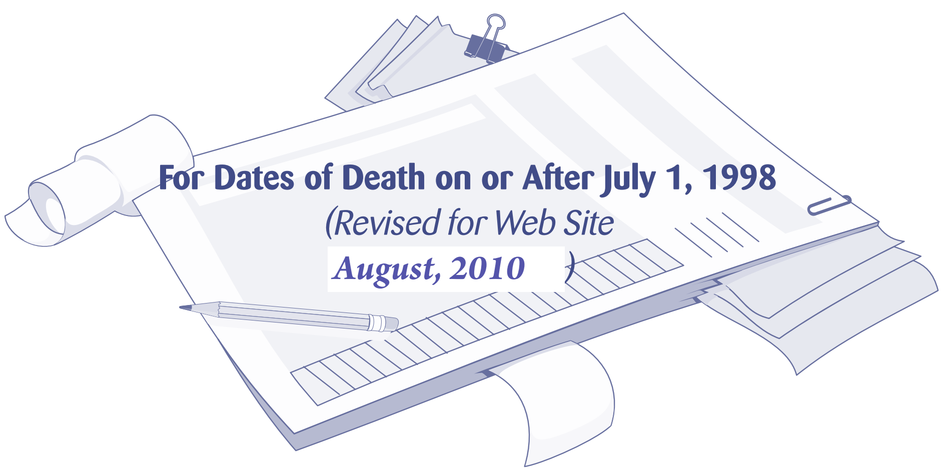
Kentucky Inheritance and Estate Tax Forms and Instructions

COMMONWEALTH OF KENTUCKY
DEPARTMENT OF REVENUE



For Dates of Death on or After July 1, 1998
(Revised for Web Site
August, 2010)

Kentucky Department of Revenue
Mission Statement

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.

NOTICE

If no inheritance taxes are due and a Federal Estate and Gift Tax Return is not required, **it is not necessary to file an Inheritance and Estate Tax Return with the Kentucky Department of Revenue**. An *affidavit of exemption* will be accepted for the final settlement and closing of the administration of an estate. If inheritance tax or estate tax is due the Commonwealth of Kentucky, Form 92A200, 92A202, or 92A205 should be used.

The affidavit of exemption is to be filed **only** with the court. Do not send a copy of the affidavit to the Kentucky Department of Revenue.

Sample Affidavit of Exemption

AFFIDAVIT OF EXEMPTION

Affiant __________________________ , being first duly sworn, states that he/she is fiduciary or beneficiary of the estate of _____________________________ , who died on the ______ day of _________________ , _______ , a resident of _______________________ County, Kentucky.

Affiant states that all assets of the estate pass to exempt beneficiaries pursuant to Kentucky Revised Statute 140.080* or exempt organizations pursuant to Kentucky Revised Statute 140.060** either by virtue of the decedent's will, the intestate laws of this state, or by contract (survivorship, payable on death, trust, etc.).

Affiant further states that a Kentucky Inheritance and Estate Tax Return will not be filed since no death tax is due the state and a Federal Estate and Gift Tax Return (Form 706) will not be filed because the gross estate is less than the required amount set out in Section 2010(c) of the Internal Revenue Code. This affidavit is being submitted to satisfy the requirements of Kentucky Revised Statute 395.605.

____
Signature

Witness my hand this _______ day of ________________________ , _________ .

Sworn and subscribed to before me by __________________________________

this ______ day of ____ , _________ .

____ Notary Public

My commission expires___________________________________

*Exempt beneficiaries under KRS 140.080 include spouse, children, stepchildren, grandchildren, parent, brother, and sister.

**Exempt organizations include educational, religious or other institutions, societies, or associations, whose sole purpose is to carry on charitable, educational, or religious work. Also, cities, towns or public institutions in this state qualify as exempt organizations provided that any transfer to such an organization is for public purposes.

WHAT'S INCLUDED

INHERITANCE AND ESTATE TAX FORMS

GENERAL INFORMATION

INHERITANCE AND ESTATE TAX FORMS IN THIS PACKET

The forms in this packet should only be used if the date of death occurred on or after July 1, 1998. The forms may be duplicated on a computer and the space allocated for each item may be decreased or increased depending on the amount of space required. The forms may be used for a decedent who was a resident or a nonresident of Kentucky.

If no Kentucky inheritance tax is due and a Federal Estate and Gift Tax Return is not required, **it is not necessary to file an Inheritance and Estate Tax Return with the Kentucky Department of Revenue (DOR)**. An *Affidavit of Exemption* will be accepted for the final settlement and closing of the administration of an estate. If inheritance tax or estate tax is due the Commonwealth of Kentucky, Form 92A200, 92A202, or 92A205 should be used.

If the date of death occurred prior to July 1, 1998, contact the Financial Tax Section, Department of Revenue, Frankfort, KY 40620, (502) 564-4810, fax (502) 564-2695.

Four forms are included in this booklet. Choose one unless an Affidavit of Exemption is used.

1. No Tax Due Return (Form 92A201)

Even though this form is not necessary, it may be used for an estate (Kentucky resident or nonresident) if: (1) there is no Kentucky inheritance tax or federal estate tax due, (2) the date of death is on or after July 1, 1998, and (3) the entire estate passes to beneficiaries listed in the following group either by contract (survivorship, payable on death, trust, etc.), the decedents will, or the intestate laws of this state:

(1) Surviving spouse, parent
(2) Child (adult or infant)
  child by blood, stepchild, child adopted during infancy, or child adopted during adulthood who was reared by the decedent during infancy
(3) Grandchild
  issue of child, stepchild, child adopted during infancy, or of a child adopted during adulthood who was reared by decedent during infancy
(4) Brother, sister (whole or half)
  ➤ **Refer to KRS 140.080 for (1) through (4) above**
(5) Exempt organizations—**Refer to KRS 140.060**
  Exempt organizations include educational, religious or other institutions, societies, or associations, whose sole purpose is to carry on charitable, educational, or religious work. Also, cities, towns or public institutions in this state qualify as exempt organizations provided that any transfer to such an organization is for public purposes.

2. Estate Tax Return (Form 92A202)

This form is to be filed for an estate (Kentucky resident or nonresident) when: (1) date of death occurred on or after July 1, 1998, (2) a Federal Estate and Gift Tax Return is required to be filed, and (3) the entire estate passes to beneficiaries listed in the following groups:

(1) Surviving spouse, parent
(2) Child (adult or infant)
  child by blood, stepchild, child adopted during infancy, or child adopted during adulthood who was reared by the decedent during infancy
(3) Grandchild
  issue of child, stepchild, child adopted during infancy, or of a child adopted during adulthood who was reared by decedent during infancy
(4) Brother, sister (whole or half)
  ➤ **Refer to KRS 140.080 for (1) through (4) above**
(5) Exempt organizations—**Refer to KRS 140.060**
  Exempt organizations include educational, religious or other institutions, societies, or associations, whose sole purpose is to carry on charitable, educational, or religious work. Also, cities, towns or public institutions in this state qualify as exempt organizations provided that any transfer to such an organization is for public purposes.

Instructions are on the back of the form.

3. Inheritance and Estate Tax Return (Form 92A200)

This return must be used for an estate (resident or nonresident) when: (1) the date of death is on or after July 1, 1998, and (2) any assets of the estate pass to nonexempt beneficiaries or nonexempt organizations, or when Forms 92A201, 92A202 and 92A205 do not apply.

Instructions are on the back of each schedule.

4. Inheritance and Estate Tax Return (Simplifed Format) (Form 92A205)

This form can be used for an estate (Kentucky resident or nonresident) when : (1) a federal estate tax return is **not** required to be filed, (2) the assets of the estate consist of 10 items or less, (3) no gifts or transfers where made within three years of death without full consideration, (4) no real or personal property was transferred with a retained life interest, (5) the decedent did not possess any power to appoint any real or personal property or have the use of any qualified terminable interest property, and (6) the decedent had not received any real or personal property from another decedent within five years and paid inheritance tax on the property.

