

Commonwealth of Kentucky
Kentucky Department of
Revenue

**Modernized e-File (MeF) Guide for
Software Developers and
Transmitters**



**Individual Income & Estate
Trust Income Tax**

KY PUBLICATION 4164

Tax Year 2023
Processing Year 2024

May 18, 2023

Version 1.0

| Date | Version | Action |
|-----------|---------|---|
| 5/18/2023 | 1.0 | Created initial document |
| 7/28/2023 | 1.0 | Updated Federal Conformity, filing deadline date, estimated payment dates, tax rate, standard deduction, and Form 8863-K. Added Refundable Pass-Through Entity Tax Credit field. |
| 8/11/2023 | 1.1 | Added Form 461-K section with updated thresholds. |
| | | |

Contents

| | |
|--|-----------|
| Section 1: INTRODUCTION | 5 |
| Section 2: OVERVIEW OF TY2023 / PY2024 CHANGES | 6 |
| Federal Conformity..... | 6 |
| Filing Deadline for TY2023..... | 6 |
| Tax Rate | 6 |
| Standard Deduction | 6 |
| Refundable Pass-Through Entity Tax Credit..... | 6 |
| Section B - Personal Tax Credit | 6 |
| Section C - Family Size Tax Credit..... | 7 |
| Form 461-K..... | 8 |
| E-filing Amended Returns..... | 8 |
| Electronic Payment of Estimate Tax Payments Payment Dates | 9 |
| Reminders for TY2023 | 10 |
| Schedule ITC – Kentucky Individual Tax Credit Schedule | 10 |
| Driver’s License/State Issued Identification Number..... | 10 |
| Schedule KW-2 – Kentucky Income Tax Withheld | 10 |
| Form 8863-K – Education Tuition Tax Credit..... | 11 |
| Payment Amount..... | 11 |
| Filing Status: Married, Filing Separate Returns | 11 |
| Section 3: SOFTWARE DEVELOPER’S RESPONSIBILITIES..... | 12 |
| Section 4: SOFTWARE ACCEPTANCE, TESTING & APPROVAL..... | 13 |
| Letter of Intent | 13 |
| Software Id..... | 13 |
| Business Rules..... | 13 |
| Acknowledgements and Approval | 14 |
| Testing Requirements..... | 14 |
| Testing Criteria | 14 |
| Requested Test Items | 14 |
| Test Samples | 15 |
| Section 5: Acknowledgements..... | 19 |
| Acknowledgement Reconciliation Process | 19 |
| Section 6: General Information | 20 |

| | |
|---|-----------|
| Submission Types | 20 |
| Linked Submissions | 20 |
| Unlinked Submissions | 20 |
| Federal Forms & Schedules Required | 20 |
| Signature Process | 20 |
| E-file Mandate | 20 |
| Exclusions from Electronic Filing for TY2023 | 21 |
| e-File Documents | 21 |
| Required Data Elements | 22 |
| Decimal places for ratios and percentages | 23 |
| Numeric Fields | 23 |
| Processing of Business Incentive and Other Tax Credits | 23 |
| Attachments | 24 |
| Perfection Period | 25 |
| Direct Deposit and State Payment (Direct Debit/ACH Debit) | 25 |
| Multiple requests for direct deposit to the same account | 26 |
| Electronic Estimate Tax Payments (ACH Debit) | 27 |
| Application for Extension of Time to File Individual Income Tax Returns – Form 740-EXT/40A102 with a payment of tax direct debit request | 27 |
| Check the Status of a Refund Online | 28 |
| Section 7: Schemas & Transmission Specifications | 28 |
| Section 8: Kentucky Form Edits | 31 |
| Form 740 & Form 740-NP | 31 |
| Schedule A (Form 740/Form 740-NP) | 32 |
| Form 8582K | 33 |
| Financial Transaction Record | 33 |
| Section 9: Electronic Filing Statistics from TY2022 | 33 |
| Section 10: Electronic Filing Program Publications and Forms | 36 |
| Publications | 36 |
| Kentucky Tax Alerts | 36 |
| Internal Revenue Service Publications | 36 |
| Kentucky Department of Revenue Publications | 36 |
| E-Payments – Credit Card and ACH Debits | 36 |

| | |
|--|-----------|
| EFT Debit Payments | 36 |
| Section 11: Important Dates for TY2023/PY2024 | 37 |
| Section 12: Electronic Filing Help Desk | 38 |

Section 1: INTRODUCTION

The material in this publication will provide software developers and transmitters the necessary information for capturing and formatting Kentucky individual income tax, Kentucky Fiduciary data and the associated federal information required as part of a Kentucky return. The information included in these specifications does not provide all the various tax booklet instructions and tax law detail necessary in the preparation of the Kentucky return. Please refer to the 2023 Kentucky individual income tax booklet (Form 740, Form 740-NP and Form 741) and Kentucky Department of Revenue (KDOR) website at www.revenue.ky.gov for additional forms, schedules and instructions.

This publication does not represent the requirements and procedures issued by the Internal Revenue Service (IRS). All IRS requirements must be adhered to in developing the Kentucky return and participating in the fed/state e-file program. See IRS Publications 4164, Modernized e-file Guide for Software Developers and Transmitters and Publication 1345, Handbook for Electronic Return Originators of Individual Income Tax Returns.

The Kentucky Department of Revenue e-File program works in conjunction with the Internal Revenue Service 1040 e-File program to allow authorized Providers, or Electronic Return Originators (ERO's) to electronically file both federal and state individual income tax returns and corresponding forms, schedules and attachments.

Kentucky will accept Form 740, Form 740-NP, Form 740-NP-R, Form 725, Form 741 and their supporting schedules/forms for electronic filing through fed/state MeF. The Form EPAY, Form 720-EXT/720-SL and Form 740-EXT/40A102 are also accepted.

Amended returns are accepted through e-file for tax years 2023, 2022 and 2021. The amended returns for tax years 2023, 2022 and 2021 should be filed on Form 740 or Form 740-NP with the amended return indicator set.

Kentucky schemas will be available in processing year 2024 to e-file the tax year 2021 and 2022 returns as prior year returns. Returns for tax year 2020 and years prior should be filed by mail instead of e-file.

The transmission method is a Web Service using Simple Object Access Protocol (SOAP) with attachments messaging. An e-file tax return uses schemas that are formatted using Extensible Markup Language (XML). This language defines the structure and content of an XML document to create all forms, schedules, and attachments in electronic format for Individual Income Tax Modernized e-file (IMF). Business rules were created to specify requirements that cannot be defined in the XML.

Kentucky follows the standards defined by the NACTP (National Association of Computerized Tax Processors). If you are not a member of the NACTP, you are encouraged to review the

standards on their website (www.nactp.org).

The Kentucky Department of Revenue (KDOR) would like to express our appreciation to the software developers that participated during the 2023 filing season and encourage any new software developers to consider Kentucky for the 2024 processing season. We always welcome your suggestions and comments. Contact the Department of Revenue at any time for assistance throughout the upcoming tax year.

Section 2: OVERVIEW OF TY2023 / PY2024 CHANGES

Federal Conformity

Kentucky updated its federal conformity date to December 31, 2022 for purposes of computing corporation and individual income taxes.

Filing Deadline for TY2023

The filing deadline for tax year 2023 will be April 15, 2024.

Tax Rate

A flat 4.5% tax rate has been set for tax year 2023 for individual and fiduciary income tax returns.

Standard Deduction

The standard deduction increased from \$2,770 to \$2,980.

Refundable Pass-Through Entity Tax Credit

The Kentucky General Assembly passed HB 5 during the 2023 Regular Session that established a new Section of KRS Chapter 141 allowing an authorized person to make an annual election to file and pay income tax at the entity level on behalf of the pass-through entity effective for tax years beginning January 1, 2022. Individual owners filing Kentucky individual income tax returns with tax imposed by KRS 141.020 are allowed the refundable pass-through entity tax credit passed through on Form PTET-CR. The approved Refundable Pass-Through Entity Tax Credit is found on Forms 740 and 740-NP, line 31g.

