

# The Kentucky CPA Journal

The Journal of the Kentucky Society of CPAs

Issue 5 2017

## A clearer view of:

- Federal tax reform effects on Kentucky taxes and tax reform
- Pension reform
- Kentucky Licensing Board re-organization
- Firm mobility
- Taxpayer rights

*2018 legislative preview*

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# Message from the Board of Directors

## Pension reform essential to getting Kentucky's financial house in order

As a leader in Kentucky's financial services sector, KyCPA is constantly monitoring factors that positively or negatively affect our economy, our members and their clients. One of the biggest challenges facing the commonwealth's future is the ongoing debate in Frankfort regarding pension reform. It is a complicated issue that if not properly and quickly addressed, could cause harm to Kentucky's economy – now and for years to come.

Given the gravity of this pressing issue, KyCPA's board of directors has offered its support to Gov. Matt Bevin and state legislators who are committed to finding a solution to a complex financial problem.

When difficult fiscal choices must be made, it is important for our leaders to focus on the facts in order to bring long-term solutions to the table. This is simply about two things: math and reality.

First – the math. A recent report conducted by PFM, a non-partisan consulting group, concluded that the public pension systems face an unfunded liability between \$33 and \$84 billion. Using investment assumptions for private pension plans in similar shape, the liability could be \$64 billion. Kentucky's total annual budget is approximately \$10.5 billion. If we do nothing, our next state budget will have to devote an additional \$700 million per year to pensions, on top of the \$1.5 billion this year.

Under the current defined benefit structure, most public employees can retire after 27 years of

service, use sick leave and overtime to enhance pension payments, collect a public pension and paycheck concurrently, and receive a significant health insurance subsidy for life. Many private sector industries abandoned these models years ago because supporting them was often economically detrimental to the survival of companies.

That being stated, KyCPA agrees that no public employee or retiree should be blamed for accepting the benefits that were offered to them when they were hired, and they should be commended for dedicating their careers to public service and playing by the rules.

But here's the reality. Under those rules, due to the perfect storm of unforeseen demographic changes, meager investment returns and underfunding, the result has produced an upside-down pension system. Simply put, more money is owed to current and future retirees than is in the systems. If significant reforms are not undertaken, there will not be enough money to pay benefits later.

Like most complicated problems, there are multiple ways to solve this one – but all of them carry their own unique economic and political challenges. Increasing taxes alone can create an unfriendly business environment, deterring future investment or possibly prompting industry leaders to relocate their businesses elsewhere. Cutting spending, including to vital services - like education, Medicaid and public safety - would be equally devastating, and bankrupting the system would only shortchange retirees. Doubling down on the current system would only further downgrade Kentucky's bond rating, raise borrowing costs and increase



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future tax liabilities, failing both taxpayers and public employees.

Gov. Bevin and legislative leaders released a plan in late October with the goal of reducing the state's liabilities while honoring the commitment to our public servants. While the plan included a number of proposed changes, two key elements could put the commonwealth on a reasonable path to solve its massive math problem:

- Level dollar amortization – Working much like a 30-year home mortgage, this rigid approach to paying down liabilities, rather than relying on percent of payroll estimates, ensures that the actuarially determined contribution (ADC) is paid currently and not deferred. The systems should continue to use the investment assumptions that were adopted earlier this year to minimize future risk to the state. It also makes sense to phase in additional payments that will be incurred by outside agencies and local governments.
- Benefit structure – Defined contribution plans, which are the predominant source of retirement for private sector employees, provide a predictable funding model that can improve both the long-term fiscal health of the pension plans and fairness for Kentucky taxpayers. Importantly, the level of retirement benefits

should compare favorably to those in the private sector. The state should also develop a benchmarking exercise to ensure that total compensation (salary and benefits) for state employees is competitive with the private sector so it can attract and retain a talented workforce.

Of course, these changes must also be coupled with efforts to reduce any remaining discretionary expenditures and selectively improve revenues. KyCPA supports tax reform that increases fairness and simplicity, protects taxpayer rights and makes Kentucky a more competitive place to do business. Taken together, these changes should result in additional revenue to the commonwealth.

CPAs are often called on to work with companies facing financial turmoil, and, unfortunately, we are occasionally the bearer of bad news. Sometimes, the truth hurts. While no plan is perfect, Kentuckians should rally around common-sense pension reform proposals that keep the promises owed to retirees, pay down the unfunded liability, improve the state's bond rating and reduce taxpayer risk.