INSTRUCTIONS

This return is to be filed for estates (Kentucky resident or nonresident) when (1) the date of death is on or after July 1, 1998, (2) a Federal Estate and Gift Tax Return is required to be filed, and (3) the entire estate passes to beneficiaries listed in the following groups, either by contract (survivorship, payable on death, trust, etc.), the decedent's will or the intestate laws of this state:

(1) Surviving spouse, parent

(2) Child (adult or infant)
child by blood, stepchild, child adopted during infancy, or child adopted during adulthood who was reared by the decedent during infancy

(3) Grandchild
issue of child by blood, stepchild, child adopted during infancy, or of a child adopted during adulthood who was reared by decedent during infancy

(4) Brother, sister (whole or half)

➤ **Refer to KRS 140.080 for the above groups**

(5) Exempt organizations—**Refer to KRS 140.060**

Exempt organizations include educational, religious or other institutions, societies, or associations, whose sole purpose is to carry on charitable, educational, or religious work. Also, cities, towns or public institutions in this state qualify as exempt organizations provided that any transfer to such an organization is for public purposes.

KRS 140.130 levies an estate tax. If the Kentucky inheritance tax due is not equal to or greater than Kentucky's portion of the federal state death tax credit, the difference is due as an estate tax. If the date of death is on or after July 1, 1998, there is not any inheritance tax due for the above-named beneficiaries; therefore, if there is any federal state death tax credit, Kentucky's portion is due as an estate tax.

- ☞ If decedent died with a will, a copy must be submitted.
- ☞ If property passes under a trust agreement, please submit a copy.
- ☞ Lines 3 and 4 on the front should equal line 2.
- ☞ A copy of the Federal Estate and Gift Tax Return must be attached to this return.
- ☞ A listing of all beneficiaries and their relationship to the decedant must be attached to this return.
- ☞ Payment of any estate tax due must be attached to the face of the return. The check should be made payable to the "**Kentucky State Treasurer**."

Interest and Penalties

If the tax is not paid within 18 months following the decedent's date of death, interest shall be computed pursuant to KRS 131.010(6) from the expiration of the 18-month period until the tax is paid. **There is no provision in the statute to waive interest**. The interest rate for 1999 and 2000 is 8 percent; for 2001 is 10 percent; for 2002 is 6 percent; and for 2003 is 5 percent.

Penalties may also apply if the return is not filed within 18 months from the date of death. The most common penalties are for **late filing** and **late payment**. The **late filing** penalty is 2 percent of the total tax due for each 30 days or fraction thereof that a tax return or report is late. The maximum penalty is 20 percent of the total tax due. The minimum is $10. The **late payment** penalty is 2 percent of the total tax due for each 30 days or fraction thereof that the payment is late. However, the late payment penalty is not applicable if at least 75 percent of the tax liability has been timely paid. The maximum penalty is 20 percent of the total tax due. The minimum is $10. These penalties may be waived if "reasonable cause" exists as mentioned under KRS 131.180 and defined under KRS 131.010(9). The penalties accrue from the expiration of the stated 18-month period until paid. Additional penalties may apply pursuant to KRS 131.180. **Payment of the interest or penalties is to be made at the time the return is filed.**

INSTRUCTIONS

INDIVIDUALLY OWNED ASSETS

All real property individually owned must be listed in this schedule. *For reporting agricultural or horticultural land, see General Information—**Valuation of Property—Fair Cash and Agricultural**.*

Stocks and bonds individually owned are includable in this schedule. In case of inactive stock such as closely held corporations, explain the method used in computing the value at the date of death. A balance sheet, at a date nearest the decedent's death, together with a statement of net earnings and dividends paid for the five-year period immediately preceding the date of death, must be supplied in support of these valuations.

Dividends declared and of record in the decedent's name but not paid prior to death must be included in this schedule.

United States bonds individually owned as well as those payable upon death to another should be included in this schedule. Indicate series, maturity value and date of purchase of all United States bonds.

In some instances, the estate will include stocks and bonds listed on a stock exchange that did not make sales on the date of the decedent's death. When this occurs, their value must be determined on the date nearest to decedent's death that the stock exchange made sales. *For reporting stock of a corporation owning qualified real estate passing to a qualified person(s), see General Information—**Valuation of Property—Fair Cash and Agricultural**.*

Mortgages, notes and cash individually owned must be listed in this schedule. List accrued interest to date of death. The description of mortgages and notes must include interest rate, the date the last payment of interest was made preceding the date of the decedent's death, and the due date of the mortgages or notes. If an account is held out of state, show name and address of financial institution on the tax return.

List life insurance payable to the insured or to the estate. Life insurance payable to a designated beneficiary, including a testamentary or inter vivos trustee, is tax-free.

List in this schedule other individually owned items of the gross estate, such as debts due decedent; business or partnership (attach balance sheet showing capital accounts); claims, exclusive of those claimed under KRS 411.130 (wrongful death); rights; royalties; leaseholds; judgments; shares in trust funds; contracts; household goods and personal effects, including antiques, jewelry and collections of any type; farm products and growing crops; livestock; farm machinery; automobiles; etc.

The value of an annuity or other payment made to a beneficiary of a deceased employee (other than the executor or equivalent) under (1) an exempt trust or qualified nontrusted annuity plan as described by the Internal Revenue Code or (2) a contract purchased by an educational or charitable organization as referred to in Section 170(b)(1)(A)(ii) or (vi) of the Internal Revenue Code or a religious organization exempt from tax under Internal Revenue Code Section 501(a), is taxable in the proportion that the total contributions made by the decedent bears to the total contributions made. The proceeds from a Retired Serviceman's Family Protection Plan or Survivor Benefit Plan are exempt under KRS 140.015(2). *Refer to KRS 140.063(3) and (4) regarding the taxation of individual retirement accounts and annuities as described in Section 408(a) and (b) of the Internal Revenue Code. Lump-sum distributions of an IRA are taxable.*

All other annuities, including deferred compensation plans, or payments other than those described in the preceding paragraph made to a beneficiary, executor or equivalent, are fully taxable if the decedent retained ownership at death such as the right to name or change the beneficiary and must be listed in this schedule.

INSTRUCTIONS

JOINTLY OWNED ASSETS

All jointly owned property whether real estate (for reporting agricultural or horticultural land, see *General Information—**Valuation of Property—Fair Cash and Agricultural***), tangible personal property, bank accounts, stocks, bonds, etc., must be reported (see KRS 140.050 below). All property placed in joint ownership by the decedent within three years of the date of death is subject to the tax in its entirety (see KRS 140.020(2) below). However, there is no presumption of contemplation of death as to certificates of deposit jointly owned, and only the percent of ownership of the decedent is taxable (see KRS 140.020(3) below).

> **KRS 140.020(2) reads as follows:** Every transfer made within three (3) years prior to the death of the grantor, vendor or donor of a material part of his estate, or in the nature of a final disposition or distribution thereof, and without an adequate valuable consideration, shall be construed prima facie to have been made in contemplation of death within the meaning of this chapter. If a transfer was made more than three (3) years prior to the death of the decedent it shall be a question of fact, to be determined by the proper tribunal, whether the transfer was made in contemplation of death.
>
> **KRS 140.020(3) reads as follows:** There shall be no presumption of contemplation of death as to certificates of deposit jointly owned and all such certificates of deposit shall be taxed pursuant to KRS 140.050.
>
> **KRS 140.050 reads as follows:** Whenever any real or personal property is held jointly in the names of two (2) or more persons, or as tenants by the entirety, or is deposited in banks or other depositories jointly in the names of two (2) or more persons and is payable to either or to the survivor upon the death of the other, the right of the surviving tenant by the entirety or the surviving joint tenant or joint depositor to the immediate ownership or possession and enjoyment of the property shall be deemed a transfer of one-half (1/2) or other proper fraction thereof, taxable under the provisions of this chapter in the same manner as though the part of the property to which the transfer relates belonged to the tenants by the entirety, joint tenants or joint depositors as tenants in common, and had been bequeathed or devised to the surviving tenant by the entirety, joint tenant or joint depositor by the deceased tenant by the entirety, joint tenant or just depositor.

