

## Kentucky Passes New Tax Breaks During Special Session

### Fort Knox Tax Center

As part of a special legislative session to deal with Kentucky's budget shortfall, the Kentucky General Assembly enacted several changes in the state's tax laws. These changes included some significant tax breaks such as an exemption of active-duty military pay from the state's income tax for Kentucky residents, a tax credit of as much as \$5,000 for those buying a newly-built house, and a car trade-in benefit that will reduce taxes on new vehicle purchases.

The state income tax exemption for military pay will take effect on January 1, 2010. It applies to Kentucky residents who earn military pay while serving on active duty.

The New Home Tax Credit is an individual income tax credit that became effective July 26, 2009 and applies to a "qualified buyer" who purchases a "qualified principal residence" on or after July 26, 2009 and before July 26, 2010. A "qualified buyer" is a resident of Kentucky who is not eligible to receive the federal first-time home buyer credit allowable under the Internal Revenue Code. A "qualified principal residence" must be certified by the seller as having never been occupied, and must be the principal residence of the qualified buyer for a minimum of two years.

People wishing to take advantage of the New Home Tax Credit must act quickly after purchasing their home. The Kentucky Revenue Cabinet requires that applications for the New Home Tax Credit be received not later than 7 calendar days from the escrow closing date. Additionally, applications must be faxed; applications received by mail will not be accepted. The fax number is (502)564-3706.

Qualified buyers approved for the credit will receive a letter with a 4-digit approval code from the Kentucky 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. For electronic filers, information from the letter and the New Home Tax Credit Worksheet D (for electronic filers only) must be included with any electronic return submitted.

The maximum New Home Tax Credit is \$5,000 and is applied to any Kentucky state tax liability owed. It is a nonrefundable credit, meaning that any unused portion will not be refunded and may not be carried back or forward to another tax year. The program was funded with a total amount of \$25,000,000. Once the cap is reached, the program will end and no additional credit will be provided.

The Motor Vehicle Usage Tax is a Kentucky tax on a motor vehicle's value when purchased and offered for registration. Receipts for this tax are deposited into the state's Road Fund.

Normally, the tax is based on the retail price paid for the vehicle, with no credit given for any trade-in that was part of the transaction. The new law enacted a one-year allowance for trade-in value to be deducted in determining a new vehicle's retail price.

The trade-in allowance may be utilized for new vehicles purchased September 1, 2009 through August 31, 2010. As with the New Home Tax Credit, only \$25,000,000 was allocated for the program. Once the total amount of the new car trade-in allowance credit reaches \$25,000,000, the program will end.

If you have any questions about the new Kentucky tax changes or other questions about taxes, please contact our Fort Knox Tax Center at 624-0044, or visit the Tax Center website at <http://www.knox.army.mil/center/sja/tax.asp>.