Section B - Personal Tax Credit

The following personal credits are available for tax year 2023, if on 12/31/2023:

- Taxpayer was age 65 or older - \$40
 - Taxpayer is required to provide date of birth
- Taxpayer was legally blind - \$40
- Taxpayer was a member of the Kentucky National Guard - \$20

The *Taxpayer* section, lines 1 through 4, should be completed if one of the above credits can be claimed for the taxpayer.

The *Spouse* section, lines 5 through 8, should only be completed if the filing status is Married, filing separately on a combined return or Married, filing a joint return and one of the above credits can be claimed for the spouse.

The *Assignment of Personal Tax Credits* section will assist in determining where to place the credit on the Form 740 and Form 740-NP-R. It is based on the filing status of the return. The total credit cannot exceed \$200 for a filing status of Married, filing a joint return, \$100 for all other filing statuses.

Section C - Family Size Tax Credit

The Family Size Tax Credit is in Section C of the Schedule ITC, page 2. The worksheet will be found in the form instructions for the Schedule ITC.

The Modified Gross Income amounts in the family size tax table changed for TY2023. This credit provides benefit to individuals and families at incomes up to 133 percent of the threshold amount based on the federal poverty level. The 2023 threshold amount is \$14,580 for a family size of one, \$19,720 for a family of two, \$24,860 for a family size of three and \$30,000 for a family size of four or more.

Children of divorced or separated parents can be claimed for the Family Size Tax Credit (FSTC) based on where they resided the majority of the year, not necessarily the parent that claimed the child as a deduction.

Determining the Size of Family Unit:

- 1 - An individual either single or married living apart from his or her spouse for the entire year
- 2 - An individual with one dependent child or a married couple
- 3 - An individual with two dependent children or a married couple with one dependent child
- 4 or more - An individual with three dependent children or a married couple with two dependent children

For purposes of computing the family size tax credit, the maximum family size is four.

The following table lists the percentage used in calculating the FSTC based on family size and modified gross income for tax year 2023.

| Family Size | One | | Two | | Three | | Four or More | | Credit Percentage is |
|------------------------|---------|-------------|---------|-------------|---------|-------------|--------------|-------------|----------------------|
| | is over | is not over | is over | is not over | is over | is not over | is over | is not over | |
| TY 2 0 2 3 | | 14,580 | | 19,720 | | 24,860 | | 30,000 | 100% |
| | 14,580 | 15,163 | 19,720 | 20,509 | 24,860 | 25,854 | 30,000 | 31,200 | 90% |
| | 15,163 | 15,746 | 20,509 | 21,298 | 25,854 | 26,849 | 31,200 | 32,400 | 80% |
| | 15,746 | 16,330 | 21,298 | 22,086 | 26,849 | 27,843 | 32,400 | 33,600 | 70% |
| | 16,330 | 16,913 | 22,086 | 22,875 | 27,843 | 28,838 | 33,600 | 34,800 | 60% |
| | 16,913 | 17,496 | 22,875 | 23,664 | 28,838 | 29,832 | 34,800 | 36,000 | 50% |
| | 17,496 | 18,079 | 23,664 | 24,453 | 29,832 | 30,826 | 36,000 | 37,200 | 40% |
| | 18,079 | 18,517 | 24,453 | 25,044 | 30,826 | 31,572 | 37,200 | 38,100 | 30% |
| | 18,517 | 18,954 | 25,044 | 25,636 | 31,572 | 32,318 | 38,100 | 39,000 | 20% |
| | 18,954 | 19,391 | 25,636 | 26,228 | 32,318 | 33,064 | 39,000 | 39,900 | 10% |
| | 19,391 | - | 26,228 | - | 33,064 | - | 39,900 | - | 0% |

Form 461-K

In accordance with Federal CARES Act, the IRS has suspended the excess business loss limitation and the 80% limitation on the NOL. Kentucky did not adopt this federal change. Kentucky Form 461-K was created as Federal Form 461 no longer exists.

Form 461-K is used to calculate excess business loss. Excess business loss is the amount which the total deductions from your trades or businesses are more than your total gross income or gains from your trades or businesses, plus the threshold amount. The threshold amount for 2023 is \$289,000 (\$578,000 for married taxpayers filing jointly or married filing separately on a combined return). Form 461-K should be used if you're a noncorporate taxpayer and your net losses from your trades or business are more than \$289,000 (\$578,000 for married taxpayers filing jointly or married filing separately on a combined return).

Your excess business loss from each year will be treated as a net operating loss carryover. This amount will be entered on the Schedule KNOL.

E-filing Amended Returns

Individual Income Tax Returns

An amended check box appears on the Form 740 and Form 740-NP to indicate that the return is amended. The indicator should be marked when filing an amended tax return, otherwise it will be treated as an original return and rejected for a duplicate.

- The amended Form 740 is accepted for e-file for tax years 2023, 2022 & 2021.
- The amended 740-NP is accepted for tax years 2023, 2022 and 2021.

Two lines are included on the Form 740 and Form 740-NP for use when amending the TY2022 return. These lines should not be used on the original return. Complete the entire return including the two lines listed below to arrive at the new refund or liability amount. Refunds on amended returns will be issued by paper check.

Form 740:

- Line 29 is used to enter an amount of overpayment shown on the original return
- Line 31(h) is used to enter any amount paid with the original return plus any additional payments made after the original return was filed.

Form 740-NP:

- Line 29 is used to enter an amount of overpayment shown on the original return
- Line 31(i) is used to enter any amount paid with the original return plus any additional payments made after the original return was filed.

An additional field exists in the schema for the taxpayer to enter the reason for amending the original return.

Fiduciary Income Tax Returns

Kentucky will accept amended fiduciary income tax returns for tax years 2023, 2022 and 2021 during processing year 2024 via e-file. The amended return indicator must be set to indicate that the return is an amended return.

Additional specifications:

- Wait for the receipt of the acknowledgement of the original return before submitting an amended return. If the original return is rejected, it can be corrected and resubmitted, eliminating the need to file an amended return.
- A copy of the original return should not be provided with the amended return.
- Overpayments cannot be carried forward on amended returns.
- Direct deposits are not available for amended returns
- Refunds will be issued in the form of a check.

Electronic Payment of Estimate Tax Payments Payment Dates

Taxpayers may schedule up to four equal payments via a direct debit of their financial institution account.

The scheduled payment dates for the 2023 estimated tax payment period are:

- April 15, 2024
- June 17, 2024
- September 16, 2024
- January 15, 2025

The Form 8879-K, 8879-F and Form EPAY include authorization of the direct debit of estimated tax payments.

Reminders for TY2023

Schedule ITC – Kentucky Individual Tax Credit Schedule

The Schedule ITC includes the detail for credits claimed on the Form 740 and Form 740-NP. **It is required if one of the following tax credits is claimed on the Form 740 or Form 740-NP.**

- Section A - Business Incentives and Other Tax Credits
- Section B - Personal Tax Credits (only for age 65 or older, blind or member of the National Guard)
- Section C - Family Size Tax Credit

Driver's License/State Issued Identification Number

Taxpayers may provide their driver's license or state issued ID number if they choose. While providing a driver's license or state issued ID number is **not required**, doing so may expedite return processing.

The Kentucky Department of Revenue uses the driver's license or state issued ID number to screen returns for tax fraud and identity theft problems. Returns that do not include a driver's license or state issued ID number will not be scrutinized more than returns that do include a driver's license or state issued ID number.

The driver's license information is found in the AuthenticationHeader.xsd. Indicating the reason for the absence of the information is required. Indicate if the taxpayer does not have a driver's license/state issued id or that the taxpayer did not wish to provide the information.

Schedule KW-2 – Kentucky Income Tax Withheld

The Schedule KW-2 is to be used for tax year 2023 returns.

- The Schedule KW-2 is completed based on the 2023 W-2's and 1099's with Kentucky income tax withheld.
- The Schedule KW-2 should be included with the tax year 2023 return instead of the income and withholding tax statements.
- The taxpayer must keep copies of the Kentucky income and withholding tax statements and provide them to KDOR if requested.
- The Schedule KW-2 is to be included for returns filed for tax year 2017 through the current tax year but not for returns prior to tax year 2017. The income and withholding statement is required for returns prior to tax year 2017.
- When returns for tax years 2017 forward are printed from the software package, the Schedule KW-2 should be included in the package in case the taxpayer decides to file by mail.

