

An unlinked submission is when the state return is transmitted through the Fed/State system without simultaneously transmitting an original federal return. The software must support unlinked submissions in order for the state only transmissions to be available to the electronic filer. Unlinked returns are transmitted to the IRS and made available for states to retrieve in the same fashion as the Linked transmission. A copy of the federal return is to be included with the state return in an unlinked submission.

Signature Process

- PIN Signature process used for the federal return is accepted for the Kentucky signature requirement.
- Form 8879-K is the required signature / attachments document.
- No signature document should be mailed to Kentucky unless requested.

Exclusions from Electronic Filing for TY2013

- Prior year returns
- Fiscal year filers for individual income tax
- Form 740-X, Amended Kentucky Individual Income Tax Returns
- Form 740-NP-R, Nonresident – Reciprocal State
- **Negative Earned Income on the Schedule ME.**

Note: Form 8948-K was created in tax year 2011 to explain the reason for not following the paid preparer mandate passed by HB319 in 2010. A Form 8948-K should be attached to any paper return filed by a paid tax preparer that is under the mandate.

*****In addition to the above exclusions from Kentucky electronic filing, any income tax return reflected in the list of exclusions from federal electronic filing cannot be filed through the Federal/State Electronic Filing Program.*****

e-File Documents

At this time, all schedules for filing a Kentucky individual income tax return have been included in the schemas with the exception of the Form 740-NP-R and Form 40A102. Below is a list of forms, schedules and worksheets included in Form 740/740-NP MeF:

- Form 740 – Kentucky Individual Income Tax Return Full-Year Residents Only
- Form 740-NP – Kentucky Individual Income Tax Return Nonresident or Part-Year Resident
- Schedule A – (Form 740) - Kentucky Itemized Deductions
- Schedule A (Form 740-NP) – Itemized Deductions
- Schedule J – Kentucky Farm Income Averaging
- Schedule KNOL – Kentucky Net Operating Loss Schedule
- Schedule M – Kentucky Federal Adjusted Gross Income Modifications
- Schedule ME – Moving Expense and Reimbursement
- Schedule P – Kentucky Pension Income Exclusion
- Form 2210K – Underpayment of Estimated Tax by Individuals
- Form 4562K – Depreciation and Amortization
- Form 4972K – Kentucky Tax on Lump-Sum Distributions
- Form 5695K – Kentucky Energy Efficiency Products Tax Credit
- Form 8582K – Kentucky Passive Activity Loss Limitations
- Form 8863K – Kentucky Education Tuition Tax Credit
- Worksheet A – Credit for Taxes Paid to Other State
- Worksheet C – Kentucky Limited Liability Entity Tax Credit

The following income and withholding tax statements are available as schemas:

- W-2
- W-2G
- 1099-R
- 1099-G
- 1099-INT
- 1099-MISC
- 1099-OID
- 1099-DIV
- Form PTE

All Kentucky withholding claimed must be supported by an income and withholding tax statement. We will accept PDF documents limited to those documents that contain Kentucky withholding tax, but we strongly suggest that the data be provided in XML format

if a schema is available. If the withholding amount claimed is not supported, the submission may be rejected or the unsupported amount disallowed.

A valid Kentucky withholding account number (EmployerStateIdNumber) is a maximum of six digits in length. This is a new edit and reject for tax year 2013.

Required Data Elements

The following information is required in MeF.

