

2010 Kentucky Individual Income Tax Updates & Tips

WHAT'S NEW FOR KENTUCKY:

FAMILY SIZE TAX CREDIT — This credit provides benefits to individuals and families at incomes up to 133 percent of the threshold amount based on the federal poverty level. The 2010 threshold amount is \$10,830 for a family size of one, \$14,570 for a family of two, \$18,310 for a family of three and \$22,050 for a family of four or more.

STANDARD DEDUCTION — For 2010, the standard deduction is \$2,210.

MILITARY PAY EXCLUSION — Effective for taxable years beginning on or after January 1, 2010, all military pay received by active duty members of the Armed Forces of the United States, members of reserve components of the Armed Forces of the United States, and members of the National Guard will be exempt from Kentucky income tax. (KRS 141.010(10)(u))

Soldiers will claim the exemption by excluding military pay when filing a Kentucky individual income tax return starting with the 2010 return, due on April 18, 2011. Provided the military member has no income other than military pay, he or she would not be required to file a Kentucky income tax return. The military pay exemption applies to all Kentucky military members regardless of where the member is stationed. Kentucky income tax should no longer be withheld from checks received for military pay, beginning January 1, 2010. If Kentucky income tax is incorrectly withheld from a soldier's military pay in 2010 and after, the Department of Revenue will refund the tax withheld.

NEW HOME TAX CREDIT — The new home tax credit provided by KRS 141.388 has been extended to December 31, 2010. The credit cap has been lowered from \$25 million to \$15 million. *Qualified buyer* is now defined as “a resident who purchases a qualified principal residence.”

Requirements and features of this credit include the following:

- Qualified buyer(s) approved for the credit will receive a credit allocation letter with a four (4) digit approval code from the Department of Revenue. This letter must be attached to the income tax return filed for the taxable year during which the qualified principal residence was purchased.
- Electronic filers: Information from the credit allocation letter and the New Home Tax Credit Worksheet (for electronic filers only) must be included with any electronic return submitted. Make sure the software used to submit the return can meet these requirements.

The New Home Tax Credit application and additional information is available on the Department of Revenue Web site: www.revenue.ky.gov

CERTIFIED REHABILITATION TAX CREDIT — The certified rehabilitation credit cap has been increased from \$3 million to \$5 million effective for applications received on or after April 30, 2010. Effective for applications for preliminary approval received on or after April 30, 2010, the credit will be refundable if a proper election form is filed. The refundable credit is reported on Form 740, Page 2, Line 32(c). (KRS 171.396, 171.397 and 141.382)

KENTUCKY ENERGY EFFICIENCY PRODUCTS TAX CREDIT — The energy efficient homes credit (KRS 141.437) and energy efficient products credit (KRS 141.436) remains effective for taxable years beginning after December 31, 2008 and before January 1, 2016. (HB 240)

CREDIT CARRY FORWARD: If you qualified for the Energy Efficiency Products Tax Credit in 2009 and could not utilize your entire **approved** credit, the balance may be carried forward to apply against your 2010 Kentucky tax liability. Unused amounts are limited to a one-year carry forward period.

DOMESTIC PRODUCTION ACTIVITIES DEDUCTION — For taxable years beginning on or after January 1, 2010, the amount of the domestic production activities deduction (DPAD) will remain 6 percent as allowed in Section 199(a) (2) of the Internal Revenue Code (IRC) for taxable years beginning before January 1, 2010. Kentucky **does not** recognize the 9 percent DPAD calculation rate allowed for federal income tax returns filed for taxable years beginning on or after January 1, 2010.

FILM INDUSTRY TAX CREDIT — The film industry tax incentives provided in KRS 141.383 and 148.542 to 148.546 were amended to establish a cap of \$5 million for the fiscal year 2010-2011, and \$7.5 million for the fiscal year 2011-2012. The cap was codified in KRS 148.546(3)(b). The refundable credit is reported on Form 740, Page 2, Line 32(d).

RAILROAD MAINTENANCE AND IMPROVEMENT TAX CREDIT — A nonrefundable credit against the individual income, corporation income and limited liability entity taxes was enacted in an amount equal to 50 percent of the qualified expenditures paid or incurred by an *eligible* taxpayer during the taxable year to maintain or improve railroads located in Kentucky. The credit applies to taxable years beginning after December 31, 2009. An *eligible taxpayer* means the owner of a Class II or Class III railroad located in Kentucky, the transporter of property using the rail facilities of a Class II or III railroad in Kentucky, or any person that furnishes railroad related property or services to a Class II or Class III railroad located in Kentucky. The credit is reported on Form 740, Page 2, Section A, Line 18. The credit cannot be carried forward. (KRS 141.385 and 141.387)

ENVIRONMENTAL STEWARDSHIP TAX CREDIT — Effective for taxable years ending on or after June 4, 2010, the baseline year portion of the Kentucky Environmental Stewardship Credit calculation shall be multiplied by 50 percent.

NEW MARKETS DEVELOPMENT PROGRAM TAX CREDIT — The New Markets Development Program Tax Credit was created in KRS 141.432 to 141.434 to encourage taxpayer investment in low-income communities. A taxpayer that makes a qualified equity investment in a qualified community development entity may be eligible for a credit that may be taken against the corporation income tax, individual income tax, insurance premiums taxes and limited liability entity tax. The qualified community development entity must first submit an application to the Department of Revenue for approval. The person or entity actually making the loan or making the equity investment will be able to claim a credit, subject to a \$5 million credit cap each fiscal year, by completing Form 8874(K)-A. The total credit is broken down as follows:

- Zero percent of the purchase price or loan amount may be taken in the first two years including the year in which the investment is initially made;
- Seven percent of the purchase price or loan amount may be taken in the third year including the year in which the investment is initially made; and
- Eight percent of the purchase price or loan amount may be taken for fourth through seventh years including the year in which the investment is initially made.

Any unused approved credit may be carried forward for use in any subsequent tax year. Additional information regarding this new credit program will be provided via our Web site at www.revenue.ky.gov