Form 8863-K – Education Tuition Tax Credit

Any unused credit carryforward remaining from the 2018 tax return is no longer eligible for a carryforward on Form 8863K.

A taxpayer files their return in a given year and answers the questions to claim the nonrefundable Education Tuition Tax Credit, but for any number of reasons their tax liability that year is \$0 so they will not be able to claim the credit and will have to carry it forward to a future year. Some software does not submit the 8863-K in these instances since the taxpayer is not actually receiving the credit yet. Then, in future years, the taxpayer files a return with an 8863-K to claim the credit carryforward and the Department of Revenue is not able to verify carryforward because the 8863-K was never filed in the prior year to establish the credit.

In order to eliminate this problem, which places a hardship on the Department of Revenue, the taxpayers, and tax preparers, it would be extremely helpful if the 8863-K was filed in any year that it is necessary to establish the credit for carryforward purposes, not just the years where they are actually receiving the credit.

Payment Amount

The payment amount (element PaymentAmount) on all financial transactions must be a **whole dollar** amount. (Enter 100 not 100.00) This was the most common error which caused returns to be rejected last year.

Filing Status: Married, Filing Separate Returns

For filing status Married, Filing Separate (MFS), both the SSN and name of the spouse are required, but we relax this rule in MeF in order to allow the return to be accepted for e-file. If the filing status MFS is used, the taxpayer is required to provide either the spouse's SSN or name in the FS3(740)/FS4(740-NP) field depending on the return type.

- If neither the SSN or FS3/FS4 name is provided, the return is rejected for missing information.
- If only the SSN or FS3/FS4 name is provided, the return is accepted for processing, but DOR may request the missing information upon review of the return on the backend.
- Our preference is that both the spouse's name and SSN are provided. If both the SSN and name are provided, the spouse's name should be placed in the secondary taxpayer name field instead of the FS3/FS4 name field. The FS3Name/FS4Name field should only be used if the filing status is MFS and the spouse's SSN is not provided.

Section 3: SOFTWARE DEVELOPER'S RESPONSIBILITIES

Kentucky will accept returns electronically from any IRS approved software provider upon completion of testing with the Kentucky Department of Revenue.

Software developers interested in supporting Kentucky Individual Income Tax returns via the Fed/State MeF program are required to provide a completed Letter of Intent. A separate form should be completed for each product. The TY2023 Letter of Intent is available through the FTA secure State Exchange System (SES). Refer to Section 4 for additional information.

Developed software must meet the following requirements:

- Adhere to all federal and state procedures, requirements and specifications. These requirements are specified in IRS Publication 4164, Modernized e-File Guide for Software Developers and Transmitters.
- Successfully complete all testing.
- Be developed in accordance with statutory requirements and Kentucky Department of Revenue return preparation instructions.
- Provide accurate Kentucky tax returns in correct electronic format.
- Provide data validation, verification, and error detection to prevent transmission of incomplete, inaccurate, or invalid return information.
- Software provider must be available to correct any software errors, which may occur after production begins, and work with the Kentucky Department of Revenue to follow up on any processing issues that may arise during filing season. If software providers need to re-release corrected software, it should be done in a timely manner and proper notification should be made to all customers.
- Assist the Kentucky Department of Revenue in the detection and disclosure of suspicious activity related to the preparation and filing of individual income tax returns and financial products related to refunds and tax due.

Section 4: SOFTWARE ACCEPTANCE, TESTING & APPROVAL

In order to participate in the Federal/State Electronic Filing Program, participants must apply to the IRS Electronic Filing Program. Federal Publication 1345, Handbook for Electronic Filers of Individual Income Tax Returns, specifies the application process and requirements for federal participation. The IRS definition of the various categories of electronic filers (electronic return originator, transmitter or software developer) will apply for Kentucky electronic filing purposes under the federal/state program. Software developers that meet the current testing requirements set forth by the IRS are invited to test for Kentucky Department of Revenue acceptance.

Software developers are strongly encouraged to support all schedules, forms and occurrences. It is important that customers are provided with the complete range of services.

The Kentucky Department of Revenue will accept test returns for tax year 2023 based on the schedule found in Section 11 of this document. The Kentucky MeF testing system is subject to IRS availability and dates are subject to change. Please e-mail Krystal.Embry@ky.gov and Ashleigh.Johnson@ky.gov when sending test returns. The e-mail must include your Software ID and the Submission IDs associated with the test returns being submitted. A PDF copy of the test package **must** be sent with the notification when testing.

Letter of Intent

A completed 2023 Kentucky Tax Software Provider Letter of Intent (LOI) is required. The LOI is maintained on the FTA Secure State Exchange System. The names of the authorized tax industry users will be provided to the states by the National Association of Computerized Tax Processors (NACTP). Contact the NACTP with requests to be added to the industry list. Once the industry partner has been added to the industry list, KDOR will make the determination to grant access to the Kentucky folders. A separate LOI should be completed for each product. Please send the completed LOI to the appropriate tax type contact listed in Section 12. The LOI should be submitted prior to beginning your testing and all limitations should be noted.

Software Id

All transmissions must contain the 'SoftwareID'. Contact us if you do not currently have a Kentucky Software ID or wish to change your Software ID. This identification must be verified before the first test file is transmitted. The SoftwareID must be all upper case within the XML or it will cause the submission to reject.

Business Rules

Kentucky created a list of business rules and issued a reject code for any business rule that is considered critical and will cause a submission to be rejected. The business rules include the element name in an effort to benefit the software developer and tester. The reject code text was created without the element name and reworded in an effort to make the rejection code more understandable for the taxpayer and/or tax preparer receiving the reject code.

A separate set of business rules and reject codes were created for the Form 740 Series, Form 740-NP Series, Form 741 Series, Form 740-X, amended 740-NP, Form 740-NP-R, Form 40A102, Form 725, and Form 720-SL. The rules for the forms and schedules that are shared by return types are the same but may have different rejection codes depending on the form series.

Most of the business rules should be verified in Kentucky's test system before your software is approved. A business rule failure could result in the return being adjusted by our subsequent backend processes.

Business Rules and Reject codes are posted to the Secure State Exchange System.

Acknowledgements and Approval

Acknowledgements will be provided for all test returns. The return will be either accepted or rejected. An 'Accepted' acknowledgement does not mean your software is approved for release, it merely means that the system acknowledges having accepted the return for processing. Approval is not granted until an email is received from the department stating such. An acceptance letter will be issued after your software is approved. The letter must be provided to all software users with the final version of your software.

The Kentucky Department of Revenue will provide test results via an email in a timely manner, usually within two working days of receipt of the submission. A software provider who successfully completes testing will receive an approval letter via an e-mail. The e-mail will be sent to the software developer contacts provided at the time of testing.

The Kentucky Department of Revenue will assist the software community in the detection and disclosure of suspicious activity related to the preparation and filing of individual income tax returns and financial products related to refunds and tax due.

Testing Requirements

- Criteria based tests are accepted for tax year 2023.
- Limit the number of tests to no more than 15 -20 tests for review/approval.
- A PDF copy of the state return, the federal return and all applicable schedules are required for testing.

Testing Criteria

Kentucky would like to see test samples with the following test items. You are welcome to create your own tests as long as the supported requested test items are tested.

Requested Test Items

- ❖ Return types supported (740, 740-NP, 740-NP-R, 741, Amended, 40A102 & EPAY)
- ❖ Filing statuses supported (Single, Married filing combined, Married filing jointly, Married filing separately)

- ❖ Residency statuses on 740-NP (Full-year nonresident, Part-year resident)
- ❖ Standard deductions
- ❖ Supporting Schedules and Forms supported by the software including new or revised items for the new tax year:
 - Schedule A/ANP – Qualified mortgage insurance premiums; Other miscellaneous deduction/description
 - Schedule ITC
 - Section A credits, including new Renewable Chemical Production Credit, Worksheet A and Worksheet C
 - Family size tax credit
 - Schedule M additions/subtractions - Active Duty Military Pay (Line13) & Net Operating Loss Deduction (Line 16)
 - Form 2210-K – Part II - Estimated Tax Penalty calculation
- ❖ Kentucky withholding/estimate tax payments/nonresident withholding
- ❖ Charitable contributions
- ❖ Credit Forward
- ❖ Refund
 - Direct deposit
- ❖ Tax Due of Additional Tax, P&I
 - Direct debit (Note: KY requires whole dollar amounts in the Payment Amount of the Financial Record)
- ❖ Income and withholding tax statements including new 1099-Nec

Linked and unlinked submissions should be submitted for testing depending on what is supported by the software.