- The 'LinkedReturn' data element is required on all returns (True for linked; False for unlinked)
- InternetProtocol/IPAddress – required for all online returns;
- InternetProtocol/IPTimestamp, required for all online returns;
- Filer/Primary/DateofBirth, required for ALL returns;
- Filer/Secondary/DateofBirth, required on all returns using the married filing separate on a combined return or married filing joint return filing statuses;
- The 'SoftwareID' data element is required in the schema
- A complete copy of the XML federal return is required for all Kentucky returns, including unlinked returns;
- There are certain elements in the Form 740 and 740-NP schema that are listed as optional, however they should **ALWAYS** be completed and transmitted.
 - The PoliticalPartyFund / Taxpayer element is required on all returns.
 - The PersonalTaxCredits / RegularCredit / Taxpayer element should be checked on all returns.
- Form 740 - If the filing status selected on the return is filing status 2, (SeparateOnJointReturn), PrimaryTaxPayerAmount & SecondaryTaxPayerAmount fields are expected to be completed. If the spouse has no income, filing status 3, (JointReturn), should be selected.
- The Percentage of Kentucky Adjusted Gross Income to Federal Adjusted Gross Income (element PctKYToFedAGI) on Form 740-NP is required.
- The Pension Income Exclusion (element KySchdPExclusion) is an assumed negative. The amount should be listed as a positive number and subtracted from the Total Income (element KyTotalIncome) amount.
- At this time, Kentucky does not allow electronic filing of the Form 40A102, Application for Extension of Time to File Individual Income Tax Returns. However, if the taxpayer has filed this form with the state or has filed a federal extension (Form 4868), please mark the federal/state extension field (FederalExtensionIndicator) in the Form 740/740-NP schema and the late filing penalty will not be assessed during processing.
- Form 40A102 - Use this form if you (1) are requesting a Kentucky extension of time to file (complete Section I); (2) are requesting a Kentucky extension and desire to make a payment prior to the due date (complete Sections I and II); or (3) have a federal extension and desire only to make a Kentucky payment prior to the due date (complete and submit Section II only).

Decimal places for ratios and percentages

- Ratio types will use a single position in front of the decimal and up to 4 decimal places depending on the element. These element types exist on Form 4972K and Form 8863K.
- Percentage types will use 3 positions in front of the decimal and up to 2 decimal places depending on the element. These element types exist on Schedule A (Form 740 & Form 740-NP), Schedule P, and Worksheet C.

Numeric Fields

Amount fields should be sent as whole dollar amounts. Kentucky numeric fields accommodate up to 15 total digits.

Processing of Business Incentive and Other Tax Credits

Many of the tax credits that can be claimed on individual income tax returns require a taxpayer to receive approval before the credit can be claimed. If approval is required, it should be completed/received prior to claiming the credit on the income tax return. To determine if a tax credit requires pre-approval, please refer to the instructions for the applicable tax return. Return processing will be delayed for credit verification of the following business incentive tax credits if they are listed in Section A of Form 740 or Form 740-NP.

- Kentucky small business investment credit
- skills training investment credit
- nonrefundable certified rehabilitation credit
- unemployment credit
- recycling and/or composting equipment credit
- Kentucky investment fund credit
- coal incentive credit
- qualified research facility credit
- GED incentive credit
- voluntary environmental remediation credit
- biodiesel and renewable diesel credit
- environmental stewardship credit
- clean coal incentive credit
- ethanol credit
- cellulosic ethanol credit
- railroad maintenance improvement
- Endow Kentucky credit
- New Markets Development Program credit

Worksheet C is required if the nonrefundable limited liability entity credit is claimed on Form 740 or Form 740-NP, page 2, Section A, line 1.

Worksheet A is required if credit for taxes paid to other states is claimed on Form 740 or Form 740-NP, page 2, Section A, line 5. A copy of the other state's return should **not** be

attached to the electronic submission. Please refer to the Form 740 and Form 740-NP instructions for additional information regarding the tax paid to other states credit.

Attachments

We will accept PDF documents as binary attachments, limited to those documents that contain KY withholding that are not included in our schema or where your software does not support the schemas provided. A processing delay will occur for those submissions that have attachments with Kentucky withholding so that the attachment can be manually reviewed.

Rejected Returns

Sample:

ErrorCategory	ErrorMessage
XML Validation	<Actual XML Error Message>
Duplicate Return	Original Return already received for this tax year by SSN.

Business Rules and Reject codes can be found on the MeF web page (<http://revenue.ky.gov/sdi/mef.htm>).

Perfection Period

Kentucky follows the IRS 5 day perfections period on rejected individual income tax returns.