INSTRUCTIONS

QUALIFIED TERMINABLE INTEREST PROPERTY
AND/OR
POWERS OF APPOINTMENT

KRS 140.100(4) requires that the value of a surviving spouse's interest in a power of appointment trust or in qualified terminable interest property which was exempt as a part of the surviving spouse's inheritable interest in the first spouse's estate pursuant to an election made under KRS 140.080(1)(a) is includable in the surviving spouse's estate. The property is includable at its value on the surviving spouse's date of death. The personal representative of the decedent's estate is entitled to recover from the trust or life estate the tax attributable to the trust unless the decedent directs otherwise in his will.

Powers of Appointment

All property passing under a power of appointment created by will, deed, trust agreement, contract, insurance policy or other instrument must be reported in this schedule whether or not the power of appointment is exercised. *For taxation of transfers by power of appointment, refer to KRS 140.040 and 140.100(4).*

The method of computing the inheritance tax on any power of appointment property as described under KRS 140.040 is irrelevant in both the donor's and the donee's estates when such property is elected to be included in the surviving spouse's *total inheritable interest* as property which qualifies for the federal estate tax marital deduction under Section 2056(b)(5) or 2056(b)(7) of the Internal Revenue Code.

KRS 140.100(4) requires that the trust or life estate for which an election relates be included in the surviving spouse's estate for Kentucky inheritance tax purposes at its value on the death of the surviving spouse regardless of where spouse is domiciled. If the surviving spouse has the power to appoint the remaindermen of the qualified trust or life estate, the property is taxed to the remaindermen named in the surviving spouse's will and the rates and exemptions are based on their relationship to the surviving spouse. If the surviving spouse has no power to appoint the remaindermen of the qualified trust or life estate, the property is taxed to the remaindermen named in the first spouse's will and the rates and exemptions are based on their relationship to the second spouse unless such rates and exemptions prove to increase the tax liability. If this occurs, the beneficiary may use the rates and exemptions in effect at the death of the first spouse. If the first decedent was a nonresident of Kentucky or died prior to July 1, 1985, the trust or life estate is not includable in the surviving spouse's estate.

Qualified Terminable Interest Property

For purpose of the spousal exemption, the term *total inheritable interest* may include at the election of the personal representative (or trustee or transferee, if no personal representative) the entire value of a trust or property in which the surviving spouse was devised a life estate and which otherwise qualifies for the federal estate tax marital deduction under Section 2056(b)(5) or 2056(b)(7) of the Internal Revenue Code of 1954, as amended through December 31, 1984. The election is irrevocable and must be made on Form 92A936 on or before the due date of the tax return (as extended) or with the first tax return filed, whichever occurs last. It is not necessary that a similar election be made for purposes of the federal estate tax marital deduction or that a Federal Estate and Gift Tax Return be filed. The effect of the election is that the property (interest) will be treated as passing to the surviving spouse for purposes of the spousal exemption.

INSTRUCTIONS

PREVIOUSLY TAXED PROPERTY
(PRIOR DECEDENT TO IMMEDIATE DECEDENT WITHIN FIVE YEARS)

List all property owned by the immediate decedent at death that was taxed under the Kentucky Inheritance and Estate Tax Law (KRS Chapter 140) and received from a prior estate, the prior decedent having died within five years of the immediate decedent's date of death. Property listed in this schedule must be specifically identified as having been so taxed or as having been acquired in exchange for property so taxed. All property correctly listed in this schedule is subject to a tax credit as provided in KRS 140.095. ***Separate tax credit computations must be made if the decedent paid tax in two or more prior estates.***

Identify the property previously taxed and take full credit for the tax paid by the immediate decedent in the prior estate. If full credit is not allowable, you will be billed for the additional tax plus applicable interest, if due. The credit is taken on the **Tax Computation** schedule as a part of this return.

The methods used in evaluating property listed in this schedule will be the same as those used in evaluating like property listed in other schedules. ***Property listed in this schedule must be valued as of the date of the immediate decedent's death and must not appear in any other schedule.***

See page 3 of general information for an example.

INSTRUCTIONS

GIFTS AND TRANSFERS

Include all gifts and transfers of property in this schedule made by the decedent within three years prior to death and any gift or transfer of property during the decedent's lifetime in which a life estate or the income was retained by the decedent. **If made by deed or trust, a copy of such instrument must be attached.** In the event the taxability of the gift or transfer is not included in the taxable estate, submit details of the transfer and the reason for the exclusion. *To determine the proper taxation of gifts and transfers, refer to KRS 140.020* (see below)*. For reporting agricultural or horticultural land, see General Information—**Valuation of Property—Fair Cash and Agricultural**.*

KRS 140.020 reads in part as follows: (1) Any property or interest therein, of which the decedent has made a transfer by trust or otherwise, in contemplation of or intended to take effect in possession or enjoyment at or after death, including a transfer under which the transferor has retained for his life or any period not ending before his death (a) the possession or enjoyment of, or the income from the property; or (b) the actual or contingent power to designate the persons who shall possess the property or the income therefrom, except in the case of a bona fide sale for an adequate and full consideration in money or money's worth. It shall further apply to any property conveyed in trust over which the settlor has a power of revocation exercisable by will.

(2) Every transfer made within three (3) years prior to the death of the grantor, vendor or donor of a material part of his estate, or in the nature of a final disposition or distribution thereof, and without an adequate valuable consideration, shall be construed to have been made in contemplation of death within the meaning of this chapter.

INSTRUCTIONS

DEBTS OF DECEDENT

Debts and taxes of the decedent paid by the personal representative are deductible. Real property taxes that were a lien against the decedent's property at the date of death are deductible. Indicate the decedent's percentage of liability for debts and taxes on jointly owned property. If the decedent is survived by a husband, her debts, with the exception of taxes or mortgages on her real property, are not deductible unless paid from the proceeds of her estate.

List in this schedule all mortgages and liens of the decedent. Indicate the decedent's share of liability if mortgage is secured by jointly owned property. Mortgages are not deductible to the extent secured by credit life insurance.

FEDERAL ESTATE TAX

The figure for this calculation should be obtained from the Federal Estate and Gift Tax Return.

The federal estate tax is deductible in the proportion that the net estate in Kentucky subject to the federal estate taxes bears to the total net estate everywhere subject to federal estate taxes. This is calculated by dividing the Kentucky net estate, before the federal estate tax deduction, by the federal taxable estate including federal taxable gifts.

PROPERTY HAVING A SITUS OUTSIDE KENTUCKY

Show location, description and actual value, at date of death, of all decedent's property having a situs outside Kentucky. This information is necessary to determine the amount of federal estate tax allowable as a deduction under KRS 140.090(1)(d). List mortgages and taxes on property. ***Intangible property located outside Kentucky is taxable and must be reported on the return if the decedent was domiciled in Kentucky.***

INHERITANCE TAX TABLE
FOR ESTATES OF DECEDENTS WHO WERE RESIDENTS OF KENTUCKY
(APPLICABLE FOR DATES OF DEATH ON OR AFTER JULY 1, 1998)

CLASS A—The following list of beneficiaries are exempt from paying inheritance tax.

