Kentucky Tax Alert

EDUCATION PAYS

A KRC PUBLICATION FOR THE TAX PROFESSIONAL May 1999 • Vol. 18, No. 3

Kentucky to Host SEATA Conference in July

I extend to you a heartfelt invitation to join us in Lexington, Ky., for the 49th annual Southeastern Association of Tax Administrators (SEATA) Conference, July 11-14, 1999, at the Marriott Griffin Gate Resort. Our staff began working on this conference in May of 1998 and the results are outstanding. This conference will combine an excellent professional seminar with outstanding entertainment for participants and their families.

Up-to-date information on this event can be found at KRC's Web site at http://www.state.ky.us/agencies/revenue, or by calling (502) 564-3226.

We look forward to seeing you in Lexington in July!

Sarah Jane Schaaf

Sarah Jane Schaaf, Secretary
Kentucky Revenue Cabinet

SEATA Conference Details

The 1999 SEATA Conference will be held at the Marriott Griffin Gate Resort in Lexington July 11-14, 1999. The hotel is located just off Interstate 75 and Interstate 64 at Exit 115.

Scheduled guest speakers include Pam Miller, Lexington mayor; Governor Paul E. Patton; Robin Capehart, West Virginia Department of Tax and Revenue secretary; C.M. Newton, University of Kentucky athletic director; Ron Bingham, *EMPOWER Kentucky* project director; and Mary Ellen Withrow, treasurer of the United States.

Basic registration is $175 for government delegates and $225 for industry delegates, if paid on or before June 11, 1999. Entry fees in golf, tennis, and volleyball tournaments are not included in the basic registration cost.

Hotel reservations should be made directly with the Marriott Griffin Gate Resort by calling (800) 228-9290 by June 30, 1999. The cost is $119 per night per room. Additional rooms are being held at the Holiday Inn adjacent to the Marriott at a cost of $89 per night. Rooms may be reserved there by calling (606) 233-0512.

Complete information and copies of all registration forms are available from KRC's Online Taxpayer Service Center at http://www.state.ky.us/agencies/revenue, or by calling Barbara Nash at (502) 564-3226 or Mary Ellen Graves at (502) 564-3111. A registration form for the conference is available on Page 7.

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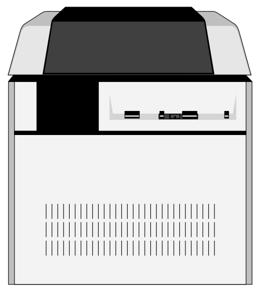
KRC Revises Tax Returns for Use With Scanning and Imaging System

KRC has revised several forms for use with the new scanning and imaging system which will be used to process certain tax returns beginning Aug. 2, 1999. These forms are the Kentucky Employer's Return of Income Tax Withheld (Forms K-1, K-1E, K-3, and K-3E), Kentucky Sales and Use Tax Return (Form 51A102), Kentucky Sales and Use Tax EFT Return (Form 51A102-E), Kentucky Accelerated Sales and Use Tax Return (Form 51A103), Kentucky Accelerated Sales and Use Tax EFT Return (Form 51A103-E), and the Consumer's Use Tax Return (Form 51A113).



These returns are preprinted with taxpayer account information and mailed to registered sales and use and withholding taxpayers. KRC also provides blank returns for newly registered taxpayers, or registered taxpayers who have lost their preprinted returns.

The new forms have a worksheet at the top, which taxpayers complete and keep for their records, and a detachable coupon at the bottom. Remove the coupon and include it with payment in the courtesy reply window envelope provided by KRC. Make sure that the preprinted return address is visible through the envelope's window. Checks should not be stapled, paper-clipped, or otherwise attached to the coupon.

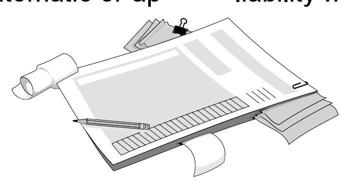
KRC seeks the same information on these new forms as it did on the old returns the new versions replace. The only changes are the way the information is recorded on the returns. KRC designed the forms to be as easy as possible for taxpayers to complete.

The new system scans the forms, extracts data, and stores images of the documents. This allows KRC to serve taxpayers more efficiently by reducing costs, processing errors, and time. The size of the envelope and the return is designed to make optimal use of KRC's new mail opening equipment.

