

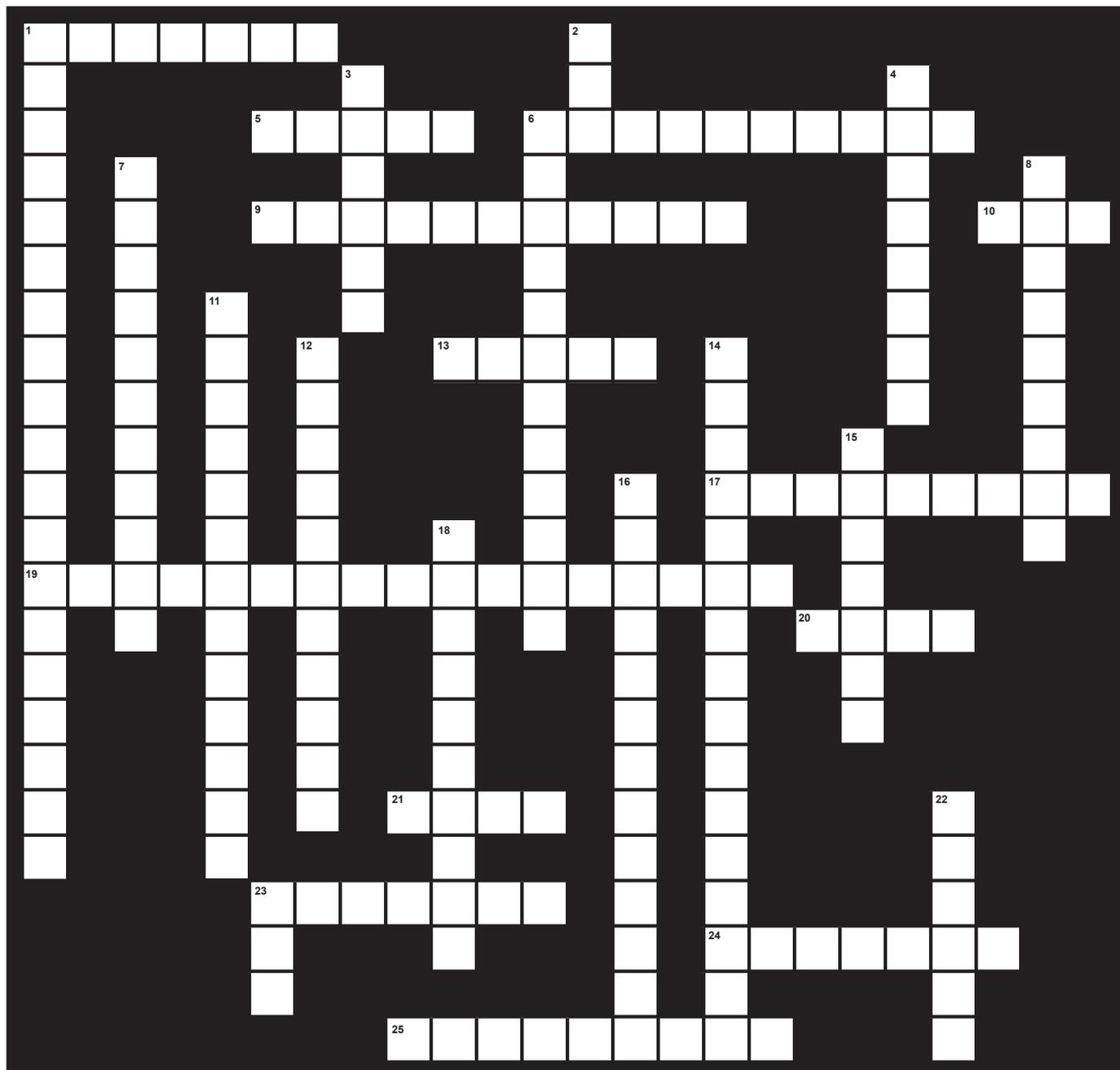
# Introduction to Kentucky Individual Income Tax

Tax Year 2008

October 2009

# CROSSWORD—Tax Basics

See Inside Back Cover for Solution

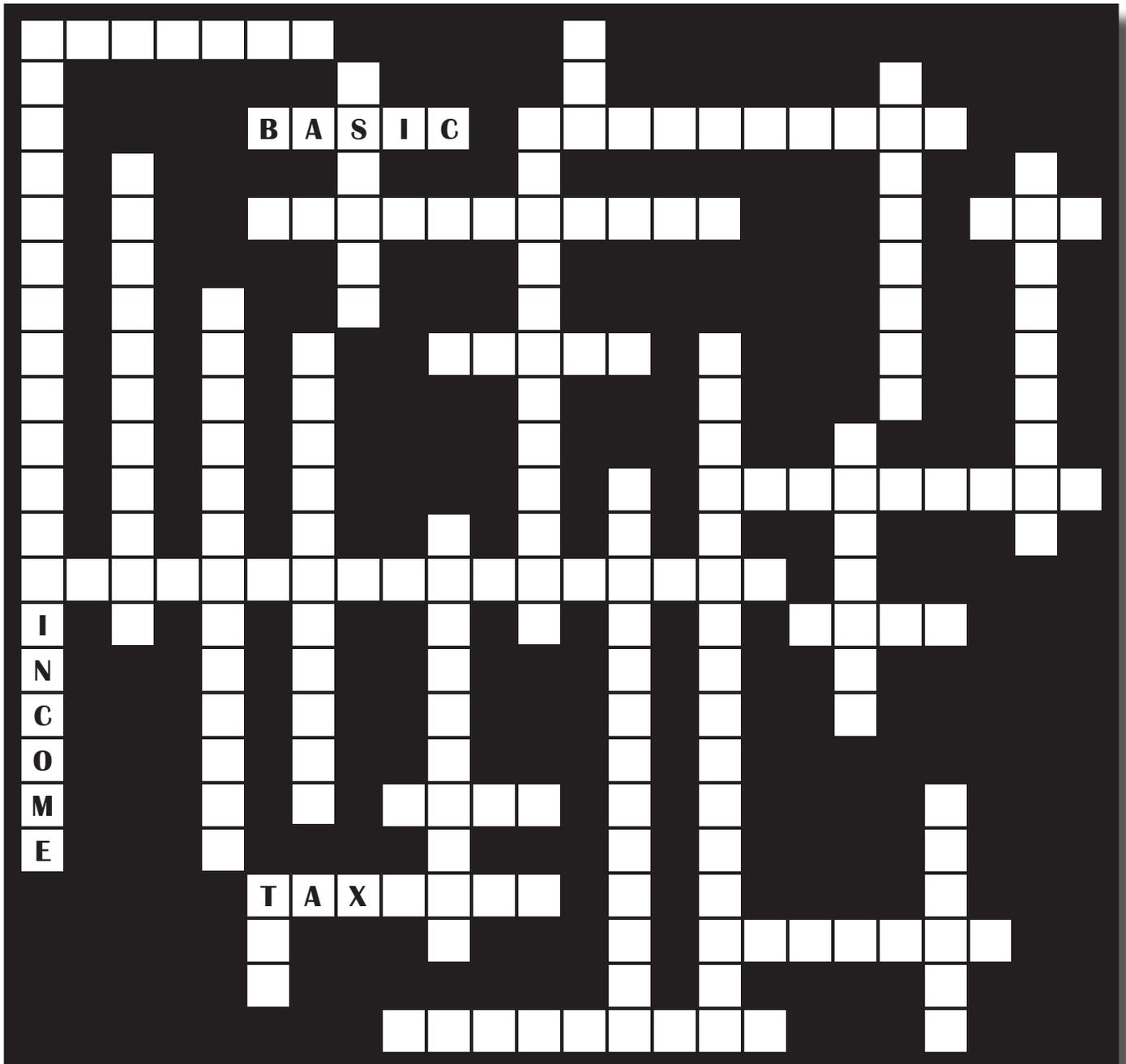


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# Introduction to Kentucky Individual Income Tax

Tax Year 2008

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# **INTRODUCTION TO KENTUCKY INDIVIDUAL INCOME TAX**

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## *D I S C L A I M E R*

Every effort and care has been taken in the preparation of this manual. However, the possibility of mechanical and/or human error does exist.

In the event that any information in this manual is later determined to be in error, this manual cannot be used by taxpayers in supporting a specific position or issue before the Department of Revenue as it does not have the statutory or regulatory authority.

## **INTRODUCTION TO KENTUCKY INDIVIDUAL INCOME TAX**

### **The Basics**

This class is designed to introduce you to the basics of Kentucky Individual Income Tax. In-depth and complex tax subjects will be covered in other classes. Subjects covered in this class will include statutes and regulations as they apply to Individual Income Tax, Kentucky Individual Income Tax forms and schedules, filing status, income and adjustments, tax computation, tax credits and more.

### **The Objective**

The purpose of this class is to provide the inexperienced employee a basic working knowledge of Kentucky Individual Income Tax and guidance on various tax issues. Upon completion, the employee will be familiar with many Kentucky Individual Income Tax forms and have the knowledge to both complete and review basic returns.

### **The Material**

This material is based on the tax laws in effect as they apply to the **2008** tax year. The material for this class is arranged so that you can get answers to your questions about Kentucky Individual Income Tax. Common questions addressed include things like:

- Who has to file a Kentucky return?
- What forms are needed?
- What is the correct filing status?
- Do I itemize or take the standard deduction?
- What tax credits am I allowed?
- How do part year and nonresidents file a Kentucky return?

Answers to these questions and much more information about Kentucky Individual Income Tax may be found in the pages that follow.

# SECTION 1

## **A) Filing Requirements**

- ✓ **Who must file**
- ✓ **Filing Charts**
- ✓ **Additional Filing Issues**

## **B) Forms Used**

- ✓ **Residents**
- ✓ **Nonresidents**

## **C) Filing Status**

- ✓ **Options**
- ✓ **Legal Liability**

## **D) Exemptions/Dependents**

- ✓ **Qualifying child**
- ✓ **Qualifying relative**
- ✓ **Kentucky tax credits**
- ✓ **Dividing credits**

## WHO MUST FILE A KENTUCKY RETURN?

**Full-Year Residents** If you were a Kentucky resident for the entire year, your filing requirements depends upon your family size, modified gross income, Kentucky adjusted gross income and income from self-employment. You must file a return if your modified gross income exceeds the amount in Chart A **and** your Kentucky adjusted gross income exceeds the amount in Chart B (see next page).

**Full-year nonresidents and part-year residents** must file a Kentucky return if:

- They had any gross income from Kentucky sources and gross income from **all** sources in excess of modified gross income for their family size, or
- Kentucky gross receipts from self-employment in excess of modified gross income for their family size.

**Residents of a Reciprocal State** must file a Kentucky return in order to get a refund of any Kentucky withholding. Kentucky has **reciprocal agreements** with specific states. These agreements provide that taxpayers be taxed on certain types of income by their state of residence, and not the state where income is earned. Kentucky residents are conversely provided the same exemption in each state.

The type of exemptions and states are as follows:

- Wages and Salaries – Illinois, Ohio, West Virginia.
- Wages, Salaries and Commissions – Indiana.
- Income (including salaries and wages) From Personal Services – Michigan, Wisconsin.
- Salaries and Wages, Commuting Daily – Virginia.
- **Ohio Residents** – Effective for calendar years beginning on or after January 1, 2007, the reciprocity agreement with Ohio shall not apply with respect to wages which an S Corporation pays to a shareholder-employee if the shareholder-employee is a “twenty (20) percent or greater” direct or indirect equity investor in the S corporation. Those wages referenced will be taxable to Kentucky and not eligible to be exempted under the reciprocal agreement.

**Note:** Persons who live in Kentucky for more than 183 days during the tax year are considered residents for tax purposes and reciprocity does not apply.

**Gambling income and distributive share income** (Schedule K-1) are not exempt from Kentucky tax under reciprocal agreements. A Kentucky Form 740-NP return must be filed if filing requirements are met.

Please use the following charts to determine if a 2008 Kentucky tax return is required to be filed. Use Chart B if your Modified Gross Income is **greater** than the amounts in Chart A.

<b>Chart A</b>	
<b>Your Modified Gross</b>	
If Your <b>Family Size</b> is:	<b>Income</b> is greater than:
One .....	<b>and</b> ..... \$10,400
Two .....	<b>and</b> ..... \$14,000
Three.....	<b>and</b> ..... \$17,600
Four or More .....	<b>and</b> ..... \$21,200

<b>Chart B</b>	
<b>Your Kentucky</b>	
<b>Adjusted Gross Income</b>	
If Your <b>Filing Status</b> is:	is greater than:
Single Person — Under age 65.....	<b>and</b> ..... \$3,140
Single Person — Age 65 or over or blind .....	<b>and</b> ..... \$5,140
Single Person — Age 65 or over and blind .....	<b>and</b> ..... \$6,410
Husband and Wife — Both under age 65.....	<b>and</b> ..... \$4,140
Husband and Wife — One age 65 or over.....	<b>and</b> ..... \$5,810
Husband and Wife — Both age 65 or over .....	<b>and</b> ..... \$6,910

## ADDITIONAL FILING ISSUES

**Excess or Erroneous Withholding** In some cases part-time or part-year workers have income taxes withheld from their paychecks. In many instances, a taxpayer who qualifies for the Family Size Tax Credit will be entitled to a refund, but not be required to file. Even though the filing requirements are not met, an income tax return **must** be filed to claim a refund of the Kentucky taxes withheld.

**Children's Responsibility to File** A child meeting the filing requirements must file a return even though being claimed as a dependent by the parent. Kentucky income tax law, as opposed to federal income tax law, contains no special provisions for taxing the income nor reporting the income of a child on the parent's return.

**Self-employed taxpayers** Any person with gross receipts (before cost of goods sold) from self-employment in excess of modified gross income for their family size in Chart A, must file a **Form 740 - Kentucky Individual Income Tax Return** regardless of the amount of Kentucky adjusted gross income. This may be considered self-employment income, that is, the taxpayer may file federal **Schedule SE - Self-Employment Tax** and actually pay self-employment tax. Shareholders in S-Corporations & Partners in Partnerships must consider the distributive share of gross receipts from the S Corporation or Partnership.

**Due Date** – The due date of Kentucky Individual Income Tax returns is set by KRS 141.160, which is referenced below:

**141.160 When returns for income tax are due -- Forms -- Copy of federal return may be required.**

(1) All returns of income for the preceding taxable year shall be made by April 15 in each year, **except** returns made on the basis of a fiscal year, which shall be made by the fifteenth day of the fourth month following the close of the fiscal year. Blank forms for returns of income shall be supplied by the department.

A **fiscal year** is defined as a 12-month period at the end of which all accounts are completed in order to provide a statement of a company's, organization's or government's financial condition, or for tax purposes. A fiscal year does not necessarily correspond to a calendar year. In general, individuals filing on a fiscal year basis do so because of business related income, farm income, etc.

**Tax Tip:** The threshold for a husband and wife living together is the combined modified gross income and combined adjusted gross income of **both** spouses. This rule also applies to computations for determining any allowable Family Size Tax credit.

## WHAT FORM SHOULD BE USED?

**Full year Kentucky residents** should use either Form 740 or Form 740-EZ to file their return, depending on certain criteria, such as filing status, type of income, etc.

**Form 740** should be used by taxpayers who:

- Have farm, business, rental and/or capital gain income or losses;
- Itemize deductions;
- Have adjustments to federal adjusted gross income;
- Report on an accrual basis;
- Claim estimated tax payments;
- Have pension income; or
- Members of the military that list Kentucky as their state of residence.

**Form 740-EZ** may be used if all of the following apply:

- You were a Kentucky resident for the full year
- You are filing Federal Form 1040-EZ;
- Your filing status is single;
- You have no dependents or additional credits; and
- You had only wages, salaries, tips, unemployment compensation, taxable scholarships or fellowship grants, and your taxable interest was \$1500 or less.

**Part-year residents** use Form 740-NP to file their return to report income to Kentucky.

**Form 740-NP** should be used by part-year residents who:

- Move into or out of Kentucky during the year; and
- Earn or receive income while a resident of Kentucky.

**Full year nonresidents** should use Form 740-NP or Form 740-NP-R to file their return, depending on their tax situation.

**Form 740-NP** should be used by nonresidents to:

- Report income, other than wages from Kentucky sources, unless the wage income is from a pass-through entity and the taxpayer is a greater than 20% direct or indirect owner of the pass-through entity.

**Form 740-NP-R** should be used by nonresidents that:

- Reside in a reciprocal state (Illinois, Indiana, Michigan, Ohio, Virginia, West Virginia and Wisconsin) and their only Kentucky income is from wages that had Kentucky state tax withheld.

**Note:** Form 740-NP can also be used in a reciprocal situation.

## KENTUCKY FILING STATUS

Taxpayers filing Kentucky returns have four possible choices of filing status for their return. Depending upon the circumstances, taxpayers may choose to file using a different filing status than the filing status chosen for federal purposes. The four Kentucky filing status options are:

**Filing Status 1 - Single** - Use this filing status if you are unmarried, divorced, widowed, legally separated by court decree, or if you filed as "Head of Household" or "Qualifying Widow(er)" on your federal return. It should be noted that the spouse, if still legally married, that is unable to claim "Head of Household" status for federal purposes will have to utilize Filing Status 4.

**Filing Status 2 - Married Filing Separately on a Combined Return** - Use this filing status to report your incomes individually but on only one tax form. You may file separately on this combined return regardless of whether you filed jointly or separately for federal purposes if both you and your spouse have income. This filing status usually results in a lower tax than Filing Status 3.

**Filing Status 3 - Married Filing Joint Return** - Use this filing status if you and your spouse choose to file a joint return even if one spouse had no income. Jointly means that you and your spouse add your incomes together and report in Column B.

**Filing Status 4 - Married Filing Separate Returns** - If using this filing status, you and your spouse must file two separate tax forms. The husband's income is reported on one tax form, the wife's on the other. When filing separate returns, the name and social security number of each spouse must be entered on both returns.

**Note:** A married couple can choose to file separate documents even though one spouse does not have any Kentucky income.

### Legal Liabilities

- Legal liabilities are affected by the choice of filing status. Married persons who file joint or combined returns are jointly and severally liable for all income taxes due for the period covered by the return. That is, each spouse may be held legally responsible for payment of taxes on income earned by the other. If spouses want to credit the refund of one against the liability of the other or combine their tax liabilities or refunds, they must file a combined return. Offsets to outstanding liabilities may also be affected by choice of filing status.
- If spouses want to keep their tax liabilities and/or refunds separate, each must file a separate tax form.

## EXEMPTIONS/DEPENDENTS

As is the case for federal income tax purposes, taxpayers may be entitled to exemptions (tax credits for Kentucky income tax purposes) for themselves and others. These exemptions can also be termed personal and dependency exemptions (tax credits) and while both of these exemptions are worth the same amount for Kentucky (\$20 tax credit) different rules apply to each type.

Kentucky follows federal guidelines as to who qualifies for these exemptions (tax credits).

### KRS 141.010(4)

**141.010 Definitions for chapter.**

As used in this chapter, unless the context requires otherwise:

- (4) "Dependent" means those persons defined as dependents in the Internal Revenue Code;

## EXEMPTIONS FOR DEPENDENTS

You are allowed one exemption/credit for each person you can claim as a dependent. You can claim an exemption/credit for a dependent even if your dependent files a return. The term "dependent" includes:

- A qualifying child, or
- A qualifying relative

## QUALIFYING CHILD

To qualify, five tests must be met. These tests are:

- Relationship
- Age
- Residency
- Support, and
- Special tests for qualifying child of more than one person

**Relationship** – Your son, daughter, stepchild, foster child, or a descendent (for example, your grandchild) of any of them, or your brother, sister, half brother, half sister, stepbrother, stepsister, or a descendent (for example, your niece or nephew) of any of them.

**Age** – To meet this test, a child must be under age 19 at the end of the year, a full-time student under age 24 at the end of the year, or permanently and totally disabled at any time during the year, regardless of age.

**Residency** – To meet this test, your child must have lived with you for more than half of the year. Exceptions include temporary absences, children who were born or died during the year, kidnapped children, and children of divorced or separated parents.

**Support** – To meet this test, the child cannot have provided more than half of his or her own support.

**Qualifying child of more than one person** – If you and another person have the same qualifying child, you and the other person(s) can decide which of you will treat the child as a qualifying child. If you and the other person(s) cannot agree on who will claim the child and more than one person files a return claiming the same child, the IRS will disallow all but one of the claims using a tie-breaker rule.

## QUALIFYING RELATIVE

There are four tests that must be met for a person to be your qualifying relative. The four tests are:

- Not a qualifying child,
- Member of household or relationship,
- Gross income, and
- Support test

**Not a qualifying child** – A child is not your qualifying relative if the child is your qualifying child or the qualifying child of any other taxpayer.

**Member of household or relationship test** – To meet this test, a person must either live with you all year as a member of your household, or be related to you in one of the ways listed under “Relatives you do not have to live with you”.

**Gross income** – To meet this test, a person’s gross income for 2008 must be less than \$3500.

**Support** – To meet this test, you generally must provide more than half of a person’s total support during the calendar year.

## Kentucky Tax Credits – Overview

Status	Amount of Credit(s)
a. Single (unmarried individual) <b>KRS 141.020(3)(a)</b>	\$20
b. Married (filing separate) Spouse (no Ky. income and not a dependent of another taxpayer) <b>KRS 141.020(3)(b)</b> \$20 for self and \$20 for spouse	\$40
c. Married (filing joint) (Neither Spouse dependent of someone else) <b>KRS 141.020(3)(c)</b>	\$40
d. Dependent (each) (Not allowed for any dependent who has made a joint return with his spouse) <b>KRS 141.020(3)(c)</b>	\$20
e. Age 65 <span style="float: right;"><b>Additional</b></span> <b>KRS 141.020(3)(d)</b>	\$40
f. Married (filing separate) but Spouse is 65, has no Ky. gross income and not a dependent of another taxpayer <b>KRS 141.020(3)(e)</b> <b>Additional</b> \$40 for spouse being age 65	\$40
g. Blind <span style="float: right;"><b>Additional</b></span> <b>KRS 141.020(3)(f)</b>	\$40
h. Married (filing separate) Spouse is blind, has no Ky. gross income and not a dependent of another taxpayer. <b>KRS 141.020(3)(g)</b> <span style="float: right;"><b>Additional</b></span> \$40 for spouse being blind	\$80
i. Nonresidents <b>KRS 141.020(3)(h)</b>	Prorated
j. Part-year Resident <b>KRS 141.020(3)(i)</b>	Prorated
k. Member of Ky. National Guard <span style="float: right;"><b>Additional</b></span> <b>KRS 141.020(3)(1)</b>	\$20

## Tax Credits - Specific

**Yourself** – You are always allowed to claim a tax credit for yourself (even if your parent(s) can claim a credit for you on their return). On Form 740, Section B, line 1(a), there are five boxes under three separate headings. First, check the box under "Check Regular" to claim a tax credit for yourself. If you are 65 or older, then check the next two boxes on the line. If you are legally blind, then check the last two boxes on the line.

**Your Spouse** – Do not fill in Section B, line 1(b) if (1) you are single; (2) you are married and you and your spouse are filing two separate returns; or (3) your spouse received more than half of his or her support from another taxpayer. However, if your spouse died during the taxable year, you may claim a credit for the deceased on Line 2(b).

- Fill in Section B, line 1(b), Form 740, if you are married and (1) you and your spouse are filing a joint or combined return, or (2) if your spouse had no income or is not required to file a return. If you meet these criteria, check the first box on Line 1(b) for your spouse. If your spouse is 65 or older, check the next two boxes. If your spouse was legally blind at the end of the taxable year, check the last two boxes on Line 1(b).

**Dependents** – You are allowed to claim a tax credit for each person defined as a dependent in the Internal Revenue Code. Generally, dependents who qualify for federal purposes also qualify for Kentucky.

- Use Section B, line 2, Form 740, to claim tax credits for your dependent children, including stepchildren and legally adopted children, who lived with you during the taxable year, dependents who did not live with you and to claim tax credits for other persons who qualify as dependents. You must include the dependents social security number, along with the dependent's relationship to you. You must also check the box at the end of line 2 if the dependent qualifies to be counted to determine family size credit.
- Children of Divorced or Separated Parents - Attach a copy of Federal Form 8332 filed with your federal return.
- Tax Credits for Individuals Supported by More than One Taxpayer - Attach a copy of Federal Form 2120 - Multiple Support Declaration filed with your federal return.

**National Guard Members** – Persons, who are members of the Kentucky National Guard on December 31, may claim an additional credit in Section B, line 2. Designate this credit with the initials "N.G." Kentucky law specifically restricts this credit to Kentucky National Guard members; military reserve members are not eligible.

## **Dividing Credits**

Each taxpayer must claim all of his or her own tax credits including the credits for age and blindness. Therefore, if married, each spouse must claim at least one credit.

Please note that spouses may choose how to divide tax credits for dependents, or one spouse may claim all dependent credits and the other none.

**Example 1** – A husband who is 65 and a wife who is 60 are filing a combined return. The husband must claim three credits (one regular and two for being 65 or older), and the wife must claim one.

**Example 2** – A husband and wife have two dependents. The husband must claim his regular credit, and the wife must claim hers. However, the two dependent credits may be claimed by either spouse, or each spouse may claim one.

**Example 3** – A husband and wife elect to file separate returns. The wife does not have any Kentucky income. The wife is also 65 and is blind. The husband must claim his regular credit in Section B, line 1a and is also able to claim his spouse's regular credit plus the extra for being 65 and blind. The wife's credits are not considered dependency credits, but personal and consequently reflected on Section B, line 1(b).

# SECTION 2

- A) Kentucky Starting Point**
  - ✓ **Federal Adjusted Gross Income**
  
- B) Income**
  - ✓ **Types subject to tax**
  
- C) Adjustments to Income**
  - ✓ **Types**
  - ✓ **Limits**
  - ✓ **Possible differences**
  
- D) Allocation of Income**

## STARTING & COMPLETING KENTUCKY FORM 740

Since 1990, Kentucky tax returns have started with Federal Adjusted Gross Income (FAGI). As is the case with many tax laws, there are often exceptions to the rule. In this case the exception is the taxpayer who qualifies to file a reciprocal return. This situation will be addressed later in the material.

### Statutory Authority

Portions of KRS 141.010 (9) and (10) are listed for reference. See the entire statute for complete information.

**(9) "Gross income," in the case of taxpayers other than corporations, means "gross income" as defined in Section 61 of the Internal Revenue Code;**

**(10) "Adjusted gross income," in the case of taxpayers other than corporations, means gross income as defined in subsection (9) of this section minus the deductions allowed individuals by Section 62 of the Internal Revenue Code and as modified by KRS 141.0101 and adjusted as follows, except that deductions shall be limited to amounts allocable to income subject to taxation under the provisions of this chapter, and except that nothing in this chapter shall be construed to permit the same item to be deducted more than once**

For single taxpayers or a taxpayer who is married filing a joint return, begin the Kentucky return by entering the amount from **Federal Form 1040-EZ, 1040-A or 1040** identified as federal adjusted gross income as appropriate on Line 1, **Kentucky Form 740-EZ** or Line 5, **Kentucky Form 740**.

However, if taxpayers are married and filing separate returns or filing separately on a combined return, Federal AGI must be divided among each respective spouse. In addition, each spouse must claim his or her own income and/or deductions. The simplest way to divide the income is to prepare a worksheet reflecting each income and adjustment item. Simply take each income and adjustment item reflected on the federal return and list on the worksheet in the appropriate column for the appropriate taxpayer.

## INCOME ITEMS

**Wages from Form W-2 (Form K-2)** must be claimed by the taxpayer earning income.

**Interest** is credited to the spouse earning such income. If the instrument providing the interest is in both names, then the income is considered to have been earned jointly. Accordingly, in this situation, interest would be divided 50% to each spouse.

**Tax exempt** interest, for Federal purposes, is divided the same way.

**Note:** Exempt interest for federal purposes is not included in federal adjusted income, thus, it would be an addition on the Kentucky return.