This is why KyCPA stands ready to work with the governor and legislature to support measures that do just that. The time to act is now. Our profession, state, clients, employers and future generations depend on it.

**(From left to right)  
Incoming AICPA Vice  
Chairman Bill Reeb,  
incoming KyCPA  
President Becky Phillips,  
KyCPA CEO Darlene  
Zibart and AICPA  
President and CEO Barry  
Melancon at the AICPA  
2017 Fall Council.**



# Across the Board



By Darlene Zibart, CEO

This is my first of many *Across the Board* articles for the Journal. As most of you know, I accepted the position as CEO of the Kentucky Society of CPAs upon Penny Gold's retirement last month. I am so honored by the faith placed in me by the Board of Directors and will do my absolute best to move KyCPA forward in the coming years. While I have served as the Society's CFO/COO for the past 14 years, there is still much to learn in my new role.

As always, there is so much going on at the Society. Our legislative team and leadership is gearing up for a lively legislative season, with both pension reform and tax reform on the governor's agenda. Our Vice President of Government Affairs Charles George is putting the finishing touches on this year's legislative issues booklet and is working with other professional associations on a variety of legislative issues important to CPAs and the business climate in Kentucky.

Recently, we hosted a very successful IRS and DOR Liaison Meeting at the Society. There was great engagement and suggestions from our members, which the agency representatives seemed to take to heart.

Many positive steps have been taken recently by federal and state tax administrators that we hope you have noticed in your practice or business. For example, the DOR recently released a new guidance project (see article, p. 8) as a result of joint legislation advocated by the Department and KyCPA. This is a powerful illustration of what can be accomplished when we work together.

There was also a separate meeting with Metro Revenue Commission's executive team. We were happy to learn of their work on a new and impressive E-Services system, which will give taxpayers and

their representatives easy ways to navigate and communicate with Metro Revenue Commission's administration. A beta version will be tested this January and February, so please let me know if you would like to participate in the testing phase.

This is also the time when most of the Society's committees and task forces are planning for next year's conferences and events. I encourage all members to share ideas you may have for new programs or hot topics. We do our best to keep KyCPA's CPE and conference programming salient and relevant, but it always works best when we hear from you.

We will continue our outreach to CPA firms, businesses and universities. I hope to get to most regions in the coming months. If you would like to schedule a visit from KyCPA, please contact Samantha Soutar, the Society's membership development manager, at 502.736.1377 or [ssoutar@kycpa.org](mailto:ssoutar@kycpa.org).

I recently returned from the AICPA Fall Council meeting and was shocked by the speed of technological transition within the profession. Even if you are not yet part of the hi-tech revolution, it is important to be alert to the changes at the highest levels and the impact on the day-to-day practice of accounting.

At the local level, there are changes of note. The State Board of Accountancy is proposing several regulatory or statutory changes this year; the Society's Emerging Standards Committee continues to weigh in on exposure drafts from FASB, the AICPA, DOL and other standard-setters. Also, KyCPA continues to work to improve the tax collection processes at every level. There is never a shortage of issues to tackle on behalf of our members.

I hope you will help me in my new role by reaching out to me with ideas and suggestions for how the Society can do more for the members. I am excited for the challenge and stand ready to help.

*About the author:* Darlene Zibart, CPA is the CEO of the Kentucky Society of CPAs. She can be reached at [dzibart@kycpa.org](mailto:dzibart@kycpa.org) or 502.736.1372.



## Changing of the guard at KyCPA

KyCPA CEO Penny Gold officially retired at the annual holiday luncheon Dec. 1 and welcomed her replacement, Darlene Zibart. Gold leaves the Society after 14 years, while Zibart takes over having served as KyCPA's CFO and Operations Manager since 2003.





# Guidance Project: Implementation of 2017's House Bill 245

By Jessica Honican

The famed physicist Albert Einstein was noted for declaring that his income taxes were harder to understand than the theory of relativity, much to the chagrin of his wife who proclaimed that was only the case for him. For practitioners this sentiment lends itself to job security. For tax administrators it sheds light on the lack of transparency surrounding the complex laws and regulations that constitute our state and federal tax systems.

The passage of House Bill 245 came at a very opportune time. With both the federal government and Kentucky contemplating tax reform, there is a need for transparency and guidance on issues affecting the implementation of Kentucky's tax laws and regulations. Thanks to the support of the General Assembly and a joint effort between the Kentucky Department of Revenue (DOR) and the KyCPA, the DOR has become empowered to publish guidance and take other steps forward to become more transparent. The 2017 amendment to KRS 131.130(8) has given the DOR a voice with which to direct the public on maintaining compliance with Kentucky's tax laws, regulations and filing requirements.