Taxpayers needing assistance in completing the new returns should contact KRC's Sales and Use Tax or Withholding Tax sections at (502) 564-4581, or their nearest taxpayer service center.

Extensions to File Kentucky Individual Income Tax Returns

If an extension to file a 1998 Kentucky individual income tax return was not requested by April 15, 1999, KRC will accept a federal extension. A copy of the automatic or approved federal filing extension must have been attached to the Kentucky individual income tax return in order for a taxpayer to avoid a late filing penalty.

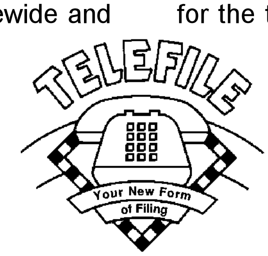


Because an extension to file a return does not extend the time to pay a tax liability, interest will accrue on the tax liability unpaid as of April 15, 1999, until paid. In addition to interest, KRC will assess a late payment penalty unless 75 percent or more of the tax liability was paid by April 15, 1999.

To prevent further interest and penalties from accruing, payment of the tax liability should be made prior to the extended date for filing the return. If a taxpayer can demonstrate that the delay in filing the return or remitting the payment is due to reasonable cause, penalties—but not interest—may be reduced or waived.

Participation in TeleFile Pilot Project Quadruples Initial Estimate

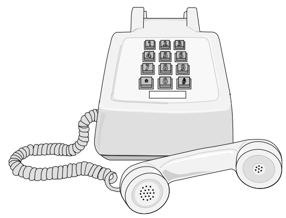
During the 1999 individual income tax filing season, KRC partnered with the Internal Revenue Service (IRS) in a joint TeleFile pilot project. This pilot was offered statewide and provided the opportunity for many Kentuckians to file their 1998 federal and Kentucky individual income tax returns together electronically over the telephone. To date, more than 40,695 Kentuckians have filed their individual income tax returns using the TeleFile System. Indiana was the only other state involved in the pilot project for 1999.



According to Governor Paul E. Patton, "The TeleFile pilot project dovetails nicely with *EMPOWER Kentucky*, which promotes improved efficiency of government operations through technology. This is a win-win situation for the taxpayer and for the Revenue Cabinet. Taxpayers receive their refund faster and don't have to worry about filling out and mailing the return; and the Revenue Cabinet doesn't have to deal with manually processing all the extra paper."

Based on the success of TeleFile for the 1998 tax year, preliminary plans are being made to continue this pilot project for filing 1999 tax returns next year.

Four Taxpayer Service Centers Placed in New 270 Area Code



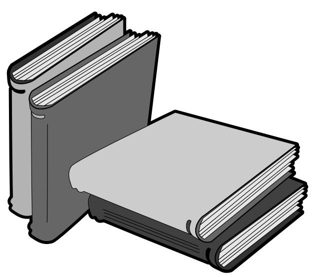
The Bowling Green, Hopkinsville, Owensboro, and Paducah taxpayer service centers (TSCs) were placed in a new area code region on April 19, 1999. These TSCs are now located in area code 270 instead of area code 502. Please note that the seven-digit telephone and fax numbers for these four TSCs remain the same. Only the area codes changed.

Until Monday, Nov. 1, 1999, a *permissive dialing period* will be in effect. During this permissive period, callers may dial either the 502 or 270 area code to reach these TSCs. After the permissive period ends on Nov. 1, 1999, all calls to these TSCs must be dialed using the 270 area code.

All counties in western, west-central, and south-central Kentucky that were previously in the 502 area code are now included in the 270 area code, except for the following 13 counties: Anderson, Bullitt, Carroll, Franklin, Henry, Jefferson, Nelson, Oldham, Owen, Scott, Shelby, Spencer, and Trimble.

New Publications Available on KRC's Web Site

Several publications are now available on KRC's Online Taxpayer Service Center (TSC). These include recent editions of KRC's statistical report, property tax rate listings, and withholding tax guidelines.



KRC Statistical Reports

The complete set of tables comprising KRC's statistical report for Fiscal Year 1995-96 is available online in HTML format. Most tables for 1996-97 and 1997-98 are also available. The remainder of these tables will be added when completed.

KRC no longer publishes the traditional paper version of the ***Statistical Report***.