**Ordinary dividend** income is divided in the same manner as interest income.

**Tax Refunds** are prorated based on the year's income which generated the refund.

**Example** – 2007 Federal AGI was \$50,000 of which \$30,000 was attributable to the wife. They jointly received a \$100 Kentucky refund that should be reported on their 2008 Federal return. The wife would be allocated \$60 (60% x \$100) and the husband allocated \$40 (40% x \$100).

**Alimony income** is reported by the spouse who receives same.

**Business income** (Schedule C, F, or E) is reported by the individual which is earning the income. If both husband and wife have capital contributed and both are actively involved in the production of income, they can prorate the business income accordingly. For rental property, which is held in joint names, the income can be reported 50% to each spouse.

**Capital gains and losses** (Schedule D) should be reported by the individual who owned the asset. If the asset was jointly owned, then the gain/loss should be divided equally.

**Pensions and annuities** should be reported by the individual who is receiving the income.

**Unemployment compensation** is reported by the person receiving the compensation.

**Social security income** that is reported as taxable is prorated between spouses if both receive social security benefits.

**Other income** such as lottery winnings, jury duty pay, etc. is reported by the spouse who receives the income.

## ADJUSTMENTS TO INCOME

**Adjustments** to gross income are similar to income in that each spouse must claim their own adjustments. Adjustments are deducted from total income to arrive at adjusted gross income.

Common adjustments include items such as allowable contributions to an Individual Retirement Account (IRA), alimony you pay and student loan interest you pay. For 2008 the IRS has included a complete chapter on each subject in IRS Publication 17.

IRAs have many rules and regulations that apply before you can determine the allowable adjustment that applies. Issues relative to alimony include identifying what payments qualify as alimony, what payments are not alimony and reporting issues. Claiming the student loan interest deduction is subject to rules regarding eligible student, eligible institution and more.

Please refer to IRS Publication 17 for additional information on adjustments to income. Some, but not all, additional adjustments to income include the following:

- Moving expenses
- Penalty on early withdrawal of savings
- Contributions to an Archer MSA
- Foreign housing costs
- Jury duty pay given to your employer
- Domestic production activities deduction
- Payments to SEP, SIMPLE & qualified plans
- One-half of self employment tax
- Self-employed health insurance
- Certain business expenses of reservists, performing artists & fee based officials

In some instances, an allowable adjustment for federal income purposes may not be allowed for Kentucky. In that situation, a Schedule M adjustment would be necessary to arrive at the correct Kentucky adjusted gross income.

**Sample Worksheet for Allocating Federal Adjusted Gross Income**

Name: \_\_\_\_\_ SS #: \_\_\_\_\_  
 \_\_\_\_\_

Federal Filing Status: Married Filing Joint Return \_\_\_\_\_ Yes  
 Exemptions Per Federal Return \_\_\_\_\_  
 Spouse Yourself or Joint Total

Wages, salaries, tips, etc. \_\_\_\_\_

Taxable interest \_\_\_\_\_

Tax exempt interest \_\_\_\_\_

Ordinary Dividends \_\_\_\_\_

Taxable refunds, credits or offsets of state and local income taxes \_\_\_\_\_

Alimony received \_\_\_\_\_

Business income or (loss) \_\_\_\_\_

Capital gain or (loss) \_\_\_\_\_

Other gains or (losses) - Attach Form 4797 \_\_\_\_\_

Taxable IRA distributions \_\_\_\_\_

Taxable pensions and annuities \_\_\_\_\_

Rents, royalties, partnerships, estates, trusts, etc. \_\_\_\_\_

Farm income or (loss) \_\_\_\_\_

Unemployment compensation (insurance) \_\_\_\_\_

Taxable Social Security benefits \_\_\_\_\_

Other income – Specify (Prizes & Awards) \_\_\_\_\_

Add the amounts – Total Income \_\_\_\_\_

	Spouse	Yourself or Joint	Total
<b>Adjustments to Income</b>			
Educator expenses	_____	_____	_____
Certain business expenses or reservists, performing artists & fee-basis government officials	_____	_____	_____
IRA Deduction	_____	_____	_____
Student Loan Interest Deduction	_____	_____	_____
Tuition and fees deduction	_____	_____	_____
Health savings account deduction	_____	_____	_____
Moving expenses	_____	_____	_____
One-half of self-employment tax	_____	_____	_____
Self-employed health insurance deduction	_____	_____	_____
Self-employed SEP, SIMPLE and qualified plans	_____	_____	_____
Penalty on early withdrawal of savings	_____	_____	_____
Alimony paid	_____	_____	_____
Domestic production activities deduction	_____	_____	_____
Additional federal allowable adjustments*	_____	_____	_____
Add Total Adjustments	_____	_____	_____
Subtract Total Adjustments from Total Income	_____	_____	_____
This is your federal adjusted gross income.	_____	_____	_____

\* Adjustments may vary due to legislation specific to tax year involved.

**TOTAL OF COLUMNS MUST EQUAL FEDERAL ADJUSTED GROSS INCOME**

# SECTION 3

## **A) Federal/State Differences**

- ✓ **IRC Code**
- ✓ **Provisions adopted after code date**

## **B) Schedule M**

- ✓ **Additions**
- ✓ **Subtractions**

## **C) Schedule P**

- ✓ **When to use**
- ✓ **Exclusion amount**
- ✓ **Public pension**
- ✓ **Private pension**
- ✓ **Eligible distributions**
- ✓ **Computation**

## FEDERAL STATE DIFFERENCES

**IRC Code** – The foundation for Kentucky Income tax law has always been grounded in the Internal Revenue Code as of a certain date. The 2007 General Assembly, through House Bill 258, amended KRS 141.010(3) to advance the Internal Revenue Code (IRC) reference date for state individual and corporation income tax purposes to **December 31, 2006**, exclusive of any amendments made subsequent to that date, other than amendments which extend provisions in effect on December 31, 2006.

**Exceptions** – For Kentucky purposes there are currently two notable exceptions to the December 31, 2006 IRC Code Date:

- Depreciation & Section 179 expense deductions are subject to the IRC Code as of December 31, 2001
- The provisions of the Military Family Tax Relief Act of 2003 – Kentucky has adopted these provisions, but each part has a different effective date

### Provisions of the Code Enacted after December 31, 2006

The IRC code is constantly changing through the legislative process. New laws are created that impact individual income tax by various means including creating new taxes, new deductions or credits or changing existing tax laws. Often changes include extending effective dates or changing dollar threshold amounts.

Legislation enacted after the IRC code date of December 31, 2006 in effect for Kentucky will not apply to the 2008 Kentucky individual income tax returns. Two examples of this type of legislation is the Small Business and Work Opportunity Tax Act of 2007 (SBWOTA) effective May 25, 2007 and the Economic Stimulus Act of 2008 enacted in early 2008 which may impact 2008 individual income tax returns.

**Note:** Remember each year is subject to the tax laws in effect for Kentucky at that time for the year involved. If you have questions about any changes that might impact the Kentucky tax treatment reference the appropriate Kentucky Income Tax Seminar for Practitioners workbook used in the University of Kentucky tax schools or utilize the IRS website for updates and new legislation.

**Transitional Differences** – Are differences that only exist until the next time the General Assembly updates the Internal Revenue Code date in **KRS 141.010(3)** to the current Internal Revenue Code or any exceptions to the code. Depreciation is an example of a transitional difference.

**Traditional Differences** – Are differences that will always exist between the Kentucky and Federal tax returns regardless of whether or not there is a code update. An example of this is Kentucky's pension exclusion.

## **ADJUSTING FOR DIFFERENCES BETWEEN KENTUCKY & FEDERAL LAW**

### **Schedule M Kentucky Federal Adjusted Gross Income Modifications**

Individuals should use Kentucky Schedule M to adjust for differences between federal and Kentucky income. This schedule is designed to accommodate the necessary changes to convert federal adjusted gross income (FAGI) to Kentucky adjusted gross income (KAGI).

Depending on the type of income involved, it may be necessary to either add or subtract amounts from federal adjusted gross income to arrive at the correct Kentucky adjusted gross income. Information on both types of adjustments follows.

#### **Additions to Federal Adjusted Gross Income**

Part 1 of Schedule M is used to report additions to FAGI. They include:

- Line 1 Other States Municipal Bond Interest Income
- Line 2 Self-Employed Health Insurance Deduction
- Line 3 Resident Adjustment- Kentucky Schedule K-1
- Line 4 Federal depreciation
- Line 5 Federal Net Operating Loss (NOL)
- Line 6 Other Additions which includes:
  - Lump-sum distributions,
  - Differences in pension and IRA bases,
  - Passive activity loss adjustments,
  - Differences in gains or losses from the sale of intangible assets amortized under the provision of the Revenue Reconciliation act of 1993,
  - Differences in gains (losses) from the sale of depreciable property placed in service after September 10, 2001.

## Subtractions from Federal Adjusted Gross Income

Part 2 of Schedule M is used to report subtractions to FAGI. They include:

- Line 8 State income tax refund or credit reported as income
- Line 9 Interest income from U.S. Government bonds and securities
- Line 10 Excludable amount of retirement income. Schedule P must be attached if greater than \$41,110. *(Note: Schedule P will be discussed later in this material.)*
- Line 11 Taxable amount of Social Security and Railroad Retirement Board benefits
- Line 12 Long-term care insurance premiums
- Line 13 Health insurance premiums not previously deducted from your income. Do not include premiums paid with pretax dollars (cafeteria plans)
- Line 14 Resident adjustments from partnerships, fiduciaries and S corporations, Schedule K-1
- Line 15 Kentucky depreciation from revised Form 4562, and
- Line 16 Kentucky Net Operating Loss (NOL)
- Line 17 Other Subtractions include:
  - Capital gains on sales of Kentucky Turnpike bonds,
  - Capital gains on property taken by eminent domain,
  - Income for training or working at an election booth,
  - Income from the Tobacco Master Settlement, Tobacco Loss Assistance Program (TLAP), Tobacco Quota Buy down exemption,
  - Wage expense from the Work Opportunity credit,
  - Child's income reported on a parent's return,
  - Differences in gains or losses from the sale of intangible assets amortized under the provision of the Revenue Reconciliation act of 1993,
  - Differences in gains (losses) from the sale of depreciable property placed in service after September 10, 2001, at-risk limitations,
  - Passive activity loss adjustment, and
  - Income of military personnel killed in the line of duty.

**SCHEDULE M**



**2008**

Form 740  
42A740-M

**KENTUCKY  
FEDERAL ADJUSTED GROSS INCOME  
MODIFICATIONS**

Department of Revenue

➤ Attach to Form 740.

Enter name(s) as shown on tax return.

Your Social Security Number

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**PART I ADDITIONS TO FEDERAL ADJUSTED GROSS INCOME**

**A. Spouse (Use if Filing Status 2 is checked.)**

**B. Yourself (or Joint)**

		A. Spouse		B. Yourself (or Joint)	
		Dollars	Cents	Dollars	Cents
1	Enter interest income from bonds issued by other states and their political subdivisions.....	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
2	Enter self-employed health insurance deduction from federal Form 1040, line 29.....	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
3	Enter resident adjustment from partnerships, fiduciaries and S corporations, Schedule K-1.....	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
4	Enter federal depreciation from Form 4562.....	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
5	Enter federal Net Operating Loss .....	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
6	Other additions (list and enter total):				
	(a) _____	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
	(b) _____	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
	(c) _____	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
7	Total Additions. Enter here and on Form 740, page 1, line 6 .....	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

**PART II SUBTRACTIONS FROM FEDERAL ADJUSTED GROSS INCOME**

8	Enter state income tax refund or credit reported as income on federal Form 1040.....	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
9	Enter interest income from U.S. government bonds and securities.....	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
10	Enter excludable amount of retirement income (attach Schedule P if more than \$41,110).....	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
11	Enter taxable amount of Social Security and Railroad Retirement Board benefits from federal Form 1040, line 20(b) (1040A, line 14(b)) .....	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
12	Enter long-term care insurance premiums.....	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
13	Enter health insurance premiums not previously deducted from income. Do not include premiums paid with pretax dollars (cafeteria plan).....	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
14	Enter resident adjustment from partnerships, fiduciaries and S corporations, Schedule K-1 .....	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
15	Enter Kentucky depreciation from revised Form 4562 .....	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
16	Enter Kentucky Net Operating Loss .....	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
17	Other subtractions (list and enter total):				
	(a) _____	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
	(b) _____	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
	(c) _____	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>
18	Total Subtractions. Enter here and on Form 740, page 1, line 8 .....	<input type="text"/>	<input type="text"/>	<input type="text"/>	<input type="text"/>

## 2008 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	Taxable	Partially exempt if retired after December 31, 1997; exempt if retired before January 1, 1998; Schedule P may be required
Kentucky Local Government Retirement Systems	Taxable	-----
Federal and Military Retirement Systems	Taxable	-----
3. Pensions and Annuities Starting After 7/1/86 and Before 1/1/90	3-year recovery rule eliminated	3-year recovery rule retained
4. Other Pension and Annuity Income	Taxable	100% excludable up to \$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	Noncash contribution allowed as itemized deduction	Appraised value allowed as itemized deduction or adjustment to income
15. State Income Taxes	Deductible	Nondeductible
16. Leasehold Interest—Charitable Contribution	May be deductible	Deductible; Schedule HH required
17. Kentucky Unemployment Tax Credit	No credit allowed	\$100 per certified employee; Schedule UTC required
18. Work Opportunity Credit (federal Form 5884)	Tax credit allowed; wage expense reduced by amount of credit	No credit allowed; entire wage expense is deductible
19. Welfare to Work Credit (federal Form 8861)	Tax credit allowed; wage expense reduced by amount of credit	No credit allowed; wage expense reduced by amount of federal credit
20. Child and Dependent Care Credit	Tax credit based on expenses	20% of federal credit
21. Family Size Tax Credit	No credit allowed	Decreasing tax credit allowed
22. Education Tuition Tax Credit	Tax credit based on expenses	25% of federal credit for Kentucky undergraduate studies
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

## SCHEDULE P KENTUCKY PENSION INCOME EXCLUSION

Kentucky offers taxpayers the pension exclusion, which is also a federal/state difference. This means that for Kentucky purposes, pension income, within certain limitations, may be excluded from Kentucky tax.

### Schedule P should be used in the following situations:

- Your taxable pension and retirement income from all sources is **greater** than \$41,110; and you are retired from **the federal government, the Commonwealth of Kentucky or a Kentucky local government**; or,
- You receive supplemental U.S. Railroad Retirement Board benefits; or,
- You file Form 4972-K – Tax on Lump-Sum Distributions.

### Exclusion Amount

The allowable pension exclusion amount for 2008 has been set at \$41,110. However, some taxpayers may qualify to exclude amounts above that amount depending on their pension circumstances.

**Note:** The pension income exclusion applies to each taxpayer separately.

### Exempt Retirement Benefits That Do Not Reduce the Pension Exclusion

The following types of retirement benefits are exempt and may be deducted from federal adjusted gross income without reducing the pension exclusion:

- Social Security and U.S. Railroad Retirement Board Benefits
- Supplemental Annuities from the U.S. Railroad Retirement Board
- Commonwealth of Kentucky Retirement Systems – **All** benefits **if** retired before January 1, 1998, and benefits accruing for service before January 1, 1998, if retired after December 31, 1997.
- Kentucky Local Government Retirement and Federal and U.S. Military Retirement Systems – **All** benefits **if** retired before January 1, 1998, and benefits accruing for service before January 1, 1998, if retired after December 31, 1997.

## **PUBLIC PENSION INCOME**

Public pension income is considered income from plans established for public employees by the federal government and Kentucky and its political subdivisions (includes Kentucky Teachers' Retirement System, Kentucky State Employees' Retirement System, County Employees' Retirement System (Ky.), Kentucky State Police Retirement System, Kentucky Judicial Retirement Plan, Kentucky Legislators' Retirement Plan, Kentucky State - Supported Institutions of Higher Education Retirement Plans (institution-sponsored), Kentucky Local Government Retirement Systems, Federal and Military Retirement Systems, and any other plans authorized by the Kentucky Revised Statutes). This income is generally reported on Federal Form 1040, Line 16b or Federal Form 1040-A, Line 12b.

## **PRIVATE PENSION INCOME**

Private pension income includes income from all pension plans, including private disability pensions and annuities, profit-sharing plans, retirement plans, employee savings plans, stock bonus plans, IRAs, or any other plan created or organized under a **written retirement plan** for the exclusive benefit of employees. Deferred compensation benefits (457 and 401(k) plans) paid to federal, state and local retirees will always be considered private pension income.

As a general rule, private pension incomes are reported on the federal income tax return as IRA income or as pension or annuity income (2008 Federal Form 1040 lines 15b and/or 16b, or Federal Form 1040A lines 11b and/or 12b).

## **PENSION INCOME INCLUDED IN WAGES**

Pension income from disability pension and annuities or some deferred compensation distributions may also be reflected on line 7 of the Federal Form 1040 or 1040A (Wages, Salaries, Tips, etc.), because such income is reflected on a W-2 wage statement. These private disability pension and annuity incomes, deferred compensation distributions and death benefits are eligible for the 100 percent pension income exclusion up to \$41,110 for 2008.

If the private pension income is from a lump-sum distribution and reported for income averaging on **Federal Form 4972**, the individual will still be eligible for the pension income exclusion. **Kentucky Form 4972-K - Kentucky Tax on Lump-Sum Distributions** and **Kentucky Schedule P – Pension Income Exclusion** must be completed.

## STATUTORY AUTHORITY

**KRS 141.010 (10) (i)** excludes the applicable amount of pension distributions. In the case of private pensions, the exclusion amount is determined by **KRS 141.0105** which allows for annual indexing and is set for 2008 at \$41,110. Private pensions are the Department's designation of pensions that were not exempt from taxation prior to enactment of **KRS 141.010(10) (i)**. The exclusion for public pension is determined by **KRS 141.0215**.

## CHANGE IN PENSION LAW

Public pension income earned **before** 12/31/1997 and earned **after** 1/1/1998 is subject to different tax treatment. Previously, exempt public pensions continued to be fully exempt through 1997. In other words, Kentucky law provides that any pension payments received from public sources (federal, Kentucky state and Kentucky local) for work performed **prior** to 1/1/98, are not to be reflected in taxable income and do not infringe on the excludable amount. However, for persons who have retired subsequent to December 31, 1997, a portion of their public pension attributable to work performed **after** 1997 must be included with all other retirement income to determine the excludable amount.

## ELIGIBLE DISTRIBUTIONS

In accordance with **KRS 141.010(10)(i)** the exclusion extends to the applicable amount of total distributions from pension plans, annuity contracts, profit-sharing plans, retirement plans, or employee savings plans. Consider the following:

"Distributions" includes but is not limited to any lump-sum distribution from pension or profit-sharing plans qualifying for the income tax averaging provisions of **IRC Section 402**; any distribution from an individual retirement account as defined in **Section 408** of the Internal Revenue Code; and any disability pension; **KRS 141.010(10)(i)(3)a**;

"Annuity Contract" has the same meaning as set forth in **IRC Section 1035**; **KRS 141.010(10)(i)(3)b** and "Pension plans, profit-sharing plans, retirement plans or employee savings plans" means any trust or other entity created or organized under a written retirement plan and forming part of a stock bonus, pension, or profit-sharing plan of a public or private employer for the exclusive benefit of employees or their beneficiaries and includes plans qualified or unqualified under **Section 401** of the Internal Revenue Code and individual retirement accounts as defined in **Section 408** of the Internal Revenue Code. **KRS 141.010(10) (i)(3)c**

**KRS 141.010(10)(i)(3)a** exempts "Disability Pensions". These benefits are distributions received before the minimum retirement age set by the plan and must be reported and taxed as wages on line 7, Federal Form 1040.

The following list depicts the eligibility of some of the more common types of pensions:

<b>Type of Pension</b>	<b>Eligible</b>
Employer Sponsored Qualified Plan	Yes
Employer Sponsored Non-Qualified Plan	Yes
SIMPLE	Yes
KEOGH	Yes
Simplified Employee Pension - IRA	Yes
Deferred Compensation Plans including IRC 457 & IRC 401(K) <b>(See Note #2 )</b>	Yes
Annuities	Yes
Lump-Sum Distributions	Yes
Disability Pension - Employer Provided <b>(See Note #3)</b>	Yes
IRA	Yes
ROTH IRA	Yes, if taxable distribution
EDUCATION IRA (Coverdell Education Savings Account) <b>(See Note #4)</b>	<b>No</b>
Income from Converting a traditional IRA to a ROTH IRA	Yes
Income from converting a traditional IRA to a ROTH IRA - if reported ratably over four-years	Yes, in each of the four-years
Death Benefits <b>(See Note #5)</b>	Yes

**PENSION EXCLUSION REFERENCE NOTES**

- (1) Any distribution is eligible regardless of the reason for the distribution and is applicable regardless of age.
- (2) Deferred compensation plans are always considered private.
- (3) **KRS 141.010(10)(i)(3)a** exempts "Disability Pensions." These benefits are distributions received before the minimum retirement age set by the plan and must be reported and taxed as wages on line 7, Federal Form 1040.
- (4) **EDUCATION IRA** - Distributions are not eligible for the exclusion. Although "IRA" is used to designate the plan and it is a long term savings plan, contributions to this plan are not included in determining maximum contributions to other "IRA" plans and it is not a method of planning for retirement.
- (5) **DEATH BENEFITS** - The **Small Business Job Protection Act of 1996** repealed IRC Section 101(b) and amended IRC Sections 101(c), 406(e), 407(e), and 7701(a)(20) relative to the death benefit exclusion.

Benefits paid by or on behalf of an employer by reason of the employee's death are no longer excludable for decedents dying after August 20, 1996.

Death benefits are now considered income under the Internal Revenue Code and, therefore, included in the computation of Kentucky adjusted gross income. However, a death benefit paid under a retirement plan is eligible for the pension income exclusion allowed under **KRS 141.010(10)**.

A benefit paid by a federal, Kentucky state or Kentucky local retirement system after December 31, 1997 must be included in Kentucky gross income at the rate that other retirement benefits are included. If the deceased was retired before January 1, 1998, his or her benefits including the death benefit would remain fully tax exempt.

## COMPUTING THE EXCLUSION

### Part I – Exempt Retirement Income

Enter the federally taxable portion of pension income paid by the federal government, by the Commonwealth of Kentucky, or by any Kentucky local government. Also, include supplemental U.S. Railroad Retirement Board benefits reported on Federal Form 1040, line 16(b) or Federal Form 1040-A, line 12(b), and federal or Kentucky disability retirement income included on Federal Form 1040 or 1040-A, line 7. Do not include income from deferred compensation plans in Part I.

**Line 1(a)** Use if retired before January 1, 1998, to report fully exempt pension benefits.

**Line 1(b)** Use if retired after December 31, 1997, to compute the amount of pension income attributable to service credits earned before January 1, 1998. Multiply the taxable pension by the exempt percentage, enter the result (exempt amount) in Column A or Column B.

**KEY POINT:** Subtract the exempt amount from the taxable pension amount and include the difference with other retirement income in Part II.

### Part II – Other Retirement Income

**Line 2** – Enter the amount reported on Federal Form 1040 or 1040-A of non-lump-sum pension and retirement income not reported on line 1(c). Also, include amounts from Schedule M, line 6 (Form 740-NP, line 45) that reflect pension and IRA bases differences.

### Part III – Total To Be Excluded This Year

**Line 3** – Enter the lesser of the amount on line 2 or \$41,110.

**Line 4** – Enter the total of lines 1(c) and 3. This is your pension income exclusion. Enter on line 4 and as follows: Schedule M, line 9; Form 740-NP, page 4, line 10(b); or Form 741, page 1, line 11.

**WORKSHEET FOR PUBLIC RETIREES WHO RETIRE AFTER 12/31/97**

Public retirees who retire after 12/31/97, and have service credit for pension income after that date, must complete the worksheet on the back of Schedule P to determine the percentage of exempt pension income. Once the exempt percentage is determined it will not change.

**Line 1** – Total service credit (includes purchased time, purchased military time and sick leave). This will not change once established. This information can/should be secured from the administrator (payor) of the plan.

**Line 2** – Service credit earned after 12/31/97. This will not change once established.

- Do not include time purchased pursuant to IRC §415(n).
- Include sick leave credited at date of retirement and service credit from the purchase of military and other service earned after 12/31/97, based on dates of service.

**Line 3** – Total months of service before January 1, 1998. Subtract Line 2 from Line 1.

**Line 4** – Exempt percentage based on a ratio of total months of service before January 1, 1998, to total months of service credit. Divide line 3 by Line 1.

- This percentage is utilized to determine the amount of pension attributable to service earned before 1/1/98.
- This is determined in the year of retirement, will never change and is reflected in **Part I – Exempt Retirement Income**, Line 1b.

**SCHEDULE P**



**2008**

42A740-P  
Department of Revenue

Use this form to calculate  
excludable retirement income.

**KENTUCKY  
PENSION INCOME EXCLUSION**

► Attach to Form 740, 740-NP or 741.

Enter name(s) as shown on tax return.	Your Social Security Number
---------------------------------------	-----------------------------

**Complete this schedule and file with Form 740 if:**

1. your taxable pension and retirement income from all sources is **greater than \$41,110**; and
  - (a) you are retired from the federal government, the Commonwealth of Kentucky or a Kentucky local government; or
  - (b) you receive supplemental (Tier 2) U.S. Railroad Retirement Board benefits.
2. you file Form 4972-K, Tax on Lump-Sum Distributions.

**All others, STOP, you do not need to complete Schedule P. See instructions for Schedule M, line 10.**

**PART I—EXEMPT RETIREMENT INCOME (Do Not Include Income From Deferred Compensation Plans)**

1. Enter on line (a) or (b) the amount of federal, Kentucky state and Kentucky local government pension income attributable to service credit earned before January 1, 1998, and supplemental (Tier 2) U.S. Railroad Retirement Board benefits included on federal Form 1040, line 16(b) (Form 1040A, line 12(b)). Also include federal or Kentucky disability retirement income attributable to service credit earned before January 1, 1998.

(a) If date of retirement is **before January 1, 1998**, enter here.

Names of Payers	Date of Retirement	A. Spouse		B. Yourself	
<b>Total ►</b>					

(b) If date of retirement is **after December 31, 1997**, see the instructions.

Names of Payers	Date of Retirement	Taxable Pension	Exempt Percentage	A. Spouse		B. Yourself	
<b>Total ►</b>							

(c) Add lines 1(a) and 1(b) ..... (c)

**PART II—OTHER RETIREMENT INCOME (Amounts Not Included in Line 1(c))**

2. Enter the total of taxable retirement income not included in line 1(c) above as reported on federal Form 1040, line 15(b) and 16(b) (Form 1040A, line 11(b) and 12(b)). Also report other disability retirement income or deferred compensation included on federal Form 1040, line 7 (Form 1040A, line 7) .....	2				
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**PART III—TOTAL TO BE EXCLUDED THIS YEAR**

3. Enter the lesser of line 2 or \$41,110 .....	3				
4. Add lines 1(c) and 3. Enter here and on Schedule M, line 10 (Form 740-NP, page 4, line 10(b) or Form 741, line 11) .....	4				

*Joint filers—Combine lines 4(a) and 4(b) and enter on appropriate form.*

**STOP** Stop here unless you have a lump-sum distribution reported on Form 4972-K.

**INSTRUCTIONS—SCHEDULE P**

**Types of Income Subject to Exclusion**—All pension and retirement income paid under a written retirement plan is eligible for exclusion. This includes pensions, annuities, IRA accounts, 401(k) and similar deferred compensation plans, death benefits, and other similar accounts or plans. As a general rule, if the income is reported on the federal income tax return, Form 1040, line 15(b) or 16(b); Form 1040A, line 11(b) or 12(b); Form 4972; or is a disability retirement benefit or deferred compensation distribution reported on Form 1040, line 7 or 1040A, line 7, then it qualifies for the exclusion.

**Form 740-NP filers** report only pension income received while a resident of Kentucky.

**LINE-BY-LINE INSTRUCTIONS**

**Column A, Column B**—This exclusion is for each taxpayer. A husband and wife must compute and claim their own exclusion, regardless of filing status.