## Implementation

The Office of Tax Policy and Regulation (Policy) within the DOR has been tasked with the implementation of the guidance project and has been moving full steam ahead. The framework has been put into place and guidance is being drafted. Upcoming guidance will shed light on some of the more complex tax issues. Several topics have already been earmarked for guidance publication thanks to suggestions from member of the KyCPA as well as internal DOR staff. These topics will tackle both general and fact specific issues. Dissemination of guidance will be a continuous process with material being published as it is deemed appropriate.

## Types of Guidance

The DOR has classified the types of guidance into the following categories: Technical Advice Memorandums (TAM); Revenue Procedures

(RP); Private Letter Rulings (PLR); and General Information Letters (GIL). These forms of guidance documents are issued by the DOR in order to provide the public with reliable information regarding the position DOR may take when confronted with a question concerning the applicability of a tax law or regulation. This guidance is issued in order to help taxpayers understand DOR's opinions concerning tax liability matters and to help ensure consistent application of the tax laws and regulations by all DOR employees. Guidance does not constitute a final ruling, order or determination of the DOR which can be appealed.

## Technical Advice Memorandums

The majority of the guidance will take the form of TAMs. This type of guidance is reminiscent of the policies and circulars that were published by the DOR prior to 2007. A TAM is guidance intended to provide direction to the public and to DOR personnel. The guidance applies principles of law to a set of facts or general category of taxpayers.

## Revenue Procedures

The framework of the guidance project is outlined in an upcoming RP, specifically KY-RP-17-01. This initial RP will outline the definitions, process, and reasons for issuance or denial of the various types of guidance. RPs will be issued infrequently and are intended to provide procedural guidance to the general public and DOR personnel. This type of guidance will be issued by the DOR at its discretion to assist in the administration of laws and regulations by providing procedural direction that may be followed in order to comply with the law.

## Private Letter Rulings

PLRs are a form of a guidance that the DOR has been issuing for years. The guidance project has made the process and procedure more transparent so that the general public is aware of their availability. A PLR is issued by the DOR to provide guidance to a specific taxpayer at the taxpayer's request. A PLR applies principles of law to a specific set of facts or a particular tax situation. Requests for a PLR may not be made anonymously.



## General Information Letters

A GIL is guidance for a taxpayer who has chosen to remain anonymous. GILs are nonbinding and provide guidance only for the taxpayer who made the request. A GIL applies principles of law to a specific set of facts or a particular tax situation. They are not considered rulings by the DOR.

All guidance types outlined above are channeled through policy. Policy may forward any request to another section within the DOR if it is determined

that it is more appropriate for another section to respond to the request. The management of the various sections of the DOR are responsible for providing informal advice and assistance to persons outside the DOR and to employees of their section.

The new Tax Professional Guidance page will go live sometime in late 2017 at [www.revenue.ky.gov](http://www.revenue.ky.gov). Initially the guidance made available will not be voluminous, but will continue to grow as more is drafted and published. The webpage will have many useful links and an

email subscription sign-up option where you can opt to receive notifications when new guidance is published. The DOR will continue to issue some guidance via the administrative regulation process. The DOR invites the public to submit questions and guidance topic suggestions to Policy at [DORTaxpolicy@ky.gov](mailto:DORTaxpolicy@ky.gov).



*About the author:*  
Jessica Honican is a tax policy research consultant at the Kentucky Department of Revenue and can be reached at 502.564.7268.



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# Could federal tax reform affect Kentucky taxes and Kentucky tax reform?

Mark A. Loyd, Esq., CPA



Absolutely!



As of Dec. 2, 2017, both the House and Senate have each passed a version of a tax reform bill. The bills have gone to conference to have their differences reconciled into a single piece of legislation. If enacted into law, this tax reform will result in significant changes in the federal tax code affecting many taxpayers.

State income tax schemes, including Kentucky's, are based on the federal scheme. So, obviously, federal tax reform can be anticipated to affect states' income tax schemes, including Kentucky's. It may also affect Kentucky Gov. Bevin's plan to reform Kentucky taxes. Because Kentucky has adopted the Internal Revenue Code of 1986, as amended, as of Dec. 31, 2015, except for certain provisions, Kentucky would have to specifically update and adopt the Internal Revenue Code reference date to adopt federal tax reform, if it is enacted.