Property Tax Rates

Kentucky Property Tax Rates booklets for calendar years 1997 and 1998 are available. These booklets, published by the Department of Property Valuation, list tax rates for state and local governmental units in Kentucky, including county, city, school, and special district levies. Available in Portable Document Format (PDF), Adobe Acrobat Reader software is required to view and print these documents. This software is available free from Adobe at http://www.adobe.com.

For more information about this publication, contact the Department of Property Valuation at (502) 564-8338.

Withholding Tax Instructions

The new version of ***Withholding Kentucky Income Tax****—Instructions for Employers and Withholding Tax Tables* is available online. Revised in September 1998, this 54-page booklet contains:

- withholding tables for tax years 1999 and 2000;
- instructions on withholding Kentucky individual income tax;
- optional computer formula withholding method;
- reproducible Forms K-4, K-4A, K-4E, Certificate of Nonresidence, and K-2 Magnetic Media Transmitter Report; and
- nonreproducible completed samples of Forms 10A100, 10A101, K-1, K-3, 42A801(D), 42A803(D) (for cancellation of withholding accounts), K-4, K-4A, K-4E, and W-2/K-2.

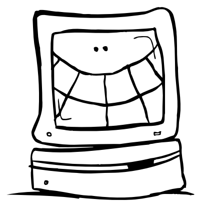
The ***Withholding Kentucky Income Tax****—Instructions for Employers and Withholding Tax Tables* booklet is a 2.9 MB PDF file. Adobe Acrobat Reader software is required to view and/or print this publication.

For those who do not wish to download the entire booklet, the withholding tables for tax years 1999 and 2000, the optional computer formula withholding method, and reproducible withholding and tax registration forms are available individually.

For more information about this publication, contact the Withholding Tax Section at (502) 564-7287.

KRC's Online TSC is accessible at http://www.state.ky.us/agencies/revenue. If you have comments on the Web site or suggestions for additions, you may E-mail them to KRC's Webmaster at revweb@mail.state.ky.us.

KRC Prepared for *Y2K*



During the past two years, KRC has focused on ensuring there will be no impact to KRC or to taxpayers because of the Year 2000 (Y2K) computer problem.

Beginning in May 1997, mainframe applications and corresponding interfaces have been assessed and converted to a Y2K-compliant format. KRC has tested each of these systems as conversions were made. KRC also participated in a state disaster recovery exercise last fall that included a Year 2000 date simulation. All mainframe tax systems will be Y2K-compliant by June 30, 1999. KRC is also upgrading all PC-based applications for Y2K compliance. This project will be completed by July 31, 1999.

KRC officials are confident that the Cabinet and taxpayers will experience no problems resulting from the Y2K computer problem.

Several KRC Offices Relocate

During February, several KRC offices relocated. These moves consolidated some KRC programmatic areas into common physical locations.

- The Application Engineering Section moved from Perimeter Park West on Louisville Road to the first floor of 200 Fair Oaks Lane. The Application Analysis Support Section moved from 100 Fair Oaks to the first floor of 200 Fair Oaks and shares space with Application Engineering.
- All offices in the Division of Compliance and Taxpayer Assistance were consolidated on the second floor of 200 Fair Oaks.
- All offices in the Department of Property Valuation were consolidated on the fourth floor of 200 Fair Oaks.

All telephone numbers remain the same.

New PVAs Appointed

Several new property valuation administrators (PVAs) have been appointed since Jan. 1, 1999, due to resignations or retirements.

New PVAs include:

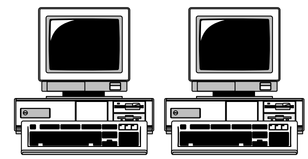
J. Ron Durbin was appointed PVA in Daviess County in March. He fills the vacancy created by the retirement of Raymond Gist.

James Lawson was appointed PVA in Menifee County in February. He fills the vacancy created by the resignation of Fairis Peck.

Margaret Platt was appointed PVA in Washington County in April. She fills the vacancy created by the retirement of Barbara Stumph.

Currently, vacancies exist in the PVA offices in Ohio and Campbell counties. Appointments to fill these vacancies are pending.

Internet Taxation Issues Clarified



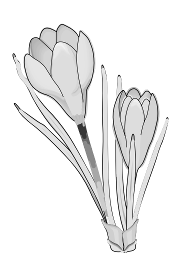
In October 1998, Congress passed legislation seeking to establish a national policy concerning state and local government taxation of interstate commerce on the Internet and interactive computer services. This act imposed a three-year ban on the establishment of any new taxation of charges made for Internet access or online services. Under current Kentucky tax law for telecommunications (KRS 139.100(2)(b)), sales and use tax does not apply to the Internet service fees identified by this act.