If you participate as a Free File provider supporting Kentucky returns, at least one test as a free filed return with the Special Program element marked appropriately (<SpecialProgram>Freefile</SpecialProgram>) should be submitted.

Test Samples

The following are samples of possible tests with the requested criteria for Kentucky testing. The samples do not include Schedule J, KNOL, Form 4562-K, 4972-K or 8582-K. If you support these schedules, it is suggested that you test them as well.

740-Single filer:

- Test 1
 - Standard Deduction
 - Family Size Tax Credit
 - An overpayment exists
 - A charitable contribution is made.

- Test 2
 - Schedule A
 - Use tax due
 - Additional tax due
 - State payment of additional tax due
 - Direct debit scheduled for estimate tax payments

740- Married, filing joint:

- Test 3
 - Pension income greater requiring Schedule P
 - Schedule M (Test: Active Duty Military Pay & Net Operating Loss Deduction)
 - Itemized Deductions (Schedule A)
 - Business Incentive Credits (include credits requiring supporting schedules (Sch INV) and Worksheets A & C)
 - Additional Tax Due
 - Estimated tax penalty due (2210-K)
 - Taxpayer's did not wish to provide driver's license information

740-Married, filing separately on a combined return:

- Test 4
 - Dependents
 - Itemized Deductions (Schedule A)
 - Business Incentive Credits for both taxpayers
 - Child and Dependent Care Credit
 - Education Tuition Credit (Form 8863-K)
 - Kentucky withholding plus Kentucky estimated tax payments
 - Charitable Contribution
 - Overpayment applied to credit forward for next year
 - Driver's license information for both taxpayer's

740-Married, filing separately return:

- Test 5
 - Dependents
 - Family Size Tax Credit
 - Standard Deduction
 - Overpayment with Estimated tax Penalty due
 - Refund requested as direct deposit

740-NP Single filer, Part-Year Resident:

- Test 6
 - Standard Deduction
 - Family Size Tax Credit
 - Nonresident withholding (PTE-WH)
 - Business Incentive Credits
 - An overpayment exists with (Form 2210-K, Part II) estimated tax penalty due

740-NP Married, filing joint return, Part-Year Resident:

- Test 7
 - Military spouse
 - Dependents
 - Itemized Deductions (Schedule A-NP)
 - Education Tuition Tax Credit (Form 8863-K)
 - Additional tax due with estimated tax interest due
 - Direct debit of payment for additional tax due plus interest

740-NP Married, filing separate return, Full Year Nonresident:

- Test 8
 - Kentucky taxable income
 - Standard Deduction
 - Overpayment/Refunded as check

740-NP-R:

- Test 9
 - Kentucky withholding
 - Contributions (all contribution fields)

Amended Tests

740-Married, filing separately on a combined return:

- Test 10
 - Reason for Amending: Additional KY wages/withholding
 - Overpayment on original return

740-NP Married, filing joint return, Part-Year Resident:

- Test 11
 - Reason for Amending: Additional KY income
 - Amount paid with original

Extensions:

- Test 12
 - Form 40A102 with an estimated tax payment
- Test 13
 - Form 40A102 without an estimated tax payment

741 tests

Decedent's Estate

- Test 14
 - Final Return
 - Multiple K-1's
 - Schedule P
 - Form 2210-K
 - Tax due
 - Complex Trust

- Test 15
 - Multiple # of K-1's
 - Schedule B
 - Schedule D
 - Schedule M additions and/or subtractions
 - Refund

Simple Trust

- Test 16
 - Initial Return
 - Nonrefundable Credits –Schedule ITC Section A, Worksheet A and Worksheet C
 - Credit Forward
- Test 17
 - Simple Trust
 - FedEstateTaxDedComp.pdf
 - Form 8863-K
 - Tax due

Prior Year Testing

If you were approved for Kentucky e-file for the prior year, you remain approved to file the return as a prior year return in the current tax year. If you would like to submit tests, please contact us and provide the submission IDs, tax type and tax year you are testing.

Section 5: Acknowledgements

The Kentucky Department of Revenue will send acknowledgments through the IRS. The acknowledgement record will be in a format approved and agreed upon by the IRS, state agencies, transmitters, and software developers.

Kentucky will generate an acknowledgement of receipt of the return immediately upon retrieval of the submission. This does not mean the submission has been accepted for processing. It only means we are in receipt of the submission.

An acknowledgement of acceptance or rejection for each state submission will be generated after the submission goes through the schema validations and business rules engine. The transmitter may retrieve Kentucky's acknowledgements from the IRS.

Acknowledgement of acceptance means the submission has been accepted for processing. Acceptance does not mean the submission is free of errors.

Acknowledgement of rejection means the submission failed to process. A reject code and description will be returned with the acknowledgement record giving the reason for the rejection.

Acknowledgement Reconciliation Process

Transmitters and software developers should allow **two working days** from the date the submission status is placed in "Made Available" before contacting us to determine why an acknowledgement has not been received.

To check on the status of a Kentucky submission, contact the Electronic Filing Helpdesk by phone or e-mail. Please be prepared to provide the following information in order to track the status of the submission:

- Transmission Date
- Submission ID

From time to time and especially during peak, the Gateway between the IRS and Kentucky may timeout and submissions are not successfully retrieved but marked as such. We try to run reconciliation at least once a week or more to prevent missing acknowledgements. If you encounter numerous missing acknowledgements (hundreds/thousands), please send the submission ids in an Excel spreadsheet via e-mail to us. We will investigate and manually download the submissions if necessary.

Section 6: General Information

Submission Types

Kentucky's MeF program accepts two types of submissions.

Linked Submissions

A linked submission occurs when an original federal return is submitted with one original state return in one transmission to the IRS. The IRS validates and verifies the federal return data. The IRS will either accept or reject the federal return. The state return is made available to Kentucky only if the federal return is accepted by the IRS.

If a federal return is rejected in a Linked submission, the state return is not made available to Kentucky. In this case, the re-transmission should include both the state return and a copy of the federal return.

Unlinked Submissions

An unlinked submission occurs when the state return is transmitted through the Fed/State system without simultaneously transmitting an original federal return. The software must support unlinked submissions in order for the state only transmissions to be available to the electronic filer. Unlinked returns are transmitted to the IRS and made available for states to retrieve in the same fashion as the Linked transmission. A copy of the federal return is to be included with the state return in an unlinked submission.

Federal Forms & Schedules Required

Kentucky requires a complete copy of the XML federal return and income and withholding tax statements to be sent along with the Kentucky XML return whether sent as a "linked" or "unlinked" submission.

Signature Process

- PIN Signature process used for the federal return is accepted for the Kentucky signature requirement.
- Form 8879-K or Form 8879-F, whichever is applicable, is the required signature attachments document.
- No signature document should be mailed to Kentucky unless requested.

E-file Mandate

Kentucky requires tax return preparers to electronically file Kentucky returns if they are required to electronically file a return for federal income tax purposes. Beginning January 1, 2011, Kentucky phased-in the mandate over a two-year period. The first year paid tax preparers who filed 100 or more returns were required to file electronically. The succeeding years the threshold was dropped to 11 or more returns.

A paid preparer who fails or refuses to comply with the mandate shall pay a return processing fee of \$10 for each return not filed as required, unless it is shown to the department that the failure is due to reasonable cause. Reasonable cause may be the lack of one or more of the following: compatible computer hardware, internet access or other technological capabilities determined relevant by the department.

Kentucky requires a preparer to provide a Form 8948-K, Preparer Explanation for Not Filing Electronically, with any paper return filed as an exception. The form allows the tax preparer to explain the reason for not filing electronically, which includes that the taxpayer chose not to have the return filed electronically. **The reason must be provided on the Form 8948-K included with the return.**

If you feel that you have a valid reason to be exempted from this mandate, please provide a waiver request with a detailed explanation to: Krystal.Embry@ky.gov and Ashleigh.Johnson@ky.gov.