**PART I—Exempt Retirement Income**—Enter the federally taxable portion of pension income paid by the federal government, by the Commonwealth of Kentucky, or by any Kentucky local government. Also include supplemental (Tier 2) U.S. Railroad Retirement Board benefits reported on Form 1040, line 16(b) (Form 1040A, line 12(b)) and federal or Kentucky disability retirement income included on federal Form 1040, line 7 (Form 1040A, line 7). Do not include income from deferred compensation plans in Part I.

Use Line 1(a) if retired before January 1, 1998, to report fully exempt pension benefits.

Use Line 1(b) if retired after December 31, 1997, to compute the amount of pension income attributable to service credits earned before January 1, 1998. Multiply the taxable pension

by the exempt percentage, enter the result (exempt amount) in Column A or Column B. **Use the worksheet below to compute the exempt percentage in the year of retirement.**

**Note:** Subtract the exempt amount from the taxable pension amount and include the difference with other retirement income in Part II.

**PART II—Other Retirement Income, Line 2**—Enter the amount reported on federal Form 1040 or 1040A of non-lump-sum pension and retirement income not reported on line 1(c). Also include amounts from Schedule M, line 6 (Form 740-NP, page 4, line 16) that reflect pension and IRA bases differences.

**PART III—Total to Be Excluded This Year, Line 3**—Enter the lesser of the amount on line 2 or \$41,110.

**Line 4**—Enter the total of lines 1(c) and 3. This is your pension income exclusion. Enter on line 4 and as follows: Schedule M, line 10; Form 740-NP, page 4, line 10(b); or Form 741, page 1, line 10.

**DEFINITIONS—For use with Schedule P and the worksheet below.**

**Service Credit**—Number of months (years) used by your retirement system to determine retirement benefits.

**Purchased Service Credit**—Voluntary purchases of service credit as allowed by your retirement system (i.e., military service or prior service with the same or similar system). **Note:** Purchased time is credited based on the dates of service.

**Purchased Service Credit (Air-time)**—Certain retirement plans allow for the purchase of up to five years of service credit unrelated to prior work history. These purchases are commonly known as air-time. Air-time is not included in total service earned after December 31, 1997, regardless of when purchased.

**Worksheet for Federal, Kentucky State and Kentucky Local Government Retirees  
Who Retired After 12/31/97**



Complete this worksheet only if you retired in 2008 or have not computed your exempt percentage in prior years. Keep this worksheet in your records. The percentage will be used this year and in future years to determine the amount of exempt retirement income.

Complete this worksheet to determine what percentage of your pension income is exempt. This percentage must be calculated for each pension.

If your retirement system has computed the exempt amount (earned before January 1, 1998), enter the amount on page 1, line 1(b), column A or B. If your retirement system has computed the exempt percentage, **enter the exempt percentage on page 1, line 1(b) in the exempt percentage column.** Use a separate worksheet for each governmental pension. Retain this worksheet with your tax records. **Use the percentage on line 4 to compute the exempt portion of your pension in future years.**

1. Enter total months of service credit including purchased service..... \_\_\_\_\_
2. Enter months of service credit earned after 12/31/97. Include sick leave credited at date of retirement, and service credit from purchase of military and other service earned after 12/31/97. Do not include purchased credit unrelated to prior work history (air-time) ..... \_\_\_\_\_
3. Subtract line 2 from line 1. Total months of service before January 1, 1998..... \_\_\_\_\_
4. Divide line 3 by line 1. Enter here and on page 1, line 1(b), in the exempt percentage column..... \_\_\_\_\_  
*Use this percentage to determine the amount of pension attributable to service earned before 1/1/98.*

# SECTION 4

## **A) Standard Deduction/Itemized Deductions**

- ✓ **Standard deduction**

## **B) Schedule A**

- ✓ **Deductions**
- ✓ **Fed/State comparison**
- ✓ **Limitation**

## **C) Tax Computation**

- ✓ **Tax rate schedule/tax table**
- ✓ **Tax due comparison**

## STANDARD DEDUCTION VS. ITEMIZED DEDUCTIONS

Net income in the case of taxpayers other than corporations means adjusted gross income as defined in **KRS 141.010(10)** minus the standard deduction allowed by **KRS 141.081 [KRS 141.010(11)]**.

**KRS 141.081** was amended by the 1996 General Assembly to increase the \$650 standard deduction for individuals. This provision did not affect the 1996 individual income tax return, but did impact 1997 and subsequent years. The standard deduction is **\$2,100 for 2008**. For tax year **2009** and every year thereafter, the standard deduction will be indexed to the **Consumer Price Index (CPI)**.

### FILING STATUS IMPACT

If the taxpayer is filing joint, or only one has income, the standard deduction is only **\$2,100**. Should the taxpayer be married and both have income and are therefore filing a separate or combined return, they each are allowed a **\$2,100** standard deduction. Stated another way, married taxpayers who file using one column on the return to report income can only take one standard deduction. Married taxpayers using both columns on the return to report income can each take a standard deduction for a total of \$4,200 for 2008.

**Benefits** A taxpayer that owns a house, has excessive medical expenses, or makes substantial charitable contributions, etc. will likely have deductions in excess of \$2,100 or \$4,200. Deductions lower taxable income, thus lowering tax liability. Therefore, such taxpayers can normally realize a tax savings by using Schedule A and itemizing deductions.

### COMMON MISCONCEPTION

Taxpayers who file and take the federal standard deduction must also take the standard deduction for Kentucky. This, of course, is false. How you file your federal return has no bearing on how you should file your Kentucky return.

**Note:** For married individuals it must be remembered that if one spouse itemizes, the other must also itemize.

## KENTUCKY SCHEDULE A

When comparing **Kentucky Schedule A** (Form 740) to **Federal Schedule A** (Form 1040) it is obvious there are some differences. A few of the differences are as follows:

**Medical and Dental Expenses** may be different in that the 7.5% limitation is applied to adjusted gross income. There may be situations where Kentucky AGI and federal AGI may not be the same. If this is the case, even though the expenses are the same, the deduction amount for medical expenses will be different for Kentucky and federal tax purposes.

**Taxes** – As outlined in **KRS 141.010(11)(a)**, the only difference in the deductible taxes is that on Kentucky Schedule A, you **cannot** deduct state income taxes. When using Federal Schedule A amounts to complete the Kentucky Schedule A, it is necessary to determine how much in state taxes are included on Line 5, Schedule A, Federal Form 1040 and eliminate that from the amount to be entered on Line 4, Kentucky Schedule A, Form 740.

**Note:** For tax year 2008 legislation was extended that allowed taxpayers the option of claiming Sales Tax in lieu of state and local tax on their Federal Schedule A. Kentucky did not adopt this provision, therefore deducting sales tax is not allowed on the Kentucky Schedule A.

**Casualty and Theft Losses** – These losses are reduced by 10% of your AGI; therefore, should Kentucky AGI and Federal AGI not be the same, the casualty and theft loss deduction would not be the same. It should be noted that Kentucky does use **Federal Form 4684 - Casualties and Thefts**, but the amount on Line 16 of Form 4684 is carried to Line 20 of the Kentucky Schedule A. Line 16 is the amount of the loss before the 10% limitation is deducted. Kentucky Schedule A then allows you to deduct 10% of your Kentucky AGI from the loss that was on Line 16 of Form 4684.

**Job Expenses and Most Other Miscellaneous Deductions** – Many of these expenses are also reduced by 2% of Kentucky AGI. Therefore, when Federal and Kentucky AGI are different, Kentucky deductions will not be the same as federal.

### Impact of Federal/Kentucky Difference on Allowable Deductions

To illustrate the impact that a difference between FAGI and KAGI has on the total allowable deductions for Schedule A review the example and chart below.

**Example** - Federal AGI = \$32,000 which includes \$4,000 interest income from U.S. bonds. Because Kentucky does not tax this type of interest income, KAGI is different than federal, thus the allowable Schedule A deductions amounts are also different.

	FEDERAL	KENTUCKY
Medical & Dental Expense	\$3,000	\$3,000
Less 7.5% of AGI	2,400 (32,000 X 7.5%)	2,100 (28,000 X 7.5%)
Deductible Deduction Allowed	<b>\$600</b>	<b>\$900</b>

### Additional Allowable Schedule A Deductions

For additional information on allowable Kentucky Schedule A deductions, please refer to the instructions for Kentucky Forms 740 and 740-NP. In-depth information about the various Schedule A deductions can also be found in IRS Publication 17.

Only one Schedule A is required to be filed even if spouses are filing separate returns or separately on a combined return. The total deductions are prorated based on each spouses Kentucky AGI income to total Kentucky AGI. Form 740 Schedule A provides a worksheet for this computation.

**Example:**           Wife KY. AGI = \$40,000  
                           Husband KY. AGI = \$20,000  
                           Line 30 Schedule A = \$7,000

Wife's Deduction            $\frac{\$40,000}{\$60,000} = 66.7\% \times 7,000 = \$4,669$

Husband's Deduction        $\frac{\$20,000}{\$60,000} = 33.3\% \times 7,000 = \$2,331$

Total Deduction = \$7,000 ( \$4,669 + \$2,331)

### Limit on Schedule A Deductions for High Income Taxpayers

In some instances, taxpayers with high income may have to limit itemized deductions. Federal provisions apply to the limit on Schedule A deductions. The limits are computed on page 2, Schedule A (Form 740).

For tax year 2008, taxpayers with income in excess of **\$159,950** (**\$79,975** if married filing separately on a combined return or separate returns) must complete the limitations worksheet.

**Note:** It is possible that spouses who file a joint federal return will not be affected by the itemized deduction limitations. However, it is normally advantageous for spouses to file separately on a combined return, or separate returns for Kentucky income tax purposes. If either spouse's adjusted gross income exceeds **\$79,975** that spouse's itemized deductions are subject to the limitations and must be reduced accordingly.

### Example

Mr. and Mrs. Calhoun itemize their deductions and complete **Kentucky Schedule A**. Their total itemized deductions amount to \$18,700 and their Kentucky adjusted gross incomes are \$16,000 for one spouse and \$84,000 for the other, making their total KAGI \$100,000.

Based on the 2008 limitations in effect on itemized deductions for high income taxpayers, the one spouse whose Kentucky adjusted gross income is \$84,000 will have to complete **Part II - Itemized Deductions Limitation Schedule** on the back of the **Kentucky Schedule A**. The spouse whose Kentucky adjusted gross income is \$16,000 does not exceed the **\$79,975** threshold and therefore does not have to complete the limitations schedule. Mr. and Mrs. Calhoun's Kentucky Schedule A and limitation worksheet follow. Mrs. Jones' \$16,000 represents 16% of KAGI and Mr. Calhoun \$84,000 represents the remaining 84% of KAGI.

**SCHEDULE A**

Form 740  
42A740-A

Department of Revenue



**KENTUCKY ITEMIZED DEDUCTIONS**

- See instructions.
- Attach to Form 740.

**2008**

Enter name(s) as shown on Form 740, page 1.

Noah & Allie Calhoun

Your Social Security Number

999-99-9999

Dollars Cents

0 . 00

		Do not include expenses reimbursed or paid by others.	
<b>Medical and Dental Expenses</b>	1. Medical and dental expenses.....	1	3,400 00
	2. Enter 7.5% (.075) of the amount from Form 740, line 9...	2	7,500 00
	3. <b>Total medical and dental.</b> Subtract line 2 from line 1. If zero or less, enter -0-	➤ 3	
<b>Taxes</b> <i>Note: Sales and use taxes are not deductible.</i>	4. Local income taxes (do not include state income tax).....	4	640 00
	5. Real estate taxes.....	5	2,500 00
	6. Personal property taxes.....	6	350 00
	7. Other taxes (list) _____	7	00
	8. <b>Total taxes.</b> Add lines 4 through 7. Enter here .....	➤ 8	
<b>Interest Expense</b> <i>Note: Personal interest is not deductible.</i>	9. Home mortgage interest and points reported to you on federal Form 1098.....	9	7,360 00
	10. 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) _____	10	00
	<i>See instructions for lines 11 and 12.</i>		
	11. Points not reported to you on federal Form 1098.....	11	00
	12. Qualified mortgage insurance premiums .....	12	00
	13. Investment interest (attach federal Form 4952 if required) .....	13	00
14. <b>Total interest.</b> Add lines 9 through 13. Enter here .....	➤ 14		
<b>Contributions</b> <i>Note: For any contribution of \$250 or more, see instructions.</i>	15. Contributions by cash or check .....	15	6,700 00
	16. Other than cash or check (attach federal Form 8283 if over \$500).....	16	500 00
	17. Artistic charitable contributions deduction (attach copy of appraisal) .....	17	00
	18. Carryover from prior year.....	18	00
19. <b>Total contributions.</b> Add lines 15 through 18. Enter here .....	➤ 19		
<b>Casualty and Theft Losses</b>	20. Enter amount from attached federal Form 4684, Section A, line 16.....	20	00
	21. Enter 10% (.10) of the amount from Form 740, line 9 .....	21	00
	22. <b>Total casualty or theft loss(es).</b> Subtract line 21 from line 20. If zero or less, enter -0- .....	➤ 22	
<b>Job Expenses and Most Other Miscellaneous Deductions</b>	23. Unreimbursed employee expenses—job travel, union dues, job education, etc. (attach Form 2106 or 2106-EZ if applicable) list <u>MILEAGE, CONSTRUCTION TOOLS</u> .....	23	2,425 00
	24. Tax preparation fees.....	24	225 00
	25. Other (investment, safe deposit box, etc.) list _____	25	00
	26. Add the amounts on lines 23, 24 and 25. Enter here .....	26	00
	27. Enter 2% (.02) of the amount from Form 740, line 9.....	27	2,000 00
28. <b>Total.</b> Subtract line 27 from line 26. If zero or less, enter -0- .....	➤ 28		
<b>Other Miscellaneous Deductions</b>	29. Other (see instructions) _____	➤ 29	
<b>Total Itemized Deductions</b>	30. Add lines 3, 8, 14, 19, 22, 28 and 29. Enter here .....	➤ 30	

3,490 . 00

7,360 . 00

7,200 . 00

0 . 00

650 . 00

0 . 00

18,700 . 00

- ★ If single or married filing jointly and your income for Form 740, Column B does not exceed \$159,950, enter total itemized deductions on Form 740, line 10, Column B.
- ★ All others go to page 2.

SCHEDULE A (Form 740) 2008  
42A740-A



Page 2



If the amount on Form 740, line 9, exceeds \$159,950 (\$79,975 if married filing separately on a combined return or separate returns), skip Part I and complete Part II.

**PART I—DIVIDING DEDUCTIONS BETWEEN SPOUSES**

Use this schedule if married filing separately on a combined return.

1. Total itemized deductions from page 1, line 30.....	18,700
2. Percent of income (Form 740, line 9, Column A) to total income (Form 740, total of line 9, Columns A and B).....	16 %
3. Percent of income (Form 740, line 9, Column B) to total income (Form 740, total of line 9, Columns A and B).....	84 %
4. Percent on line 2 times total deductions entered on line 1 (enter here and on Form 740, line 10, Column A).....	2,992
5. Percent on line 3 times total deductions entered on line 1 (enter here and on Form 740, line 10, Column B).....	15,708

**PART II—ITEMIZED DEDUCTIONS LIMITATION SCHEDULE**

Complete this schedule only if the adjusted gross income on Form 740, line 9, exceeds \$159,950 (\$79,975 if married filing separately on a combined return or separate returns).

	A. Spouse	B. Yourself (or Joint)
<ul style="list-style-type: none"> <li>If married filing separately on a combined return, enter in <b>Column A</b> the percent of income (Form 740, line 9, Column A) to total income (Form 740, total of line 9, Columns A and B); enter in <b>Column B</b> the percent of income (Form 740, line 9, Column B) to total income (Form 740, total of line 9, Columns A and B).</li> <li>If single, married filing a joint return or married filing separate returns, enter 100% in Column B.</li> </ul>	16 %	84 %
1. Multiply the amount on Schedule A, line 30, by the percent of income shown in Columns A and/or B.....	1. 2,992	1. 15,708
2. Add the amounts on Schedule A, lines 3, 13 and 22, plus any gambling losses included on line 29 and multiply by the percent of income shown in Columns A and/or B.....	2. 0	2. 0
<i>Note: Be sure your total gambling losses are clearly identified on line 29.</i>		
3. Subtract the amount on line 2 from the amount on line 1. (If the result is zero, <b>STOP HERE</b> ; enter the amount from line 1 above on Form 740, line 10.).....	3. 2,992	3. 15,708
4. Multiply the amount on line 3 above by 80% (.80).....	4. 2,394	4. 12,566
5. Enter the amount from Form 740, line 9.....	5. 16,000	5. 84,000
6. Enter \$159,950 (\$79,975 if married filing separately on a combined return or separate returns).....	6. 79,975	6. 79,975
7. Subtract the amount on line 6 from the amount on line 5. (If the result is zero or less, <b>STOP HERE</b> ; enter the amount from line 1 above on Form 740, line 10.)	7. 0	7. 4,025
8. Multiply the amount on line 7 above by 3% (.03).....	8. 0	8. 121
9. Compare the amounts on lines 4 and 8 above. Enter the <b>smaller</b> of the two amounts here.....	9. 0	9. 121
10. Divide line 9 by 1.5.....	10. 0	10. 81
11. Subtract line 10 from line 9.....	11. 0	11. 40
12. Total itemized deductions. Subtract the amount on line 11 from the amount on line 1. Enter the result here and on Form 740, line 10.....	12. 2,992	12. 15,668

## TAX COMPUTATION

Kentucky has a graduated tax rate ranging from 2% to 6% depending upon the amount of taxable income. Computing the tax due on the return may be done two ways. The taxpayer may choose to use the tax table, contained in the instructions for preparing the return, or the tax rate schedule below.

### Tax Rate Schedule

*If taxable amount is:*

*Tax is:*

\$3,000 or less	2% of taxable amount
More than \$3,000 but not over \$4,000	\$60 plus 3% of amount over \$3,000
More than \$4,000 but not over \$5,000	\$90 plus 4% of amount over \$4,000
More than \$5,000 but not over \$8,000	\$130 plus 5% of amount over \$5,000
More than \$8,000 but not over \$75,000	\$280 plus 5.8% of amount over \$8,000
Over \$75,000	\$4,166 plus 6% of amount over \$75,000

## TAX DUE COMPARISON

### Married Filing Separately on a Combined Return versus Joint Return

Tax Liability per Filing Status:

	<u>Combined Return</u> (Filing Status 2)		<u>Joint Return</u> (Filing Status 3)
	<u>Spouse</u>	<u>Yourself</u>	<u>Joint</u>
Taxable Income	\$ 15,000	\$ 15,000	\$ 30,000
Tax Liability	\$ 686	\$ 686	\$ 1,556
	<u>\$ 1,372</u>	<u>\$ 1,556</u>	

### Explanation

Kentucky's tax rate is 5.8% for income over \$8,000 and under \$75,000, with a 6% tax rate for income above \$75,000. By utilizing Filing Status 2 the taxpayers minimize the taxing of income over \$8,000.

	Spouse	Yourself	Joint
Taxable Income	\$ 15,000	\$ 15,000	\$ 30,000
	<u>- 8,000</u>	<u>- 8,000</u>	<u>- 8,000</u>
	\$ 7,000	\$ 7,000	\$ 22,000
Amount Subject to 5.8% Tax Rate		\$ 14,000	\$ 22,000

### ADDITIONAL COMPUTATION ISSUES

**Farm Income Averaging, Schedule J** – If you elect farm income averaging on your federal return, you may also use this method for Kentucky. Compute tax using Schedule J.

**Lump-sum Distributions** – Kentucky allows a special 10-year averaging method for determining tax on lump-sum distributions received from certain retirement plans that qualify for federal purposes. If this method is used for federal purposes, then both Schedule P and Form 4972-K must be used to determine tax liability.

**Recycling Composting Recapture** – Use Schedule RC-R to determine amount of tax due and add to tax computed.

**Note:** Because our computer program is programmed to the exact dollar, often the tax assessed by the system may vary a few dollars from the tax table, which lists tax due in \$100 increments.

# SECTION 5

- A) Direct Income Tax Credits**
- B) LLET Credit**
- C) Skills Training Credit**
- D) Historic Preservation Credit**
- E) Credit for Tax Paid to Other States**
  - ✓ **Worksheet**
  - ✓ **Gambling income**
  - ✓ **Examples**
- F) Various Other Business Incentive Credits**
- G) Personal Tax Credit(s)**
- H) Family Size Tax Credit**
- I) Education Tuition Tax Credit**
- J) Child and Dependent Care Credit**

## DIRECT INCOME TAX CREDITS

The General Assembly has passed legislation over the last several years creating direct income tax credits. The law requires certain credits must be utilized before others, they may be carried over to succeeding tax years, are lost if not utilized in the current year, and may pass through to a shareholder or partner.

In years prior to 2005, Schedule TC was necessary to claim the credits listed below. However, since 2005, Kentucky Individual Income Tax Form 740, and Form 740-NP have been revised to include Section A, Business Incentive and Other Credits, which is used to claim the following nonrefundable credits on the returns.

### SEQUENCE OF NONREFUNDABLE CREDITS

Per **KRS 141.0205**, the following nonrefundable credits must be utilized in the order listed below:

- KRS 141.0401(2) – Limited Liability Entity Credit
- KRS 141.347, 141.400, 141.403, 141.407, 154.12-2088 – Skills Training Investment Tax Credit and other Economic Development Credits
- KRS 171.397 – Certified Historic Preservation Credit
- KRS 141.070 – Credit for Tax Paid to Other States
- KRS 141.065 – Employer's Unemployment Tax Credit
- KRS 141.390 – Recycling and/or Composting Equipment Tax Credit
- KRS 154.20-263 – Kentucky Investment Fund Tax Credit
- KRS 141.0405 – Coal Incentive Tax Credit
- KRS 141.395 – Qualified Research Facilities Tax Credit
- KRS 151B127(3) – GED – Incentive Tax Credit
- KRS 141.418 – Environmental Remediation (Brownfields) Credit
- KRS 141.423 – Biodiesel Credit
- KRS 154.48-025 – Environmental Stewardship Credit
- KRS 141.428 – Clean Coal Incentive Credit
- KRS 141.4242 – Ethanol Credit
- KRS 141.4246 – Cellulosic Ethanol Credit

There are four additional nonrefundable tax credits available to the individual taxpayer, which are not reflected on Section A, Business Incentive and Other Credits. These are:

- KRS 141.020 – Personal Tax Credit(s)
- KRS 141.066 – Family Size Tax Credit
- KRS 141.069 – Education Tuition Tax Credit
- KRS 141.067 – Child and Dependent Care Credit

## BRIEF DESCRIPTION OF THESE CREDITS

### **Limited Liability Entity Tax Credit (for taxable years beginning on or after January 1, 2007)**

An individual that is a partner, member or shareholder of a limited liability pass-through entity is allowed a limited liability entity tax (LLET) credit against the income tax imposed by KRS 141.020 equal to the individual's proportionate share of LLET computed on the gross receipts or gross profits of the limited liability pass-through entity as provided by KRS 141.0401(2), after the LLET is reduced by the minimum tax of \$175 and by other tax credits for which the limited liability pass-through entity may be allowed.

The credit allowed an individual that is a partner, member or shareholder of a limited liability pass-through entity against income tax shall be applied only to income tax assessed on the individual's proportionate share of distributive income from the limited liability pass-through entity as provided by KRS 141.0401(3)(b). Any remaining LLET credit shall be disallowed and shall not be carried forward to the next year. The credit amount available to the partner, member or shareholder shall be reflected on the appropriate Kentucky Schedule K-1(s) or Form(s) 725.

### **Skills Training Investment Tax Credit**

A credit is allowed for the amount of credit certified by the Bluegrass State Skills Corporation. A copy of the certification must be attached to the return in the first year the credit is claimed.

The credit is equal to fifty percent of the approved cost incurred in connection with the company's occupational or skills upgrade training program. The credit shall not exceed \$500 per employee and \$100,000 per approved company per biennium. The excess credit over the company's income tax liability in the year approved may be carried forward for three successive taxable years.

A taxpayer that has received a final authorizing resolution from the Bluegrass State Skills Corporation is entitled to a nonrefundable credit against Kentucky individual or corporation income tax.

**Note:** Effective for taxable years beginning after December 31, 1999, **KRS 141.405** was amended to allow S corporations and partnerships to pass through the skills training investment tax credit to shareholders and partners.

### **Historic Preservation Credit**

A nonrefundable credit may be taken against corporation or individual income taxes for a portion of the cost of restoring a qualified residential and commercial structure listed on the National Registry of Historic Places. The credit is equal to 30 percent of the rehabilitation expenses, in the case of owner-occupied residential property, and 20 percent of the rehabilitation expenses, in the case of all other property. The total credit available is capped at \$3 million annually, with each individual owner-occupied property receiving no more than \$60,000. **KRS 171.397**

An application for credit must be submitted to the Kentucky Heritage Council within thirty (30) days following the close of a calendar year. The council shall determine the amount of credit approved for each taxpayer and notify the taxpayer and Department of Revenue of the approved credit amount by the thirty first day of the third month following the close of the calendar year.

Credits received under this section may be transferred or assigned, for some or no consideration, along with any related benefits, rights, responsibilities, and liabilities to any entity subject to the tax imposed by KRS 136.505.

The taxpayer may carry the excess tax credit forward until the tax credit is used, provided that any tax credits not used within seven (7) years of the taxable year the certified rehabilitation was complete shall be lost.

Additional information on this credit can be found at [www.heritage.ky.gov](http://www.heritage.ky.gov).

**Credits Allowed Individuals for Tax Paid to Other States**

- Per **KRS 141.070** - Credits Allowed Individuals for Tax Paid to Other States, all residents of Kentucky, within certain limitations, may claim a credit on the Kentucky income tax return for individual income tax paid to other states.
- Nonresidents are not entitled to a credit for tax paid to another state. A part year resident may be entitled to a credit, if after they become a resident of Kentucky or before they become a nonresident of Kentucky, they have income from another state which is taxed by the other state.
- This credit can only be claimed on income derived from sources outside Kentucky. It cannot be claimed on income derived from Kentucky sources.
- S corporations and partnerships may elect to file combined or composite nonresident returns on behalf of their shareholders or partners to report the individual income tax due to other states. A credit may be allowed if the tax paid to the other states on the composite or combined return is in lieu of the individual shareholders or partners filing separate nonresident individual income tax returns to those states. The credit claimed on the Kentucky return is allowed as if each shareholder or partner filed separately. A copy of the composite return should also be attached to the taxpayer's Kentucky income tax return to verify the actual amount of individual income tax paid for that taxpayer. A schedule signed and certified by the tax manager, listing the individual's name and I.D. number; the income reported on behalf of the individual; and; and income tax paid to each state is an acceptable substitute for a copy of the composite or combined return.
- Franchise tax and intangible income tax are not allowed as credit against Kentucky individual income tax.
- Kentucky residents may claim a credit for nonrefundable income tax paid to other states. However, you may not claim credit for tax withheld by another state. You must file a return with the other state, and pay tax on income also taxed by Kentucky in 2007 in order to claim the credit. A copy of the other state's return must be attached to verify this credit. The credit is limited to the amount of Kentucky tax savings had the income reported to the other state been omitted, or the amount of the tax paid to the other state, whichever is less.
- The credit is computed by using the worksheet provided in the instructions. A copy follows.