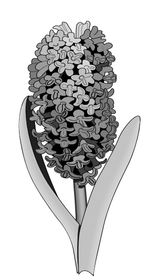
Under the terms of the Internet Tax Freedom Act, Kentucky may not require an out-of-state retailer to collect and remit tax simply because the retailer makes sales of tangible personal property into this state via the Internet. However, purchases of tangible personal property for use in Kentucky are still subject to the 6 percent Kentucky sales and use tax. If an out-of-state retailer happens to make sales via the Internet for delivery and use in Kentucky, then the seller is still required to collect the 6 percent tax if the company is engaged in business in this state as specified in KRS 139.340.

If the out-of-state seller is not required to collect the tax on such transactions, the purchaser is liable for the 6 percent Kentucky use tax (KRS 139.330). The purchaser is not relieved of this liability just because he made an order accessing a retailer's Web site any more than he is relieved from tax by purchasing tangible personal property through an out-of-state mail order company.

To pay the 6 percent use tax on applicable purchases, the purchaser may complete the use tax worksheet included in the annual Kentucky income tax instruction booklet and report the amount due on his income tax return, or he may file Form 51A113(O), Consumer's Use Tax Return. For more information about use tax reporting requirements, contact the Sales and Use Tax Section at (502) 564-5170.

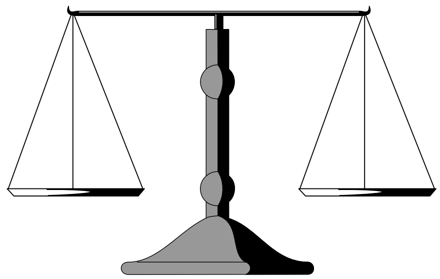
Another provision of the Internet Tax Freedom Act is to establish a commission to review and make recommendations on issues relating to the electronic commerce arena such as interstate commerce, telecommunication services, and the collection of sales and use taxes on in-state purchases from out-of-state retailers. By the time the commission report is due to Congress on April 21, 2000, U.S. Internet commerce revenue is projected to reach $183 billion annually.





Court Case Updates

Controlled Substances Excise Tax—The United States Supreme Court was petitioned on Feb. 16 and 17, 1999, to review the Kentucky Supreme Court's decision of ***Commonwealth v. Bird***, Ky., 979 S.W.2d 915 (1998). In this case, the Kentucky Supreme Court held that a criminal defendant's payment of the Kentucky controlled substance excise tax did not constitute criminal punishment that would bar a subsequent criminal drug prosecution under the United States and Kentucky Constitutions' double jeopardy clause.



Corporation Income Tax—In ***Mississippi Mining, Inc. v. Revenue Cabinet***, K90-R-49, the Kentucky Board of Tax Appeals (KBTA) held that a group of intrastate corporations could report and compute their Kentucky taxable corporate income on a unitary or combined basis. The KBTA rejected KRC's argument that there was no statutory authority for these intrastate corporations' reporting their corporation income tax liability in this manner.

KRC has appealed this KBTA decision to the Franklin Circuit Court.

Health Care Provider Tax—In ***Children's Psychiatric Hospital, et al v. Revenue Cabinet***, 96-SC-1123-TG, the Kentucky Supreme Court upheld the health care provider tax against a number of constitutional challenges brought by Kentucky hospitals. The court first held that the exemption for institutions of purely public charity provided for in Section 170 of the Kentucky Constitution did not apply, as that constitutional provision applied only to ad valorem or property taxes and the health care provider tax is not a property tax.

The court further held that the health care provider tax was not impermissible special legislation. On this point, the court declared that its previous decision in ***Revenue Cabinet v. Smith***, Ky., 875 S.W.2d 873 (1994) was controlling. The court also rejected arguments that the tax violated the equal protection and due process provisions of the state and federal constitutions. What is required to satisfy these provisions is a rational basis for the law, a requirement clearly met in the case of the health care provider tax. The purpose of the law is to provide medical care for the indigent and the classifications utilized in the health care provider tax are based on federal law grounded in public interest and not arbitrary or unreasonable.