Also, Kentucky is not operating in a vacuum. Other states' adoption of any enacted federal tax reforms can be anticipated to have an effect on each other, including Kentucky's reaction to federal tax reform.

Below are comments concerning the potential effect of federal tax reform on Kentucky taxes or Kentucky tax reform that follow the Unified Framework for Fixing Our Broken Tax Code.

## Lowers rates for individuals and families

*"The change in income brackets is one of the areas in which the House Bill and Senate Proposal still largely diverge. While the House Bill shrinks the current seven tax brackets into three – 12, 25 and 35 percent – and additional top rate of 39.6 percent, the Senate proposal maintains seven brackets with a top rate at 38.5 percent."*

Kentucky's top marginal income tax rate is 6 percent. Local occupational license taxes imposed on wages and business income push the tax rate.

For example, Metro Louisville has a rate of up to 2.2 percent and some other cities within Jefferson County, e.g., Shively, St. Matthews, Jeffersontown, as well as many other counties and cities in the commonwealth, each impose its own occupational license tax. Combined state and local income tax rates can top nine percent in some instances. Kentucky competes with states like Tennessee with no individual income tax and Indiana with much lower individual income tax rates.

Just as one of the key features of federal tax reform is to lower rates, not surprisingly, one of the primary goals of Kentucky tax reform is to lower individual income tax rates. Although individual income tax rates are not linked with corporate income tax rates, the Kentucky General Assembly has set the marginal individual and corporate income tax rates at the same percentage. Perhaps, this recognizes that many businesses are operated as pass-through entities so that the individual owners ultimately pay the state and local income taxes for their businesses. Under this approach, a reduction in individual tax rates appears to be a *quid pro quo* for a reduction in corporate tax rates.

## Doubles the standard deduction and enhances the Child Tax Credit

*"The framework roughly doubles the standard deduction so that typical middle-class families will keep more of their paycheck. It also significantly increases the Child Tax Credit."*

The Kentucky standard deduction for 2017 is going to be \$2,480. Should Kentucky adopt a model similar to Indiana, the standard deduction can be anticipated to go away. Kentucky does not have a Child Tax Credit equivalent to the federal provision. Because it has not adopted these federal provisions, Kentucky cannot be anticipated to embrace either provision or federal changes thereto.

## Tax reform continued

### Eliminates loopholes for the wealthy, protects bedrock provisions for middle class

*“To provide simplicity and fairness the framework eliminates many itemized deductions that are primarily used by the wealthy, but retains tax incentives for home mortgage interest and charitable contributions, as well as tax incentives for work, higher education, and retirement security.”*

Interestingly, the proposed elimination of the state income tax itemized deduction has generated a lot of discussion. States with high income taxes are understandably not enthused with this aspect of the Unified Framework.

Meaningful tax rate reductions contemplated by federal and Kentucky tax reform require offsets. The Unified Framework approach is similar to Gov. Bevin’s tax reform tenet of reducing tax expenditures, sometimes referred to as loopholes, a term with pejorative implications. Further, elimination of itemized deductions would simplify the tax code, which

is a stated goal of both federal and Kentucky tax reform. And, Kentucky itemized deductions are generally derived from the Internal Revenue Code. Given these dynamics, eliminating federally-available itemized deductions (or potentially eliminating all itemized deductions entirely) can be anticipated to be on the table for Kentucky tax reform. And, even if there is no Kentucky tax reform, Kentucky can be anticipated to eliminate the itemized deductions that the federal government eliminates.

### Repeals the death tax and Alternative Minimum Tax (AMT)

*“Both the House Bill and Senate Proposal double the basic exclusion amount for estate and gift tax from \$5 million to \$10 million. However, the House Bill makes this change permanent and also repeals the estate and generation-skipping transfer taxes. The Senate only doubles the exclusion until 2026 and retains the generation-skipping transfer tax.”*

Like the Unified Framework, Kentucky tax reform includes a goal of eliminating the