Exclusions from Electronic Filing for TY2023

- 2020 Returns and prior
- Fiscal year filers for individual income tax prior to tax year 2020 and later than the current tax year
- Injured Spouse Declaration

PDF versions of the income and withholding tax statement will exclude the Form 740-NP-R from e-file.

In addition to the above exclusions from Kentucky electronic filing, any income tax return reflected in the list of exclusions from federal electronic filing cannot be filed through the Federal/State Electronic Filing Program

e-File Documents

The following forms, schedules, and worksheets are included in the individual income tax schema.

- Form 740 – Kentucky Individual Income Tax Return Full-Year Residents Only
- Form 740-NP – Kentucky Individual Income Tax Return Nonresident or Part-Year Resident
- Form 740-NP-R, Kentucky Individual Income Tax Return – Nonresident – Reciprocal
- Amended 740-NP, Kentucky Individual Income Tax Return – Nonresident and Part-Year Resident Return
- Form 741 – Kentucky Fiduciary return
- Schedule A – (Form 740) - Kentucky Itemized Deductions
- Schedule A (Form 740-NP) – Itemized Deductions
- Schedule J – Kentucky Farm Income Averaging
- Schedule KNOL – Kentucky Net Operating Loss Schedule
- Schedule M – Kentucky Federal Adjusted Gross Income Modifications
- Schedule P – Kentucky Pension Income Exclusion
- Form 461K – Kentucky Limitation on Business Losses
- Form 2210K – Underpayment of Estimated Tax by Individuals
- Form 4562K – Depreciation and Amortization

- Form 4972K – Kentucky Tax on Lump-Sum Distributions
- Form 8582K – Kentucky Passive Activity Loss Limitations
- Form 8863K – Kentucky Education Tuition Tax Credit
- Worksheet A – Credit for Taxes Paid to Other State
- Worksheet C – Kentucky Limited Liability Entity Tax Credit
- Form 740-EXT – Application for Extension of Time to File Individual, General Partnership, and Fiduciary Income Tax Returns for Kentucky (The electronic filing of the 40A102 is accepted through IMF for the Form 740 and Form 740-NP. The electronic filing of the 40A102 for the Form 765-GP is accepted through BMF. Kentucky does not support electronic filing of the 40A102 for the Fiduciary Income Tax return at this time.)
- Form EPAY – Kentucky Electronic Payment Request Form
- Form 725 – Kentucky Single Member LLC Individually Owned LLET Return
- Form 720-SL – Application for Extension of Time to File the Form 725

The following income and withholding tax statements are available as schemas:

- Form PTE-WH
- Form PTET-CR
- W-2
- W-2G
- 1099-B
- 1099-DIV
- 1099-G
- 1099-INT
- 1099-K
- 1099-MISC
- 1099-NEC
- 1099-OID
- 1099-R

Note: All Kentucky withholding claimed must be supported by an income and withholding tax statement. We will accept PDF documents limited to those documents that contain Kentucky withholding tax, but we strongly suggest that the data be provided in XML format if a schema is available. If the withholding amount claimed is not supported, the submission may be rejected or the unsupported amount disallowed.

Note: PDF versions of the income and withholding tax statement are not acceptable for Form 740-NP-R.

Required Data Elements

The following information is required in MeF.

The 'LinkedReturn' data element is required on all returns (True for linked; False for unlinked)

- InternetProtocol/IPAddress – required for all online returns
- InternetProtocol/IPTimestamp, required for all online returns
- Filer/Primary/DateofBirth, required for ALL returns
- Filer/Secondary/DateofBirth, required on all returns using the married filing separate on a combined return or married filing joint return filing statuses
- The 'SoftwareID' data element is required in the schema
- A complete copy of the XML federal return is required for all Kentucky returns,

- including unlinked returns
- There are certain elements in the Form 740 and 740-NP schema that are listed as optional, however they should ALWAYS be completed and transmitted.
 - The PoliticalPartyFund / Taxpayer element is required on all returns.
- Form 740 - If the filing status selected on the return is filing status 2, (SeparateOnCombinedReturn), PrimaryTaxPayerAmount & SecondaryTaxPayerAmount fields are expected to be completed. If the spouse has no income, filing status 3, (JointReturn), should be selected.
- The Percentage of Kentucky Adjusted Gross Income to Federal Adjusted Gross Income (element PctKYToFedAGI) on Form 740-NP is required.
- The Pension Income Exclusion (element KySchdPExclusion) is an assumed negative. The amount should be listed as a positive number and subtracted from the Total Income (element KyTotalIncome) amount.
- If the taxpayer has filed a Form 40A102 with the state or has filed a federal extension (Form 4868), mark the federal/state extension field (FederalExtensionIndicator) in the Form740.xsd, Form740NP.xsd or Form741.xsd and the late filing penalty will not be assessed during processing.
- Form 740-EXT/40A102 - Use this form if you (1) are requesting a Kentucky extension of time to file; (2) are requesting a Kentucky extension and desire to make a payment prior to the due date; or (3) have a federal extension and desire only to make a Kentucky payment prior to the due date.
- A valid Kentucky withholding account number (EmployerStateIdNumber) is required if Kentucky withholding is claimed on Form 740 or Form 740-NP, line 30(a). The maximum size of the account number is six digits. It must be numeric. The FEIN should not be entered in the Kentucky withholding account number field.
- For electronic submissions, if there are no differences between Federal Form 4562 and Kentucky Form 4562-K, a separate Kentucky Form 4562-K is not necessary. However, Federal Form 4562 should be attached to the copy of the federal return provided with the Kentucky submission.

Decimal places for ratios and percentages

- Ratio types will use a single position in front of the decimal and up to 4 decimal places depending on the element. These element types exist on Form 4972K and Form 8863K.
- Percentage types will use 3 positions in front of the decimal and up to 2 decimal places depending on the element. These element types exist on Schedule A (Form 740 & Form 740-NP), Schedule P, and Worksheet C.

Numeric Fields

Amount fields should be sent as whole dollar amounts. Kentucky numeric fields accommodate up to 15 total digits.

Processing of Business Incentive and Other Tax Credits

Many of the tax credits that can be claimed on individual income tax returns require a taxpayer to receive approval before the credit can be claimed. If approval is required, it should be completed/received prior to claiming the credit on the income tax return. To determine if a tax credit requires pre-approval, please refer to the instructions for the applicable tax return. Return processing will be delayed for credit verification of the following business incentive tax credits if they are listed in Schedule ITC, Section A.

- Nonrefundable limited liability entity tax credit
- Kentucky small business investment credit
- Kentucky selling farmers tax credit
- Skills training investment credit
- Nonrefundable certified rehabilitation credit
- Taxes paid to another state credit
- Unemployment credit
- Recycling and/or composting equipment credit
- Kentucky investment fund credit
- Qualified research facility credit
- GED incentive credit
- Voluntary environmental remediation credit
- Biodiesel and renewable diesel credit
- Clean coal incentive credit
- Ethanol credit
- Cellulosic ethanol credit
- Railroad maintenance improvement
- Endow Kentucky credit
- New Markets Development Program credit
- Distilled spirits credit
- Angel investor credit
- Film industry
- Inventory credit
- Renewed Chemical Production credit

Worksheet C is required if the nonrefundable limited liability entity credit is claimed on Schedule ITC, Section A, line 1.

Worksheet A is required if credit for taxes paid to other states is claimed on Schedule ITC Section A, line 6. A copy of the other state's return should **not** be attached to the electronic submission. Please refer to the Form 740 and Form 740-NP Schedule ITC instructions for additional information regarding the tax paid to other states credit.

Kentucky participated in the Tax Paid Other States pilot for tax year 2018 and has continued to support the Tax Paid to Other States Schema since. The E-Standards TaxPaidOtherStates.xsd schema included in the Kentucky individual schema was created through collaboration between states and industry to help streamline the process of a subset of state income tax returns. The subset is where a credit is being claimed on a state's return for taxes that have been paid to another state. By leveraging the XML format to transmit the information, not only does it make the return easier to process via automation by the state, but also reduces the burden on industry to provide a robust PDF attach solution.