(1) Surviving spouse, parent
(2) Child (adult or infant)
child by blood, stepchild, child adopted during infancy, or a child adopted during adulthood who was reared by decedent during infancy
(3) Grandchild
issue of child by blood, stepchild, child adopted during infancy, or of a child adopted during adulthood who was reared by decedent during infancy
(4) Brother, sister (whole or half)

DISTRIBUTIVE SHARE BRACKETS

CLASSIFICATION OF BENEFICIARY	$500 or less	$500-$1,000	$1,000-$10,000	$10,000-$20,000	$20,000-$30,000	$30,000-$45,000	$45,000-$60,000	$60,000-$100,000	$100,000-$200,000	$200,000-and over
CLASS B *Nephew, niece, half-nephew or half-niece, daughter-in-law, son-in-law, aunt, uncle, or great-grandchild who is grandchild of child by blood, stepchild or child adopted during infancy.	0 Exemption $1,000	0	4% of Amt. over $1,000	$360 + 5% of Amt. over $10,000	$860 + 6% of Amt. over $20,000	$1,460 + 8% of Amt. over $30,000	$2,660 + 10% of Amt. over $45,000	$4,160 + 12% of Amt. over $60,000	$8,960 + 14% of Amt. over $100,000	$22,960 + 16% of Amt. over $200,000
CLASS C All persons not included in Classes A or B and educational, religious, or other institutions, societies or associations, or public institutions not exempted by KRS 140.060	0 Exemption $500	6% of Amt. over $500	$30 + 6% of Amt. over $1,000	$570 + 8% of Amt. over $10,000	$1,370 + 10% of Amt. over $20,000	$2,370 + 12% of Amt. over $30,000	$4,170 + 14% of Amt. over $45,000	$6,270 + 16% of Amt. over $60,000	$12,670 + 16% of Amt. over $100,000	$28,670 + 16% of Amt. over $200,000

* Nephews and nieces by marriage and great nephews and nieces are Class C beneficiaries.

INSTRUCTIONS FOR USING INHERITANCE TAX TABLE ABOVE

A. Compute each beneficiary's tax separately.
B. **Do not deduct the beneficiary's exemption from the distributive share. The tax shown in the table for each distributive share bracket automatically applies the allowable exemption.**
C. Determine the proper classification of the beneficiary at the left of the table.
D. Follow the tax table across to distributive share bracket at the top of the table that includes the distributive share of that beneficiary.
E. The tax applicable to that beneficiary's distributive share is the amount shown ***plus*** the designated percentage of the amount by which the distributive share exceeds the base of the distributive share bracket.

An estate tax is levied when the credit for state death taxes allowable on the federal estate tax return exceeds the Kentucky inheritance tax.

INHERITANCE TAX TABLE
FOR ESTATES OF DECEDENTS WHO WERE NONRESIDENTS OF KENTUCKY

(APPLICABLE FOR DATES OF DEATH ON OR AFTER JULY 1, 1998)

CLASS A—The following list of beneficiaries are exempt from paying inheritance tax.

(1) Surviving spouse, parent
(2) Child (adult or infant)
    child by blood, stepchild, child adopted during infancy, or a child adopted during adulthood who was reared by decedent during infancy
(3) Grandchild
    issue of child by blood, stepchild, child adopted during infancy, or of a child adopted during adulthood who was reared by decedent during infancy
(4) Brother, sister (whole or half)

Classification of Beneficiary	Exemption (To Be Prorated)*	Beneficiary's Taxable Share	Graduated Tax Rate	Tax Due
CLASS B **Nephew, niece, half-nephew or half-niece, daughter-in-law, son-in-law, aunt, uncle, or great-grandchild who is grandchild of child by blood, stepchild or child adopted during infancy.	$1,000	*$10,000 less prorated exemption next $ 10,000 next $ 10,000 next $ 15,000 next $ 15,000 next $ 40,000 next $100,000 next $300,000 Balance	4% 5% 6% 8% 10% 12% 14% 16% 16%	as computed $ 500 $ 600 $ 1,200 $ 1,500 $ 4,800 $14,000 $48,000 as computed
CLASS C All persons not included in Classes A or B and educational, religious or other institutions, societies or associations, or public institutions not exempted by KRS 140.060.	$ 500	*$10,000 less prorated exemption next $ 10,000 next $ 10,000 next $ 15,000 next $ 15,000 next $ 40,000 Balance	6% 8% 10% 12% 14% 16% 16%	as computed $ 800 $ 1,000 $ 1,800 $ 2,100 $ 6,400 as computed

*The prorated exemption is applied at the lowest tax rates. See general information, page 5.

** Nephews and nieces by marriage and great nephews and nieces are Class C beneficiaries.

An estate tax is levied when the credit for state death taxes allowable on the federal estate tax return exceeds the Kentucky inheritance tax.

92F001
(7-10)

FINANCE AND ADMINISTRATION CABINET
DEPARTMENT OF REVENUE
501 High Street
FRANKFORT, KENTUCKY 40620
Phone (502) 564-4810
Fax (502) 564-2695
www.revenue.ky.gov

TO: Personal Representatives, Financial Institutions, Broker-Dealers, and Other Interested Persons

FROM: Jim Orr, Supervisor
Financial Tax Section
Jim Orr

DATE: July 2010

SUBJECT: Inheritance Tax Lien Releases and Inventory of Safe Deposit Boxes

Effective July 1, 1998, the Kentucky Department of Revenue (DOR) no longer requires that a person obtain prior written consent (lien release) from the DOR for the transfer for specific property owned by a resident or nonresident decedent at death, nor will a representative of DOR be present at the opening of a safe deposit box for the purpose of inventorying the contents at any time after the death of a person who had access to the box.

Pursuant to the authority granted to DOR in Chapter 140 of the Kentucky Revised Statutes, this notice grants a blanket lien release (consent) on all property owned by any decedent as a result of his or her death or any interest therein including, but not limited to, real estate, stocks, bonds, cash accounts, trust funds, life insurance, employee retirement accounts and trusts of all types, safe deposit box contents, etc.

Also, financial or other institutions or persons renting safe deposit boxes or similar receptacles may permit access to any and all boxes without requiring a specifically written consent or the presence of DOR or the local PVA prior to entering the box after the death of a person who had access to the box.

The above actions were taken as a result of the phase-out of the inheritance tax on Class A beneficiaries and for the purpose of easing the administration of estates for personal representatives, beneficiaries and other affected parties. More efficient services to the taxpayers of the Commonwealth will result from these actions.

This document may be duplicated and used as verification that the inheritance tax lien no longer exists on a decedent's property regardless of the date of death. However, it does not mean that the personal representatives or beneficiaries are relieved of any inheritance tax liability that they may owe in their individual capacity.

Questions regarding this notice may be directed to (502) 564-4810.

GENERAL INFORMATION

SUPPLEMENTAL DOCUMENTS

If applicable, please submit the following with the return:

Will
Disclaimer
Renunciation
Trust Agreement
Pre-Marital Agreement
Adoption Papers
Election to Qualify Terminable Interest Property
Election to Defer Payment of Tax
Legal Description of Each Piece of Real Estate Reported at Agricultural or Horticultural Value
Federal Estate Tax Return
Federal Estate Audit Report or Closing Letter
Court Order Setting Aside Personal Property Under KRS 391.030(1)(c)

PAYMENT OF TAX

Discount

(1) Any inheritance tax payment made within nine months of death is allowed a 5 percent discount.
(2) Discounts are not allowed on estate tax.

Avoid Interest and Penalty: If tax is due, any payment made after 18 months of death is subject to interest and penalties.

Deferred Installment Payments

If a beneficiary's tax liability exceeds $5,000, the beneficiary may elect to pay the tax in 10 equal annual installments. The first installment is due at the time the tax return is filed. The tax deferred is charged with interest at the rate established under KRS 131.010(6) beginning 18 months after the date of death. This election must be made on Form 92A928 when the return is filed.

Interest

If tax (inheritance or estate) is not paid within 18 months following the decedent's death, interest is computed from the end of the 18 months until the tax is paid. ***There are no provisions in the inheritance tax law to waive interest.*** The interest rates are:

1998	9 percent	2000	8 percent	2002	6 percent
1999	8 percent	2001	10 percent	2003	5 percent

Penalties

Late filing and late payment penalties may apply if tax is due and the return is not filed and the tax due paid within 18 months from the date of death.