**Note:** If tax is owed in more than one state, the credit for each state must be computed on separate worksheets.

**Credit for Taxes Paid to Other States Worksheet**

**Kentucky residents/part-year residents only. Complete a separate worksheet for each state. See instructions for Form 740 or 740-NP, Section A, Line 4.**

Name of other state \_\_\_\_\_

1. List Kentucky taxable income from Form 740, Line 11 ..... \_\_\_\_\_
2. List any gambling losses from Schedule A, Line 28..... \_\_\_\_\_
3. Add Lines 1 and 2 and enter total here ..... \_\_\_\_\_
4. List income reported to other state included on  
Kentucky return..... \_\_\_\_\_
5. Subtract line 4 from line 3 and enter total here ..... \_\_\_\_\_
6. Adjusted gambling losses. Compute gambling losses  
allowed on Kentucky return if income from other state  
is ignored ..... \_\_\_\_\_
7. Subtract Line 6 from Line 5 and enter total here..... \_\_\_\_\_
8. Enter Kentucky tax on income amount on Line 7 ..... \_\_\_\_\_
9. Enter Kentucky tax on income amount on Line 1 ..... \_\_\_\_\_
10. Subtract Line 8 from Line 9. This is the tax savings  
on return if other state's income is ignored ..... \_\_\_\_\_
11. Enter tax paid to other state on income claimed on  
Kentucky return..... \_\_\_\_\_
12. Enter the lesser of Line 10 or Line 11. This is your  
credit for tax paid to other state. Carry this total to  
Form 740, Section A, Line 4 ..... \_\_\_\_\_

## Gambling Losses and Taking the Credit for Tax Paid to Other States

A credit for tax paid to another state on gambling income may be allowed if the income is taxed by **both** Kentucky and the other state. However, if you have paid tax on gambling income in another state **and** you claimed an itemized deduction on your Kentucky Schedule A for losses, the allowable credit may be reduced or eliminated. Any gambling income offset by a gambling loss deduction is not considered taxed in Kentucky. In this situation the income is not being taxed by both Kentucky and another state so no tax savings result.

## Examples of Calculating Credit for Tax Paid to Other States

### Example 1

Joe A. Smith, single, is a store manager for Wal-Mart. He has a permanent home in Frankfort, Kentucky. For eight months out of each year Joe manages the store in Frankfort, but is transferred to a store in Boulder, Colorado, for the late spring and summer months. Joe rents an apartment while in Colorado and stays there for the spring and summer months except for occasional trips back to Kentucky over this time frame.

### **Additional Facts:**

- 1) Under Colorado law, for 2008, Joe Smith is required to file **Form 104 - Long Form - Colorado Individual Income Tax Return** as well as **Form 104PN - Part-Year Resident/Nonresident Tax Apportionment Schedule**. This enables Joe to report wages and calculate his tax liability applicable to wages earned in Colorado.
- 2) It is also necessary for Joe to file a resident return (Form 740) with Kentucky and report income from all sources.
- 3)

<u>Ky. Wages</u>	<u>Ky. W/H</u>	<u>Colorado Wages</u>	<u>Colorado W/H</u>
\$32,000	\$1,600	\$18,000	\$900
- 4) Taxpayer takes the standard deduction.
- 5) Taxpayer's Colorado return reflects a tax liability of \$793.

**Explanation/Solution:**

The credit is limited to the amount of Kentucky tax savings had the income reported to the other state been omitted, or the amount of tax paid to the other state whichever is **less**. The following information illustrates this principle:

Ky. Income Tax Liability Based on Income From <b>All</b> Sources Before Any Credits (\$50,000 - \$2050 = \$47,950 taxable income)	\$2,597
Ky. Income Tax Liability <b>Excluding</b> Non-Kentucky Sources Before Any Credits (\$32,000 - \$2050 = \$29,950 taxable income)	1,553
Maximum Credit Allowed	1,044
Colorado Tax Liability	793
Credit Allowed for Tax Paid to Another State	<u>\$ 793</u>

Because the **tax paid was less** than the tax savings, this taxpayer qualifies for a credit of \$793. Had the amount of tax paid to Colorado exceeded \$1,044, the credit would have been limited accordingly.

In general, if adjustments to gross income and deductions (itemized/standard) are comparable between Kentucky and the nonresident state, Kentucky would allow credit for all tax paid to the other state providing that state's tax rate is less.

**Example 2**

A full year resident Kentucky taxpayer worked in New York for three months. The taxpayer earned \$15,000.00 in New York and had a net liability of **\$1,050.00** on the New York return. Taxable income on the Kentucky return was \$58,700.00 and the tax liability was **\$3,218.00**.

**Explanation/Solution:**

After deducting the income taxed by New York the taxable income would be \$43,700.00 and the tax liability would be **\$2,348.00**. The difference between the \$3,218.00 and \$2,348.00 of **\$870.00** is the allowable credit for tax paid to New York on the Kentucky return because the credit is limited to the amount of Kentucky tax savings had the income reported to the other state been omitted, or the amount of tax paid to the other state, whichever is **less**.

### **Example 3**

A full year Kentucky resident worked part of the year in St. Louis. The taxpayer's Missouri W-2 showed taxable income of \$16,000.00 and Missouri withholding of \$920.00. The taxpayer filed a Missouri nonresident return and received a refund of \$350.00 after calculating a liability of **\$570.00** to Missouri. On the Kentucky return the taxpayer had taxable income of \$49,000.00 and a tax liability of **\$2,655.00**.

#### **Explanation/Solution:**

After deducting the income being taxed by Missouri a revised taxable income of \$33,000.00 yields a tax liability of **\$1,727.00**. The difference between \$2,655.00 and \$1,727.00 is **\$928.00**. The allowable credit on the Kentucky return for tax paid to Missouri would be **\$570.00**.

Remember the credit is limited to the **lesser** of the actual tax paid or the tax savings if the income is omitted.

#### **Employer's Unemployment Tax Credit**

If you hired unemployed Kentucky **residents** to work for you the last six months of 2007 or during 2008, you may be eligible to claim the unemployment tax credit. In order to claim a credit, each person hired must meet specific criteria. For each qualified person, you may claim a tax credit of \$100.

The period of unemployment must be certified by the Office of Employment and Training, Education Cabinet, 275 East Main Street 2-WA, Frankfort, Ky. 40621-0001. The taxpayer must maintain a copy of the certification in his/her files. To claim this credit one must file **Schedule UTC - Unemployment Tax Credit**, pages 109 and 110, Package K.

#### **Recycling and/or Composting Tax Credit**

Individuals, who purchased recycling or composting equipment to be used exclusively in Kentucky for recycling or composting post-consumer waste materials, are entitled to a credit against the tax equal to 50 percent of the installed cost of the equipment. Application for this credit must be made on **Schedule RC - Application for Income Tax Credit for Recycling and/or Composting Equipment**, page 99, Package K, which may be obtained from the Department. A copy of **Schedule RC** reflecting the amount of credit approved by the Department must be attached to the return.

The credit claimed for the taxable year during which the equipment is purchased (installed) is limited to 10 percent of the total allowable credit and 25 percent of the tax liability less other credits claimed for the year. The unused portion of the total credit may be carried forward to succeeding tax years limited only to 25 percent of the tax liability for the taxable year.

This credit does pass through from a partnership or S corporation to the partner/shareholder. **Schedule RC (K-1) – Pro Rata/Distributive Share of Approved Recycling and/or Composting Equipment Tax Credit** is utilized to allocate the credit to each partner or shareholder. See page 137, Package K.

### **Kentucky Investment Fund Tax Credit**

The 1998 legislature created new sections of **KRS 154.20-263** to establish the Kentucky Investment Fund Program and authorized the Kentucky Economic Development Finance Authority (KEDFA) to certify investment funds and investment fund managers on or after July, 1999. An investor who makes cash contributions to an investment fund certified by KEDFA is allowed a nonrefundable credit against the Kentucky individual income tax, Kentucky corporation income tax or Kentucky corporation license tax equal to 40 percent of the cash contribution. The credit may be claimed in any tax year after December 31, 1998, during which the investment is made.

For investments before July 1, 2002, twenty-five percent of the total credit certified by the Kentucky Economic Development Finance Authority (KEDFA) is allowed in each year. For investments after June 30, 2002, the credit is claimed on the tax return filed for the tax year following the year in which the credit is granted and is limited in any tax year to 50 percent of the initial aggregate credit apportioned to the investor. A copy of the certification by KEDFA is required in the first year the credit is taken.

Unused credit may be carried forward. Any excess credit that may be claimed in a given year over the investor's liability may be carried forward but may not extend beyond 15 years of the initial certification.

### **New Limits on Kentucky Investment Fund Act (KIFA) Credits**

(Effective July 1, 2005.) KIFA tax credits available to any single investment fund are limited to \$1.3 million for all investors and all taxable years. Total KIFA tax credits available for all investors in all investment funds shall not exceed \$5 million per fiscal year. **KRS 154.20-263**

### **Credit for the Purchase of Kentucky Coal (Coal Incentive Tax Credit)**

(Effective for ten consecutive years beginning on July 15, 2001.) **KRS 141.0405** and **KRS 141.0406** were created to allow a nonrefundable credit against corporation income tax, individual income tax, corporation licenses tax and public service company property tax for Kentucky coal purchased and used for generating electricity. Only coal that is subject to Kentucky's coal severance tax qualifies for the credit. The credit is equal to \$2 per ton of Kentucky coal purchased by the company that is above the amount of Kentucky coal purchased during the base year. The base year amount is the amount of coal purchased in 1999 for existing companies. For new entities established after 1999, the base year amount will be zero.

This bill affects corporation and individual income, corporation license tax and public service company property tax. This bill requires the KRC to prescribe Coal Incentive Claim Forms and to issue a Credit Certificate. This credit may be claimed on returns filed after July 15, 2001.

### **Qualified Research Facilities Tax Credit**

A nonrefundable credit is allowed against individual and corporation income taxes equal to 5 percent of the cost of constructing and equipping new facilities or expanding or remodeling existing facilities in Kentucky for qualified research. "Qualified research" is defined to mean qualified research as defined in Section 41 of the IRC. Any unused credit may be carried forward 10 years.

### **GED Assistance Credit**

Tax Credit for Employers Who Assist Employees in Obtaining His or Her High School Equivalency Diploma (Effective July 14, 2000.)

Employers who assist employees in obtaining his or her high school equivalency diploma are eligible for a tax credit. A new effort to promote GEDs has direct benefits for Kentucky employers and the commonwealth's workforce.

Employees can earn a tuition discount of \$250 per semester for a maximum of four semesters at a Kentucky public postsecondary institution. Their employers can receive a state income tax credit for a portion of the paid release time given to the employee to study for the GED. The tax credit is calculated at half of the employee's hourly salary for released time, up to a maximum of \$1,250. The regulation became effective on September 5, 2001.

**Environmental Remediation (Brownfield) Credit**

(Effective for tax periods beginning after Dec. 31, 2004.) Taxpayers who agree to clean up or develop an existing abandoned brownfield area may qualify for a nonrefundable credit against corporation or individual income taxes in a maximum amount of \$150,000. The credit may be carried forward for ten successive taxable years. **KRS 141.418**

**Biodiesel Credit**

(Effective for tax periods beginning on or after Jan. 1, 2005.) A nonrefundable credit may be taken against corporation or individual income taxes for producing or blending biodiesel fuels of up to \$1 per gallon produced or blended, limited to a maximum statewide credit of \$1.5 million. The credit may not be carried forward. **KRS 141.423**

**Environmental Stewardship Credit**

(Effective for tax years ending on or after Jan. 31, 2007.) A nonrefundable credit is available against the corporation and individual income taxes for a corporation or individual that undertakes an environmental stewardship project with a minimum investment of at least \$5 million. The Cabinet for Economic Development must approve these projects. The taxpayer must meet certain wage requirements in order to qualify. The credit will cover 100 percent of eligible skills upgrade training costs and up to 25 percent of eligible equipment costs. The project must produce an environmental stewardship product, which is defined to mean a new manufactured product or substantially improved existing manufactured product that has a lesser or reduced adverse effect on human health and the environment. It may also be used for improvement to human health and the environment when compared with existing products or competing products that serve the same purpose. The maximum amount of credit claimed for any single fiscal year may not exceed 25 percent of the total authorized inducement. **KRS 154.48-025**

**Clean Coal Incentive Credit**

(Effective for tax periods ending on or after Dec. 31, 2006.) A potential credit is available to an electricity generation facility certified as using clean coal equipment and technology and burning coal subject to Kentucky's severance tax. The nonrefundable credit may be taken against corporation income, individual income, corporation license and public service property taxes at the rate of \$2 per ton of qualifying coal burned. The credit applies to electricity generation facilities with an investment of more than \$150 million that meet Natural Resources and Environmental Protection Cabinet standards. **KRS 141.428**

### **Ethanol Tax Credit**

For taxable years beginning after December 31, 2007, an ethanol producer shall be eligible for a nonrefundable tax credit against the taxes imposed by KRS 141.020 or 141.040 and 141.0401 in an amount certified by the department. The credit rate shall be one dollar (\$1) per ethanol gallon produced, unless the total amount of approved credit for all ethanol producers exceeds the annual ethanol tax credit cap. If the total amount of approved credit for all ethanol producers exceeds the annual ethanol tax credit cap, the department shall determine the amount of credit each ethanol producer receives by multiplying the annual ethanol tax credit cap by a fraction, the numerator of which is the amount of approved credit for the ethanol producer and the denominator of which is the total approved credit for all ethanol producers. The credit allowed shall be applied both to the income tax imposed under KRS 141.020 or 141.040 and to the limited liability entity tax imposed under KRS 141.0401, with the ordering of credits as provided in KRS 141.0205. Any remaining ethanol credit shall be disallowed and shall not be carried forward to the next year. **KRS 141.4242**

### **Cellulosic Ethanol Tax Credit**

For taxable years beginning after December 31, 2007, a cellulosic ethanol producer shall be eligible for a nonrefundable tax credit against the taxes imposed by KRS 141.020 or 141.040 and 141.0401 in an amount certified by the department. The credit rate shall be one dollar (\$1) per cellulosic ethanol gallon produced, unless the total amount of approved credit for all cellulosic ethanol producers exceeds the annual cellulosic ethanol tax credit cap. If the total amount of approved credit for all cellulosic ethanol producers exceeds the annual cellulosic ethanol tax credit cap, the department shall determine the amount of credit each cellulosic ethanol producer receives by multiplying the annual cellulosic ethanol tax credit cap by a fraction, the numerator of which is the amount of approved credit for the cellulosic ethanol producer and the denominator of which is the total approved credit for all cellulosic ethanol producers. The credit allowed shall be applied both to the income tax imposed under KRS 141.020 or 141.040 and to the limited liability entity tax imposed under KRS 141.0401, with the ordering of credits as provided in KRS 141.0205. Any remaining cellulosic ethanol credit shall be disallowed and shall not be carried forward to the next year. **KRS 141.4246**

## ADDITIONAL CREDITS

There are four additional nonrefundable tax credits available to the individual taxpayer, which are not reflected on Section A, Business Incentive and Other Credits. These are:

**KRS 141.020 – Personal Tax Credit(s)**

**KRS 141.066 – Family Size Tax Credit**

**KRS 141.069 – Education Tuition Tax Credit**

**KRS 141.067 – Child and Dependent Care Credit**

## PERSONAL TAX CREDITS

### Personal and Dependency Credits

**Line 1(a), Yourself**—you are always allowed to claim a tax credit for yourself (even if your parent(s) can claim a credit for you on their return). On Line 1(a), there are five boxes under three separate headings. Always check the box under “Check Regular” to claim a tax credit for yourself. *If 65 or older*, also check the next two boxes on the line. *If legally blind*, also check the last two boxes on the line.

**Line 1(b), Your Spouse**—Do not fill in Line 1(b) if (1) you are single; (2) you are married and you and your spouse are filing two separate returns; or (3) your spouse received more than half of his or her support from another taxpayer. However, if your spouse died during the taxable year, you may claim a credit for the deceased on Line 1(b).

Fill in Line 1(b) if you are married and (1) you and your spouse are filing a joint or combined return, or (2) if your spouse had no income or is not required to file a return. If you meet these criteria, check the first box on Line 1(b) for your spouse. *If your spouse is 65 or older*, also check the next two boxes. *If your spouse was legally blind at the end of the taxable year*, also check the last two boxes on Line 1(b).

**Dependents**—you are allowed to claim a tax credit for each person defined as a dependent in the Internal Revenue Code. Generally, dependents who qualify for federal purposes also qualify for Kentucky.

**Line 2, Dependents Who Live With You**

Use to claim tax credits for your dependent children, including stepchildren and legally adopted children, who lived with you during the taxable year. **If the dependent meets the requirements for a qualifying child under the provisions of IRC 152(c), check the box; this child qualifies to be counted to determine the family size.**

**Line 2, Dependents Who Did Not Live With You**

Also use Line 2 to claim tax credits for your dependent children who did not live with you and to claim tax credits for other persons who qualify as dependents. **These dependents do not qualify to be counted to determine the family size.**

**Children of Divorced or Separated Parents**—Attach a copy of federal Form 8332 filed with your federal return. Children may only be counted for family size by the custodial parent.

**Tax Credits for Individuals Supported by More Than One Taxpayer**—Attach a copy of federal Form 2120 filed with your federal return.

**Kentucky National Guard Members**—Persons who were members of the Kentucky National Guard on December 31, 2008, may claim an additional credit on Line 2. Designate this credit with the initials “N.G.” Kentucky law specifically restricts this credit to Kentucky National Guard members; military reserve members are not eligible.

**Lines 3A and 3B, Dividing the Credits**—each taxpayer must claim all of his or her own tax credits including the credits for age and blindness. *Therefore, if married, each spouse must claim at least one credit. However, spouses may divide tax credits for dependents, or one spouse may claim all dependent credits and the other none.*

**Example I**—A husband who is 65 and a wife who is 60 are filing separately on a combined return. The husband must claim three credits (one regular and two for being 65 or older), and the wife must claim one.

**Example II**—A husband and wife have two dependents. The husband must claim his regular credit, and the wife must claim hers. However, the two dependent credits may be claimed by either spouse, or each spouse may claim one.

**TIP**— Remember to carry amounts from page 3, Line 4A and/or 4B to page 1, Line 17.

## FAMILY SIZE TAX CREDIT

The Family Size Tax Credit is based on modified gross income (MGI) and the size of the family. For tax year 2008, if total MGI is \$28,196 or less, you may qualify for the Kentucky Family Size Tax Credit.

**Modified Gross Income** is the **greater** of federal AGI plus tax-exempt interest from non-Kentucky municipal bonds and lump-sum distributions not included in FAGI or KAGI plus lump-sum distributions not included in FAGI.

**TIP:** The Family Size Tax Credit may be claimed by a resident, nonresident, or part year resident. The credit is not pro rata but is the full percentage based upon modified gross income.

**To claim the credit you must complete Line 20 and Line 21 on Form 740 or Form 740-NP. If you are using Form 740-EZ, the Family Size Tax Credit is listed on Line 7.**

### STEP ONE – Determine family size.

For taxpayers using the Form 740 or 740-NP, check the box on Line 20 to the right of the number that represents your family size. Because the Form 740-EZ may only be used by single taxpayers, those filers will always be Family Size 1.

**Family Size**—Consists of yourself, your spouse if married and living in the same household and qualifying children.

**Family Size 1** is an individual either single, or married living apart from his or her spouse for the entire year. You may qualify for the family size tax credit even if you are claimed as a dependent on your parent's tax return.

**Family Size 2** is an individual with one qualifying child or a married couple.

**Family Size 3** is an individual with two qualifying children or a married couple with one qualifying child.

**Family Size 4** is an individual with three or more qualifying children or a married couple with two or more qualifying children.

**Qualifying Dependent Child**—Means a qualifying child as defined in Internal Revenue Code Section 152(c), and includes a child who lives in the household but cannot be claimed as a dependent if the provisions of Internal Revenue Code Section 152(e)(2) and 152(e)(4) apply. In general, to be a taxpayer's qualifying child, a person must satisfy four tests:

- **Relationship**—Must be the taxpayer's child or stepchild (whether by blood or adoption), foster child, sibling or stepsibling, or a descendant of one of these.
- **Residence**—Has the same principal residence as the taxpayer for more than half the tax year. A qualifying child is determined without regard to the exception for children of divorced or separated parents.
- **Age**—Must be under the age of 19 at the end of the tax year, or under the age of 24 if a full-time student for at least five months of the year, or be permanently and totally disabled at any time during the year.
- **Support**—Did not provide more than one-half of his/her own support for the year.

#### **STEP TWO – Determine modified gross income.**

Under the provisions of KRS 141.010 (8), "Modified gross income" means the **greater** of:

(a) Adjusted gross income as defined in Section 62 of the Internal Revenue Code of 1986, including any subsequent amendments in effect on December 31 of the taxable year, and adjusted as follows:

- (1) Include interest income derived from obligations of sister states and political subdivisions thereof; and,
- (2) Include lump-sum pension distributions taxed under the special transition rules of Pub. L. No. 104-188, sec. 1401(c)(2); **or**

(b) Adjusted gross income as defined in subsection (10) of this section and adjusted to include lump-sum pension distributions taxed under the special transition rules of Pub. L. No. 104-188, sec. 1401(c)(2);

Item A above is the formula used to determine Kentucky Adjusted Gross Income and Item B above is the formula used to determine Federal Adjusted Gross Income. To properly compute the allowable Family Size Tax credit, the greater of the two is used. A worksheet for computing the Family Size Tax credit is included with the instructions for Kentucky Forms 740 & 740-NP. For taxpayers using Kentucky Form 740-EZ, both federal adjusted gross income and Kentucky adjusted gross income is the same amount.

**STEP THREE – Determine the proper percentage.**

Use the Family Size Table to look up the percentage of credit and enter on the appropriate line for the form used.

**STEP FOUR – Computing amount of credit**

Multiply Kentucky tax liability by the percentage determined in Step 3 and enter on the appropriate line of the form. This is your Family Size Tax Credit.

Below is the Family Size Tax Credit and computation worksheet.

**NOTE:** Form 740-EZ includes Family Size 1 tax credit information on page 2 of the form.

**FORM 740 WORKSHEET FOR COMPUTATION OF MODIFIED GROSS INCOME FOR FAMILY SIZE TAX CREDIT**

(a) Enter your federal adjusted gross income from Line 5. **If zero or less, enter zero** ..... (a) \_\_\_\_\_

(b) If married filing separately on a combined return or married filing separate returns and living in the same household, enter your spouse's federal adjusted gross income. **If zero or less, enter zero** ..... (b) \_\_\_\_\_

(c) Enter tax-exempt interest from municipal bonds (non-Kentucky)..... (c) \_\_\_\_\_

(d) Enter amount of lump-sum distributions not included in federal adjusted gross income (federal Form 4972)..... (d) \_\_\_\_\_

(e) Enter total of Lines (a), (b), (c) and (d)..... (e) \_\_\_\_\_

(f) Enter your Kentucky adjusted gross income from Line 9. **If zero or less, enter zero** ..... (f) \_\_\_\_\_

(g) If married filing separately on a combined return or married filing separate returns and living in the same household, enter your spouse's Kentucky adjusted gross income from Line 9. **If zero or less, enter zero** ..... (g) \_\_\_\_\_

(h) Enter amount of lump-sum distributions not included in adjusted gross income (Kentucky Form 4972-K) ..... (h) \_\_\_\_\_

(i) Enter total of Lines (f), (g) and (h)..... (i) \_\_\_\_\_

(j) Enter the **greater** of Line (e) or (i). This is your **Modified Gross Income**.  
Use this amount to determine if you qualify for the Family Size Tax Credit..... (j) \_\_\_\_\_

**STEP THREE**—Use the Family Size Table to look up the percentage of credit and enter in the space provided on Line 21.

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	
<b>2008</b>	\$ ---	\$ 10,400	\$ ---	\$ 14,000	\$ ---	\$ 17,600	\$ ---	\$ 21,200	100
	10,400	10,816	14,000	14,560	17,600	18,304	21,200	22,048	90
	10,816	11,232	14,560	15,120	18,304	19,008	22,048	22,896	80
	11,232	11,648	15,120	15,680	19,008	19,712	22,896	23,744	70
	11,648	12,064	15,680	16,240	19,712	20,416	23,744	24,592	60
	12,064	12,480	16,240	16,800	20,416	21,120	24,592	25,440	50
	12,480	12,896	16,800	17,360	21,120	21,824	25,440	26,288	40
	12,896	13,208	17,360	17,780	21,824	22,352	26,288	26,924	30
	13,208	13,520	17,780	18,200	22,352	22,880	26,924	27,560	20
	13,520	13,832	18,200	18,620	22,880	23,408	27,560	28,196	10
13,832	---	18,620	---	23,408	---	28,196	---	0	

**STEP FOUR**—Multiply tax from Line 19 by the percentage and enter on Line 21. This is your **Family Size Tax Credit**.

## EDUCATION TUITION TAX CREDIT

Effective for tax periods beginning on or after Dec. 31, 2004:

A credit equal to 25 percent of the amount of the federal Hope Scholarship and the federal Lifetime Learning Credit, within certain limitations, is available for taxpayers filing Kentucky returns. A brief description of the credits and federal and Kentucky treatment follows.

There are several differences between the Hope and Lifetime Learning credit. There are different rules that apply to each credit. Those differences are summarized in the chart below.

**Table 2-1. Comparison of Education Credits**

<b>Hope Credit</b>	<b>Lifetime Learning Credit</b>
Up to \$1,800 (\$3,600 if a student in a Midwestern disaster area) credit per <b>eligible student</b>	Up to \$2,000 credit (\$4,000 if a student in a Midwestern disaster area) per <b>return</b>
Available <b>ONLY</b> until the first 2 years of post-secondary education are completed	Available for all years of postsecondary education and for courses to acquire or improve job skills
Available <b>ONLY</b> for 2 years per eligible student	Available for an unlimited number of years
Student must be pursuing an undergraduate degree or other recognized education credential	Student does not need to be pursuing a degree or other recognized education credential
Student must be enrolled at least half time for at least one academic period beginning during the year	Available for one or more courses
No felony drug conviction on student's record	Felony drug conviction rule does not apply

## Federal Treatment

You may claim a federal education credit if all of the following requirements are met:

- You pay qualified education expenses of higher education,
- You pay the education expenses for an eligible student, and
- The eligible student is either yourself, your spouse, or a dependent for which you claim an exemption on your tax return.

The credit is based on qualified education expenses paid by the taxpayer for the eligible student. Qualified education expenses are tuition and certain related expenses such as course-related books, supplies and fees that are reported on the form 1098-T.

For additional information on the federal requirements for this credit, please see IRS Publication 17 Your Federal Income Tax, Chapter 35 and IRS Publication 970, Tax Benefits for Education.

## Kentucky Treatment

First, you **must** be eligible for the federal credit in order to qualify for the Kentucky credit. Use Kentucky form 8863-K to compute and determine any allowable credit. See form 8863-K for additional information and line by line instructions.

The Kentucky Education Tuition Tax Credit is subject to these limitations:

- The credit applies only to undergraduate studies,
- Phases out for higher incomes,
- Applies to most higher education opportunities within Kentucky,
- Qualified expenses must be for an institution physically located in Kentucky,
- Is not available for taxpayers using married filing separate return status, and
- Any unused credit may be carried forward for up to five years.

**Note:** A taxpayer may not claim the Tuition and Fees deduction on the federal return **and** the Hope or Lifetime Learning Credit on the Kentucky return for the **same** student.

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Department of Revenue

➤ Attach to Form 740 or Form 740-NP.



2008

KENTUCKY  
EDUCATION TUITION TAX CREDIT

Enter name(s) as shown on Form 740 or Form 740-NP, page 1.

Your Social Security Number

If you have a credit carry forward from previous years, see Page 2, Part V.

Caution: You **cannot** take the 2008 Kentucky Education Tuition Tax Credit if you are not eligible for the Federal Education Credits.

PART I Qualifications

	Yes	No
• Are any expenses claimed in Part I or Part II of federal Form 8863 from an eligible educational institution located within the Commonwealth of Kentucky (Kentucky institution)?		
• Are any of the expenses claimed on federal Form 8863 for undergraduate studies?		
• Is your Kentucky filing status single; married filing separately on a combined return; or married filing a joint return?		

If you answered **No** to any of these questions above, STOP you do not qualify for this credit.

If you answered **Yes** to all questions above, go to Part II.

