



Federation of Tax Administrators – 2005 Annual Meeting

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JOBS for Kentucky - Tax Modernization



- Signed by Governor Fletcher on March 18, 2005
- Effective for Corporation Income Tax Periods
Beginning On or After January 1, 2005



Goals of JOBS for Kentucky

- Encourage rather than impede the success of business;
- Make changes that are revenue neutral with elements that will spur economic growth in the future; and
- Export some of the tax burden to nonresidents.



Key Components of the JOBS Plan

- Corporation Tax Changes



Key Components of the JOBS Plan

- Repeals Corporation License Tax
- Reduces Corporation Income Tax Rate and Expands Brackets
- Updates Internal Revenue Code Reference Date with Some Exceptions



Key Components of the JOBS Plan

- Closes Corporation Tax Loopholes
 - Eliminates Carry Back Provisions of NOLs
 - Requires Nexus Consolidated Filing
 - Limits Yearly NOL Deduction to 50% on Nexus Consolidated Return
 - Requires Disclosure and Establishes Criteria for allowance of "Delaware Holding Company" Deduction
- Requires Three-Factor Apportionment for LLCs and Partnerships



Key Components of the JOBS Plan

- Creates an Alternative Minimum Calculation with taxpayer paying the maximum of;
 - Regular Tax; or
 - AMC Calculation (Lesser of A or B); or
 - A. \$0.095 per \$100 of gross receipts; or
 - B. \$0.75 per \$100 of Kentucky gross profits.
 - \$175.00 Minimum Tax



AMC Calculation - Example 1

Taxable Net Income Calculation

Taxable Net Income - \$10,000,000	\$50,000 X 4%	=	\$2,000
	50,000 X 5%	=	2,500
	9,900,000 X 7%	=	693,000
			\$ 697,500

Gross Receipts Calculation

Ky. Sales	\$100,000,000
	X .00095
	\$ 95,000

Gross Profits Calculation

Ky. Sales	\$100,000,000
Less Ky. Return & Allowances	- 5,000,000
Less Ky. COGS	- 25,000,000
Ky. Gross Profits	\$70,000,000
	X .0075
	\$ 525,000

AMC is the lesser of \$95,000 and \$525,000 = \$95,000. Total Tax Due is the greater of the tax on net income (\$697,500), the AMC (\$95,000), or minimum of \$175. Tax Due = \$697,500.



AMC Calculation - Example 2

Taxable Net Income Calculation

Taxable Net Income = loss of (\$120,000)

Gross Receipts Calculation

Ky. Sales	\$25,000,000
X	.00095
	<u>\$23,750</u>

Gross Profits Calculation

Ky. Sales	\$25,000,000
Less Ky. Return & Allowances	- 3,000,000
Less Ky. COGS	- 21,120,000
Ky. Gross Profits	\$ 880,000
X	.0075
	<u>\$ 6,600</u>

AMC is the lesser of \$23,750 and \$6,600 = \$6,600

Total Tax Due is the greater of the tax on net income (\$0), the AMC (\$6,600), or minimum of \$175. Tax Due = \$6,600.



AMC Calculation - Example 3

Taxable Net Income Calculation

Taxable Net Income = loss of (\$10,000)

Gross Receipts Calculation

Ky. Sales	\$150,000
X	.00095
	<u>\$ 143</u>

Gross Profits Calculation

Ky. Sales	\$ 150,000
Less Ky. Return & Allowances	- 10,000
Less Ky. COGS	- 40,000
Ky. Gross Profits	\$ 100,000
X	.0075
	<u>\$ 750</u>

AMC is the lesser of \$143 and \$750 = \$143

Total Tax Due is the greater of the tax on net income (\$0), the AMC (\$143), or minimum of \$175. Tax Due = \$175.



Key Components of the JOBS Plan

- Entities that Now Must Pay Corporation Income Tax
 - Multi-Member Limited Liability Companies
 - Single Member Limited Liability Companies
 - Limited Partnerships
 - Limited Liability Partnerships
 - S Corporations
 - Others (REMICs, REITs, and FASITs)



Key Components of the JOBS Plan

■ Treatment of Individual Owners

- Individual partners, members or shareholders of pass through entities will receive a credit for the tax paid on net income at the entity level based on their distributive share ratio.
- In addition, a refundable credit is provided for individual owners for tax periods ending after January 1, 2005 and before January 1, 2007. The credit is based on the 1% difference between the top corporate rate and the top individual rate.



Issues

- Forms – Partnership or Corporation Rules on Forms?
- Credit For Tax Paid to Kentucky - How Will Others States Treat Kentucky's Entity Taxation on Partners, Shareholders and Members Individual Income Tax Returns?
- Non-Refundable Credit – How Many Individual Taxpayers Will Not Be Able To Fully Utilize the Entity Tax Credit on Their Kentucky Individual Income Tax Returns?



Questions