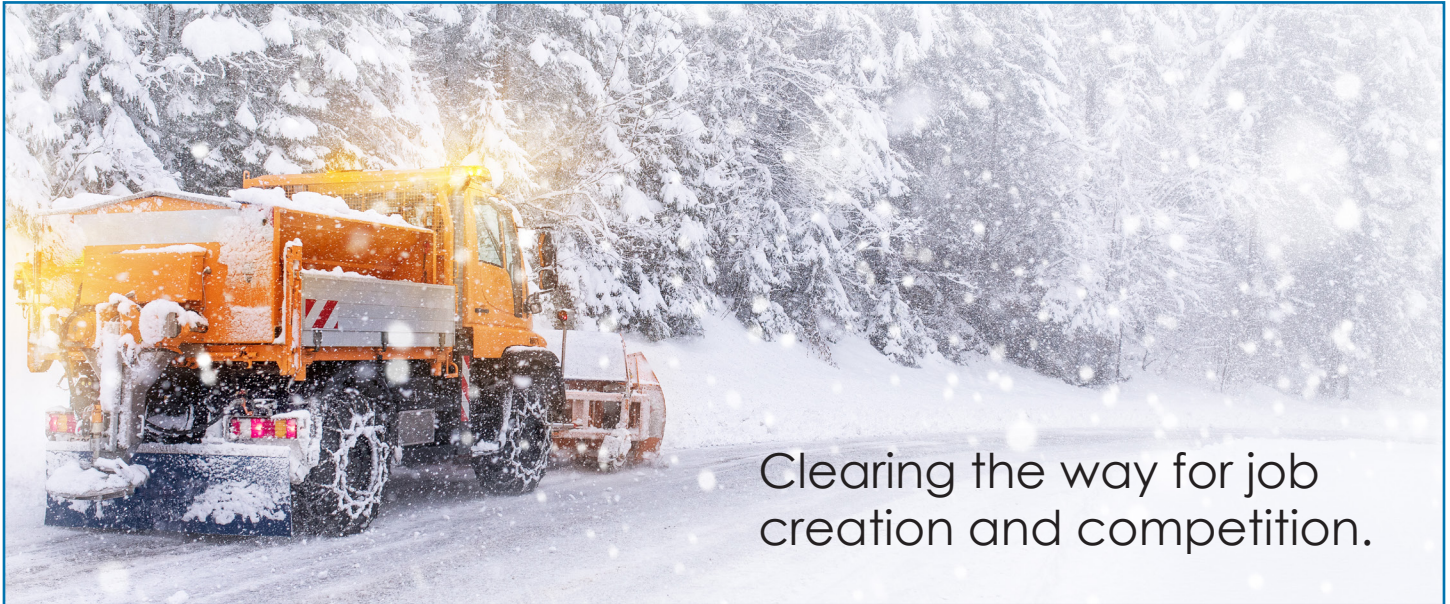
Kentucky inheritance tax. And, it is rumored that the Limited Liability Entity Tax, which functions as a state-level alternative minimum tax, could be eliminated, just like its federal AMT counterpart.

### Creates a new lower tax rate and structure for small businesses

*“The framework limits the maximum tax rate for small and family-owned businesses to 25 percent which the House bill followed while the Senate bill provides for a 23 percent pass-through income deduction resulting in a roughly 30 percent effective rate - significantly lower than the top rate that these businesses pay today.”*

Remember that most small and family-owned businesses are conducted in sole proprietorships and pass-through entities, e.g., S corporations, Limited Liability Companies taxed as partnerships. So, the gist of this point is that federal tax reform would reduce the top tax rate on this category of active business income to 25 percent. The chief concern among critics about this proposal is distinguishing between owners’





Clearing the way for job creation and competition.

compensation income and business profits; however, this issue is not new and there are rules to determine reasonable compensation, for instance, that could be codified in conjunction with tax reform.

Interestingly, Kentucky has essentially adopted this idea somewhat. Kentucky individual and corporate income tax rates are the same, and if Kentucky tax reform includes lower rates for all taxpayers, Kentucky tax reform would roughly parallel federal tax reform.

To create jobs and promote competitiveness, lowers the corporate tax rate

*“So that America can compete on level playing field, the*

*framework reduces the corporate tax rate to 20 percent – below the 22.5 percent average of the industrialized world.”*

The federal income tax rate is substantially higher than the average corporate tax rate in industrialized countries, as observed by the framework. Action is needed to remove the tax incentive to push companies’ headquarters overseas.

When combined with its local income tax rates, Kentucky’s corporate income tax rate is not competitive. Clearly, by lowering its individual and corporate income tax rates, Kentucky can be more competitive with other states.

Lowering the Kentucky state income tax rate is an important step. But, given the material local income tax rates on individuals

and businesses, these should be addressed as well. Maybe, in exchange for lower occupational license tax rates on wages and businesses (perhaps with caps), localities could be allowed to offset the lost revenue from such a rate reduction with centrally collected local sales taxes or increased real property taxes, given that Kentucky’s property tax rates are comparatively low in relation to other states?