PART II Hope Credit (List only expenses from Kentucky institutions.) See Instructions

1.	(a) Student Name	(b) Student SSN	(c) Name and Address of Kentucky Institution	(d) Qualified Expenses	(e) Tentative Hope Credit (See Federal Instructions)
2. Tentative Hope Credit. Add amounts on line 1, column (e) and enter here					2

PART III Lifetime Learning Credit (List only expenses for undergraduate studies at Kentucky institutions.) See Instructions

3.	(a) Student Name	(b) Student SSN	(c) Name and Address of Kentucky Institution	(d) Qualified Expenses (See Federal Instructions)
4. Add the amounts on line 3, column (d) and enter total here				4
5. Enter the smaller of line 4 or \$10,000				5
6. Tentative Lifetime Learning Credit. Multiply line 5 by 20% (.20), enter here				6

Note: If you have an unused credit from prior year(s), complete Page 2, Part V to determine your carryforward amount.

You must have completed Form 8863-K in prior years to claim any allowable unused credit carryforward.

PART IV Allowable Education Credits

7. Tentative Federal Education Credits. Add lines 2 and 6	7
8. Enter decimal amount from federal Form 8863, line 12 Note: You <b>cannot</b> take this credit if you were forced to stop on line 10 of federal Form 8863. If federal Form 8863, line 12, is blank, skip line 8 and enter amount from line 7 on line 9 and continue to line 10.	8
9. Multiply line 7 by the decimal amount on line 8 and enter here	9
10. Multiply amount on line 9 by 25% (.25) and enter total here	10
11. Enter tentative tax from Form 740 or Form 740-NP, page 1, line 22	11
12. Enter amount from Page 2, Part V, line 27. If Page 2, Part V, line 27 is blank, enter -0-	12
13. Subtract line 12 from line 11	13
14. Enter the smaller of line 13 or line 10	14
15. Add lines 12 and 14. Enter here and on Form 740 or Form 740-NP, line 23. This is your allowable 2008 education credit.	15
16. If line 13 is smaller than line 10, subtract line 13 from line 10. This is the amount of unused credit carryforward from 2008 to 2009. Enter here and on Page 2, 2008 Carryforward Worksheet, Line D	16

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Page 2

PART V Credit Carryforward from Prior Years	
17. Enter tentative tax from Form 740 or Form 740-NP, page 1, line 22 .....	17
18. Enter your credit carryforward from 2005 .....	18
19. Enter your credit carryforward from 2006 .....	19
20. Enter your credit carryforward from 2007 .....	20
21. Add lines 18, 19 and 20 .....	21
22. Enter 2005 credit carryforward to 2009. Subtract line 17 from line 18. If zero or less, enter -0- ..	22
23. Subtract line 18 from line 17. If zero or less, enter -0- .....	23
24. Enter 2006 credit carryforward to 2009. Subtract line 23 from line 19. If zero or less, enter -0- ...	24
25. Subtract line 19 from line 23. If zero or less, enter -0- .....	25
26. Enter 2007 credit carryforward to 2009. Subtract line 25 from line 20. If zero or less, enter -0- ..	26
27. Enter the smaller of line 17 or line 21 .....	27

2008 Carryforward Worksheet

- A. From Part V, Line 22, 2005 to 2009 \_\_\_\_\_
- B. From Part V, Line 24, 2006 to 2009 \_\_\_\_\_
- C. From Part V, Line 26, 2007 to 2009 \_\_\_\_\_
- D. From Part IV, Line 16, 2008 to 2009 \_\_\_\_\_

If you have a carryforward of credit, maintain a copy of this worksheet or Form 8863-K for your records. This information will be needed to prepare future returns.

Education Tuition Tax Credit Instructions and Worksheet

Note: You cannot take a Kentucky Education Tuition Tax Credit if you are not eligible for the federal Hope or Lifetime Learning Credits.

Part I, Qualifications All questions in Part I must be answered *yes* to be eligible for the Kentucky Education Tuition Tax Credit.

Part II, Hope Credit You **must** enter student's name, Social Security number, name and address of Kentucky institution, qualified expenses and the tentative Hope Credit. Use the federal instructions to determine tentative credit. If more than two students, attach a list to Form 8863-K. Total tentative credits for all students on Line 2.

Part III, Lifetime Learning Credit You **must** enter student's name, Social Security number, name and address of Kentucky institution and qualified expenses. Use federal instructions to determine qualified expenses. Total tentative expenses for all students on Line 4 and enter the smaller of Line 4 or \$10,000 on Line 5, then multiply that amount by 20% (.20) on Line 6. **Note: The maximum federal Lifetime Learning Credit is \$2,000 for all students combined. Line 6 cannot exceed \$2,000.**

Part IV, Allowable Education Credits

- Line 7 Add Lines 2 and 6 to determine tentative federal credits.
- Line 8 Enter the decimal amount from federal Form 8863, Line 12. If that line is blank, skip Line 8 of this form and enter the amount from Line 7 on Line 9. You cannot claim a Kentucky credit if you were forced to stop on Line 10 of federal Form 8863.
- Line 9 Multiply Line 7 by the decimal amount on Line 8, or enter the amount from Line 7 if Line 8 is blank.
- Line 10 Multiply Line 9 by 25% (.25). This is your tentative Kentucky allowable credit.
- Line 11 Enter the tentative tax from Form 740 or Form 740-NP, page 1, Line 22.
- Line 12 Enter the amount from Page 2, Part V, Line 27. This is the allowable credit carryforward from prior year(s). If there is no carryforward, enter zero.
- Line 13 Subtract Line 12 from Line 11.
- Line 14 Enter the smaller of Line 13 or Line 10.
- Line 15 Add Lines 12 and 14, enter here and on Form 740 or Form 740-NP, Line 23. This is your allowable 2008 Kentucky education credit.
- Line 16 If Line 13 is smaller than Line 10, subtract Line 13 from Line 10. This is the amount of unused credit carryforward from 2008 to 2009. Maintain records for following years.

Part V, Credit Carryforward from Prior Years The Kentucky Education Tuition Tax Credit can be carried forward for up to 5 years if unused during the preceding tax year(s). You must have completed Form 8863-K for any prior year in which you are claiming a credit carryforward.

## CHILD AND DEPENDENT CARE CREDIT

The 1990 legislature created a new section of **KRS Chapter 141** to allow a resident individual to deduct from the tax computed under the provisions of **KRS 141.020** a credit for household and dependent care services necessary for gainful employment. This change was effective for tax years beginning after December 31, 1989.

- This credit has been codified as **KRS 141.067 - Household and Dependent\_Care Service Credit** and is equal to 20% of the federal credit allowed under **Section 21** of the Internal Revenue Code and replaced the old itemized deduction that Kentucky had for many years.
- This credit is considered after all other credits and cannot reduce your tax liability below zero.

Taxpayers claiming the child and dependent care credit must file **Form 740** or **740-NP** as this credit cannot be taken on **740-EZ**. The credit is claimed on Line 25 - Form 740 or Form 740-NP by entering the amount of the federal credit from Federal Form 2441 or Form 1040-A, Schedule 2 and multiplying by 20%.

**Note:** It is not necessary that a copy of pages 1 and 2 of your federal return be attached for verification of the federal credit claimed.

### Not Filing a Federal Return

If you did not meet the federal filing requirements but would have been entitled to the federal child and household care credit, you must complete and attach Federal Form 2441 - Child and Dependent Care Expenses and attach to your Kentucky return. Also, you must state on the Federal Form 2441 "Did not meet Federal filing requirements."

In that the law states that the credit allowed for Kentucky income tax purposes shall be 20% of the federal credit allowed, Kentucky will allow 20% of the credit computed on the Federal Form 2441 even though the credit cannot be fully utilized for Federal income tax purposes.

Part-year residents may be allowed a prorated credit for child and dependent care, based upon a ratio of such expenses paid within and without Kentucky. In other words, for a part-year resident to receive any credit at all, some child and dependent care expenses must have been paid while a resident of Kentucky. Full-year nonresidents are not entitled to this credit. A worksheet is included with the Form 740-NP to help facilitate computation of the credit. See page 50, 2007 Package K.

### **Credit for Child and Dependent Care Expenses - Federal**

In contrast to the Kentucky credit, the federal credit is based on a percentage of qualified expenses incurred for care of qualifying persons.

If you paid someone to care for your child **under age 13** or your dependent or spouse who could not care for himself or herself, you may be able to take this credit.

The care must have been provided so that you (and your spouse if you were married) could work or look for work.

Additionally, you must have had income from a job or through self-employment.

If filing federal **Form 1040** it is necessary to complete **Form 2441 - Child and Dependent Care Expenses**, to compute the credit. If filing federal **Form 1040A** it is necessary to complete **Schedule 2** to compute the credit. For additional information see Chapter entitled **Child and Dependent Care Credit**, pages 208 through 216, Publication 17.

**Note:** If a taxpayer and spouse file separate returns, the child and dependent care credit calculated for Kentucky must be divided based on the percentage of each spouse's Kentucky adjusted gross income to total Kentucky adjusted gross income.

# SECTION 6

- A) Use Tax**
- B) Credits against Tax Liability**
  - ✓ **Withholding**
  - ✓ **Estimated Tax**
  - ✓ **Pass Through Entity Withholding**
- C) Contribution Funds**
- D) Penalties & Interest**
  - ✓ **Form 2210-K**
  - ✓ **Examples**

## USE TAX

A 6% use tax is due if you make out-of-state purchases for storage, use or other consumption in Kentucky and did not pay at least 6 percent sales tax to the seller at the time of purchase. Examples include catalog orders, purchases via the Internet, or other purchases outside of Kentucky such as computer equipment, magazine subscriptions, etc.

Two options are available to report and pay use tax:

- By using Form 51A113 Kentucky Consumer's Use Tax Return, as purchases are made, or
- Reporting it on your annual Kentucky Individual Income Tax Return

**Note:** Taxpayers may choose to apply all or part of their individual income tax refund to use tax liability. In that situation, any 1099-G forms issued will reflect the **entire** amount of the refund. This is the proper handling, because using all or a portion of the refund to satisfy use tax liability, does not change the actual refund the taxpayer was to receive. It is only the way the taxpayer chose to have his refund appropriated.

## CREDITS AGAINST TAX LIABILITY

Once the total tax liability is determined on the return, any credits available to the taxpayers are applied and the amount of tax due or refund due is determined. The taxpayer may have credit available from one or more of the following:

- Kentucky Income Tax Withheld – reported on W-2 wage statements and other supporting statements.
- Estimated Tax Payments – includes any overpayments carried forward from the prior year, as well as quarterly payments made by the taxpayer during the tax year.
- Pass-Through Entity Withholding – Kentucky Withholding reported for non-residents on PTE-WH statements (claimed only on Form 740-NP).

## CONTRIBUTION FUNDS

The General Assembly over the years has enacted legislation permitting the designation of all or a portion of a taxpayer's income tax overpayment to various funds. These designations can be made whether filing Form 740, 740-EZ or 740-NP.

Therefore, our individual forms must be configured to allow voluntary donations to various funds. A brief description of each of these funds follows.

### **Nature and Wildlife Fund**

This fund has been in existence since 7/15/80 and is codified as **KRS 141.450** through **KRS 141.480**.

It is worth noting that this fund was established as a means to protect animals such as bluebirds and river otter and areas of unusual natural significance such as old growth forests, wetlands and prairies. Your contribution will help to protect Kentucky's special places and animals before they are lost. You may contribute all or a portion of your overpayment to this fund which is managed by the Kentucky Department of Fish and Wildlife Resources and the Kentucky State Nature Preserves Commission. These efforts are funded almost exclusively by the tax deductible contributions to this fund. The amount of contribution will reduce your refund accordingly. Contributions may also be made directly to the **Nature and Wildlife Fund, 801 Schenkel Lane, Frankfort, Ky. 40601 or c/o the Kentucky Department of Fish and Wildlife Resources, #1 Game Farm Road, Frankfort, Kentucky 40601.**

### **Child Victim's Trust Fund**

This fund has been in existence since 1984 and is codified as **KRS 141.440 - Designation of Income Tax Refund to Child Victims' Trust Fund.**

You may contribute all or a portion of your overpayment to this fund which is administered through the Attorney General's Office. This fund finances local programs designed to prevent the sexual abuse and exploitation of children. This undertaking relies solely on the tax deductible contributions made by interested citizens. The amount of contribution will reduce your refund accordingly. Contributions may also be made directly to the **Child Victim's Trust Fund, c/o Kentucky Attorney General, Capitol Building, Frankfort, Ky. 40601.**

### **Veteran's Program Trust Fund**

This fund was effective 7/14/92 and codified as **KRS 141.444 - Designation of Income Tax Refund to Veteran's Program Trust Fund.**

It is worth noting that the 1992 General Assembly enacted legislation permitting the designation of all or a portion of your income tax overpayment to the Veterans' Program Trust Fund. The fund is administered by the Department of Military Affairs solely for the benefit of veterans' programs. The amount of contribution will reduce your refund accordingly. Contributions may also be made directly to the **Kentucky Veterans' Program Trust Fund, 1111 Louisville Road, Frankfort, Kentucky 40601.**

### **Breast Cancer Research and Education Trust Fund**

The 2005 General Assembly enacted legislation permitting the designation of all or a portion of your income tax overpayment to the Breast Cancer Research and Education Trust Fund. Contributions will be used to fund breast cancer research, education, treatment and screening. Additional contributions can be made to and information obtained from the state Division of Women's Physical and Mental Health, (502) 564-2154. Contributions may also be made directly to the **Kentucky Department for Public Health, Division of Administration and Financial Management, 275 East Main Street, HS1GWA, Frankfort, Ky. 40621, (502) 564 6663.**

## **PENALTIES & INTEREST**

Taxpayers may be subject to interest on late payment of tax, penalties for underpayment of tax, late payment penalty and late filing penalty depending on the situation. A brief description of each follows.

**Note:** Penalties, but not interest, may be reduced or waived if reasonable cause for reduction or waiver can be shown.

**Interest** Tax due paid after the due date is subject to interest. Interest is assessed at a rate determined each year by statute. The rate for 2008 is 8% prior to May 1<sup>st</sup> and 10% from May 1<sup>st</sup> to December 31<sup>st</sup>.

**Late payment penalty** If the amount of tax due is not paid by the original due date of the return, a penalty of 2 percent of the tax due may be assessed for each 30 days or fraction thereof that the tax is due, not to exceed 20 percent. However, if the amount timely paid is 75 percent of the tax due, no late payment penalty is assessed. The minimum late payment penalty is \$10.

**Late filing penalty** If a return is not filed by the due date or extended due date, a penalty of 2 percent of the tax due may be assessed for each 30 days or fraction thereof that the tax is due, not to exceed 20 percent. The minimum penalty is \$10.

## Penalty for Underpayment (Form 2210-K)

**Underpayment of estimated tax** If the amount owed is more than \$500 and more than 30 percent of the income tax liability due, the taxpayer may be subject to a penalty of 10 percent of the underpayment of tax. The amount of the penalty is calculated on Form 2210-K, which also lists exemptions from this penalty. The **minimum** penalty is \$25.

**Note:** If the amount of additional tax due is \$500 or less, estimated payments are not required.

## Exceptions and Exclusions

Kentucky Form 2210-K is used to determine if the penalty applies and if any exceptions apply. The penalty shall not apply if one of the following exceptions is met:

- Death of the taxpayer
- Declaration not required until after 9/1/2008 & taxpayer files & pays full amount of tax due by 1/31/2009
- 2/3 or more of gross income from farming
- Prepaid tax equals or exceeds last year's tax liability

## Examples

The following three examples, using different tax situations, illustrate how to determine if an underpayment or non-estimating penalty applies:

- Example A – liability \$2000; prepayments \$1000
- Example B – liability \$2000; prepayments \$1,300, and
- Example C – liability \$2000, prepayments \$1,400

Assume no exceptions to the penalty are applicable.

	<u>Example A</u>	<u>Example B</u>	<u>Example C</u>
<b>2008</b> Income Tax Liability	\$2,000	\$2,000	\$2,000
Paid In	<u>1,000</u>	<u>1,300</u>	<u>1,400</u>
Additional Amount Owed	<u><u>1,000</u></u>	<u><u>700</u></u>	<u><u>600</u></u>

**Part II - Form 2210-K**

Line 1 - Liability	\$2,000	\$2,000	\$2,000
Line 2 - Multiply by 70%	<u>X 70%</u>	<u>X 70%</u>	<u>X 70%</u>
Line 3 - Computation	1,400	1,400	1,400
Line 4 – Credits against tax	<u>1,000</u>	<u>1,300</u>	<u>1,400</u>
Line 5 – Underpayment	400	100	-0-
Line 6 – Multiply by 10%	<u>X 10%</u>	<u>X 10%</u>	
Penalty	40	10	
Penalty Assessed	\$40	\$25	-0-

**Explanation/Solution:**

- In **Example A**, the penalty would be applicable in that the taxpayer failed to pay in 70%.
- In **Example B** the minimum penalty of \$25 would be assessed because the taxpayer failed to pay in 70% and the \$10 penalty calculated is less than the minimum.
- In **Example C** the penalty would not be applicable as the taxpayer prepaid at least 70%.

2210-K



2008

42A740-S1

Commonwealth of Kentucky  
DEPARTMENT OF REVENUE

➤ Attach to Form 740 or 740-NP

UNDERPAYMENT OF ESTIMATED TAX  
BY INDIVIDUALS

Enter name(s) as shown on page 1, Form 740 or 740-NP.

Your Social Security Number

**PART I—EXCEPTIONS AND EXCLUSIONS**

The penalty shall not apply if one of the following exceptions is met. If one or more of the following applies to you, check the appropriate block(s), complete any necessary blank(s) and check the "Form 2210-K attached" block on Form 740, line 41a (Form 740-NP, line 41a). If none of the exceptions apply, go to Part II.

Check applicable block(s).

1.  The taxpayer died during the taxable year.
2.  The declaration was not required until after September 2, 2008, and the taxpayer files a return and pays the full amount of the tax computed on the return on or before February 2, 2009.
3.  Two-thirds ( $\frac{2}{3}$ ) or more of the gross income was from farming; this return is being filed on or before March 2, 2009; **and** the total tax due is being paid in full. Fiscal year taxpayers must file a return and pay the tax due on or before the first day of the third month following the close of the tax year.

- a. Enter total gross income.....
- b. Multiply by  $\frac{2}{3}$  (.67) .....
- c. Enter gross income from farming.....

Line (c) must **equal or exceed** line (b) to qualify for the exception.

4.  Prepaid tax **equals or exceeds** last year's income tax liability.

- a. Enter the liability from the 2007 return, Form 740, line 26;  
Form 740-NP, line 26 .....
- b. Enter amount from the 2008 Form 740, line 31 (Form 740-NP, page 2, line 31)\* .....

Line (b) must **equal or exceed** line (a) to claim the exception.


**PART II—FIGURING THE UNDERPAYMENT AND PENALTY** (Complete only if the **additional tax due exceeds \$500**)

1.	a. Enter 2008 income tax liability from Form 740, line 26 (Form 740-NP, page 1, line 26) ...	1a		
	b. Enter credit for taxes paid to another state from Form 740, Section A, line 4 (Form 740-NP, Section A, line 4).....	1b		
	c. Total (add lines 1a and 1b).....	1c		
2.	Percentage of liability required to be prepaid is 70% .....	2	x .7	
3.	Multiply line 1c by line 2.....	3		
4.	a. Enter the amount from Form 740, line 31 (Form 740-NP, page 2, line 31)* .....	4a		
	b. Enter credit for taxes paid to another state from Form 740, Section A, line 4 (Form 740-NP, Section A, line 4).....	4b		
	c. Total (add lines 4a and 4b).....	4c		
5.	Subtract line 4c from line 3 (If line 4c exceeds line 3, no penalty applies.).....	5		
6.	Penalty percentage is 10%.....	6	x .1	
7.	Multiply line 5 by line 6. This is the amount of the penalty for underpayment of estimated tax (minimum penalty \$25) .....	7		

Form 740—Enter this amount on Form 740, line 41a, and check the "Form 2210-K attached" box.

Form 740-NP—Enter this amount on Form 740-NP, line 41a, and check the "Form 2210-K attached" box.

**To Avoid Underpayment Penalty in the Future, Obtain and File Form 740-ES.**

\*Do not include amounts prepaid with extension after the due date of the fourth declaration installment.

# **SECTION 7**

- A) Completing the Return**
- B) 740-EZ Example**
- C) 740 Example**
- D) 740-NP Example**
- E) 740-NP-R Example**

**COMPLETING THE RETURN**

At this point, mathematical computations are all that is needed to complete the tax return. Attach a copy of the federal return if the taxpayer received farm, business, or rental income or loss. The return should then be signed and mailed to the Department of Revenue for processing.

**EXAMPLES/FORMS**

A completed form and appropriate attachments for different tax situations follows. The following situations illustrate the use of each of the four different available Kentucky individual income tax forms:

- 1) Rick Calipari is 17, lives with his parents in Midway, Kentucky and has income from a part time job with Hibbett's Sporting Goods.
- 2) Walt and Mary Call are a married couple who support their granddaughter Flora. Mary receives retirement income from the Commonwealth of Kentucky and works for Wal-Mart while Walt works for a local mechanic.
- 3) Brian and Barbara Spencer moved out of Kentucky in 2006. During 2008, they sold their share in a Frisch's Big Boy restaurant located Kentucky and earned income from a partnership that is located in Kentucky. The partnership paid withholding to Kentucky for the Spencers.
- 4) Tony Gordon lives in Harrison, OH and works as for the United States Department of Agriculture in Florence, KY.

## Examples of the Four Kentucky Individual Income Tax Forms

### Example 1 – BASIC FACT SHEET FOR FORM 740-EZ

- Rick Calipari  
7 Memorial Road  
Midway, KY 40347
  
- Rick is a high school senior who worked part time at Hibbett's and earned \$12,400 for 2008. Kentucky tax withheld totals \$744.00. Brian is claimed on his parents' return.
  
- His W-2 and 740-EZ form follow.

22222		a Employee's social security number 502-56-4458		OMB No. 1545-0008			
b Employer identification number (EIN) 61-111111			1 Wages, tips, other compensation 12400		2 Federal income tax withheld 527		
c Employer's name, address, and ZIP code  HIBBETT SPORTING GOODS, INC. 2625 SCOTTSVILLE ROAD BOWLING GREEN, KY 42104			3 Social security wages 12400		4 Social security tax withheld 769		
			5 Medicare wages and tips 12400		6 Medicare tax withheld 180		
			7 Social security tips		8 Allocated tips		
d Control number			9 Advance EIC payment		10 Dependent care benefits		
e Employee's first name and initial RICK CALIPARI		Last name 7 MEMORIAL ROAD		Suff. MIDWAY, KY 40347		11 Nonqualified plans	
f Employee's address and ZIP code		13 Statutory employee <input type="checkbox"/> Retirement plan <input type="checkbox"/> Third-party sick pay <input type="checkbox"/>		14 Other		12a	
						12b	
						12c	
12d							
15 State KY	Employer's state ID number 11111	16 State wages, tips, etc. 12400	17 State income tax 744	18 Local wages, tips, etc. 12400	19 Local income tax 237	20 Locality name BG	

Form **W-2** Wage and Tax Statement  
Copy 1—For State, City, or Local Tax Department

2008

Department of the Treasury—Internal Revenue Service

**740-EZ**

Single Persons With No Dependents  
42A740-EZ  
Department of Revenue



KENTUCKY  
INDIVIDUAL INCOME TAX RETURN

*Kentucky*  
**2008**

Your Social Security Number >

502-56-4458

Name—Last, First, Middle Initial

Calipari, Rick

Mailing Address (Number and Street or P.O. Box)

Apartment Number

7 Memorial Road

City, Town or Post Office

State

ZIP Code

Midway

KY

40347

FAMILY SIZE

1

POLITICAL PARTY FUND

Designating \$2 will not change your refund or tax due. Mark an X in

Box 1 for Democratic, Box 2 for Republican, or Box 3 for No Designation.

1 2 3

INCOME

1. Enter federal Adjusted Gross Income from Form 1040EZ, line 4. This is your **Kentucky Modified Gross Income** (if \$13,832 or less, you may qualify for the Family Size Tax Credit. See instructions on page 2.) ..... 1 •

Dollars

Cents

12,400 00

2. Standard deduction ..... 2

2,100 00

3. Subtract line 2 from line 1. This is your Taxable Income ..... 3

10,300 00

TAX

4. Enter tax from Tax Table or Tax Computation for amount on line 3..... 4

413 00

5. Personal tax credit..... 5

20 00

6. Subtract line 5 from line 4. If line 5 is larger than line 4, enter zero ..... 6

393 00

7. Multiply line 6 by the Family Size Tax Credit for **Family Size 1** decimal amount .50 ( 50 %) and enter here (see instructions on page 2) ... 7 •

197 00

8. Subtract line 7 from line 6. This is your **Income Tax Liability** ..... 8

196 00

9. Enter **Kentucky Use Tax** ..... 9 •

0 00

10. Add lines 8 and 9. This is your **Total Tax Liability** ..... 10 •

196 00

11. Enter **Kentucky Income Tax** withheld as shown on **attached** 2008 Form W-2, Wage and Tax Statement(s) ..... 11 •

744 00

12. If line 11 is larger than line 10, enter **AMOUNT OVERPAID** (see instructions).....12

548 00

Fund Contributions; See instructions.

> (Enter amount(s) checked)

13. a **Nature and Wildlife Fund**  
 \$10  \$25  \$50  Other ..... •

00

b **Child Victims' Trust Fund**  
 \$10  \$25  \$50  Other ..... •

10 00

c **Veterans' Program Trust Fund**  
 \$10  \$25  \$50  Other ..... •

00

d **Breast Cancer Research/Education Trust**  
 \$10  \$25  \$50  Other ..... •

10 00

14. Add amounts contributed on lines 13a, 13b, 13c and 13d..... 14

20 00

15. Subtract line 14 from line 12. Amount to be **refunded to you** ..... **REFUND** 15 •

528 00

16. If line 10 is larger than line 11, enter amount you owe. Enclose check payable to **Kentucky State Treasurer**. Write your Social Security number and "KY Income Tax—2008" on the check ..... **OWE** 16 •

00

I, the undersigned, declare under penalties of perjury that I have examined this return, including any accompanying statements, and to the best of my knowledge and belief, it is true, correct and complete.

> *Rick Calipari*  
Your Signature

Telephone Number (daytime)

2/4/09  
Date Signed

Typed or Printed Name of Preparer Other Than Taxpayer

I.D. Number of Preparer

Date

Mail to: **REFUNDS** Kentucky Department of Revenue, Frankfort, KY 40618-0006.

**PAYMENTS** Kentucky Department of Revenue, Frankfort, KY 40619-0008.

OFFICIAL USE ONLY

PWR

Attach Form W-2, Wage and Tax Statement(s) and Payment Here

**Example 2 – BASIC FACT SHEET FOR FORM 740**

- Walt and Mary Call  
1923 Reedy Creek Way  
Buena Vista, KY 42751
- Walt and Mary Call are a married couple who support their granddaughter Flora. Mary receives retirement income from the Commonwealth of Kentucky and works for Wal-Mart while Walt works for a local mechanic. They earn income from a side business and Mary draws Social Security.
- Their Kentucky itemized deductions consist of the following:
  - Local income tax - \$937
  - Real estate tax - \$1560
  - Home mortgage interest - \$1239
  - Contributions - \$1560
- Interest income - \$ 430
- Retirement income - \$15,978
- Schedule C Business income - \$7,835
- Social Security - \$11,565
- Kentucky Estimated Tax paid - \$800
- Federal Estimated Tax paid - \$2800
- Credit carry forward - \$200
- Tax refund - \$164
- Their W-2 forms and the 1099-R (for Mary's retirement), follow. Their completed federal & state forms and schedules appear after the wage and retirement statements.