Late Filing Penalty is 2 percent of the total tax due for each 30 days or fraction thereof that the payment is late. The maximum is 20 percent of the total tax due. The minimum is $10.

Late Payment Penalty is 2 percent of the total tax due for each 30 days or fraction thereof that the payment is late. This penalty is not applicable if at least 75 percent of the tax liability has been timely paid. The maximum is 20 percent of the total tax due. The minimum is $10.

The penalties accrue from 18 months from the date of death until the tax is paid.

These penalties may be waived if the return was not filed or the tax paid timely due to a "reasonable cause" as defined under KRS 131.010. There are additional penalties under KRS 131.180.

Interest and penalty payments should be made at the time the tax return is filed. If you need assistance in computing interest or penalty, contact the Financial Tax Section, (502) 564-4810.

PROPERTY TO BE INCLUDED ON THE RETURN

For a Kentucky resident, all real property located in Kentucky, all tangible personal property except tangible personal property that has acquired a situs for purposes of taxation outside Kentucky, and all intangible personal property except partnership property located in another state that is subject to an inheritance or estate tax in that state is subject to tax.

For a nonresident of Kentucky, all intangible personal property belonging to nonresidents that has acquired a business situs in Kentucky, all real property located in Kentucky in which the decedent owned or had an interest and all tangible personal property that has a situs in Kentucky and is not taxable elsewhere is subject to Kentucky inheritance and estate tax. Intangible personal property subject to tax in Kentucky may include, for example, a partnership interest or a bank account used in conjunction with taxable real or personal property. Tangible personal property with a situs in Kentucky may include items such as automobiles, farm machinery, livestock, equipment, boats, household items, etc.

VALUATION OF PROPERTY—FAIR CASH AND AGRICULTURAL

All real and personal property is to be reported at the Fair Cash Value on decedent's date of death except where qualified real estate is being reported at its agricultural or horticultural value. (Refer to KRS 140.300 for conditions of the qualification.) Also, qualified real estate that is part of the assets of a partnership may be reported at its agricultural or horticultural value when valuing the partnership and any qualified real estate comprising a portion of assets of a corporation may be reported at its agricultural or horticultural value when valuing the corporate stock. (Refer to KRS 140.310 for conditions of the qualification.)

NOTE: Reporting real estate at its agricultural or horticultural value for dates of death on or after July 1, 1998, benefits only daughter(s)-in-law and son(s)-in-law.

A completed Real Estate Valuation Information Form, 92A204, must be filed for each tract of real estate. If corporate stock or a partnership interest is reported at its agricultural or horticultural value, a completed Real Estate Valuation Information Form and a list of all personal property must be submitted with an explanation of the valuation of the stock and a balance sheet for the partnership.

Any sale or transfer of the qualified real estate to someone other than another qualified person who is a joint owner will cause the tax to be due and payable on the fair cash value rather than the agricultural or horticultural value plus interest as defined in KRS 131.010(6) on the unpaid tax. A lien will be filed on each parcel of qualified real estate to secure any additional tax that may become due.

DEDUCTIONS

For a Kentucky resident decedent, all debts due and payable as of decedent's date of death as well as funeral expenses (not to exceed $5,000) and administrative expenses including attorneys' fees and commissions of executors and administrators actually allowed and paid can be claimed.

For a nonresident decedent, administrative costs associated with the administration of the Kentucky taxable assets, mortgages or liens on the property subject to tax in Kentucky, and federal estate tax in the proportion that the net estate taxable in Kentucky bears to the total net estate subject to federal estate taxes are allowable deductions.

FEDERAL ESTATE TAX

The federal estate tax is deductible in the proportion which the *net estate in Kentucky subject to the federal estate taxes bears to the total net estate everywhere subject to the federal estate taxes.* This is calculated by dividing the net estate over which Kentucky has jurisdiction, before the federal estate tax deduction, *by the federal taxable estate including federal taxable gifts.*

QUALIFIED TERMINABLE INTEREST PROPERTY (QTIP) AND/OR POWERS OF APPOINTMENT (POA)

The Inheritance Tax Law requires that the value of a surviving spouse's interest in a POA trust or in a QTIP, which was exempt as a part of the surviving spouse's inheritable interest in the first spouse's estate according to the election made in the first spouse's estate, is includable in the surviving spouse's estate. The property is includable at its value on the surviving spouse's date of death. All property passing under a POA created by will, deed, trust agreement, contract, insurance policy, or other instrument must be reported whether or not the power is exercised.

PROPERTY PREVIOUSLY TAXED

Prior Decedent to Immediate Decedent Within Five Years—Even though the property is taxable in the immediate decedent's estate, a tax credit is available to the beneficiaries of the present estate. The property will need to be identified on the Kentucky inheritance and estate tax return as being taxed in the prior estate or property that was exchanged for property that was taxed before. The property must be reported at the date of death value of the immediate decedent. If the estate prefers, the credit can be computed by the Financial Tax Section for the estate.

Example of Credit for Previously Taxed Property

The immediate decedent, who died in September 1998, received from the prior decedent, his brother who died in 1994, property valued at the death of the immediate decedent at $55,076.92. The inheritance tax, before discount, paid by the immediate decedent at the death of the prior decedent was $3,014.00. At the death of the immediate decedent the total gross estate was valued at $74,100.00 less total deductions of $9,100.00 leaving a total present net estate of $65,000.00.

To compute the tax credit for previously taxed property: (1) divide the immediate decedent's gross estate into two parts: the property previously taxed, $55,076.92, and the property not previously taxed, $19,023.08; (2) prorate the immediate decedent's debts (funeral expenses, costs of administration, other debts and federal estate taxes paid if any), $9,100.00, to the property previously taxed and the property not previously taxed; (3) arrive at the net estate previously taxed, $48,312.89, and the net estate not previously taxed, $16,687.11; and (4) arrive at the total present net estate, $65,000.00. Note—Mortgages and liens, if any, must be deducted from the value of the property to which they are attached prior to prorating the debts.

Based on the net estate passing to one nephew, the following is a step-by-step example of how to prorate debts and how to compute the tax credit. If more than one beneficiary inherits the previously taxed property, the tax credit must be computed on each beneficiary's share of the estate.

	Gross Estate		Deduct Mortgages and Liens		Gross Estate Less Mortgages and Liens		Deduct Prorated Funeral Expenses, Cost of Administration, Debts and Federal Estate Tax		Net Estate
Previously Taxed Property	$55,076.92	–	$ -0-	=	$55,076.92	–	$6,764.03	=	$48,312.89 (A)
Immediate Decedent's Estate	19,023.08	–	-0-	=	19,023.08	–	2,335.97	=	16,687.11 (B)
Total Gross Estate	$74,100.00	–	-0-	=	$74,100.00	–	$9,100.00	=	$65,000.00 (C)

To arrive at the prorated portion of the debts applicable to the previously taxed property, multiply $9,100.00(debts of the estate) by $55,076.92 (gross previously taxed property) divided by $74,100.00 (gross estate). Note—Mortgages and liens, if any, must be deducted from the value of the property to which they are attached.

A	— Previously taxed property (from Schedule I)	$ 55,076.92
	Less mortgages, liens and a proportionate part of funeral expenses, costs of administration and debts	$ 6,764.03
		$ 48,312.89
B	— Immediate decedent's gross estate other than that inherited from the prior decedent	$ 19,023.08
	Less mortgages, liens and a proportionate part of funeral expenses, costs of administration and debts	$ 2,335.97
		$ 16,687.11
C	— Total present net estate	$65,000.00
D	— Nephew's share of immediate decedent's estate	$ 16,687.11
E	— Nephew's share of previously taxed property	$ 48,312.89
F	— Nephew's total share of present net estate	$65,000.00
G	— Total tax due on nephew's share	$ 4,760.00
H	— Tax paid by present decedent in prior estate	$ 3,014.00
I	— $3{,}014\ (H) \times \frac{48{,}312.89\ (E)}{48{,}312.89\ (A)} =$	$ 3,014.00
J	— $4{,}760\ (G) \times \frac{48{,}312.89\ (E)}{65{,}000.00\ (F)} =$	$ 3,537.99
	Tax due on nephew's share (G)	$ 4,760.00
	Less tax credit (J) (lesser of I and J)	$ 3,014.00
	Net tax due on nephew's share	$ 1,746.00

Attach tax credit computations with return. Credit is shown for each beneficiary on page 4 of return.