Direct Deposit and State Payment

- We accept both direct deposit and direct debit payment (ACH debit) requests on Form 740 MeF returns. At this time, direct deposit requests will not be accepted for Form 740-NP MeF returns.
- Kentucky does not allow the refund from Form 740 MeF returns to be deposited into multiple bank accounts.
- The Account number must be numeric only. No spaces or dashes are permitted. The financial transaction record has been altered to allow only one direct deposit account and one state payment account.
- The state payment, if submitted with the return data, must equal the total amount due. No partial payments are accepted when filing the return.
- The payment amount (element PaymentAmount) on all financial transactions must be a **whole dollar amount**.
- The payment of tax due on any return filed prior to April 15th can be warehoused until April 15th. The processing of a debit payment can take up to 7 days. Payments warehoused until April 15th may not be withdrawn from the taxpayer's account on the 15th but are treated as timely payments when they are withdrawn. Please advise your client's of this situation.
- After April 15th, there will be no warehousing of payments of additional tax due. The bank account will be debited when the return has completed processing.
- At this time, Kentucky is not able to process International ACH Transactions. The checkbox for "NotIATIndicator" should be checked on all Financial Transactions.

Electronic Estimate Tax Payments

- Electronic Estimate tax payments can be completed beginning in tax year 2013. This must be initiated at the time of filing the Form 740 or Form 740-NP through MeF.
- Taxpayers may schedule up to four **equal** payments with the following debit dates: April 15, 2014, June 16, 2014, September 15, 2014 and January 15, 2015.
- Direct debit of estimate tax can 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 for all the requested transactions.
- Direct debit of estimate tax may be scheduled in the absence of a direct deposit of refund or direct debit of tax amount due transaction.
- At this time, Kentucky is not able to process International ACH Transactions. The checkbox for "NotIATIndicator" should be checked on all Financial Transactions.
- To revoke (cancel) a payment, the taxpayer must contact the Kentucky Department of Revenue at (502) 564-4581 no later than 2 business days prior to the payment (debit) date.

Check the Status of a Refund Online

Taxpayers can now check the status of their Individual Income Tax refund by going to the Kentucky Department of Revenue website – <http://www.revenue.ky.gov/refund.htm>. To take advantage of this fast and secure service, taxpayers will need their social security number and the exact amount of their refund. The status will be posted 7-10 days after an electronic tax return is filed or 8-10 weeks after a paper tax return is filed.

- PDF attachment names may contain letters and numbers. The name should reference the Form/Schedule and line number when possible. The PDF should only have one file extension '.pdf' The LinkToAttachment element in the XML state return must match the actual file name of the pdf.
- No nesting of zip archive files or returns will be allowed. (i.e. one submission, one zip.)
- The SOAP message itself must not be compressed or zipped.
- The message must contain a header, a body, and an attachment. See Modernized E-File Logical ICD Model for message layout and message technical specifications.
- ERO's and transmitters must be approved with the IRS in order to transmit MeF returns.
- The Kentucky Department of Revenue will produce an acknowledgement of acceptance or rejection for each state submission. The transmitter may then retrieve Kentucky's acknowledgement from the IRS.
- The Kentucky Department of Revenue requests that vendors not submit form tags for any schedules, worksheets or forms that are not used in the return.
- The Return Type (element Return Type) and State Submission Type (element StateSubmissionType) for Form 740 should be KYForm740. The Return Type (element Return Type) and State Submission Type (element StateSubmissionType) for Form 740-NP should be KYForm740NP. An incorrect Return Type or State Submission Type will cause a schema validation failure and the submission will be rejected.

Section 8: Kentucky Form Edits

This Section contains field information rules that should be followed by all developers on the primary Kentucky return and supporting schedules when electronic return data is processed. This should be used as a guide to assist tax software developers.

Form 740 & Form 740-NP

Political Party Fund – One of the three (3) taxpayer political party fund options must be selected for all filing statuses. If the filing status is Single or Married Filing Separate Returns, the spouse political party fund should be NULL. If the filing status married filing joint or married filing separate on a combined return is selected, both the taxpayer and spouse political party fund options must be selected.

If the Married Filing Separate Returns filing status is selected, and the spouse SSN is unavailable, the spouse name should be placed in the Form 740 schema FS4SpouseName or Form 740-NP schema FS3SpouseName element. However, if both spouse name and SSN are provided, place this information in the secondary filer portion of return header state.