22222		a Employee's social security number 012-34-5678		OMB No. 1545-0008			
b Employer identification number (EIN) 61-111111			1 Wages, tips, other compensation 16988		2 Federal income tax withheld 2161		
c Employer's name, address, and ZIP code WAL-MART STORES INC. 143 WORLD DR BUENA VISTA, KY 42751			3 Social security wages 16988		4 Social security tax withheld 1053		
			5 Medicare wages and tips 16988		6 Medicare tax withheld 246		
			7 Social security tips		8 Allocated tips		
d Control number			9 Advance EIC payment		10 Dependent care benefits		
e Employee's first name and initial MARY CALL		Last name 1923 REEDY CREEK WAY		Suff. BUENA VISTA, KY 42751		11 Nonqualified plans	
f Employee's address and ZIP code		13 Statutory employee <input type="checkbox"/>		Retirement plan <input type="checkbox"/>		Third-party sick pay <input type="checkbox"/>	
		14 Other		12a		12b	
				12c		12d	
15 State KY	Employer's state ID number 11111	16 State wages, tips, etc. 16988	17 State income tax 769	18 Local wages, tips, etc. 16988	19 Local income tax 382	20 Locality name BV	

Form **W-2** Wage and Tax Statement  
Copy 1—For State, City, or Local Tax Department

2008

Department of the Treasury—Internal Revenue Service

22222		a Employee's social security number 987-65-4321		OMB No. 1545-0008			
b Employer identification number (EIN) 61-111111			1 Wages, tips, other compensation 22796		2 Federal income tax withheld 2076		
c Employer's name, address, and ZIP code ROY'S AUTO SHOP LLC 1971 WESTERN WAY BUENA VISTA, KY 42751			3 Social security wages 22796		4 Social security tax withheld 1413		
			5 Medicare wages and tips 22796		6 Medicare tax withheld 331		
			7 Social security tips		8 Allocated tips		
d Control number			9 Advance EIC payment		10 Dependent care benefits		
e Employee's first name and initial WALT CALL		Last name 1923 REEDY CREEK WAY		Suff. BUENA VISTA, KY 42751		11 Nonqualified plans	
f Employee's address and ZIP code		13 Statutory employee <input type="checkbox"/>		Retirement plan <input type="checkbox"/>		Third-party sick pay <input type="checkbox"/>	
		14 Other		12a		12b	
				12c		12d	
15 State KY	Employer's state ID number 11111	16 State wages, tips, etc. 22796	17 State income tax 739	18 Local wages, tips, etc. 22796	19 Local income tax 459	20 Locality name BV	

Form **W-2** Wage and Tax Statement  
Copy 1—For State, City, or Local Tax Department

2008

Department of the Treasury—Internal Revenue Service

CORRECTED (if checked)

PAYER'S name, street address, city, state, and ZIP code COMMONWEALTH OF KENTUCKY KENTUCKY EMPLOYEE RETIREMENT SYSTEM PERIMETER PARK WEST 1260 LOUISVILLE RD FRANKFORT, KY 40601-6124		1 Gross distribution \$ 15978	OMB No. 1545-0119  <b>2008</b> Form 1099-R	Distributions From Pensions, Annuities, Retirement or Profit-Sharing Plans, IRAs, Insurance Contracts, etc.
		2a Taxable amount \$ 15978	2b Taxable amount not determined <input type="checkbox"/>	
PAYER'S federal identification number	RECIPIENT'S identification number	3 Capital gain (included in box 2a) \$	4 Federal income tax withheld \$	<b>Copy B</b> Report this income on your federal tax return. If this form shows federal income tax withheld in box 4, attach this copy to your return.  This information is being furnished to the Internal Revenue Service.
RECIPIENT'S name MARY CALL		5 Employee contributions /Designated Roth contributions or insurance premiums \$	6 Net unrealized appreciation in employer's securities \$	
Street address (including apt. no.) 1923 REEDY CREEK WAY		7 Distribution code(s) IRA/SEP/SIMPLE <input type="checkbox"/>	8 Other \$ %	
City, state, and ZIP code BUENA VISTA, KY 42751		9a Your percentage of total distribution %	9b Total employee contributions \$	
	1st year of desig. Roth contrib.	10 State tax withheld \$ \$	11 State/Payer's state no.	12 State distribution \$ \$
Account number (see instructions)		13 Local tax withheld \$ \$	14 Name of locality	15 Local distribution \$ \$

Form 1040 Department of the Treasury—Internal Revenue Service U.S. Individual Income Tax Return 2008 (99) IRS Use Only—Do not write or staple in this space.

Label (See instructions on page 14.) Use the IRS label. Otherwise, please print or type.

Form header section containing personal information: For the year Jan. 1–Dec. 31, 2008, ending 2008, ending 20. OMB No. 1545-0074. Your social security number 987 65 4321. Spouse's social security number 012 34 5678. Home address 1923 Reedy Creek Way, Buena Vista, KY 42751.

Presidential Election Campaign Check here if you, or your spouse if filing jointly, want \$3 to go to this fund (see page 14) You Spouse

Filing Status 1 Single 2 Married filing jointly (even if only one had income) 3 Married filing separately. Enter spouse's SSN above and full name here. 4 Head of household (with qualifying person). (See page 15.) If the qualifying person is a child but not your dependent, enter this child's name here. 5 Qualifying widow(er) with dependent child (see page 16)

Exemptions 6a Yourself. If someone can claim you as a dependent, do not check box 6a. 6b Spouse. 6c Dependents: (1) First name Last name (2) Dependent's social security number (3) Dependent's relationship to you (4) if qualifying child for child tax credit (see page 17). Total number of exemptions claimed 3

Income section table with rows 7-22. Includes wages, interest, dividends, IRA distributions, pensions, and other income. Total income reported as 75592.00.

Adjusted Gross Income section table with rows 23-37. Lists various deductions such as educator expenses, health savings account, and student loan interest. Adjusted gross income reported as 75592.00.

**Tax and Credits**

**Standard Deduction for—**

• People who checked any box on line 39a, 39b, or 39c or who can be claimed as a dependent, see page 34.

• All others:  
Single or Married filing separately, \$5,450

Married filing jointly or Qualifying widow(er), \$10,900

Head of household, \$8,000

38	Amount from line 37 (adjusted gross income)	38	75592	00
39a	Check <input type="checkbox"/> You were born before January 2, 1944, <input type="checkbox"/> Blind. Total boxes if: <input checked="" type="checkbox"/> Spouse was born before January 2, 1944, <input type="checkbox"/> Blind. checked ▶ 39a	1		
39b	If your spouse itemizes on a separate return or you were a dual-status alien, see page 34 and check here ▶ 39b			
39c	Check if standard deduction includes real estate taxes or disaster loss (see page 34) ▶ 39c	<input checked="" type="checkbox"/>		
40	Itemized deductions (from Schedule A) or your standard deduction (see left margin)	40	12460	00
41	Subtract line 40 from line 38	41	63132	00
42	If line 38 is over \$119,975, or you provided housing to a Midwestern displaced individual, see page 36. Otherwise, multiply \$3,500 by the total number of exemptions claimed on line 6d	42	10500	00
43	Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0-	43	52632	00
44	Tax (see page 36). Check if any tax is from: a <input type="checkbox"/> Form(s) 8814 b <input type="checkbox"/> Form 4972	44	7091	00
45	Alternative minimum tax (see page 39). Attach Form 6251	45		
46	Add lines 44 and 45	46		
47	Foreign tax credit. Attach Form 1116 if required	47		
48	Credit for child and dependent care expenses. Attach Form 2441	48		
49	Credit for the elderly or the disabled. Attach Schedule R	49		
50	Education credits. Attach Form 8863	50		
51	Retirement savings contributions credit. Attach Form 8880	51		
52	Child tax credit (see page 42). Attach Form 8901 if required	52		
53	Credits from Form: a <input type="checkbox"/> 8396 b <input type="checkbox"/> 8839 c <input type="checkbox"/> 5695	53		
54	Other credits from Form: a <input type="checkbox"/> 3800 b <input type="checkbox"/> 8801 c <input type="checkbox"/>	54		
55	Add lines 47 through 54. These are your total credits	55		
56	Subtract line 55 from line 46. If line 55 is more than line 46, enter -0-	56		

**Other Taxes**

57	Self-employment tax. Attach Schedule SE	57		
58	Unreported social security and Medicare tax from Form: a <input type="checkbox"/> 4137 b <input type="checkbox"/> 8919	58		
59	Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required	59		
60	Additional taxes: a <input type="checkbox"/> AEIC payments b <input type="checkbox"/> Household employment taxes. Attach Schedule H	60		
61	Add lines 56 through 60. This is your total tax	61		

**Payments**

If you have a qualifying child, attach Schedule EIC.

62	Federal income tax withheld from Forms W-2 and 1099	62	4237	00
63	2008 estimated tax payments and amount applied from 2007 return	63	2800	00
64a	Earned income credit (EIC)	64a		
64b	Nontaxable combat pay election	64b		
65	Excess social security and tier 1 RRTA tax withheld (see page 61)	65		
66	Additional child tax credit. Attach Form 8812	66		
67	Amount paid with request for extension to file (see page 61)	67		
68	Credits from Form: a <input type="checkbox"/> 2439 b <input type="checkbox"/> 4136 c <input type="checkbox"/> 8801 d <input type="checkbox"/> 8885	68		
69	First-time homebuyer credit. Attach Form 5405	69		
70	Recovery rebate credit (see worksheet on pages 62 and 63)	70		
71	Add lines 62 through 70. These are your total payments	71	7037	00

**Refund**

Direct deposit? See page 63 and fill in 73b, 73c, and 73d, or Form 8888.

72	If line 71 is more than line 61, subtract line 61 from line 71. This is the amount you overpaid	72		
73a	Amount of line 72 you want refunded to you. If Form 8888 is attached, check here ▶	73a		
73b	Routing number	73b		
73c	Account number	73c		
73d	Type: <input type="checkbox"/> Checking <input type="checkbox"/> Savings	73d		
74	Amount of line 72 you want applied to your 2009 estimated tax ▶	74		

**Amount You Owe**

75	Amount you owe. Subtract line 71 from line 61. For details on how to pay, see page 65 ▶	75	54	00
76	Estimated tax penalty (see page 65)	76		

**Third Party Designee**

Do you want to allow another person to discuss this return with the IRS (see page 66)?  Yes. Complete the following.  No

Designee's name  Phone no.  ( ) Personal identification number (PIN)

**Sign Here**

Joint return? See page 15. Keep a copy for your records.

Under penalties of perjury, I declare that I have examined this return and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Your signature	Date	Your occupation	Daytime phone number ( )
Spouse's signature. If a joint return, both must sign.	Date	Spouse's occupation	

**Paid Preparer's Use Only**

Preparer's signature	Date	Check if self-employed <input type="checkbox"/>	Preparer's SSN or PTIN
Firm's name (or yours if self-employed), address, and ZIP code	EIN	Phone no. ( )	

**740**

42A740  
Department of Revenue



**KENTUCKY**  
**INDIVIDUAL INCOME TAX RETURN**  
**Full-Year Residents Only**



For calendar year or other taxable year beginning 2008, and ending 2008

A. Spouse's Social Security Number <b>012-34-5678</b>		B. Your Social Security Number <b>987-65-4321</b>	
Name—Last, First, Middle Initial (Joint or combined return, give both names and initials.) <b>Call, Walt and Mary</b>			
Mailing Address (Number and Street or P.O. Box) <b>1923 Reedy Creek Way</b>		Apartment Number	
City, Town or Post Office <b>Buena Vista</b>	State <b>KY</b>	ZIP Code <b>42751</b>	

**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.

**POLITICAL PARTY FUND**  
*Designating \$2 will not change your refund or tax due.*

	A. Spouse	B. Yourself
Democratic (1)	<input type="checkbox"/>	(4) <input type="checkbox"/>
Republican (2)	<input type="checkbox"/>	(5) <input type="checkbox"/>
No Designation (3)	<input checked="" type="checkbox"/>	(6) <input checked="" type="checkbox"/>

INCOME/TAX		A. Spouse (Use if Filing Status 2 is checked.)	B. Yourself (or Joint)
5	Enter amount from federal Form 1040, line 37; 1040A, line 21 or 1040EZ, line 4. (If total of Columns A and B is \$28,196 or less, you may qualify for the Family Size Tax Credit. See instructions.)	52,796 00	22,796 00
6	Additions from Schedule M, line 7	0 00	0 00
7	Add lines 5 and 6	52,796 00	22,796 00
8	Subtractions from Schedule M, line 18	28,700 00	0 00
9	Subtract line 8 from line 7. This is your <b>Kentucky Adjusted Gross Income</b>	24,096 00	22,796 00
10	<b>Itemizers:</b> Enter itemized deductions from Kentucky Schedule A. <b>Nonitemizers:</b> Enter \$2,100 in Columns A and/or B	2,923 00	2,391 00
11	Subtract line 10 from line 9. This is your <b>Taxable Income</b>	21,173 00	20,405 00
12	Enter tax from Tax Table, Computation or Schedule J. Check if from Schedule J <input type="checkbox"/>	1,045 00	999 00
13	Enter tax from Form 4972-K <input type="checkbox"/> ; Schedule RC-R <input type="checkbox"/>	0 00	0 00
14	Add lines 12 and 13 and enter total here	1,045 00	999 00
15	Enter amounts from page 2, Section A, lines 17A and 17B	0 00	0 00
16	Subtract line 15 from line 14. If line 15 is larger than line 14, enter zero	1,045 00	999 00
17	Enter personal tax credit amounts from page 3, Section B, lines 4A and 4B	60 00	40 00
18	Subtract line 17 from line 16. If line 17 is larger than line 16, enter zero	985 00	959 00
19	Add tax amount(s) in Columns A and B, line 18 and enter here		1,944 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 checked="" type="checkbox"/> 4 <input type="checkbox"/>
21	Multiply line 19 by <b>Family Size Tax Credit</b> decimal amount _____ (____%) and enter here		0 00
22	Subtract line 21 from line 19		1,944 00
23	Enter the <b>Education Tuition Tax Credit</b> from Form 8863-K		0 00
24	Subtract line 23 from line 22		1,944 00
25	Enter <b>Child and Dependent Care Credit</b> from federal Form 2441, line 9 $\times$ 20% (.20)		0 00
26	<b>Income Tax Liability.</b> Subtract line 25 from line 24. If line 25 is larger than line 24, enter zero		1,944 00
27	Enter <b>KENTUCKY USE TAX</b> from worksheet in the instructions		0 00
28	Add lines 26 and 27. Enter here and on page 2, line 29		1,944 00

Attach Form W-2(s), Other Supporting Statement(s) and Payment Here—Staple to Top Page Only

FORM 740 (2008)



Page 2 of 3

REFUND/TAX PAYMENT SUMMARY			
29	Enter amount from page 1, line 28. This is your <b>Total Tax Liability</b> .....	• 29	1,944 00
30	(a) Enter <b>Kentucky income tax withheld</b> as shown on attached 2008 Form W-2(s) and other supporting statements.....	• 30(a)	1,508 00
	(b) Enter 2008 Kentucky estimated tax payments.....	• 30(b)	800 00
31	Add lines 30(a) and 30(b) .....	• 31	2,308 00
32	If line 31 is larger than line 29, enter <b>AMOUNT OVERPAID</b> (see instructions) .....	• 32	364 00
<i>Fund Contributions; See instructions.</i>		➤ (Enter amount(s) checked)	
33	<b>Nature and Wildlife Fund</b> ..... <input type="checkbox"/> \$10 <input type="checkbox"/> \$25 <input type="checkbox"/> \$50 <input type="checkbox"/> Other .....	• 33	00
34	<b>Child Victims' Trust Fund</b> ..... <input type="checkbox"/> \$10 <input type="checkbox"/> \$25 <input type="checkbox"/> \$50 <input type="checkbox"/> Other .....	• 34	00
35	<b>Veterans' Program Trust Fund</b> ..... <input type="checkbox"/> \$10 <input type="checkbox"/> \$25 <input type="checkbox"/> \$50 <input type="checkbox"/> Other .....	• 35	00
36	<b>Breast Cancer Research/Education Trust Fund</b> ..... <input type="checkbox"/> \$10 <input type="checkbox"/> \$25 <input type="checkbox"/> \$50 <input type="checkbox"/> Other .....	• 36	00
37	Add lines 33 through 36 .....	• 37	0 00
38	Amount of line 32 to be <b>CREDITED TO YOUR 2009 ESTIMATED TAX</b> .....	• 38	200 00
39	Subtract lines 37 and 38 from line 32. Amount to be <b>REFUNDED TO YOU</b> .....	• 39	164 00
40	If line 29 is larger than line 31, enter <b>ADDITIONAL TAX DUE</b> .....	• 40	00
41	(a) Estimated tax penalty <input type="checkbox"/> <i>Check if Form 2210-K attached</i> .....	• 41(a)	00
	(b) Interest .....	• 41(b)	00
	(c) Late payment penalty .....	• 41(c)	00
	(d) Late filing penalty .....	• 41(d)	00
42	Add lines 41(a) through 41(d). Enter here.....	• 42	00
43	Add lines 40 and 42 and enter here. This is the <b>AMOUNT YOU OWE</b> .....	• 43	00

- Make check payable to **Kentucky State Treasurer** or visit [www.revenue.ky.gov](http://www.revenue.ky.gov) for electronic payment options.
- Write your Social Security number and "KY Income Tax—2008" on the check.

OFFICIAL USE ONLY	
	PWR

SECTION A—BUSINESS INCENTIVE AND OTHER TAX CREDITS	A. Spouse		B. Yourself	
1 Enter nonrefundable limited liability entity tax credit (KRS 141.0401(2)) (attach <b>Kentucky Schedule(s) K-1 or Form(s) 725</b> ) .....	1	00	1	00
2 Enter skills training investment credit (attach copy(ies) of certification).....	2	00	2	00
3 Enter historic preservation restoration credit.....	3	00	3	00
4 Enter credit for tax paid to another state (attach copy of other state's return(s)) .....	4	00	4	00
5 Enter unemployment credit (attach Schedule UTC).....	5	00	5	00
6 Enter recycling and/or composting equipment credit (attach Schedule RC) .....	6	00	6	00
7 Enter Kentucky Investment Fund credit (attach copy(ies) of certification) .....	7	00	7	00
8 Enter coal incentive tax credit.....	8	00	8	00
9 Enter qualified research facility credit (attach Schedule QR).....	9	00	9	00
10 Enter GED incentive credit (attach Form DAEL-31).....	10	00	10	00
11 Enter voluntary environmental remediation credit (Brownfield).....	11	00	11	00
12 Enter biodiesel and renewable diesel credit.....	12	00	12	00
13 Enter environmental stewardship credit.....	13	00	13	00
14 Enter clean coal incentive credit.....	14	00	14	00
15 Enter ethanol credit (attach Schedule ETH) .....	15	00	15	00
16 Enter cellulosic ethanol credit (attach Schedule CELL).....	16	00	16	00
17 Add lines 1 through 16, Columns A and B. Enter here and on page 1, line 15 ..	17	00	17	00

FORM 740 (2008)



Page 3 of 3

**SECTION B—PERSONAL TAX CREDITS**

Check Regular      Check both if 65 or over      Check both if blind

- 1 (a) Credits for yourself:     
 (b) Credits for spouse:

1 Enter number of boxes checked on line 1 ..... **4**

**2 Dependents:**

First name	Last name	Dependent's Social Security number	Dependent's relationship to you	Check if qualifying child for family size tax credit
Flora	Call	876-54-3210	Daughter	<input checked="" type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>

- 2 Enter number of dependents who:
- lived with you..... **1**
  - did not live with you (see instructions).....
  - other dependents.....

**3 Add total number of credits claimed on lines 1 and 2.**

*If married filing separately on a combined return (Filing Status 2), each taxpayer must claim his or her own credits from line 1, divide the credits on line 2, and enter the totals in Boxes 3A and 3B. All other filers enter the amount from line 3 in Box 3B* .....

3 Enter total credits..... **5**

**4 Multiply credits on line 3A by \$20 and enter on line 4A. Multiply credits on line 3B by \$20 and enter on line 4B. Enter here and on page 1, line 17, Columns A and B** .....

Spouse		Yourself	
•3A	3	•3B	2
	x \$20		x \$20
4A	60	4B	40

**SECTION C—FAMILY SIZE TAX CREDIT** (List the name and Social Security number of qualifying children that are not claimed as dependents in Section B.)

First name	Last name	Social Security number	First name	Last name	Social Security number

Attach a complete copy of federal Form 1040 if you received farm, business, or rental income or loss. If not required, check here.

Do you wish to receive a packet next year? (check one)    1  Yes    2  No

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 accruing under this return.

Walt Call      Mary Call      4/14/09      (      )  
 Your Signature (If joint or combined return, both must sign.)    Spouse's Signature      Date Signed      Telephone Number (daytime)

Typed or Printed Name of Preparer Other than Taxpayer      I.D. Number of Preparer      Date

Mail to: **REFUNDS**      Kentucky Department of Revenue, Frankfort, KY 40618-0006.

**PAYMENTS**      Kentucky Department of Revenue, Frankfort, KY 40619-0008.

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EST	CF	NT	P	B	F	R
						1 2

**SCHEDULE M**



**2008**

Form 740  
42A740-M

**KENTUCKY  
FEDERAL ADJUSTED GROSS INCOME  
MODIFICATIONS**

Department of Revenue

► Attach to Form 740.

Enter name(s) as shown on tax return.

Walt and Mary Call

Your Social Security Number

987-65-4321

**PART I ADDITIONS TO FEDERAL ADJUSTED GROSS INCOME**

**A. Spouse (Use if Filing Status 2 is checked.)**

**B. Yourself (or Joint)**

	Dollars	Cents	Dollars	Cents
1 Enter interest income from bonds issued by other states and their political subdivisions..... 1		00		00
2 Enter self-employed health insurance deduction from federal Form 1040, line 29..... 2		00		00
3 Enter resident adjustment from partnerships, fiduciaries and S corporations, Schedule K-1..... 3		00		00
4 Enter federal depreciation from Form 4562..... 4		00		00
5 Enter federal Net Operating Loss ..... 5		00		00
6 Other additions (list and enter total):				
(a)				
(b)		00		00
(c)				
7 Total Additions. Enter here and on Form 740, page 1, line 6 ..... 7		00		00

**PART II SUBTRACTIONS FROM FEDERAL ADJUSTED GROSS INCOME**

8 Enter state income tax refund or credit reported as income on federal Form 1040..... 8		00		00
9 Enter interest income from U.S. government bonds and securities..... 9		00		00
10 Enter excludable amount of retirement income (attach Schedule P if more than \$41,110)..... 10	15,978	00		00
11 Enter taxable amount of Social Security and Railroad Retirement Board benefits from federal Form 1040, line 20(b) (1040A, line 14(b))..... 11	11,565	00		00
12 Enter long-term care insurance premiums..... 12		00		00
13 Enter health insurance premiums not previously deducted from income. Do not include premiums paid with pretax dollars (cafeteria plan)..... 13	1,157	00		00
14 Enter resident adjustment from partnerships, fiduciaries and S corporations, Schedule K-1 ..... 14		00		00
15 Enter Kentucky depreciation from revised Form 4562 ..... 15		00		00
16 Enter Kentucky Net Operating Loss ..... 16		00		00
17 Other subtractions (list and enter total):				
(a)				
(b)		00		00
(c)				
18 Total Subtractions. Enter here and on Form 740, page 1, line 8 ..... 18	28,700	00		00

**SCHEDULE A**

Form 740  
42A740-A

Department of Revenue



**KENTUCKY ITEMIZED DEDUCTIONS**

- See instructions.
- Attach to Form 740.

**2008**

Enter name(s) as shown on Form 740, page 1.

Walt and Mary Call

Your Social Security Number

987-65-4321

Do not include expenses reimbursed or paid by others.				
<b>Medical and Dental Expenses</b>	1. Medical and dental expenses.....	1	3,271	00
	2. Enter 7.5% (.075) of the amount from Form 740, line 9...	2	3,517	00
	<b>3. Total medical and dental.</b> Subtract line 2 from line 1. If zero or less, enter -0- ➤ 3			
<b>Taxes</b>	4. Local income taxes (do not include state income tax).....	4	937	00
	5. Real estate taxes.....	5	1,560	00
	6. Personal property taxes.....	6		00
	7. Other taxes (list) _____	7		00
	<b>8. Total taxes.</b> Add lines 4 through 7. Enter here ➤ 8			
<b>Interest Expense</b>	9. Home mortgage interest and points reported to you on federal Form 1098.....	9	1,239	00
	10. 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) _____	10		00
	<i>See instructions for lines 11 and 12.</i>			
	11. Points not reported to you on federal Form 1098.....	11		00
	12. Qualified mortgage insurance premiums.....	12		00
	13. Investment interest (attach federal Form 4952 if required).....	13		00
<b>14. Total interest.</b> Add lines 9 through 13. Enter here ➤ 14				
<b>Contributions</b>	15. Contributions by cash or check.....	15	1,560	00
	16. Other than cash or check (attach federal Form 8283 if over \$500).....	16		00
	17. Artistic charitable contributions deduction (attach copy of appraisal).....	17		00
	18. Carryover from prior year.....	18		00
<b>19. Total contributions.</b> Add lines 15 through 18. Enter here ➤ 19				
<b>Casualty and Theft Losses</b>	20. Enter amount from attached federal Form 4684, Section A, line 16.....	20		00
	21. Enter 10% (.10) of the amount from Form 740, line 9.....	21		00
	<b>22. Total casualty or theft loss(es).</b> Subtract line 21 from line 20. If zero or less, enter -0- ➤ 22			
<b>Job Expenses and Most Other Miscellaneous Deductions</b>	23. Unreimbursed employee expenses—job travel, union dues, job education, etc. (attach Form 2106 or 2106-EZ if applicable) list _____	23		00
	24. Tax preparation fees.....	24		00
	25. Other (investment, safe deposit box, etc.) list _____	25		00
	26. Add the amounts on lines 23, 24 and 25. Enter here.....	26		00
	27. Enter 2% (.02) of the amount from Form 740, line 9.....	27		00
<b>28. Total.</b> Subtract line 27 from line 26. If zero or less, enter -0- ➤ 28				
<b>Other Miscellaneous Deductions</b>	29. Other (see instructions) _____	➤ 29		00
<b>Total Itemized Deductions</b>	30. Add lines 3, 8, 14, 19, 22, 28 and 29. Enter here.....	➤ 30	5,314	00

Dollars  Cents

★ If single or married filing jointly and your income for Form 740, Column B does not exceed \$159,950, enter total itemized deductions on Form 740, line 10, Column B.

★ All others go to page 2.

SCHEDULE A (Form 740) 2008  
42A740-A



Page 2



If the amount on Form 740, line 9, exceeds \$159,950 (\$79,975 if married filing separately on a combined return or separate returns), skip Part I and complete Part II.

**PART I—DIVIDING DEDUCTIONS BETWEEN SPOUSES**

Use this schedule if married filing separately on a combined return.

1. Total itemized deductions from page 1, line 30 .....	5,314
2. Percent of income (Form 740, line 9, Column A) to total income (Form 740, total of line 9, Columns A and B) .....	45 %
3. Percent of income (Form 740, line 9, Column B) to total income (Form 740, total of line 9, Columns A and B) .....	55 %
4. Percent on line 2 times total deductions entered on line 1 (enter here and on Form 740, line 10, Column A) .....	2,391
5. Percent on line 3 times total deductions entered on line 1 (enter here and on Form 740, line 10, Column B) .....	2,923

**PART II—ITEMIZED DEDUCTIONS LIMITATION SCHEDULE**

Complete this schedule only if the adjusted gross income on Form 740, line 9, exceeds \$159,950 (\$79,975 if married filing separately on a combined return or separate returns).