Attachments

Kentucky will accept PDF documents as binary attachments, limited to those documents that contain KY withholding that are not included in our schema with the exception of the Form 740-NP-R. An xml of the wage and tax statement supporting the Kentucky withholding must be included with the 740-NP-R submission or the submission will be rejected.

A processing delay will occur for those submissions that have attachments with Kentucky withholding so that the attachment can be manually reviewed.

A copy of the other state return is not required for the e-filed 740-NP-R return for tax year 2023.

Rejected Returns

Sample:

| ErrorCategory | ErrorMessage |
|------------------|---|
| XML Validation | <Actual XML Error Message> |
| Duplicate Return | Original Return already received for this tax year by SSN. Business Rules and Reject codes are posted to SES. |

Perfection Period

Kentucky allows a 10-calendar day perfection period on rejected individual income tax returns. The perfection period is not an extension of time to file; it is a period of time to correct errors in the electronic file. A rejected submission can be corrected within 10 calendar days and be given the received date of the original rejected submission.

Always enter the original submission date when resubmitting a submission that was previously rejected. The perfection period does not apply to the payment. Please note the last date to retransmit a rejected return in Section 12 – Important Dates.

Direct Deposit and State Payment (Direct Debit/ACH Debit)

- Direct deposit and state payment requests for tax due and estimated tax will be accepted on Form 740 returns.
- Direct deposit requests will not be accepted for Form 740-NP or 740-NP-R returns.
- Amended returns - Direct deposit requests will not be accepted. State payments for tax due will be accepted. State payments for estimated tax will not be accepted.
- Prior Year returns – State payments for tax due will be accepted. Direct deposit and state payments for estimated tax will not be accepted.
- Form EPAY allows a taxpayer to schedule a direct debit payment of tax, penalty/interest and estimate tax at a time other than when filing the individual income tax return.
- Kentucky does not allow the refund to be deposited into multiple bank accounts or into a 529 Tuition Trust Account.
- The Account number must be numeric. No spaces or dashes are permitted.
- The financial transaction record has been altered to allow only one direct deposit account and one state payment account.
- The PaymentAmount in the state payment, if submitted with the return data, must equal the total amount due. No partial payments are accepted when filing the return.
- Form EPAY – The total amount of tax (TotPaymentDebitAmt) must be the sum of the additional tax due (AddTaxDueDebitAmt) and penalty/interest (PenaltyAndIntDueDebitAmt).
- Form EPAY - The PaymentAmount in the state payment must equal the TotPaymentDebitAmt.
- **The payment amount (element PaymentAmount) on all financial transactions**

must be a whole dollar amount.

- The payment of tax due on any Form 740 or Form 740-NP return filed prior to April 15th can be warehoused until April 15th. The processing of a debit payment can take up to 7 days. Payments warehoused until April 15th may not be withdrawn from the taxpayer's account on the 15th but are treated as timely payments when they are withdrawn. Please advise your clients of this situation.
- Warehousing is not allowed on amended or prior year returns. The debit will be submitted to the financial institution when the submission is processed.
- After April 15th, there will be no warehousing of payments of additional tax due. The bank account will be debited when the return has completed processing.
- International ACH Transactions are not allowed. The checkbox for "NotIATIndicator" should be checked on all Financial Transactions.
- KDOR's acknowledgment of the electronic return will not indicate whether the refund will be direct deposited.

Some items which could cause KDOR to deny a direct deposit request:

- Direct deposit is not an option for the Form 740-NP, Form 740-NP-R, amended or prior year filer.
- KDOR reserves the right to deny direct deposit requests at our discretion.
- An invalid account number or bank routing number was provided.
- The amount of the refund is adjusted by the tax processing system.
- All or part of the overpayment is applied to the taxpayer's delinquent Kentucky taxes or the taxpayer's debts to other state agencies and/or the IRS.
- A Kentucky individual income tax return was not filed for the previous tax year.

The taxpayer may determine the reason for the conversion by calling the Department of Revenue's Taxpayer Assistance Section at (502) 564-4581 between 8:00 a.m. and 5:00 p.m., Monday through Friday, Eastern Standard Time.

Multiple requests for direct deposit to the same account

Please be advised that Kentucky adopted the same policy of issuing a check when multiple direct deposit requests to the same financial account are processed. The allowable number of direct deposit requests to the same account for tax year 2023 is three. The fourth and subsequent refunds will convert to a check and be mailed to the taxpayer's mailing address.

Taxpayers will receive a notice informing them that the account has exceeded the direct deposit limits and that they will receive a paper refund check in approximately four weeks if there are no other issues with the return. Taxpayers can track their refunds at Where's My Refund?

The vast majority of taxpayers will not be affected by this limitation, and we would encourage taxpayers and tax preparers to continue to use direct deposit. It is the fastest, safest way for taxpayers to receive refunds.

The direct deposit limit will prevent criminals from easily obtaining multiple refunds. The limit applies to financial accounts, such as bank savings or checking accounts, and to prepaid, reloadable cards or debit cards.

However, the limitation may affect some taxpayers, such as families in which the parents' and children's refunds are deposited into a family-held bank account. Taxpayers in this situation

should make other deposit arrangements or expect to receive paper refund checks.

The new limitation also will protect taxpayers from preparers who obtain payment for their tax preparation services by depositing part or all of their clients' refunds into the preparers' own bank accounts. The new direct deposit limits will help eliminate this type of abuse.

A direct deposit must be made to an account bearing the taxpayer's name. Preparer fees cannot be recovered by using Form 8888 to split the refund or by preparers opening a joint bank account with taxpayers. These actions by preparers are subject to penalty under the Internal Revenue Code and to discipline under Treasury Circular 230 (also, see Circular 230 Tax Professionals page).

Electronic Estimate Tax Payments (ACH Debit)

- Electronic estimate tax payments can be direct debited from financial accounts through MeF. This can be initiated at the time of filing the Form 740 or Form 740-NP return. Electronic estimate tax payments can also be made with the electronic filing of the Form EPAY. Estimate payments cannot be scheduled for prior year or amended returns.
- Taxpayers may schedule up to four **equal** payments with the following debit dates: April 15, 2024, June 17, 2024, September 16, 2024, and January 15, 2025. (Only these dates are valid debit request dates.)
- Direct debit of estimate tax may be scheduled in addition to a direct debit of the tax amount due or direct deposit of refund, but the financial institution information (routing number, account number and type of account) must be the same for all the requested transactions.
- Direct debit of estimate tax may be scheduled in the absence of a direct deposit of refund or direct debit of tax amount due transaction.
- At this time, Kentucky does not process International ACH Transactions. The checkbox for "NotIATIndicator" should be checked on all Financial Transactions.
- To revoke (cancel) a payment, the taxpayer must contact the Kentucky Department of Revenue at (502) 564-4581 no later than 2 business days prior to the payment (debit) date.

Application for Extension of Time to File Individual Income Tax Returns – Form 740-EXT/40A102 with a payment of tax direct debit request

Kentucky accepts the Form 740-EXT/40A102 for Individual Income Tax Returns (Form 740 & Form 740-NP). For purposes of electronic filing, the Form 740-EXT/40A102 is appropriate only for the current tax year and the application will be accepted through the original due date. For tax year 2023, the original due date is April 15, 2024. The extension period is six months. Therefore, the extended due date will be through October 15, 2024.

Interest applies to any income tax paid after the original due date of the return. If the amount of tax paid by the original due date is less than 75% of the tax due, a late payment penalty may be assessed (minimum penalty is \$10). Interest and late payment penalty charges can be

avoided by remitting payment with the Kentucky extension.

Taxpayers may make a direct debit request of tax due at the time the Kentucky extension is electronically submitted through MeF. The tax due debit amount (TotDueDebitAmt) on the Form 740-EXT/40A102 must equal the direct debit payment amount (PaymentAmount) in the financial transaction record.

Taxpayers may submit the Form 740-EXT/40A102 if a Form 4868 has been approved and they would like to request a direct debit payment of Kentucky tax prior to the filing of the Form 740 or Form 740-NP.