Finally, the court held that the title of the legislative bill enacting the tax, "An Act relating to health care reform and providing funding therefor," did not violate Section 51 of the Kentucky Constitution, which provides that "no law enacted by the General Assembly shall relate to more than one subject, and that shall be expressed in the title…" This title gave fair and reasonable notice of the bill's contents.

Motor Fuels Tax—In ***Bault's Langley Auto Center v. Revenue Cabinet***, 98-SC-1074-D, the Kentucky Supreme Court denied the taxpayer's motion for discretionary review of the decision of the Court of Appeals. In this case, the Court of Appeals had upheld motor fuels tax assessments against a retail store and gasoline station establishment for its purchases of gasoline and diesel fuel. The court held that liability for the tax due on these fuel purchases was not confined by KRS 138.220 to the dealer selling the fuel to Bault's. Instead, Bault's was jointly and severally liable with the dealer in accordance with KRS 138.224 for the unpaid taxes due on these purchases.

In ***Revenue Cabinet v. Owens Chevrolet, Inc., et al***, 97-CI-01313, the Franklin Circuit Court reversed a KBTA decision allowing refunds of special fuel taxes pursuant to KRS 138.344 on the basis that the fuel in question was consumed "in unlicensed vehicles or equipment for nonhighway purposes." The circuit court held that the taxpayers clearly failed to comply with a number of recordkeeping and documentation requirements imposed by KRS 138.344 and 138.348 as prerequisites to the allowance of the refunds claimed. There was insufficient evidence as a matter of law to support the KBTA's findings to the contrary.

Property Tax—In ***H.E. and Lucy O'Daniel v. Revenue Cabinet***, K97-R-7, the issue before the KBTA was whether the taxpayers were the owners of the motor vehicle in question as of the Jan. 1, 1995, assessment date. The sale to the taxpayers of this motor vehicle had taken place on Dec. 26, 1994, and the taxpayers had taken possession of the vehicle on that date. The vehicle transaction record was also signed on Dec. 26, 1994; however, the taxpayers did not record title until Jan. 19, 1995.

The KBTA held that under these facts, the taxpayers were indeed the owners of the motor vehicle as of Jan. 1, 1995, and were therefore properly assessed property tax for this vehicle. The taxpayers were owners of the vehicle under the express terms of KRS 186.010(7)(a) and (c), the KBTA ruled, and further, were the equitable owners liable for property tax on the vehicle under KRS 134.060.

The taxpayers have appealed the KBTA's decision to the Marion Circuit Court.

In ***Carrs Fork Corporation v. Revenue Cabinet***, K98-R-3, and ***Kentucky River Corporation v. Revenue Cabinet***, K98-R-2, the KBTA rendered decisions addressing legal issues raised with respect to property or ad valorem tax omitted assessments of unmined coal for the years 1989 through 1993. Ruling on motions for summary judgment filed by both sides in the case, the board held:

(1) KRC did not have authority to assess the unmined coal itself centrally;

(2) the unmined coal properties in question were not omitted, as the property had been undervalued and mischaracterized by the taxpayer, rather than not listed;

(3) the version of KRS 132.220(2) enacted in 1992, allowing omitted assessments in the case of intentional undervaluation by taxpayers on their returns, could not be retroactively applied by KRC to tax years prior to its effective date;

(4) even if the omitted assessments issued in this case were otherwise proper, they were not timely made under KRS 132.290(2) and thus were barred; and

(continued on page 6)

Court Case Updates *(continued from page 5)*

(5) the exemption from local taxation provided for unmined coal in KRS 132.200(11) could not be applied to any valid assessments for 1989 through 1993, as the Franklin Circuit Court, in a temporary injunction upheld by the Kentucky Court of Appeals, had held this exemption to be violative of the Kentucky Constitution.

These decisions were rendered on March 10, 1999. KRC has 30 days from that date in which to appeal to the Franklin Circuit Court.

Sales and Use Tax—In ***Camera Center, Inc. d/b/a Murphy's Camera and Video v. Revenue Cabinet***, 1997-CA-003233, the Kentucky Court of Appeals held on March 5, 1999, that purchases of new machinery for use in the taxpayer's photo processing operations did not qualify for the machinery for new and expanded industry exemption provided for in KRS 139.480(10), 139.170, and Regulation 103 KAR 30:120. The court held that the *plant facilities* requirement of the exemption was not met, as the machinery in question was used in locations that were predominantly retail establishments and not plant facilities.