	A. Spouse	B. Yourself (or Joint)
<ul style="list-style-type: none"> <li>If married filing separately on a combined return, enter in <b>Column A</b> the percent of income (Form 740, line 9, Column A) to total income (Form 740, total of line 9, Columns A and B); enter in <b>Column B</b> the percent of income (Form 740, line 9, Column B) to total income (Form 740, total of line 9, Columns A and B).</li> <li>If single, married filing a joint return or married filing separate returns, enter 100% in Column B.</li> </ul>	_____ %	_____ %
1. Multiply the amount on Schedule A, line 30, by the percent of income shown in Columns A and/or B .....	1. _____	1. _____
2. Add the amounts on Schedule A, lines 3, 13 and 22, plus any gambling losses included on line 29 and multiply by the percent of income shown in Columns A and/or B .....	2. _____	2. _____
<i>Note: Be sure your total gambling losses are clearly identified on line 29.</i>		
3. Subtract the amount on line 2 from the amount on line 1. (If the result is zero, <b>STOP HERE</b> ; enter the amount from line 1 above on Form 740, line 10.) .....	3. _____	3. _____
4. Multiply the amount on line 3 above by 80% (.80) .....	4. _____	4. _____
5. Enter the amount from Form 740, line 9 .....	5. _____	5. _____
6. Enter \$159,950 (\$79,975 if married filing separately on a combined return or separate returns) .....	6. _____	6. _____
7. Subtract the amount on line 6 from the amount on line 5. (If the result is zero or less, <b>STOP HERE</b> ; enter the amount from line 1 above on Form 740, line 10.) .....	7. _____	7. _____
8. Multiply the amount on line 7 above by 3% (.03) .....	8. _____	8. _____
9. Compare the amounts on lines 4 and 8 above. Enter the <b>smaller</b> of the two amounts here .....	9. _____	9. _____
10. Divide line 9 by 1.5 .....	10. _____	10. _____
11. Subtract line 10 from line 9 .....	11. _____	11. _____
12. Total itemized deductions. Subtract the amount on line 11 from the amount on line 1. Enter the result here and on Form 740, line 10 .....	12. _____	12. _____

**Example 3 – BASIC FACT SHEET FOR FORM 740-NP**

- Brian and Barbara Spencer  
237 Smither Street  
Anaheim, CA 92801
  
- Brian and Barbara Spencer moved out of Kentucky in 2006. During 2008, they sold their share in a Frisch's Big Boy restaurant located Kentucky and earned income from a partnership that is located in Kentucky. The partnership paid withholding to Kentucky for the Spencers.
  
- Capital gain income received from a Kentucky source - \$82,739
  
- Income received from partnership - \$77,276
  
- Withholding paid by the partnership to Kentucky - \$4,716
  
- The Spencers itemized their deductions for 2008

**740-NP**

Check if return is:

Amended (Attach copy of original return.)

Composite



42A740-NP  
Department of Revenue

**KENTUCKY INDIVIDUAL INCOME TAX RETURN**  
Nonresident or Part-Year Resident



**2008**

For calendar year or other taxable year beginning \_\_\_\_\_, 2008, and ending \_\_\_\_\_, 200\_\_.

<b>A. Spouse's Social Security Number</b> 246-81-0121	<b>B. Your Social Security Number</b> 975-31-0864
Name—Last, First, Middle Initial (Joint or combined return, give both names and initials.) <b>Spencer, Brian and Barbara</b>	
Mailing Address (Number and Street or P.O. Box) <b>237 Smither Street</b>	Apartment Number
City, Town or Post Office <b>Anaheim</b>	State <b>CA</b>
	ZIP Code <b>92801</b>

<b>FILING STATUS</b> (see instructions)	1 <input type="checkbox"/> Single	<b>POLITICAL PARTY FUND</b> Designating \$2 will not change your refund or tax due.	
	2 <input checked="" type="checkbox"/> Married, filing joint return.	<b>A. Spouse</b>	<b>B. Yourself</b>
	3 <input type="checkbox"/> Married, filing separate returns. Enter spouse's Social Security number above and full name here. _____	<b>Democratic</b> (1) <input type="checkbox"/>	(4) <input type="checkbox"/>
		<b>Republican</b> (2) <input type="checkbox"/>	(5) <input type="checkbox"/>
		<b>No Designation</b> (3) <input checked="" type="checkbox"/>	(6) <input checked="" type="checkbox"/>
<b>RESIDENCY STATUS</b> (check one box)	4 <input checked="" type="checkbox"/> Full-year nonresident. I did not live in Kentucky during the year. Enter state of residence as of December 31, 2008. <b>CA</b>		
	5 <input type="checkbox"/> Part-year resident. Complete appropriate line(s) below. Moved into Kentucky ____/____/08. State moved from _____ Moved out of Kentucky ____/____/08. State moved to _____		
	6 <input type="checkbox"/> Full-year resident of a reciprocal state with Kentucky income of wages and salaries only. Circle the state of residence.	IL <input type="checkbox"/> IN <input type="checkbox"/> MI <input type="checkbox"/> OH <input type="checkbox"/> VA <input type="checkbox"/> WV <input type="checkbox"/> WI <input type="checkbox"/>	

COMPLETE SECTIONS A, B, C AND D ON PAGES 2 THROUGH 4 BEFORE COMPLETING LINES 7 THROUGH 28.

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1 2 3 4 5

**INCOME/TAX**

7	Enter percentage from page 4, line 35.....	7	61.8 %		
8	Enter amount from page 4, line 34, Column A. This is your <b>Federal Adjusted Gross Income</b> .....	8		243,044	00
9	Enter amount from page 4, line 34, Column B. This is your <b>Kentucky Adjusted Gross Income</b> .....	9		150,114	00
10	<b>Nonitemizers:</b> Enter \$2,100 (do not prorate). Skip lines 11 and 12 .....	10			00
11	<b>Itemizers:</b> Enter itemized deductions from Kentucky Schedule A, Form 740-NP .....	11	29,802	00	
12	Multiply line 11 by the percentage on line 7.....	12	18,418	00	
13	Subtract line 10 or 12 from line 9. This is your <b>Taxable Income</b> .....	13		131,696	00
14	Enter tax from Tax Table .....	14		7,568	00
15	Enter amount from page 2, Section A, line 17 .....	15			00
16	Subtract line 15 from line 14.....	16		7,568	00
17	Enter personal tax credit amounts from page 3, Section B, line 4.....	17	140	00	
18	Multiply line 17 by the percentage on line 7.....	18	87	00	
19	Subtract line 18 from line 16.....	19		7,481	00
20	Check the box that represents your total family size (see instructions for lines 20 and 21) .....	20			
21	Multiply line 19 by the <b>Family Size Tax Credit</b> decimal amount ____ ( ____ %) and enter here.....	21			00
22	Subtract line 21 from line 19.....	22		7,481	00
23	Enter the <b>Education Tuition Tax Credit</b> from Form 8863-K.....	23			00
24	Subtract line 23 from line 22 .....	24		7,481	00
25	Enter <b>Child and Dependent Care Credit</b> from worksheet in the instructions .....	25			00
26	<b>Income Tax Liability.</b> Subtract line 25 from line 24. If line 25 is larger than line 24, enter zero.....	26		7,481	00
27	Enter <b>KENTUCKY USETAX</b> from worksheet in the instructions.....	27			00
28	Add lines 26 and 27. Enter here and on page 2, line 29 .....	28		7,481	00

Attach Form W-2(s), Other Supporting Statement(s) and Payment Here—Staple to Top Page Only

FORM 740-NP (2008)

Page 2 of 4



REFUND/TAX PAYMENT SUMMARY			
29	Enter amount from page 1, line 28. This is your <b>Total Tax Liability</b> .....	• 29	7,481 00
30	(a) Enter <b>Kentucky income tax withheld</b> as shown on attached 2008 Form W-2(s) and other supporting statements.....	• 30(a)	00
	(b) Enter 2008 Kentucky estimated tax payments.....	• 30(b)	00
	(c) Enter <b>Nonresident Withholding</b> from Form PTE-WH, line 9 (KRS141.206(4)(b){1}) .....	• 30(c)	4,716 00
31	Add lines 30(a) through 30(c).....	• 31	4,716 00
32	If line 31 is larger than line 29, enter <b>AMOUNT OVERPAID</b> (see instructions) .....	• 32	00
<i>Fund Contributions; See instructions.</i>			
➤ (Enter amount(s) checked)			
33	<b>Nature and Wildlife Fund</b> ..... <input type="checkbox"/> \$10 <input type="checkbox"/> \$25 <input type="checkbox"/> \$50 <input type="checkbox"/> Other .....	• 33	00
34	<b>Child Victims' Trust Fund</b> .....	• 34	00
35	<b>Veterans' Program Trust Fund</b> .....	• 35	00
36	<b>Breast Cancer Research/Education Trust Fund</b> .....	• 36	00
37	Add lines 33 through 36 .....	• 37	00
38	Amount of line 32 to be <b>CREDITED TO YOUR 2009 ESTIMATED TAX</b> .....	• 38	00
39	Subtract lines 37 and 38 from line 32. Amount to be <b>REFUNDED TO YOU</b> .....	REFUND • 39	00
40	If line 29 is larger than line 31, enter <b>ADDITIONAL TAX DUE</b> .....	• 40	2,765 00
41	(a) Estimated tax penalty <input type="checkbox"/> <i>Check if Form 2210-K attached</i> .....	• 41(a)	54 00
	(b) Interest .....	• 41(b)	00
	(c) Late payment penalty .....	• 41(c)	00
	(d) Late filing penalty .....	• 41(d)	00
42	Add lines 41(a) through 41(d). Enter here.....	• 42	00
43	Add lines 40 and 42 and enter here. This is the <b>AMOUNT YOU OWE</b> .....	OWE • 43	2,819 00

➤ Make check payable to **Kentucky State Treasurer** or visit [www.revenue.ky.gov](http://www.revenue.ky.gov) for electronic payment options.

➤ Write your Social Security number and "KY Income Tax—2008" on the check.

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SECTION A—BUSINESS INCENTIVE AND OTHER TAX CREDITS			
1	Enter nonrefundable limited liability entity tax credit (KRS 141.0401(2)) (attach Kentucky Schedule(s) K-1 or Form(s) 725) .....	1	00
2	Enter skills training investment credit (attach copy(ies) of certification).....	2	00
3	Enter historic preservation restoration credit.....	3	00
4	Enter credit for tax paid to another state (attach copy of other state's return(s)) .....	4	00
5	Enter unemployment credit (attach Schedule UTC).....	5	00
6	Enter recycling and/or composting equipment credit (attach Schedule RC) .....	6	00
7	Enter Kentucky Investment Fund credit (attach copy(ies) of certification) .....	7	00
8	Enter coal incentive tax credit.....	8	00
9	Enter qualified research facility credit (attach Schedule QR).....	9	00
10	Enter GED incentive credit (attach Form DAEL-31).....	10	00
11	Enter voluntary environmental remediation credit (Brownfield).....	11	00
12	Enter biodiesel and renewable diesel credit.....	12	00
13	Enter environmental stewardship credit.....	13	00
14	Enter clean coal incentive credit.....	14	00
15	Enter ethanol credit (attach Schedule ETH) .....	15	00
16	Enter cellulosic ethanol credit (attach Schedule CELL).....	16	00
17	Add lines 1 through 16. Enter here and on page 1, line 15 .....	17	00

FORM 740-NP (2008)

Page 3 of 4



**SECTION B—PERSONAL TAX CREDITS**

Check Regular      Check both if 65 or over      Check both if blind

- 1 (a) Credits for yourself:
- (b) Credits for spouse:

1 Enter number of boxes checked on line 1 ..... **6**

2 Dependents:

First name	Last name	Dependent's Social Security number	Dependent's relationship to you	Check if qualifying child for family size tax credit
Sarah	Spencer	764-53-2109	Daughter	<input checked="" type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>
				<input type="checkbox"/>

2 Enter number of dependents who:

- lived with you..... **1**
- did not live with you (see instructions).....
- other dependents.....

- 3 Add lines 1 and 2 and enter here..... **7**
- 4 Multiply credits on line 3 by \$20. Enter here and on page 1, line 17 ..... **140**

**SECTION C—FAMILY SIZE TAX CREDIT** (List the name and Social Security number of qualifying children that are not claimed as dependents in Section B.)

First name	Last name	Social Security number	First name	Last name	Social Security number

A copy of pages 1 and 2 of your federal income tax return and all supporting schedules must be attached to Kentucky Form 740-NP.

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 accruing under this return.

*Brian Spencer*      *Barbara Spencer*      *2-19-09*

Your Signature (if joint return, both must sign.)      Spouse's Signature      Date Signed      Telephone Number (daytime)

Typed or Printed Name of Preparer Other than Taxpayer      I.D. Number of Preparer      Date

Mail to: **REFUNDS**      Kentucky Department of Revenue, Frankfort, KY 40618-0006.

**PAYMENTS**      Kentucky Department of Revenue, Frankfort, KY 40619-0008.

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EST	CF	NT	P	B	F R



**SECTION D  
INCOME**

1 Enter all wages, salaries, tips, etc. (*attach wage and tax statements*) Do not include moving expense reimbursements..... 1

2 Moving expense reimbursement (*attach Schedule ME*) ..... 2

3 Interest ..... 3

4 Dividends..... 4

5 Taxable refunds, credits or offsets of state and local income taxes ..... 5

6 Alimony received..... 6

7 Business income or loss (*attach federal Schedule C or C-EZ*) ..... 7

8 Capital gain or loss (*attach federal Schedule D*) ..... 8

9 Other gains or losses (*attach federal Form 4797*) ..... 9

10 (a) Federally taxable IRA distributions, pensions and annuities ..... 10(a)

(b) Pension income exclusion (*attach Schedule P if more than \$41,110*) ..... 10(b)

11 Rents, royalties, partnerships, estates, trusts, etc. (*attach federal Schedule E*)..... 11

12 Farm income or loss (*attach federal Schedule F*) ..... 12

13 Unemployment compensation ..... 13

14 Taxable Social Security benefits..... 14

15 Gambling winnings ..... 15

16 Other income (list type and amount) ..... 16

17 Combine lines 1 through 16. This is your **Total Income** ..... 17

**ADJUSTMENTS TO INCOME**

18 Educator Expenses ..... 18

19 Certain business expenses of reservists, performing artists and fee-basis government officials (*attach federal Form 2106 or 2106-EZ*) ..... 19

20 Health savings account deduction (*attach federal Form 8889*)..... 20

21 Moving expenses (*attach Schedule ME*) ..... 21

22 Deduction for one-half of self-employment tax ..... 22

23 Self-employed SEP, SIMPLE, and qualified plans deduction ..... 23

24 Self-employed health insurance deduction ..... 24

25 Penalty on early withdrawal of savings ..... 25

26 Alimony paid (enter recipient's name and Social Security number) ..... 26

27 IRA deduction..... 27

28 Student loan interest deduction ..... 28

29 Tuition and fees deduction..... 29

30 Domestic production activities deduction ..... 30

31 Long-term care insurance premiums (see instructions)..... 31

32 Health insurance premiums (see instructions)..... 32

33 Add lines 18 through 32. **Total Adjustments to Income** ..... 33

34 Subtract line 33 from line 17. This is your **Adjusted Gross Income** ..... 34

35 Divide line 34, Column B, by line 34, Column A. If amount is equal to or greater than 100%, enter 100%. This is your **Percentage of Kentucky Adjusted Gross Income to Federal Adjusted Gross Income** ..... 35

A.Total from Attached Federal Return		B.Kentucky	
	00		00
	00		00
3,824	00	1,051	00
31,991	00		00
	00		00
	00		00
	00		00
-3,000	00	82,739	00
	00		00
	00		00
193,630	00	77,276	00
	00		00
16,599	00		00
	00		00
	00		00
243,044	00	161,066	00
	00		00
	00		00
	00		00
	00		00
	00		00
	00		00
	00		00
	00		00
	00		00
	00		00
	00		00
	00		00
	00	1,581	00
	00	9,371	00
	00	10,952	00
243,044	00	150,114	00
		61	8 %

**SCHEDULE A**

Form 740-NP  
42A740-NPA  
Department of Revenue



KENTUCKY SCHEDULE A  
ITEMIZED DEDUCTIONS

**2008**

➤ See instructions. ➤ Attach to Form 740-NP

Enter name(s) as shown on Form 740-NP, page 1. **Brian and Barbara Spencer**  
Your Social Security Number **975-31-0864**

Do not include expenses reimbursed or paid by others.				
<b>Medical and Dental Expenses</b>	1. Medical and dental expenses	1	12,157	00
	2. Enter amount from Form 740-NP, page 1, line 8	2	243,044	00
	3. Multiply the amount on line 2 by 75% (.075). Enter result	3	18,228	00
	4. <b>Total medical and dental.</b> Subtract line 3 from line 1. If zero or less, enter -0-	➤ 4		00
<b>Taxes</b> <i>Note: Sales and use taxes are not deductible.</i>	5. Local income taxes (do not include state income tax)	5	34	00
	6. Real estate taxes	6	4,761	00
	7. Personal property taxes	7		00
	8. Other taxes (list)	8		00
	9. <b>Total taxes.</b> Add the amounts on lines 5 through 8. Enter here	➤ 9	4,795	00
<b>Interest Expense</b> <i>Note: Personal interest is not deductible.</i>	10. Home mortgage interest and points reported to you on federal Form 1098	10	4,431	00
	11. Home mortgage interest not reported to you on federal Form 1098 (if paid to an individual, show that person's name and address)	11		00
	<i>See instructions for lines 12 and 13.</i>			
	12. Points not reported to you on federal Form 1098	12		00
	13. Qualified mortgage insurance premiums	13		00
14. Investment interest (attach federal Form 4952 if required)	14		00	
15. <b>Total interest.</b> Add the amounts on lines 10 through 14. Enter here	➤ 15	4,431	00	
<b>Contributions</b> <i>Note: For any contribution of \$250 or more, see instructions.</i>	16. Contributions by cash or check	16	10,864	00
	17. Other than cash or check (attach federal Form 8283 if over \$500)	17		00
	18. Carryover from prior year	18		00
	19. <b>Total contributions.</b> Add the amounts on lines 16 through 18. Enter here	➤ 19	10,864	00
<b>Casualty and Theft Losses</b>	20. Enter amount from attached federal Form 4684, Section A, line 16	20		00
	21. Enter amount from Form 740-NP, page 1, line 8	21		00
	22. Multiply the amount on line 21 by 10% (.10). Enter result	22		00
	23. <b>Total casualty or theft loss(es).</b> Subtract line 22 from line 20. If zero or less, enter -0-	➤ 23		00
<b>Job Expenses and Most Other Miscellaneous Deductions</b>	24. Unreimbursed employee expenses—job travel, union dues, job education, etc. (attach Form 2106 or 2106-EZ if applicable) list	24		00
	25. Tax preparation fees	25	1,050	00
	26. Other (investment, safe deposit box, etc.) list <b>Custodial Fees- US Bank</b>	26	13,523	00
	27. Add the amounts on lines 24, 25 and 26. Enter here	27	14,573	00
	28. Enter amount from Form 740-NP, page 1, line 8	28		00
	29. Multiply the amount on line 28 by 2% (.02). Enter result	29	4,861	00
30. <b>Total.</b> Subtract line 29 from line 27. If zero or less, enter -0-	➤ 30	9,712	00	
<b>Other Miscellaneous Deductions</b>	31. Other (see instructions)	➤ 31		00
<b>Total Itemized Deductions</b>	32. Add the amounts on lines 4, 9, 15, 19, 23, 30 and 31. Enter here	➤ 32	29,802	00
<ul style="list-style-type: none"> <li>• If the amount on Form 740-NP, page 1, line 8, exceeds \$159,950 (\$79,975 if married filing separate returns), skip lines 33 through 36 and complete the limitation schedule on the reverse of this form; or</li> <li>• If married filing separate returns, or spouse is not filing a Kentucky return, complete lines 33 through 36 below. If single or married filing jointly, enter total deductions (line 32 above) on Form 740-NP, page 1, line 11.</li> </ul>				
33. Enter your income from Form 740-NP, page 1, line 8	33		00	
34. Enter joint or combined federal Adjusted Gross Income	34		00	
35. Divide line 33 by line 34. Enter percentage	35		0.00%	
36. Multiply line 32 by line 35. This is your portion of total itemized deductions. Enter here and on Form 740-NP, page 1, line 11	➤ 36			00

**Example 4 – BASIC FACT SHEET FOR FORM 740-NP-R**

- Tony Gordon  
2414 Race Street  
Harrison, OH 45030
- Tony Gordon lives in Harrison, OH and works for the United States Department of Agriculture in Florence, KY
- His W-2 form and Kentucky return follows.

22222		a Employee's social security number 135-79-1113		OMB No. 1545-0008				
b Employer identification number (EIN) 61-111111			1 Wages, tips, other compensation 18125		2 Federal income tax withheld 1370			
c Employer's name, address, and ZIP code DEPT OF TREASURY/USDA PO BOX 6000 FLORENCE, KY 41022			3 Social security wages 18125		4 Social security tax withheld 1124			
			5 Medicare wages and tips 18125		6 Medicare tax withheld 263			
			7 Social security tips		8 Allocated tips			
d Control number			9 Advance EIC payment		10 Dependent care benefits			
e Employee's first name and initial TONY GORDON		Last name GORDON		Suff.		11 Nonqualified plans		12a
f Employee's address and ZIP code 2414 RACE STREET HARRISON, OH 45030			13 Statutory employee <input type="checkbox"/>	Retirement plan <input type="checkbox"/>	Third-party sick pay <input type="checkbox"/>	12b		12c
			14 Other		12d			
			15 State Employer's state ID number KY   11111			16 State wages, tips, etc. 18125	17 State income tax 757	18 Local wages, tips, etc. 18125

Form **W-2** Wage and Tax Statement  
Copy 1—For State, City, or Local Tax Department

**2008**

Department of the Treasury—Internal Revenue Service

**740-NP-R**

42A740-NP-R



KENTUCKY  
INCOME TAX RETURN

*Kentucky*  
UNDEFEATED SPORTS  
**2008**

Department of Revenue

**Nonresident—Reciprocal State**

Last name <b>Gordon</b>		Your first name and middle initial <b>Tony</b>		Your Social Security no. <b>135-79-1113</b>		Did you file a Kentucky income tax return for 2007? Yes <input type="checkbox"/> No <input checked="" type="checkbox"/> If no, give reason: Filed an Ohio return	
Mailing Address Number and street or P.O. box <b>2414 Race Street</b>		Apt. no.	City, town or post office <b>Harrison</b>	State <b>OH</b>	ZIP code <b>45030</b>		

**INSTRUCTIONS**

This form may be used by qualifying full-year nonresidents to claim a refund of Kentucky income taxes withheld during 2008. To determine if you qualify, you must check "Yes" or "No" for all the applicable statements below. *If eligible, complete lines 1-6. Each person meeting the requirements to use this form must file a separate return.*

- A. I was a **nonresident** of Kentucky during all of 2008.  Yes  No
- B. I lived in Kentucky 183 days or less.  Yes  No
- C. All 2008 Kentucky wages were earned while a resident of any of the following states:  Yes  No  
(circle state(s)) 1-Illinois 2-Indiana 3-Michigan **4-Ohio** 5-Virginia 6-West Virginia 7-Wisconsin

*For Virginia residents only:*

- D. I commuted **daily** to a place of employment in Kentucky.  Yes  No
- E. My only Kentucky income was from salaries or wages.  Yes  No  
*Note: Race track, lottery and other gambling winnings are not salaries or wages.*
- F. I am reporting all of my Kentucky salary or wage income to the state(s) which I circled above.  Yes  No

**Nonresidents who answered "No" to any of the statements above must file Form 740-NP to report Kentucky income.**

Enter name and address of principal employer in Kentucky

**Dept of Treasury/USDA National Finance Center**

Name <b>PO Box 6000</b>		
Number and street		
<b>Florence</b>	<b>KY</b>	<b>41022</b>
City	State	ZIP code

Form 740-NP and other Kentucky tax forms can be downloaded.  
[www.revenue.ky.gov](http://www.revenue.ky.gov)

Attach Wage and Tax Statements Here

1. <b>OVERPAYMENT.</b> Enter total Kentucky income tax withheld. Do not include local tax withheld. Attach 2008 wage and tax statement(s) ..... ● 1	757	00
2. <b>Nature and Wildlife Fund Contribution</b> <input type="checkbox"/> \$10 <input type="checkbox"/> \$25 <input type="checkbox"/> \$50 <input type="checkbox"/> Other _____ Enter amount checked ..... ● 2	00	
3. <b>Child Victims' Trust Fund Contribution</b> <input type="checkbox"/> \$10 <input type="checkbox"/> \$25 <input type="checkbox"/> \$50 <input type="checkbox"/> Other _____ Enter amount checked ..... ● 3	00	
4. <b>Veterans' Program Trust Fund Contribution</b> <input type="checkbox"/> \$10 <input type="checkbox"/> \$25 <input type="checkbox"/> \$50 <input type="checkbox"/> Other _____ Enter amount checked ..... ● 4	00	
5. <b>Breast Cancer Research/Education Trust Fund Contribution</b> <input type="checkbox"/> \$10 <input type="checkbox"/> \$25 <input type="checkbox"/> \$50 <input type="checkbox"/> Other _____ Enter amount checked ..... ● 5	00	
6. From line 1, subtract lines 2, 3, 4 and 5. Amount to be <b>REFUNDED</b> ..... ● 6	757	00

**ATTACH A COPY OF THE 2008 RETURN FILED WITH YOUR STATE OF RESIDENCE.**

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

Your Signature *Tony Gordon* Date Signed 3/22/2009 Telephone Number (daytime) \_\_\_\_\_

Typed or Printed Name of Preparer Other than Taxpayer \_\_\_\_\_ I.D. Number of Preparer \_\_\_\_\_ Date \_\_\_\_\_

**Mail to: Kentucky Department of Revenue, Frankfort, KY 40618-0006**

**Note:** Nonresidents of reciprocal states who want to prevent their Kentucky employer from withholding Kentucky income tax from their paychecks should file a copy of Revenue Form 42A809, Certificate of Nonresidence, with their employer. The form is available from the employer or the Kentucky Department of Revenue, Frankfort, KY 40620.

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0	1	2	3	4	5	6 7

# Section 8

- A) Additional Tax Topics**
  - ✓ Amended Returns
  - ✓ Electronic Filing
  - ✓ Electronic Payments
  - ✓ Estimated Tax
  - ✓ Extensions
  - ✓ Injured Spouse
  - ✓ Innocent Spouse
  - ✓ Military Issues
  - ✓ Statute of Limitations
  - ✓ Tax Incentives
  - ✓ W-2 Forms
  
- B) The Overall Picture**

## ADDITIONAL GENERAL TAX TOPICS

### Amended Returns

Often, due to errors or sometimes to report additional information, taxpayers have a need to amend their original filed return. Kentucky form 740-X may be used by taxpayers who need to amend their 2008, 2007, 2006 or 2005 Kentucky tax return. Form 740-XP is used for prior years.

A claim for refund or credit may be made with four (4) years of the last day prescribed by law, which includes:

- The original due date;
- The extended due date; or
- The date the tax was paid, whichever is later.

This means that for monies paid in with or prior to the extension, the statute of limitations is based on the extended due date. For any monies paid in after the extended due date, the statute of limitations is based on the extended date **or** the date that money was paid.

**Note:** There are no separate instructions for forms 740-X or 740-XP. Use the instructions for the tax year involved to prepare an amended return.

### Amending Form 740 or 740-EZ

Use the appropriate form 740-X or 740-XP. These forms have a three (3) column format. Column 1 is used to report the original figures used, Column 2 is used to note net changes or increases and Column 3 is used to report the corrected amounts.

### Amending Form 740-NP

To amend form 740-NP, you must:

- Use another form 740-NP and mark the box on the face of the form labeled amended and include a copy of the original 740-NP filed;
- Enter the corrected amounts on this form and recalculate to arrive at the correct amount of tax liability; and
- Manually enter any previous amounts received or paid with the original return to arrive at the corrected additional tax to be paid or refunded.

## Amending Filing Status

It is worth noting that if separate returns have been filed by both spouses for the taxable year, the husband and wife may elect to file an amended joint return if the Cabinet is notified in writing that the separate return election is rescinded.

Likewise, if husband and wife have filed a joint return, they may elect to file an amended combined or amended separate return.

Married couples electing to file a combined return **shall not** be permitted to rescind such election and file separate returns.