To revoke (cancel) a payment, the taxpayer must contact the Kentucky Department of Revenue at (502) 564-4581 no later than 2 business days prior to the payment (debit) date.

Taxpayers who request a federal extension are not required to file a separate Kentucky extension. Please mark the federal/state extension field (FederalExtensionIndicator) in the Form 740/740-NP/741 schema and the late filing penalty will not be assessed during processing if the taxpayer has filed Form 740-EXT/40A102 with the state or has filed a federal extension (Form 4868).

A supporting copy of the Form 740-EXT/40A102 or Form 4868 is not required to be attached to the Form 740, Form 740-NP or Form 741 when filing through MeF. Please see the Kentucky tax year 2023 individual income tax schema for additional information on filing the extension electronically.

A copy of the Form 740-EXT/40A102 should be signed and retained by the taxpayer and/or tax preparer if the state extension is being filed electronically. It may be requested at a later date. The retention period of the Form 40A102 is 5 years, the same as the Individual Income Tax Return.

Check the Status of a Refund Online

Taxpayers may check the status of their current year individual income tax refund by going to the Kentucky Department of Revenue website – <https://refund.ky.gov/> Taxpayers will need their social security number and the exact amount of their refund in order to utilize this service. The status will be posted 14-21 days after an electronic tax return is filed or 21-23 days after a paper tax return is filed.

Section 7: Schemas & Transmission Specifications

The Kentucky forms-based schema has been developed to match all tax forms and schedules included in our e-file program.

- Software developers should apply the data element restrictions documented in the

- No nesting of zip archive files or returns will be allowed. (i.e. one submission, one zip.)
- The SOAP message itself must not be compressed or zipped.
- The message must contain a header, a body, and an attachment. See Modernized E-File Logical ICD Model for message layout and message technical specifications.
- ERO's and transmitters must be approved with the IRS in order to transmit MeF returns.
- The Kentucky Department of Revenue will produce an acknowledgement of acceptance or rejection for each state submission. The transmitter may then retrieve Kentucky's acknowledgement from the IRS.
- The Kentucky Department of Revenue requests that vendors not submit form tags for any schedules, worksheets or forms that are not used in the return.
- The Return Type (element Return Type) and State Submission Type (element StateSubmissionType) for Form 740 and amended Form 740 is KYForm740. The category for the KYForm740 is IND.

The Return Type (element Return Type) and State Submission Type (element StateSubmissionType) for Form 740-NP and amended Form 740-NP is KYForm740NP. The category for the KYForm740NP is IND.

The Return Type (element Return Type) and State Submission Type (element StateSubmissionType) for Form 741 is KYForm741. The category for the KYForm741 is ESTRST.

The Return Type (element Return Type) and State Submission Type (element StateSubmissionType) for Form 40A102 is KYForm40A102.

The Return Type (element Return Type) and State Submission Type (element StateSubmissionType) for the KY Electronic Payment Voucher Form 42A740- EPAY is KYFormEPAY.

The Return Type (element Return Type) and State Submission Type (element StateSubmissionType) for Form 740-NP-R is KYForm740NPR. The category for the KYForm 740NPR is IND.

The Return Type (element Return Type) and State Submission Type (element StateSubmissionType) for Form 725 is KYForm725. The category for the KYForm725 is IND.

The Return Type (element Return`Type`) and State Submission Type (element StateSubmission`Type`) for Form 725-EZ is KYForm725EZ. The category for the KYForm725EZ is IND.

For TY2016 amended submissions in PY2018:

The Return Type (element Return`Type`) and State Submission Type (element StateSubmission`Type`) for Form 740-X is KYForm740X. The category for the KYForm740X is IND.

The Return Type (element Return`Type`) and State Submission Type (element StateSubmission`Type`) for amended Form 740-NP is KYForm740NPX. The category for the KYForm740NPX is IND.

An incorrect Return`Type` or State Submission Type will cause a schema validation failure and the submission will be rejected.

Section 8: Kentucky Form Edits

This section contains field information rules that should be followed by all developers on the primary Kentucky return and supporting schedules when electronic return data is processed. This is a guide to assist tax software developers.

Form 740 & Form 740-NP

Political Party Fund – One of the three (3) taxpayer political party fund options must be selected for all filing statuses. If the filing status is Single or Married Filing Separate Returns, the spouse political party fund should be NULL. If the filing status married filing joint or married filing separate on a combined return is selected, both the taxpayer and spouse political party fund options must be selected.

If the Married Filing Separate Returns filing status is selected, and the spouse SSN is unavailable, the spouse name should be placed in the Form 740 schema FS4SpouseName or Form 740-NP schema FS3SpouseName element. However, if both spouse name and SSN are provided, place this information in the secondary filer portion of return header state.

Form 740-NP, page 4, Section B, line 1, column A should not include moving expense reimbursements.

Form 740, Line 5 and Form 740-NP, page 4, Section B, line 33, column A **must** match the federal adjusted gross income on Line 7 of Form 1040 or Line 35 of Form 1040-NR. **(Exception: If Kentucky filing status is Married Filing Separate Returns and the federal filing status is Married Filing Joint).**

If a taxpayer's Kentucky modified gross income is negative, the Kentucky modified gross income is zero (\$0) for family size tax credit calculation.

If the family size tax credit amount is greater than zero, the total family size element must be populated.

Tax elements for the following line numbers cannot be less than zero. Form 740: Lines 12A, 12B, 14A, 14B, 16A, 16B, 18A, 18B, 19, 22, 26, and 28 cannot be negative. Form 740-NP: Lines 14, 16, 18, 19, 22, 26 and 28. If value equals negative amount, send zero in the schema element.

If Kentucky Schedule A (Form 740 or Form 740-NP), Schedule M, Schedule P, Schedule J, Schedule IT, Schedule INV, Form 4972-K, Form 8863-K, Form 8582-K, Worksheet A, or Worksheet C are utilized or required and the software does not support these schedules or forms, the taxpayer will not be allowed to file electronically using that software package. Any return requiring and missing these schedules will be rejected.

Underpayment of Estimated Tax Penalty--Form 2210-K is required if Form 740 or Form 740-NP, line 33 exceeds \$500. If Form 2210-K is not supported by your software package. Kentucky will automatically calculate the underpayment of estimated tax penalty and a notice of tax due will be mailed to the taxpayer.

Late Filing Penalty—For returns filed after April 15, 2024, a late filing penalty must be calculated. The penalty is 2 percent of the additional tax due field for each 30 days or fraction thereof that a return is not filed. The penalty does not exceed 20 percent and the minimum penalty is \$10.

Late Payment Penalty--For returns filed after April 15, 2024, if the amount timely paid is greater than 75 percent of the tax determined due, no late payment penalty is due. If the amount prepaid is less than 75 percent of the tax determined due, then a penalty of 2 percent of the additional tax due may be assessed for each 30 days or fraction thereof that the tax is past due. The penalty does not exceed 20 percent and the minimum penalty is \$10.

Tax Interest Rate – The 2024 tax interest rate charged by the Kentucky Department of Revenue on unpaid taxes shall be 4.5% and when interest is due on a refund the rate shall be 1%.

The child care credit is only allowable if federal Form 2441 is submitted. It should be included in the federal record with the federal data, even if it is not required for federal purposes. Line 9 of Form 2441 is the amount used to calculate the Kentucky credit for child-care expenses.

The format for percentage fields varies by form. It could be in the range of 2 to 4 positions past the decimal. Please review each schema to determine how to format these fields. Schedule A uses xxx.xx format, Schedule P uses xxx.xx, Form 4972K uses x.xxxx, 8863K uses x.xxx.

Schedule A (Form 740/Form 740-NP)

The percentage fields listed at the bottom of page 1 of the Schedule A should be formatted as

5,2. (i.e. 100% equals 100.00, 50.5% = 50.50).

If a taxpayer uses itemized deductions, then the spouse must also itemize deductions. Returns filed with 2 Schedule A forms are accepted. The standard deduction is only available to non-itemizers. Married Filing Joint Returns are only entitled to one standard deduction.

If the Kentucky adjusted gross income is a negative value, it is treated as such on the Kentucky Schedule A for the adjusted gross income fields and should be entered as a negative value.