The taxpayer has filed a motion for discretionary review of the Court of Appeals' decision with the Kentucky Supreme Court.

The Kentucky Supreme Court rendered a decision on April 22, 1999, in ***Kentucky American Water Company v. Revenue Cabinet***, 98-SC-165-DG. The court reversed decisions of the Kentucky Court of Appeals and Fayette Circuit Court and reinstated the decision of the KBTA. The issue in this case was whether the machinery for new and expanded industry exemption (KRS 139.480(10)) applied to the taxpayer water company's purchases of items such as service mains, lines, and meters for use in its 1,197 mile-long water distribution system from its water treatment plant to private consumers. Also at issue was the application of the energy exemption (KRS 139.480(3)) to energy used in the distribution system.

The Supreme Court held that for the machinery for new and expanded industry exemption to apply, the machinery in question must be:

(1) used directly in a manufacturing or processing production process, and

(2) installed in a plant facility.

Neither requirement was met in this case, the court ruled.

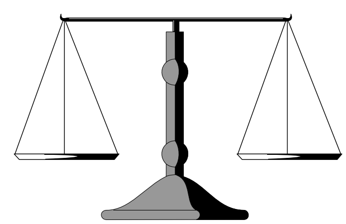
The manufacturing process in question was water purification, which ended with the generally accepted saleable product being deposited in the clear well or storage tank of the water company's water treatment plant. Water was, in fact, withdrawn from the clear well and sold to customers such as water haulers and bulk customers. Thus, the water distribution system was not part of the manufacturing process and the items in question were consequently not used directly in a manufacturing process.

In addition, the Supreme Court reaffirmed the precedential value of ***Kentucky Electric Co. v. Buechel***, 146 Ky. 660, 143 S.W. 58 (1912) and ***Covington Gas-Light Co. v. City of Covington***, 84 Ky. 94, 8 K.L.R. 442 (1886), which held that electricity and gas distribution systems were not part of the manufacturing plant for purposes of the ad valorem tax exemption for manufacturing now found in KRS 132.200(4). Because of the common purpose behind this ad valorem tax exemption and the machinery for new and expanded industry sales and use tax exemption, these precedents were applicable here to warrant a holding that the water distribution system was separate from the water company's manufacturing plant facility. On this point, the court also noted that the purpose of any pressurization used in the distribution system was for movement of the water, not manufacturing, and that water treatment plants are regulated by the Public Service Commission and Natural Resources Cabinet separately from such water distribution systems.

The court further noted that KRC had consistently interpreted the machinery for new and expanded industry exemption as not applying "to pipes, valves, fittings and meters for both water distribution systems and local utilities that deliver gas." Such a longstanding administrative construction should be honored by a reviewing court, the court declared.

The Supreme Court further noted that the courts below erred in overturning findings of fact by the KBTA that were supported by substantial evidence. Specifically, the KBTA had found that the purpose of the pressurization of the water in the distribution system was to transport the water and maintain its quality and not manufacturing.

Finally, the court held that the energy exemption did not apply because the water distribution system was not engaged in manufacturing and the distribution system did not constitute one location, as required by KRS 139.480(3).



Garnishment of Individual Income Tax Refunds

Pursuant to KRS 131.560 through KRS 131.595, individual income tax refunds are exempt from garnishment by all entities except KRC, all other state agencies which have complied with KRS 131.560 through KRS 131.595, and the Internal Revenue Service. Any garnishment from any entity other than the three identified above will be stamped by KRC as *Exempt from garnishment pursuant to KRS 131.595* and returned.

REGISTRATION FORM

49th Annual Conference
Southeastern Association of Tax Administrators
Lexington, Kentucky ■ July 11 – 14, 1999

Mr. /Ms./Mrs.	First Name	Last Name	Middle Initial

Agency/Employer	Telephone
Division/Section	FAX
Position/Title	Name Tag Name
Business Address	

SEATA REFUND POLICY

Refunds will be issued through June 30, 1999 if requested in writing to Darrell W. Smith. No requests for refunds will be honored after June 30, 1999. No refunds will be issued for no-shows.

Instructions: Please √ all activities you, your spouse, guest, and children will be participating in.