### KAR 17:020:

103 KAR 17:020. Combined individual returns.

Page 1 of 1

**103 KAR 17:020. Combined individual returns.**

RELATES TO: KRS 131.130, 141.180, 141.050

STATUTORY AUTHORITY: KRS Chapter 13A

**NECESSITY, FUNCTION, AND CONFORMITY:** This administrative regulation provides a basis for the combined individual income tax return which permits married taxpayers to gain benefits of separate filing on one return. The administrative regulation also covers other points related to individual income tax forms, including requirement for social security number.

**Section 1. Forms.** (1) Resident. A resident return shall be filed on Revenue Form 740 (long form) or 740-S (short form) except that a new resident may file on Revenue Form 740-NP (nonresidents and part-year residents).

(2) Nonresidents. A nonresident return shall be filed on Revenue Form 740-NP.

**Section 2. Filing Elections.** (1) Separate return. Any individual, whether married or single, may elect to file a separate return.

(2) Joint return. A husband and wife may elect, for any year, to file a joint return if they are married at the close of the taxable year; or a surviving spouse may elect to file a joint return if the husband or wife died during the taxable year even though one (1) spouse had no gross income. If a joint return is filed, the gross income and adjusted gross income of husband and wife are computed in an aggregate amount and the deductions and the net income are also computed on an aggregate basis. If separate returns have been filed by both spouses for the taxable year, the husband and wife may elect to file an amended joint return if the Revenue Cabinet is notified in writing that the separate return election is rescinded. Likewise, if husband and wife have filed a joint return for the taxable year, they may elect to file an amended combined or amended separate returns. A return marked "amended" will satisfy this requirement. Persons filing joint returns are jointly and severally liable for all taxes, penalties, and interest accruing under the return.

(3) Combined return. A husband and wife may elect, for any year, to file a combined return if they are married at the close of the taxable year. If a combined return is filed, the gross income, adjusted gross income, deductions, net income, tax credits, and tax liabilities of the husband and wife are computed separately but the tax shall be assessed on an aggregate basis. If a husband and wife elect to file a combined return, refunds shall be made payable to the husband and wife jointly and the husband and wife shall be jointly and severally liable for all taxes, penalties, and interest. Married couples electing to file a combined return shall not be permitted to rescind such election and file separate returns for that taxable year.

**Section 3. General Provisions.** (1) Forms may be obtained from the Revenue Cabinet, Frankfort, Kentucky 40601. Each taxpayer must carefully prepare his return so as to set forth fully and clearly the information required and attach copies of all withholding statements designated to be filed with the Kentucky income tax returns. Returns which are not so prepared will not be accepted as meeting the requirements of the law. In the absence of a prescribed form, a statement made by a taxpayer disclosing his gross income and the deductions therefrom may be accepted as a tentative return. If filed within the prescribed time, such statement will relieve the taxpayer from penalties for failure to file or late filing if the tentative return is promptly supplemented by a return made on the proper form.

(2) The social security number and complete home address of the taxpayer together with the official post office and zip code shall be given in the space provided at the top of the return for the name and address of the taxpayer. A taxpayer having a permanent business address may give that address as the principal or mailing address if the complete home address is also given within the space provided.

(3) The return may be made by an agent if the taxpayer is unable to do so. Whenever a return is made by an agent, it must be accompanied by a power of attorney, unless, by reason of absence, illness or other good cause, the taxpayer is unable to execute a power of attorney. (II-2; 1 Ky.R. 225; eff. 1-8-75; Am. 3 Ky.R. 147; eff. 9-1-76.)

## Electronic Filing

The Kentucky Department of Revenue (KDOR) joined with the Internal Revenue Service (IRS) in 1994 to offer electronic filing of federal and state individual income tax returns. The Federal/State Electronic Filing Program allows taxpayers to file both their federal and state returns electronically through their tax preparer. This program is an effort to provide “one-stop shopping” for all tax preparation and filing. Taxpayers, tax practitioners and KDOR benefit from electronic filing. The program was offered to all Kentucky taxpayers during the 2008 filing season, with over one (1) million returns being received to date.

Additional electronic filing options for some taxpayers include Free File Alliance. Thanks to an alliance between the Department of Revenue, the Internal Revenue Service (IRS) and the tax software industry called the Free File Alliance, LLC, over one million Kentucky taxpayers may now prepare and file their taxes on-line at no cost by accessing the program through our website.

Each participating software company sets its own eligibility requirements and the requirements vary among the companies. Both federal and state must be filed at the same time. State only filing cannot be done via DOR’s website.

**Note:** For additional information on electronic filing, see Publication KY-1345, Kentucky Handbook for Electronic Filers of Individual Income Tax Returns, available on the revenue website.

**1–D Barcodes** are imprinted on all Kentucky individual income tax forms. The barcode contains information identifying the form and year for indexing and scanning the forms.

**2–D Barcodes** may be found on some computer generated forms. 2-D Barcode returns are processed through our electronic filing program.

## Electronic Payments

The Kentucky Department of Revenue accepts payments by credit card (VISA and MasterCard) and e-checks for any outstanding delinquent tax liabilities as well as any tax due when filing your current year Kentucky individual income tax.

- For outstanding tax liabilities contact a representative in the Division of Collections at (502) 564-4921 and
- For current year liabilities, payments may be made online by the taxpayer if made before the due date of the return.

**Note:** Convenience fees are charged on past due liabilities, but not on current year timely made payments.

## Estimated Tax

Estimated tax payments are a means for taxpayers to avoid an underpayment of tax penalty. Estimated tax payments are also referred to as **declaration payments**. PF8, the current mainframe application, is designated as Income Tax Declaration. In that application you will find the history of individual taxpayers payments made and payments applied or "marked-off".

Individuals who can reasonably expect to have income in excess of \$5,000 from which no Kentucky income tax will be withheld may be required to make estimated tax payments as required by KRS 141.300. Individuals who do not prepay at least 70 percent of the tax liability for the year may be subject to a 10 percent penalty for underpayment of estimated tax. Prepayments may be made through:

- Withholding;
- Credit forward from the previous tax year;
- Estimated tax payments; and,
- For taxpayers who have income subject to another states tax, credit for individual income tax paid to another state.

## Vouchers

Individual estimated tax payments are set up to be made quarterly via Form 740-ES Estimated Tax Vouchers. Taxpayers may pay the full amount of estimated tax in one payment on the earliest applicable due date or they may be paid in installments.

## Extensions

Kentucky individual and corporation income tax returns must be filed with the DOR by the due date, unless an extension is obtained. The request for the extension must be submitted in writing to the Revenue Cabinet on or before the due date of the return.

**KRS 141.170(1)** states in part "The Revenue Cabinet may grant a taxpayer other than a corporation a reasonable extension of time for filing his income tax return whenever good cause exists . . ."

Inability to pay is not an acceptable reason. Acceptable reasons include destruction of records by fire or flood and serious illness of taxpayer.

A taxpayer that is granted an extension of time for filing a federal income tax return shall be granted the same extension of time for filing a Kentucky income tax return. A copy of the federal extension approval or request for an automatic extension should be attached to the Kentucky income tax return when it is filed.

### **Extensions for Electronic Filed Returns**

If the extension request is electronically filed with the IRS, taxpayers receive a confirmation number. Advise them to enter the confirmation number on form 4868 (federal extension) or a copy of the electronic acknowledgement and attach to the paper filed Kentucky individual income tax return.

For the six-month extension it is necessary to attach a copy of the approved federal extension **Form 2688 - Application for Additional Extension of Time to File U.S. Individual Tax Return.**

**Extensions for Members of the Military** – See separate information on military income.

### **No Federal Extension**

In some instances an extension may be required for the Kentucky return and not the federal return. Kentucky has its own form 40A102 for that situation.

### **Innocent Spouse Relief**

**House Bill 121** amended **KRS 141.180** to provide innocent spouse relief for a spouse who is jointly or severally liable for taxes levied under **KRS 141.020**, along with applicable penalties, and interest if the spouse has been relieved of liability for federal purposes or would have been relieved had there been a federal liability.

Any determination of qualifying for Kentucky purposes would be made by the legal area, Division of Collections.

### **Injured Spouse Relief**

For federal purposes, Form 8379 can be attached to the joint return when filed and the spouse not owing delinquent past due child support or other obligations can get their refund and the portion of the refund that was attributable to withholding for the spouse owing the money would be kept and sent to the appropriate agency for the delinquent debt.

However, Kentucky law does not provide for injured spouse relief. Accordingly, Kentucky will capture the refund or a portion thereof and send such refund to the agency that is owed the delinquent debt.

**Note:** Kentucky recognizes Injured Spouse relief for Child Support claims **only**.

## MILITARY TAX ISSUES

### Income Tax Exclusion for Military Killed in the Line of Duty

HB 380 amended KRS.141.010 to exempt all income earned by soldiers killed in the line of duty from Kentucky tax for the years during which the death occurred and the year prior to the year during which the death occurred.

The changes are applicable for tax years beginning after December 31, 2001. The income exclusion applies to all income from all sources of the decedent, not just military income. The exclusion includes all federal and state death benefits payable to the estate or any beneficiaries.

Amended returns may be filed for the year the soldier was killed in the line of duty and the year prior to the year of death. The amended returns must be filed within the statute of limitations period; four years from the due date, the extended due date or the date the tax was paid, whichever is later.

If a combined return was filed, the exclusion would apply to the income reported in Column A or Column B of the Kentucky return attributable to the military member. If a joint return was filed, the income must be separated accordingly. Refunds will be issued in the names on the original return. Beneficiaries or estates that received death benefits that were included in a Kentucky return may file an amended return to request a refund of taxes paid on the benefit.

The Department of Revenue will use the Veterans Administration definition for "in the line of duty," which is in active military service, whether on active duty or authorized leave, unless the death was the result of the person's own willful misconduct.

### Taxing Military Income

Any income earned in a combat zone that is exempt for federal purposes is also exempt for Kentucky tax purposes. Furthermore, interest does not apply to tax paid after the original due date of the return if an extension is granted as a result of being in a combat zone. However, Kentucky does not offer tax forgiveness in that situation. With the exception of the above Military Killed in the line of duty, all other military income received by Kentucky residents is taxable.

### Military Extensions

Federal law allows for a 180 day extension for members of the military serving in a combat zone. Kentucky allows a one year extension for members of the military serving in a combat zone.

## Statute of Limitations

A statute of limitations by definition defines the period within which legal action may be taken. As applied to taxes, the statute of limitations determines the legal time frame for making assessments and issuing refunds. The Statute of Limitations for Kentucky Individual Income Tax is administered as per KAR 15:040:

### **103 KAR 15:040. Statute of limitations; assessments and refunds.**

NECESSITY, FUNCTION, AND CONFORMITY: This administrative regulation summarizes and explains provisions of income tax law pertaining to time limitations on assessments of additional taxes and the granting of tax refunds.

Section 1. **Assessments.** Additional income tax may be assessed within four (4) years from the due date of return, the extended due date, or the filing date of a late return. Exceptions are provided in this section and in Section 2 of this administrative regulation. If returns are not filed, or if fraudulent returns are filed, additional tax may be assessed at any time.

(1) **Individuals.** Additional tax may be assessed within six (6) years after the return was due or filed if an individual understates net income by twenty-five (25) percent, or omits from net income at least twenty-five (25) percent of net income reported.

(2) **Corporations.** Additional tax may be assessed within six (6) years after the return was due or filed if the corporation understates its taxable net income by twenty-five (25) percent, or omits from taxable net income at least twenty-five (25) percent of taxable net income reported.

Section 2. **Agreements.** The period for assessment and refund may be extended by written agreement between the cabinet and the taxpayer before the statutory limitation expires, and may be further extended by additional agreements. Any agreement extending the time for assessment specifically extends the time for refund or credit notwithstanding the limitation in Section 3 of this administrative regulation.

Section 3. **Refunds.** (1) **Limitation.** The cabinet may authorize refunds or credits within three (3) years from the due date of the return or the date the tax was paid, whichever is later, on payments received before January 1, 1966. Payments received on or after January 1, 1966 may be refunded or credited within four (4) years from the due date of the return or the date the tax was paid, whichever is later. Interest is paid on refunds for taxable years ended July 1, 1982 and thereafter in accordance with KRS 131.183.

**KRS 131.183**

(2) Claim. A refund claim may be filed by letter or Revenue Form 40A713. A claim must contain:

- (a) The taxpayer's name, address, and form of organization whether individual, corporation, or fiduciary;
  - (b) The calendar or fiscal year of the taxpayer;
  - (c) Amount paid and date of payment;
  - (d) The validation number if available;
  - (e) The amount of refund requested;
  - (f) A certification that taxpayer is not indebted to the Commonwealth for any taxes;
- and
- (g) The basis for the claim.

(3) A separate claim must be filed for each year, and an amended return may be required to support any claim. If any claim is denied, a protest may be filed with the cabinet within forty-five (45) days from notice of disallowance.

Section 4. **Statutory Date.** A return filed before the due date is considered filed on the due date for purposes of this administrative regulation.

**Note:** The Statute of Limitations for federal purposes is three years.

## **TAX INCENTIVE PROGRAMS**

In an effort to increase economic development among Kentucky businesses and support, promote and finance economic development in the Commonwealth of Kentucky, the General Assembly has created special tax incentives by establishing programs with various income tax credits.

All three credits described below have one thing in common. All three programs provide for assessment fees that are paid by the employee to the employer in the form of withholding by the employer from the employee's wages. The employee recoups a percentage of the amounts withheld from their wages by including the amount withheld on their Kentucky income tax return just like the regular Kentucky withholding tax.

That amount is verified on the W-2/K-2 wage statement. The amount of the assessment fee which can be taken as a withholding credit on the Kentucky return will be reflected on the wage statement just like the Kentucky withholding amount and will be identified by the specific program.

## Current Programs

Examples of these types of programs include:

- **KREDA** for **Kentucky Rural Economic Development Authority**;
- **KJDA** for **Kentucky Jobs Development Authority**; and,
- **KIRA** for **Kentucky Industrial Revitalization Authority**.

Additional incentive programs may be created as a result of legislative action.

**Note:** Withholding for these programs may include either state or local withholding and should be identified as such on the wage statement. Only state withholding may be claimed as additional withholding by the taxpayer. Local tax may only be claimed as an itemized deduction.

## W-2 INFORMATION

All employees should receive Form W-2 wage statement from each employer showing the amount of pay received for services and any other disbursements. These may include federal, state and local tax withheld and various other items. Most employers issue multiple copies; however, all copies may not include the same information. For example one copy may be designated as the “state” copy and only include state information.

Although the overall look of W-2 forms issued by different employers may be different, similar to the way checks vary, all have common information boxes on the form. Each box is identified by a letter or number and that information is consistent on all forms.

An example of Form W-2 is shown on the next page.

22222		a Employee's social security number		OMB No. 1545-0008		
b Employer identification number (EIN)			1 Wages, tips, other compensation		2 Federal income tax withheld	
c Employer's name, address, and ZIP code			3 Social security wages		4 Social security tax withheld	
			5 Medicare wages and tips		6 Medicare tax withheld	
			7 Social security tips		8 Allocated tips	
d Control number			9 Advance EIC payment		10 Dependent care benefits	
e Employee's first name and initial      Last name      Suff.			11 Nonqualified plans		12a	
			13 Statutory employee      Retirement plan      Third-party sick pay <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>		12b	
			14 Other		12c	
					12d	
f Employee's address and ZIP code						
15 State      Employer's state ID number		16 State wages, tips, etc.	17 State income tax	18 Local wages, tips, etc.	19 Local income tax	20 Locality name

Form **W-2** Wage and Tax Statement  
 Copy 1—For State, City, or Local Tax Department

**2008**

Department of the Treasury—Internal Revenue Service

**INFORMATION FOUND ON FORM W-2 WAGE STATEMENT**

A brief description of each information box is listed below. For additional information regarding these items, review "Instructions for Form W-2" found on the IRS website:

<http://www.irs.gov>

Demographic information is shown on the W-2 as follows:

- Box A**      Employee's social security number
- Box B**      Employer ID number
- Box C**      Employer's name, address, and ZIP code
- Box D**      Employer's control number - optional
- Box E & F**      Employee's name and address

Dollar amounts allocated to the proper item and additional information is shown as follows:

<b>Box 1</b>	<b>Wages, tips, other compensation</b>
<b>Box 2</b>	<b>Federal income tax withheld</b>
<b>Box 3</b>	<b>Social security wages, limits apply, may be different than Box 1</b>
<b>Box 4</b>	<b>Social security tax withheld</b>
<b>Box 5</b>	<b>Wages and tips subject to Medicare tax</b>
<b>Box 6</b>	<b>Medicare tax withheld</b>
<b>Box 7</b>	<b>Social security tips</b>
<b>Box 8</b>	<b>Allocated tips</b>
<b>Box 9</b>	<b>Advance earned income credit</b>
<b>Box 10</b>	<b>Dependent care benefits</b>
<b>Box 11</b>	<b>Nonqualified plans</b>
<b>Box 12</b>	<b>“Catchall” box for Codes for various items. See following page.</b>
<b>Box 13</b>	<b>Check applicable boxes.</b>
<b>Box 14</b>	<b>Other items. Examples include union dues, parsonage allowance, etc.</b>
<b>Box 15</b>	<b>Enter state(s)</b>
<b>Box 16</b>	<b>Enter state wages</b>
<b>Box 17</b>	<b>State income tax withheld</b>
<b>Box 18</b>	<b>Local wages subject to tax</b>
<b>Box 19</b>	<b>Local tax withheld</b>
<b>Box 20</b>	<b>Name of locality</b>

**Corrections** – Should corrections need to be made to the original Form W-2 those can be made by the employer by using Form W-2C. Corrections may be needed to correct addresses, amounts of Kentucky income, etc.

**Reference Guide for Box 12 Codes**

- A - Uncollected social security tax on tips**
- B - Uncollected Medicare tax on tips**
- C - Group-term life insurance over \$50,000**
- D - Elective deferrals to a 401(k) cash of deferred arrangement**
- E - Elective deferrals to a 403(b) salary reduction agreement (tax-sheltered annuity programs for employees of public schools, hospitals and certain other tax-exempt organizations)**
- F - Elective deferrals to a 408(k)(6) salary reduction SEP plan**
- G - Elective and nonelective deferrals to a 457(b) deferred compensation plan (state and local government and certain tax-exempt employers)**
- H - Elective deferrals to a 501(c)(18)(D) tax-exempt organization plan (trusts created before June 25, 1959 - very rare)**
- J - Nontaxable sick pay (Not included in boxes 1, 3 or 5)**
- K - 20% excise tax on excess golden parachute payments**
- L - Substantiated employee business expense reimbursement (nontaxable)**
- M - Uncollected social security tax on group-term life insurance coverage > \$50,000**
- N - Uncollected Medicare tax on group-term life insurance coverage > \$50,000**
- P - Excludable reimbursed moving expenses**
- Q - Military employee basic quarters, subsistence and combat zone compensation**
- R - Employer contributions to your Medical Savings Account**
- S - Employee salary reduction contributions to a section 408(P) SIMPLE**
- T - Adoption Benefits (not included in line 1)**
- V - Income from the exercise of nonstatutory stock option**
- W - Employer's contributions to a Health Savings Account**
- Y - Deferrals under a section 409A nonqualified deferred compensation plan**
- Z - Income under section 409A on a nonqualified deferred compensation plan**
- AA - Designated Roth contributions under a section 401 (k) plan**
- BB - Designated Roth contributions under a section 403 (k) plan**

## THE “**BIG**” PICTURE

The **Kentucky Finance and Administration Cabinet** is responsible for the construction of state facilities, property management, expenditure control, state purchasing and postal and printing services. The Cabinet provides the administrative support and the facilities to enable agencies to provide the access to government that the public needs and deserves.

The Secretary of Finance provides executive policy and management for the departments and divisions of the Cabinet and serves as the chief financial officer and manager of the financial resources of the Commonwealth. The Secretary also serves on numerous boards and commissions including the Kentucky Economic Development Partnership Board, the Kentucky Economic Development Finance Authority, the Kentucky Economic Roundtable, the Kentucky Higher Education Assistance Authority, the Kentucky Infrastructure Authority and the Kentucky Housing Corporation.

The Cabinet’s **Department of Revenue** is the statutory agency of state government responsible for the administration and enforcement of all state revenue laws and for the assessment and collection of state taxes. Its mission is to provide courteous, accurate and efficient services for the benefit of Kentucky and its citizens, and administer the tax laws of the Commonwealth in a fair and impartial manner. The Department of Revenue is made up of many divisions including the Office of Income Taxation.

### **Office of Income Taxation**

The Office of Income Taxation is responsible for administering all matters related to the individual income, withholding, corporation income and corporation license taxes, including technical tax research, compliance, taxpayer assistance, tax specific training, public announcements, publications, forms and any other matter related to those taxes. It consists of the following divisions:

The **Division of Individual Income Tax** is responsible for administering the taxes for returns filed by the following taxpayers: individual income, fiduciary, employer withholding, pass-through entity withholding and partnership. It consists of two branches: Individual Income Tax Branch and Withholding Tax Branch.

The **Division of Corporation Tax** is responsible for administering the following taxes and programs: corporation income tax; corporation license tax; pass-through entity withholding; and partnerships. It consists of two branches: Corporation Income and License Tax Branch; and Pass-Through Entity Branch.

## INVOLVEMENT WITH OTHER AREAS

The Office of Income Taxation comes into contact with many other areas of Revenue and often other state agencies, such as the Department of Treasury, as well. Resolving cases may include contacts with more than one area of Revenue. A brief description of the various areas within Revenue follows.

The **Disclosure Branch** is the liaison between the DOR and the Internal Revenue Service, and other agencies of federal, local and state government. The branch administers the provisions of KRS 131.190 to ensure the confidentiality of taxpayer information and protect against unauthorized use or release. Additionally, this branch is responsible for granting electronic security access to DOR information systems and physical access to DOR facilities.

The **Division of Legislative Services** provides technical support and research assistance; performs studies, surveys and research projects to assist in policy-making decisions; coordinates development and drafts proposed tax legislation and regulations; coordinates review of tax legislation; and testifies before legislative committees on tax matters.

The **Office of Processing and Enforcement** is responsible for promoting the enterprise services available to the commonwealth related to document processing, depositing of funds and collecting debt. Additionally, the office is responsible for coordinating, planning and implementing a data integrity strategy. The office consists of the following three divisions:

The **Division of Operations** is responsible for opening all incoming tax returns, preparing the returns for data capture, coordinating the data capture process, depositing receipts and maintaining the tax data. Additionally, the division assists other agencies with similar operational aspects as negotiated with that agency.

The **Division of Collections** is responsible for enforced collection activities related to tax and other debts owed to the commonwealth. The division also collects delinquent child support referred by the Cabinet for Families and Children.

The **Division of Registration and Data Integrity** is responsible for registering taxpayers and ensuring that the data entered into the tax systems is accurate and complete. The Registration Branch processes all business tax applications and assists registrants as needed. This branch also ensures that all taxpayers, who may have overlooked their tax registration obligations, are contacted and brought into compliance.

The **Office of Taxpayer Ombudsman** is responsible for carrying out the intent and specific purposes of the Taxpayer Bill of Rights, including: coordinating the resolution of taxpayer complaints and problems; providing recommendations for new or revised informational publications and taxpayer and department employee education programs; and providing recommendations for simplification or other improvements needed in tax laws, regulations, forms, systems and procedures to promote better understanding and voluntary compliance by taxpayers.

The **Office of Property Valuation** is responsible for administering all matters related to property and severance taxes. This includes technical tax research, compliance, taxpayer assistance, tax specific training, public announcements, publications, forms and any other matter related to those taxes. The office consists of the following divisions:

The **Division of State Valuation** is responsible for administering all centrally assessed taxes including public service property tax, motor vehicle property tax and the tangible/intangible program.

The **Division of Local Valuation** is responsible for overseeing the real property tax assessment and collection process throughout the state in the 120 PVA and sheriffs' offices.

The **Division of Minerals Taxation and GIS Services** is responsible for administering the taxes related to severance tax and the unmined minerals property tax. It also coordinates the DOR's GIS mapping efforts. It contains three branches: mineral resource valuation; mineral assessment compliance; and cartography/GIS.

The **Office of Sales and Excise Taxes** is responsible for administering all matters related to sales and use tax and the miscellaneous excise taxes. This includes technical tax research, compliance, taxpayer assistance, tax specific training, public announcements, publications, forms and any other matter related to those taxes. It includes the divisions of Sales and Use Tax and Miscellaneous Taxes.

The **Division of Sales and Use Tax** is responsible for administering the sales and use tax and telecommunications excise and gross revenue taxes. It has two branches: Program Compliance and Taxpayer Assistance. The branches are responsible for conducting office audits, administering various exemption programs, initiating compliance activities, assisting taxpayers and discovery of nonfiler populations.

The **Division of Miscellaneous Taxes** is responsible for administering the following taxes: alcoholic beverage taxes; cigarette enforcement fee, license, excise tax and surtax; gasoline tax; health care provider tax; inheritance and estate tax; insurance premiums and insurance surcharge taxes; state bank franchise tax; legal process; marijuana and controlled substance; motor vehicle tire fee; motor vehicle usage taxes; PSC annual assessment; pari-mutuel excise, racing license and admissions taxes; RECC and RTCC; special fuels taxes; other tobacco products and snuff taxes; transient room tax; utility gross receipts tax and underground storage fee. It consists of two branches: Road Fund Branch and Miscellaneous Tax Branch.

The **Office of Field Operations** is responsible for managing the regional taxpayer service centers and field audit program. The ten centers are located in Ashland, Bowling Green, Central Kentucky (Frankfort), Corbin, Hopkinsville, Louisville, Northern Kentucky (Florence), Owensboro, Paducah and Pikeville.

The **Audit Support and Training Branch** is responsible for supporting the work of DOR field auditors and compliance officers throughout the commonwealth, including the support related to computer-assisted audits, audit selection and training. The 10 regional offices are geographically divided among three regional managers to oversee the field operations of the commonwealth. Region 1 consists of Ashland, Northern Kentucky and Pikeville Taxpayer Service Centers. Region 2 consists of Louisville, Corbin and Bowling Green Taxpayer Service Centers; and the Audit Selection Section. Region 3 consists of Hopkinsville, Central Kentucky, Owensboro and Paducah Taxpayer Service Centers.

The **Office of Legal Services for Revenue** provides administrative and legal services for their respective offices/departments and to the Finance and Administration Cabinet and Cabinet-related entities. Members of this office also represent the Cabinet before administrative boards and at all levels of state and federal court.

The **Division of Protest Resolution** reviews and bills tax audits completed by field auditors in the Department of Revenue's 10 taxpayer service centers. The Division is also responsible for responding to and resolving taxpayers' protest of the assessments, which may result from both field audits and office audits.

**PVA Offices (Accounting)** provide budget, fiscal, personnel and payroll administration for all 120 PVAs and more than 680 deputies throughout the commonwealth. It also coordinates open enrollment for health and life insurance and directs property tax educational courses. It conducts workshops at summer and fall PVA conferences and meetings.

## INDIVIDUAL INCOME TAX IMPACT

According to the last available annual report for Revenue, which covers fiscal years 2007 and 2008, nearly 73 percent of General Fund revenues were in the areas of individual income tax and sales tax. The next-largest source of revenue was the *other taxes* category. The largest components in this category include insurance premium taxes, bank franchise tax, inheritance tax, beer wholesale sales tax, the natural gas severance tax, abandoned property, departmental fees, and fines and forfeitures.

The revenue generated by **Individual Income Tax** for the fiscal year 2007-2008 was in excess of \$3.48 billion and the total General Fund receipts was over \$8.66 billion.

## ADMINISTRATE – COLLECT – PROVIDE

Ultimately, employees of the Division of Income Tax, through the application and administration of the tax laws, generate revenue for the Commonwealth of Kentucky and provide service to taxpayers. This is best summed up in the Department of Revenue Mission Statement:

*As part of the Finance and Administration Cabinet the mission of the Kentucky Department of Revenue is to administer tax laws, collect revenue, and provide services in a fair, courteous, and efficient manner for the benefit of the Commonwealth and its citizens.*

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