Lines 12 through 15 of the Schedule A (Form 740-NP), must be completed if the filing status is 3-Married filing separate returns or if the spouse is not filing a Kentucky return.

Form 8582K

Form 8582K contains assumed negative elements on page 1. These elements should be sent as positive numbers since the form assumes a negative entry. The following line numbers pertain to this rule; Line 1b, Line 1c, Line 2a, Line 2b, Line 2c, Line 3b and Line 3c.

Financial Transaction Record

The payment amount (element PaymentAmount) on all financial transactions must be a **whole dollar** amount.

NOTE: If the return is adjusted and the amount of the refund or the tax due amount changes, the financial transaction data for refunds or payments will not be utilized. Any change in the refund amount will result in a paper check being issued instead of a direct deposit and any change in the tax due amount will result in a notice of total tax due.

Section 9: Electronic Filing Statistics from TY2022

Approximately 94% of all individual income tax returns were filed electronically. The totals below are approximations since we are still processing TY2022 returns.

| | |
|--|------------------------|
| Approximate Totals to Date: | |
| Total Returns | 1,979,940 |
| Total E-file Returns | 1,854,810 |
| Form 740 (Implemented August 2011): | |
| Type of E-filing Program | Fed/State + State Only |
| # of State Returns E-filed | 1,665,674 |
| Options: | |

| | |
|---|------------------------|
| Direct Payment (ACH Debit) | YES |
| Direct Deposit | YES |
| Balance Due Returns | YES |
| State Debit Card | NO |
| Form 740-NP (Implemented January 2017) | |
| Type of E-File Program | Fed/State + State Only |
| # of State Returns E-Filed | 157,875 |
| Options: | |
| Direct Payment (ACH Debit) | YES |
| Direct Deposit | NO |
| Balance Due Returns | YES |
| State Debit Card | NO |
| Form 740-NP-R (Implemented January 2017) | |
| Type of E-filing Program | Fed/State + State Only |
| # of State Returns E-filed | 5958 |
| Options: | |
| Direct Payment (ACH Debit) | YES |
| Direct Deposit | NO |
| Balance Due Returns | NO |
| State Debit Card | NO |
| Form 40A102 (Implemented January 2015) | |
| Type of E-filing Program | State Only |
| # of E-filed | 45,242 |
| Options: | |
| Direct Payment (ACH Debit) | YES |
| Form 741 (Implemented April, TY2017): | |

| | |
|----------------------------|------------------------|
| Type of E-filing Program | Fed/State + State Only |
| # of State Returns E-filed | 16,534 |
| Options: | |
| Direct Payment (ACH Debit) | YES |
| Direct Deposit | NO |
| Balance Due Returns | YES |
| State Debit Card | NO |

Section 10: Electronic Filing Program Publications and Forms

Publications

The following publications describe the process of electronic filing and federal/state electronic filing:

Kentucky Tax Alerts

- <http://revenue.ky.gov/News/Publications/Pages/Tax-Alerts.aspx>
- The following publications describe the process of electronic filing and federal/state electronic filing:

Internal Revenue Service Publications

- Publication 1345, Handbook for Authorized IRS e-file Providers of Individual Income Tax Returns
- Publication 1346, Electronic Return File Specifications for Individual Income Tax Returns
- Publication 4164, Modernized e-File Guide for Software Developers & Transmitters

Kentucky Department of Revenue Publications

- Publication KY-1345, Kentucky Handbook for Electronic Filers of Individual Income Tax Returns
- Publication 4163, Information for Fed/State Development of Modernized E-file for Business Income Tax – Software Developer’s Guide
- Publication 4164, Information for Fed/State Development of Modernized E-file for Individual Income Tax – Software Developer’s Guide

E-Payments – Credit Card and ACH Debits

- Kentucky Department of Revenue’s Electronic Payment Application for making payments by credit card or electronic check: <https://epayment.ky.gov/EPAY>
- User Guide: <https://epayment.ky.gov/EPAY/EEPS%20User%20Guide.pdf>

EFT Debit Payments

- Tax Payment Solution application to make payments by Electronic Funds Transfer (EFT): <https://secure.kentucky.gov/dor/payment/web/login.aspx>
- Additional publications and Kentucky forms are available on the KDOR website: www.revenue.ky.gov

Section 11: Important Dates for TY2023/PY2024

Kentucky tries to follow the IRS's lead regarding filing dates.

| | |
|--|------------|
| TY2020 Last Date to Transmit IRS/Kentucky Returns Electronically | 11/30/2023 |
| TY2023 IRS ATS Testing Start Date | TBD |
| TY2023 Kentucky ATS Start Date Per Return Type | |
| Form 740 | TBD |
| Form 740-NP | TBD |
| Form 740-NP-R | TBD |
| Form 741 | TBD |
| Form 40A102 | TBD |
| Form EPAY | TBD |
| Amended 740, 740-NP | TBD |
| TY2023 Kentucky ATS End Date | TBD |
| TY2023 IRS eFile Production Start Date | TBD |
| TY2023 KY eFile Production Start Date | TBD |
| TY2023 Controlled Launch Participation | YES |
| TY2023 IRS Controlled Launch Date | TBD |
| TY2023 Filing Due Date | 4/15/2024 |
| NOTE: These dates are subject to change at any time. | |

Section 12: Electronic Filing Help Desk

The help desk is for use by electronic transmitters and preparers experiencing problems with electronic filing. Taxpayer's needing assistance on all tax matters should contact the Taxpayer Assistance Branch at 502-564-4581 for assistance.

E-file Help Desk Phone # 502-564-5370,

Option 2 – Individual/Fiduciary Income Tax E-file

Option 3 – Business Income Tax E-File

Option 4 – Withholding Tax – Bulk Filing

Option 5 – Electronic Payments

Fax # 502-564-0230

E-Payment Help Desk Toll Free # 800-839-4137

The help desk operating hours are Monday through Friday, 8:00 a.m. through 4:00 p.m. (EST). The help desk will observe all state holidays.

Staffing:

Shane Kruse (EFT Payments)

Department of Revenue

Division of Operations

E-Commerce Branch

501 High Street, Station 22

Frankfort, KY 40601-2103

Phone: 502-564-5370; Option 1

E-Mail: Shane.Kruse@ky.gov

Jacob Shackelford (Electronic Payments)

Department of Revenue

Division of Operations

E-Commerce Branch

501 High Street, Station 22

Frankfort, KY 40601-2103

Phone: 502-564-5370; Option 1

Email: Jacob.Shackelford@ky.gov

Krystal Embry (Individual/Fiduciary Income Tax)

Department of Revenue

Division of Operations

E-Commerce Branch

501 High Street, Station 22

Frankfort, KY 40601-2103

Phone: 502-564-5370; Option 2

E-Mail: Krystal.Embry@ky.gov

Ashleigh Johnson (Individual/Fiduciary Income Tax)

Department of Revenue
Division of Operations
E-Commerce Branch
501 High Street, Station 22
Frankfort, KY 40601-2103
Phone: 502-564-5370; Option 2
E-Mail: Ashleigh.Johnson@ky.gov

Sarah Livers (Business Income Tax)

Department of Revenue
Division of Operations
E-Commerce Branch
501 High Street, Station 22
Frankfort, KY 40601-2103
Phone: 502-564-5370; Option 3
E-Mail: Sarah.Livers@ky.gov

Holly Hannis (Business Income Tax)

Department of Revenue
Division of Operations
E-Commerce Branch
501 High Street, Station 22
Frankfort, KY 40601-2103
Phone: 502-564-5370; Option 3
E-Mail: Holly.Hannis@ky.gov

Kala Nichols (Withholding Tax Bulk Filing)

Department of Revenue
Division of Operations
E-Commerce Branch
501 High Street, Station 22
Frankfort, KY 40601-2103
Phone: 502-564-5370; Option 4
Email: Kala.Nichols@ky.gov

Chris Rains (Branch Manager)

Department of Revenue
Division of Operations
E-Commerce Branch
501 High Street, Station 22
Frankfort, KY 40601-2103
Direct Line: 502-564-7926
E-Mail: Christopher.Rains@ky.gov