Please Print Names:

Name		Old Kentucky Night	Golf Tournament ($70)	Tennis Outing ($20)	Volleyball Tournament ($10)	Berea Tour & Luncheon	Horse Farm & Keeneland Track Tour	Youth Program	Brunch & Tour Labrot & Graham	Youth Program	Grand Finale Dinner
______	Delegate ►	☐	☐	☐	☐						☐
______	Spouse ►	☐	☐	☐	☐	☐	☐		☐		☐
______	Guest ►	☐	☐	☐	☐	☐	☐		☐		☐
______	Youth ►	☐						☐		☐	
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______	Youth ►	☐						☐		☐	
______	Youth ►	☐						☐		☐	
		SUNDAY 7/11/99	MONDAY 7/12/99						TUESDAY 7/13/99		

	If Paid On/Before June 11	If Paid After June 11	Golf $70	Tennis $20	Volleyball $10	Total Conference Fees
☐ Gov't Delegate	$175	$200	+ ______	+ ______	+ ______	= ______
☐ Industry Delegate	$225	$250	+ ______	+ ______	+ ______	= ______
☐ Spouse	$60	$70	+ ______	+ ______	+ ______	= ______
☐ Guest #____	$60	$70	+ ______	+ ______	+ ______	= ______
☐ Youth #____	$40	$40		+ ______	+ ______	= ______
				TOTAL	DUE	$______

MAIL TO:

Darrell W. Smith
Secretary/Treasurer
Southeastern Association of Tax Administrators
1905 Ty Ty Court
Tallahassee, Florida 32308-6188
Phone: 850-577-0007
FAX: 850-577-0010

MAKE CHECKS PAYABLE TO SEATA

Please return the appropriate Golf, Tennis, Volleyball and Youth Release Forms with your Registration Form. Send check or money order for the total amount due, to the above address, by June 11. Note that Visa/MasterCharge cannot be accepted. Late Fee is applicable for amounts paid after June 11, 1999.

Filing Extension Granted for Troops Serving in Kosovo Conflict

On April 13, 1999, President Clinton signed an executive order declaring the Federal Republic of Yugoslavia (Serbia/Montenegro), Albania, the airspace above, and adjacent waters as a combat zone, effective March 24, 1999. This declaration was made pursuant to the United States Constitution and Section 112 of the Internal Revenue Code of 1986 (26 U.S.C. 112).

When the president signs an executive order designating certain areas combat zones, a provision of KRS 141.215 is automatically activated. The law provides for deferred filing of Kentucky individual income taxes and payment of taxes due. Under Kentucky law, a one-year extension of the filing date went into effect for those persons serving in the combat zone on April 15, 1999. The one-year period begins when service in the combat zone ends. No penalty or interest will accrue on tax payments made during the one-year deferment period.

Kentucky law is based upon the Internal Revenue Code in effect on Dec. 31, 1997. The president's designation of the combat zone activated Section 112 of the Internal Revenue Code. Under this provision, enlisted military personnel may exclude from their gross income all service income received each month for active service in the combat zone. For commissioned officers, the exclusion is limited to the highest rate of basic pay at the highest pay grade that enlisted personnel may receive, plus the amount of hostile fire-imminent danger pay received each month for active service in the combat zone.

The effective date is for pay received in the combat zone on or after March 24, 1999, and includes income for any month or any part of which the military member is hospitalized as a result of injury or disease incurred while serving in the combat zone.

More information on the combat zone declaration is available by downloading news release IR-1999-43 from http://www.irs.ustreas.gov/prod/news/nandf.html.

KRC Management Appointments

On Dec. 22, 1998, Mike Haydon was named KRC deputy secretary. He was commissioner of the Department of Property Valuation and had previously served as deputy secretary in 1990-91.

Also on Dec. 22, 1998, Vince Lang was named commissioner of the Department of Property Valuation. He was deputy secretary and previously served as county judge-executive of Hart County for 10 years.

On Feb. 16, 1999, Dana Mayton was appointed commissioner of the Department of Law. She returned to KRC from the Legislative Research Commission. She had previously served as director of the Division of Compliance and Taxpayer Assistance in 1996-98, and staff attorney in the Division of Legal Services in 1993-1996.

Also on Feb. 16, 1999, Alex Rose was appointed general counsel for KRC. He will advise Secretary Sarah Jane Schaaf on legal questions pertaining to tax matters, and will work on special projects as assigned by Secretary Schaaf. He was previously commissioner of the Department of Law.

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Kentucky Revenue Cabinet
Mission Statement

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.

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