The tax credit is the **lesser** of the amounts in the two computations based upon the tax in the prior estate and the tax in the present estate. To arrive at the amount of the allowable tax credit: **First**, take tax paid before discount on decedent's interest in prior estate, $3,014.00 (H), times the share of previously taxed property, $48,312.89 (E), divided by the total previously taxed property, $48,312.89 (A), equals first credit of $3,014.00 (I). **Second**, take total tax due on nephew's share, $4,760.00 (G), times the share of previously taxed property, $48,312.89 (E), divided by the nephew's total share of present estate, $65,000.00 (F), equals second credit of $3,537.99 (J). As the first credit of $3,014.00 (J) is the lesser of the two tax credits, this amount is deducted from the tax on the nephew's share of $4,760 (G) leaving a net tax due of $1,746.00.

DISTRIBUTION

When a person dies, real and personal property may pass by title, under the terms of the will, or by the laws of intestate succession. Survivorship property, gifts, and property payable on death pass to the surviving co-owner or owner shown on the deed or instrument, unless a disclaimer was filed, and not by the terms of the will or by the laws of intestate succession. When a person dies with a will, distribution of the estate is made according to the will, unless the will is renounced by the surviving spouse or a disclaimer is filed. If the will is renounced, the surviving spouse receives one-third of the real property and one-half of the remainder of the personal property. The law provides that when a person dies without a will, one-half of the estate, after funeral expenses, debts, and cost of administration are paid, goes to the surviving spouse and one-half descends as follows (if there is no surviving spouse, the whole estate descends):

1. to the children and their descendants (descendants take the share of their deceased parents); *if there are none*,

2. to the father and mother; if one is deceased, to the survivor; *if there is no father and mother*,

3. to the brothers and sisters and their descendants; (half-sisters and half-brothers and their descendants inherit only one-half as much as those of the whole blood); *if none*,

4. to the husband or wife of the intestate; *if none,*

5. one share shall pass to the paternal and the other to the maternal kindred in the following order:

   (a) the grandfather and grandmother equally, if one is deceased, it shall go to the survivor; *if both are deceased,*
   (b) to the uncles and aunts and their descendants; *if there are none,*
   (c) to the great-grandfathers and great-grandmothers; *if none,*
   (d) to the brothers and sisters of the grandfathers and grandmothers; and

6. if there is no kindred to one of the parents as described in (5), the whole descends to the kindred of the other. If there is neither paternal nor maternal kindred, the whole descends to the kindred of the spouse.

I. EXEMPTIONS FOR BENEFICIARIES OF A RESIDENT DECEDENT

A. Effective for persons dying on or after July 1, 1998, the following beneficiaries are exempt from paying inheritance tax:

   (1) Surviving spouse, parent
   (2) Child (adult or infant)
   child by blood, stepchild, child adopted during infancy, or a child adopted during adulthood who was reared by decedent during infancy
   (3) Grandchild
   issue of child by blood, stepchild, child adopted during infancy, or of a child adopted during adulthood who was reared by decedent during infancy
   (4) Brother, sister (whole or half)

B. The following may owe inheritance tax if their distributive share exceeds the exemption amount:

   Nieces, nephews, half-nieces, half-nephews, sons- and daughters-in-law, uncles, aunts, great-grandchild who is grandchild of child by blood, stepchild, or child adopted during infancy, have an exemption of $1,000. All other beneficiaries receive a $500 exemption.

C. Exempt organizations pursuant to KRS 140.060 do not owe inheritance tax.
   Exempt organizations include educational, religious or other institutions, societies, or associations, whose sole purpose is to carry on charitable, educational, or religious work. Also, cities, towns or public institutions in this state qualify as exempt organizations provided that any transfer to such an organization is for public purposes.

II. EXEMPTIONS FOR BENEFICIARIES OF A NONRESIDENT DECEDENT

The exemption for a beneficiary of a nonresident decedent's estate is prorated based on the exemption of a resident decedent and is in proportion to the net value of the property subject to tax in Kentucky before federal estate taxes to the total property transferred by the decedent.

Example of Using Tax Table for Nonresident Decedents

An individual died a resident of Florida on July 10, 1998. The net value of the property subject to tax in Kentucky before federal estate taxes is $75,000. The Kentucky net estate is 20 percent of the total net estate in and out of Kentucky. The property subject to tax in Kentucky was devised to the decedent's niece. The niece's exemption subject to proration is limited to $1,000. The prorated exemption for the niece is $200 ($1,000 x 20%). The tax is calculated as follows:

$10,000—$200	= $9,800	x	4%	=	$ 392
$10,000		x	5%	=	$ 500
$10,000		x	6%	=	$ 600
$15,000		x	8%	=	$1,200
$15,000		x	10%	=	$1,500
$15,000		x	12%	=	$1,800
$75,000				Tax	$5,992

BEQUEST OF TAX

If the will directs that the estate pay the inheritance tax from the residue and the beneficiary does not share in the residue, the bequest of the tax is added to and made a part of the distributive share of the beneficiary receiving the specific bequest or devise. Contact the Financial Tax Section for assistance.

PROPERTY SET ASIDE UNDER KRS 391.030(1)(c)

KRS 391.030(1)(c) provides that when a person dies intestate as to his personal estate, the spouse or, if none, the children may petition the court for up to $15,000 to be set aside from distribution and from inheritance tax. ***A copy of the court order must accompany the tax return***. If Class B and C beneficiaries receive a part of the residue, this exemption could reduce the tax.

ESTATE TAX

Kentucky estate tax only applies if the decedent's gross estate is large enough that a Federal Estate and Gift Tax Return (Form 706) is filed and a credit is allowed for the state death tax credit. If the Kentucky inheritance tax due is not equal to or greater than Kentucky's part of the **federal state death tax credit**, the difference is due the Commonwealth as an estate tax.

A chart is provided in the instructions on the federal Form 706 for preparing the federal return which must be used to arrive at the credit. This amount must be paid to a state(s) before the credit can be taken on the federal estate tax return. This is not optional. You must pay Kentucky their portion. KRS 140.130 states that if the inheritance tax due is not equal to or greater than Kentucky's part of the federal state death tax credit, the difference is due as an estate tax.

Example:	**Kentucky's part of the federal state death tax credit**	**$39,500**
	Kentucky's Inheritance Tax ($21,300 less 5% $1,065 Discount)	**$20,235**
	Kentucky Estate Tax	**$19,265**
	Total Death Tax Due Kentucky	**$39,500**

If the decedent was a resident of Kentucky and real estate taxable on the Federal Estate and Gift Tax Return was located in another state(s), Kentucky is only entitled to a prorated part of the state death tax credit. Also, if the decedent was a resident of another state and Kentucky real estate was taxable on the Federal Estate and Gift Tax Return, Kentucky is entitled to a prorated share of the state death tax credit. This is found by dividing Kentucky's portion of the federal taxable estate by the total federal taxable estate obtained from the Federal Estate and Gift Tax Return multiplied by the state death tax credit.