Form 740-NP, page 4, Section D, line 1, column A should not include moving expense reimbursements.

Form 740, Line 5 and Form 740-NP, page 4, Section D, line 35, column A **must** match the federal adjusted gross income on Line 37 of Form 1040, Line 21 of Form 1040A or Line 4 of Form 1040EZ. **(Exception: If Kentucky filing status is Married Filing Separate Returns and the federal filing status is Married Filing Joint).**

If a taxpayer's Kentucky modified gross income is negative, the Kentucky modified gross income is zero (\$0) for family size tax credit calculation.

If the family size tax credit amount is greater than zero, the total family size element must be populated.

Tax elements for the following line numbers cannot be less than zero. Form 740: Lines 12A, 12B, 14A, 14B, 16A, 16B, 18A, 18B, 19, 22, 24, 26, and 28 cannot be negative. Form 740-NP: Lines 14, 16, 18, 19, 22, 24, 26 and 28. If value equals negative amount, send zero in the schema element.

If Kentucky Schedule A (Form 740 or Form 740-NP), Schedule M, Schedule ME, Schedule P, Schedule J, Form 4972-K, Form 5695-K, Form 8863-K, Form 8582-K, Worksheet A, or Worksheet C are utilized or required and the software does not support these schedules or forms, the taxpayer will not be allowed to file electronically. Any return requiring and missing these schedules will be rejected.

Underpayment of Estimated Tax Penalty--Form 2210-K is required if Form 740 or Form 740-NP, line 40 exceeds \$500. If Form 2210-K is not supported by your software package, Kentucky will automatically calculate the underpayment of estimated tax penalty and a notice of tax due will be mailed to the taxpayer.

Late Filing Penalty—For returns filed after April 15, 2013, a late filing penalty must be calculated. The penalty is 2 percent of the additional tax due field for each 30 days or fraction thereof that a return is not filed. The penalty does not exceed 20 percent and the minimum penalty is \$10.

Late Payment Penalty--For returns filed after April 15, 2013, if the amount timely paid is greater than 75 percent of the tax determined due, no late payment penalty is due. If the amount prepaid is less than 75 percent of the tax determined due, then a penalty of 2 percent of the additional tax due may be assessed for each 30 days or fraction thereof that the tax is past due. The penalty does not exceed 20 percent and the minimum penalty is \$10.

Interest--For returns filed after April 15, 2013, interest is assessed at the “tax interest rate” of 5% from April 15, 2013, until the date of payment. For 2012 tax returns (calendar year 2013), the interest rate is 6% or .000164 daily. Interest is calculated at the current interest rate + 2%.

The child care credit is only allowable if federal Form 2441 is submitted. It should be included in the federal record with the federal data, even if it is not required for federal purposes. Line 9 of Form 2441 is the amount used to calculate the Kentucky credit for child-care expenses.

The format for percentage fields varies by form. It could be in the range of 2 to 4 positions past the decimal. Please review each schema to determine how to format these fields. Schedule A uses xxx.xx format, Schedule P uses xxx.xx, Form 4972K uses x.xxxx, 8863K uses x.xxx.

Schedule A (Form 740/Form 740-NP)

If the Schedule A schema is present in the return, the KY AGI fields must be populated for medical/dental expense, casualty & theft exclusion and job expenses if those sections are utilized.

The percentage fields listed on page 2 of the Schedule A should be formatted as 5,2. (ie. 100% equals 100.00, 50.5% = 50.50).

If a taxpayer uses itemized deductions then the spouse must also itemize deductions. Returns filed with 2 Schedule A forms are accepted. The standard deduction is only available to non-itemizers. Married Filing Joint Returns are only entitled to one standard deduction.

If the Kentucky adjusted gross income is a negative value, it is treated as such on the Kentucky Schedule A for the adjusted gross income fields and should be entered as a negative value.

If the elements MedicalDentalExpExcl, CasualtyTheftExcl and JobExpExcl are negative, zero should be used instead of the negative value in the calculation of the elements TotalMedicalDentalDed, TotCasualtyTheft and TotJobOtherExp.

Lines 33 through 36 of the Schedule A (Form 740-NP), must be completed if the filing status is 3-Married filing separate returns or if the spouse is not filing a Kentucky return.