Example: **Kentucky resident owning real estate in Ohio**

A	Net Ohio property included in the federal taxable estate	$100,000.00
B	Net Kentucky property included in the federal taxable estate	$400,000.00
C	Taxable estate from the Federal Estate and Gift Tax Return (before adjusted taxable gifts)	$500,000.00
D	State Death Tax Credit from the Federal Estate and Gift Tax Return	$5,000.00
E	Kentucky's Share of the state death tax credit is 80 percent or	$4,000.00

$$\frac{\$400{,}000.00\ (B)}{\$500{,}000.00\ (C)} = 80\% \text{ X} \$5{,}000.00\ (D) = \$4{,}000.00\ (E)$$

VALUE OF A LIFE ESTATE

To find the value of a life estate at a rate of interest of 4 percent, multiply the value of the beneficial interest by 4 percent and this product by the factor in the table below corresponding to the age of the life tenant. The result is the value of the life estate. Subtract the value of the life estate, as determined above, from the beneficial interest. The amount left will be the value of the remainder interest. *If the will, trust, etc. states a different rate of interest or provides for joint or successive life estates, contact the Financial Tax Section for the factors. If the life tenant dies prior to the filing of the return or the tax being fixed and determined, refer to KRS 140.100(3) for valuing the life estate.*

Example: A, age 40, received $10,000 for life, with remainder over to B. $10,000 multiplied by 4 percent equals $400, which is the annual income or annuity. $400 multiplied by 19.5568, the 4 percent factor for age 40, equals $7,822.72 which is the value of the life estate of A. The remainder interest of B is the difference of the principal sum and the life estate, which in this case is $10,000 less $7,822.72 or $2,177.28.

Age	Present Value at 4% of $1 per Year Payable at the End of Each Year for Life	Age	Present Value at 4% of $1 per Year Payable at the End of Each Year for Life	Age	Present Value at 4% of $1 per Year Payable at the End of Each Year for Life	Age	Present Value at 4% of $1 per Year Payable at the End of Each Year for Life	Age	Present Value at 4% of $1 per Year Payable at the End of Each Year for Life
0	23.7718	22	22.2078	44	18.7166	66	12.1908	88	4.5483
1	23.7494	23	22.1029	45	18.4908	67	11.8291	89	4.2900
2	23.7015	24	21.9930	46	18.2570	68	11.4625	90	4.0367
3	23.6506	25	21.8788	47	18.0174	69	11.0911	91	3.7886
4	23.5977	26	21.7603	48	17.7722	70	10.7152	92	3.5627
5	23.5428	27	21.6373	49	17.5184	71	10.3406	93	3.3430
6	23.4851	28	21.5083	50	17.2557	72	9.9621	94	3.1382
7	23.4251	29	21.3757	51	16.9869	73	9.5859	95	2.9401
8	23.3634	30	21.2367	52	16.7087	74	9.2126	96	2.7577
9	23.2986	31	21.0938	53	16.4243	75	8.8367	97	2.5825
10	23.2305	32	20.9455	54	16.1336	76	8.4648	98	2.4237
11	23.1604	33	20.7916	55	15.8366	77	8.0976	99	2.2726
12	23.0876	34	20.6336	56	15.5334	78	7.7358	100	2.1296
13	23.0119	35	20.4678	57	15.2240	79	7.3801	101	1.9946
14	22.9340	36	20.2976	58	14.9045	80	7.0312	102	1.8770
15	22.8530	37	20.1229	59	14.5868	81	6.6897	103	1.7588
16	22.7698	38	19.9397	60	14.2591	82	6.3564	104	1.6492
17	22.6842	39	19.7518	61	13.9254	83	6.0318	105	1.5574
18	22.5954	40	19.5568	62	13.5859	84	5.7168	106	1.4653
19	22.5031	41	19.3568	63	13.2451	85	5.4119	107	1.3821
20	22.4083	42	19.1518	64	12.8989	86	5.1100	108	1.2986
21	22.3099	43	18.9369	65	12.5475	87	4.8271	109	1.2334

AMENDED RETURN

Adjustment(s) to a tax return can be made by letter or Form 92A200 may be used. Any additional tax and interest or applicable penalties should be submitted with the amendment. If a refund is due, please include amended tax computation.

ACCEPTANCE LETTER

The Kentucky Department of Revenue will issue an *ACCEPTANCE LETTER* or *NO TAX DUE LETTER* if the return is accepted as filed. An audit report will be sent if the department makes any adjustments that change the tax due. If an additional amount is due, the audit report will contain information for protest. If an overpayment is made, a refund check will be issued.

PROTEST AND APPEAL

You have the right to protest and appeal a determination of the Kentucky Department of Revenue if you disagree with an assessment of tax or penalty, reduction or a denial of a refund. For protest and appeal procedures, contact the Financial Tax Section at (502) 564-4810.

HELPFUL HINTS

Where to Obtain Assistance

If you have any questions, you may write to the Financial Tax Section, Department of Revenue, Frankfort, Kentucky 40620, or call (502) 564-4810. See general information, page 10 for the location of the Financial Tax Section and the Kentucky Taxpayer Service Centers located throughout the state.

Reporting of Intangible Property Tax

Residents of Kentucky must report their intangible property for taxation. Intangibles consist of any property or investment which represents evidence of value or right to value under law or custom. If the decedent was a resident of Kentucky and owned intangible assets (e.g., bonds, mortgages, notes, trusts, etc.), it is possible that this tax is applicable. If the property has not been reported, the estate may file a listing of omitted property voluntarily or wait for an audit at a later date. For further details, contact the Office of Property Valuation, (502) 564-8071, the property valuation administrator in your county or the Kentucky Taxpayer Service Center nearest you (see list in back of this packet).

Fiduciary Return

The personal representative may be required to file a Kentucky fiduciary income tax return (Form 741) if the estate had gross income for the taxable year of $1,200 or more. If you need further assistance, contact a Kentucky Taxpayer Service Center near you or the Department of Revenue, Frankfort, Kentucky 40620, (502) 564-4580. From a Telecommunication Device for the Deaf (TDD), call (502) 564-3058.

Office of the Taxpayer Ombudsman

The Office of the Taxpayer Ombudsman was established by the 1990 General Assembly to protect the rights of Kentucky taxpayers. The Ombudsman should be contacted after all other means to resolve the problem have been exhausted. If needed, you may write to the Taxpayer Ombudsman, Kentucky Department of Revenue, P. O. Box 930, Frankfort, Kentucky 40602-0930, or call (502) 564-7822. From a Telecommunication Device for the Deaf (TDD), call (502) 564-3058.

Website for Forms

www.revenue.ky.gov

DEFINITIONS

Administration—The collection of a decedent's assets, the payment of his/her debts and the distribution of any remaining assets.

Administrator/Administratrix—A person appointed by the court to administer the assets and liabilities of a decedent.

Beneficiary—One who is lawfully entitled to the proceeds of an estate or property.

Bequest—A gift of property by will.

Decedent—A person who has died.

Descendant—A person who is an offspring, however remote, of a certain ancestor.

Distribution—The apportionment and disposition, by authority of a court, of the balance of an estate's personal property after payment of debts and costs.

Dower/Curtesy—The surviving spouse's (husband or wife) interest in the deceased spouse's estate who died without a will.

Estate—The property of a person. Often a decedent's property in the process of administration.

Estate Tax (Kentucky)—The amount by which the allowable federal state death tax credit exceeds the Kentucky inheritance tax.

Executor/Executrix—A person named in a will to take charge of the deceased's estate and administer or dispose of it as directed in the will.

Fiduciary—A person or institution who legally manages money or property for another.

Gift—A lifetime transfer of property from one individual to another without full payment.

Gift in Contemplation of Death—A lifetime gift made in expectation of the death. The thought of death prompted the gift. Any gift made within three years of death is considered to have been made in contemplation of death unless proof is furnished to the contrary.

Heir—One who inherits or is entitled to by law or by the terms of a will to inherit the estate of another.

Inheritance—The property received from a deceased person, by law or by will.

Inheritance Tax—A tax based on the right to receive property from a decedent's estate. The amount of tax is based on the beneficiary's share and relationship to the decedent.

Intestate—A person who is said to die intestate when he dies without making a will, or dies without leaving anything to testify what his wishes were with respect to the disposal of his property after his death.

Joint Tenant With Right of Survivorship—A person(s) becomes entitled to property by reason of having survived another person who had an interest in the property.

Probate—A formal, legal proving of a will and its acceptance by the court having jurisdiction over the administration of estates. This term also includes all matters and proceedings pertaining to administration of estates, including intestate estates, guardianships, etc.

Stirpes—Indicates the legal right to divide a share of a deceased ancestor. (Example: Three children of a predeceased child each take one-third of the parent's share.)

Tenant in Common—A form of ownership whereby each owner holds an undivided interest in the property. When one owner dies his share of the property is included in his estate rather than becoming the property of the other co-owner.

Testate—Having made a will before death.

Trust—A right of property, real or personal, held by one party for the benefit of another. Any arrangements whereby property is transferred with intention that it be administered for another's benefit.

Will—A document prepared by a natural person in contemplation of death and containing instructions for the disposition of his property.

KENTUCKY DEPARTMENT OF REVENUE TAXPAYER SERVICE CENTERS

Ashland, 41101-7670
134 Sixteenth Street
Telephone: (606) 920-2037
Fax: (606) 920-2039

Bowling Green, 42104-3278
201 West Professional Park Court
Telephone: (270) 746-7470
Fax: (270) 746-7847

Central Kentucky, Frankfort, 40601
501 High Street
Station 38
Telephone: (502) 564-5930
Fax: (502) 564-8946

Corbin, 40701-6188
15100 North US25E
Suite 2
Telephone: (606) 528-3322
Fax: (606) 523-1972

Frankfort, 40602
501 High Street
Financial Tax Section
Telephone: (502) 564-4810
Fax: (502) 564-2695

Hopkinsville, 42240-7926
181 Hammond Drive
Telephone: (270) 889-6521
Fax: (270) 889-6563

Louisville, 40202-2310
600 West Cedar Street
2nd Floor West
Telephone: (502) 595-4512
Fax: (502) 595-4205

Northern Kentucky
Turfway Ridge Office Park
7310 Turfway Rd., Suite 190
Florence, 41042-4871
Telephone: (859) 371-9049
Fax: (859) 371-9154

Owensboro, 42301-6295
401 Frederica Street
Corporate Center, Suite 201C
Telephone: (270) 687-7301
Fax: (270) 687-7244

Paducah, 42001-4024
2928 Park Avenue
Clark Business Complex, Suite G
Telephone: (270) 575-7148
Fax: (270) 575-7027

Pikeville, 41501-1275
Uniplex Center
126 Trivette Drive, Suite 203
Telephone: (606) 433-7675
Fax: (606) 433-7679

Kentucky UNBRIDLED SPIRIT™

YOUR RIGHTS AS A KENTUCKY TAXPAYER

The mission of the Kentucky Department of Revenue (DOR) is to provide courteous, accurate and efficient services for the benefit of the Commonwealth and administer Kentucky tax laws in a fair and impartial manner.

As a Kentucky taxpayer, you have the right to expect the DOR to honor its mission and uphold your rights every time you contact or are contacted by the DOR.

RIGHTS OF TAXPAYER

Privacy—You have the right to privacy of information provided to the DOR.

Assistance—You have the right to advice and assistance from the DOR in complying with state tax laws.

Explanation—You have the right to a clear and concise explanation of:

- basis of assessment of additional taxes, interest and penalties, or the denial or reduction of any refund or credit claim;
- procedure for protest and appeal of a determination of the DOR; and
- tax laws and changes in tax laws so that you can comply with the law.

Protest and Appeal—You have the right to protest and appeal a determination of the DOR if you disagree with an assessment of tax or penalty, reduction or a denial of a refund, a revocation of a license or permit, or other determination made by the DOR.

Conference—You have the right to a conference to discuss a tax matter.

Representation—You have the right to representation by your authorized agent (attorney, accountant or other person) in any hearing or conference with the DOR. You have the right to be informed of this right prior to the conference or hearing. If you intend for your representative to attend the conference or hearing in your place, you may be required to give your representative a power of attorney before the DOR can discuss tax matters with your authorized agent.

Recordings—You have the right to make an audio recording of any meeting, conference or hearing with the DOR, or to be notified in advance if the DOR plans to record the proceedings and to receive a copy of any recording.

Consideration—You have the right to consideration of:

- waiver of penalties or collection fees if "reasonable cause" for reduction or waiver is given ("reasonable cause" is defined in KRS 131.010(9) as: "an event, happening, or circumstance entirely beyond the knowledge or control of a taxpayer who has exercised due care and prudence in the filing of a return or report or the payment of monies due the department pursuant to law or administrative regulation");
- installment payments of delinquent taxes, interest and penalties;
- waiver of interest and penalties, but not taxes, resulting from incorrect written advice from the DOR if all facts were given and the law did not change or the courts did not issue a ruling to the contrary;
- extension of time for filing reports or returns; and
- payment of charges incurred resulting from an erroneous filing of a lien or levy by the DOR.

Guarantee—You have the right to a guarantee that DOR employees are not paid, evaluated or promoted based on taxes assessed or collected, or a tax assessment or collection quota or goal imposed or suggested.

Damages—You have the right to file a claim for actual and direct monetary damages with the Kentucky Board of Claims if a DOR employee willfully, recklessly and intentionally disregards your rights as a Kentucky taxpayer.

Interest—You have the right to receive interest on an overpayment of tax, except delinquent property tax, payable at the same rate you would pay if you underpaid your tax.

DEPARTMENT OF REVENUE RESPONSIBILITIES

The DOR has the responsibility to:

- perform audits, conduct conferences and hearings with you at reasonable times and places;
- authorize, require or conduct an investigation or surveillance of you only if it relates to a tax matter;
- make a written request for payment of delinquent taxes which are due and payable at least 30 days prior to seizure and sale of your assets;
- conduct educational and informational programs to help you understand and comply with the laws;
- publish clear and simple statements to explain tax procedures, remedies, your rights and obligations, and the rights and obligations of the DOR;
- notify you in writing when an erroneous lien or levy is released and, if requested, notify major credit reporting companies in counties where lien was filed;
- advise you of procedures, remedies and your rights and obligations with an original notice of audit or when an original notice of tax due is issued, a refund or credit is denied or reduced, or whenever a license or permit is denied, revoked or canceled;
- notify you in writing prior to termination or modification of a payment agreement;
- furnish copies of the agent's audit workpapers and a written narrative explaining the reason(s) for the assessment;
- resolve tax controversies on a fair and equitable basis at the administrative level whenever possible; and
- notify you in writing at your last known address at least 60 days prior to publishing your name on a list of delinquent taxpayers for which a tax or judgment lien has been filed.

The DOR has a Taxpayer Ombudsman's Office which consists of the Ombudsman and a staff whose job is to serve as an advocate for taxpayers' rights. One of the main functions of the office is to ensure that your rights as a Kentucky taxpayer are protected by the DOR.

The Taxpayer Ombudsman's Office may be contacted by telephone at (502) 564-7822 (between 8:00 a.m. and 4:30 p.m. weekdays). From a Telecommunication Device for the Deaf (TDD), call (502) 564-3058. The mailing address is: Office of Taxpayer Ombudsman, P.O. Box 930, Frankfort, Kentucky 40602-0930.

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This information merely summarizes your rights as a Kentucky taxpayer and the responsibilities of the Department of Revenue. The Kentucky Taxpayers' Bill of Rights may be found in the Kentucky Revised Statutes (KRS) at Chapter 131.041—131.081. Additional rights and responsibilities are provided for in KRS 131.020, 131.110, 131.170, 131.183, 131.500, 133.120, 133.130, 134.580 and 134.590.

FINANCIALTAX SECTION
DEPARTMENT OF REVENUE
FRANKFORT, KENTUCKY 40620