For tax year 2013, the limitation on itemized deductions threshold is \$178,150 (\$89,075 if married filing separate returns). If your Kentucky adjusted gross income is above this threshold then your itemized deductions (excluding medical and dental, investment interest, losses for casualty or theft and gambling losses) will be limited. In general, if the limitation applies, itemized deductions are reduced by the lesser of: 3% of the adjusted gross income that exceeds the threshold or 80% of the allowable itemized deductions. A worksheet has been included with the Schedule A to help determine the amount of deductions you are allowed to take if you cross the threshold.

Form 8582K

Form 8582K contains assumed negative elements on page 1. These elements should be sent as positive numbers since the form assumes a negative entry. The following line numbers pertain to this rule; Line 1b, Line 1c, Line 2a, Line 2b, Line 2c, Line 3b and Line 3c.

Financial Transaction Record

The payment amount (element PaymentAmount) on all financial transactions must be a whole dollar amount.

NOTE: If the return is adjusted and the amount of the refund or the tax due amount changes, the financial transaction data for refunds or payments will not be utilized. Any change in the refund amount will result in a paper check being issued instead of a direct deposit and any change in the tax due amount will result in a notice of total tax due.

Section 9: Electronic Filing Statistics from TY2012

Approximately 80% of all individual income tax returns were filed electronically.
The totals below are approximations.

Form 740:

Type of E-filing Program	Fed/State + State Only
# of State Taxpayers	1,800,000
# of State Returns E-filed	1,440,000
MeF Refund Time Frame	5 - 10 days
Direct Deposit Time Frame	5 - 7 days
Direct Payment (ACH Debit)	YES
Direct Deposit	YES
Balance Due Returns	YES

Form 740-NP:

Type of E-filing Program (Began July 2013)	Fed/State + State Only
# of State Taxpayers	200,000
# of State Returns E-filed	Less than 100
MeF Refund Time Frame	5 - 10 days
Direct Deposit Time Frame	Not Available
Direct Payment (ACH Debit)	YES
Direct Deposit	NO
Balance Due Returns	YES

Frequent Errors

The following are common errors frequently found in past submissions.

- Incorrect format in the financial transaction payment amount (PaymentAmount) - A whole dollar amount is required.
- The Software Id (element SoftwareID) is omitted or not in uppercase.
- Blank forms or schedules are received.
- Missing forms or schedules.
- Incorrect Return Types (element Return Type) were used. KYForm740 should be used for Form 740 and KYForm740NP should be used for Form 740-NP.

Section 10: Electronic Filing Program Publications and Forms

Publications

The following publications describe the process of electronic filing and federal/state electronic filing:

Internal Revenue Service Publications

- Publication 1345, Handbook for Authorized IRS e-file Providers of Individual Income Tax Returns
- Publication 1346, Electronic Return File Specifications for Individual Income Tax Returns
- Publication 4164, Modernized e-File Guide for Software Developers & Transmitters

Kentucky Department of Revenue Publications

- Publication KY-1345, Kentucky Handbook for Electronic Filers of Individual Income Tax Returns
- Publication 4164, Information for Fed/State Development of Modernized E-file for Individual Income Tax – Software Developer's Guide
- Forms and publications can also be found at www.revenue.ky.gov

Section 11: Important Dates for TY2013

Kentucky's filing period for electronic returns will be identical to the IRS filing period. However, this is subject to change. Important dates and announcements can be found on our Software Developer's Information webpage: <http://revenue.ky.gov/sdi/>

For Taxable Period beginning January 1, 2013, and ending December 31, 2013

Begin Federal/State software testing for Form 740/Form 740-NP	November 4, 2013
Last day to test for Tax Year 2013	March 31, 2014
Begin transmitting Form 740 returns to IRS/KDOR	January 31, 2014
Last Day to transmit Kentucky returns electronically	TBD
Last Day for all fed/state rejected returns to be re-transmitted and accepted	TBD

NOTE: These dates are subject to change at any time.

Section 12: CONTACT INFORMATION

Software Developer's website: <http://www.revenue.ky.gov/sdi/>

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