To boost the economy, allows “expensing” of capital investments

*“The framework allows, for at least five years, businesses to immediately write off (or “expense”) the cost*

Continued on p. 14

## Tax reform continued

*of new investments, giving a much-needed lift to the economy.”*

Expensing depreciable assets is not a new concept. For example, Section 179 expensing of depreciable property has been around for years, and 50 percent bonus depreciation operates to write off half of the cost in the first year. Like many states, Kentucky decoupled from the federal depreciation scheme, which is generally attributed to concerns about the expected negative effect on state revenue. Ideally, states like Kentucky should strive to adopt the federal scheme or develop a standard alternative that does not require businesses to keep multiple sets of depreciation records.

Also, in what appears to be an offset not mentioned in the above quote, C corporations' net interest expense would be partially limited. In determining how to address whether (or not) to or how to adopt federal

expensing of depreciable assets, states including Kentucky should evaluate the offsetting impact of the partial limitation on the deductibility of interest.

### Moves to an American model for competitiveness

*“The framework ends the perverse incentive to offshore jobs and keep foreign profits overseas. It levels the playing field for American companies and workers.”*

The above comment is a reference to the Unified Framework proposing a 100 percent exemption for corporations for dividends

from foreign subsidiaries. Since Kentucky excludes all dividend income for corporations pursuant to KRS 141.010(12)(b), Kentucky has essentially adopted this approach.

### Brings profits back home

*“The framework brings home profits by imposing a one-time, low tax rate on wealth that has already accumulated overseas so there is no tax incentive to keeping the money offshore.”*

As with the prior point, this would not appear to have any material impact specifically on Kentucky tax reform.

*“I say there’s a place for us, but maybe it’s just another pipe dream. Maybe I’m fooling myself again. Why don’t you go find out yourself? Send me a postcard! Go on, there’s the door. You can do better, let’s see how far you get.”* Rick Grimes, *Beside the Dying Fire, The Walking Dead (TV Series)* (2012).

Like the seemingly dead being reanimated as walking zombies, it appears that federal tax reform may be back on the table. Do you like what you see? Are these proposals great? Are there better ideas? Consider the impact on your company or your clients. Remain vigilant to potential federal and state legislation on tax reform.



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# Senate passes Tax Reform Bill, but it isn't over yet



On Saturday, Dec. 2, in the early morning hours, the Senate voted to pass the “Tax Cuts and Jobs Act,” after vigorous debate and a number of amendments. The bill, which needed only 50 votes to pass (with Vice President Pence as a possible tiebreaker) under reconciliation rules, passed in a 51-49 vote, eliminating the need for Vice President Pence to break a tie.

Previously expected to pass Nov. 30, efforts to push the bill through stalled. The reason was a trigger mechanism that had been contemplated to quell deficit fears by increasing taxes if economic growth didn't meet or exceed projections. The trigger was found to violate budget rules that would shield the vote from a filibuster. As a result, the trigger was not added, calling key Republican votes into question. Then, the Joint Committee on Taxation projected an additional \$1 trillion in deficit impacts over the next ten years, even taking expected economic growth into account. Debate and deal-making continued through Friday, Dec. 1.

“Tax reform has taken a step closer to reality with Saturday's vote,” said KyCPA CEO Darlene Zibart. “Nevertheless, we expect our profession to stay fully engaged through the next steps.”

“Senate passage of a tax package paves the way for a conference, which will attempt to reconcile differences between the Senate and House bills,” said Edward Karl, CPA, CGMA and Vice President

of Taxation for the AICPA. “The AICPA's Advocacy Team remains fully engaged in the process and will continue to keep members informed as the debate continues.”

The final version of the bill features some changes from the initial version.

- A provision providing up to \$10,000 in deductions for state and local property taxes paid.
- Owners of pass-through businesses, who would have received a 17.4 percent deduction of their business income under the original plan, saw their deduction rise to 23 percent.
- The bill initially called for a repeal of the alternative minimum tax (AMT) on both individuals and corporations. In the final bill, the AMT is retained for corporations, and trimmed for individuals.
- A five-year limit was imposed on businesses looking to write off the full value of new capital investments immediately, with a four-year phase-out beginning in year six. The bill in its first draft completely ended the write-off benefit after year five.

Most of the bill's tax cuts for individuals would expire in 2025 to comply with Senate budget rules. The reduction in corporate rates to a flat 20 percent, however, would be permanent.

The House has already passed its own version also termed the “Tax Cuts and Jobs Act.” Though a high hurdle has been cleared, the process is far from over. Any bill must be approved by both houses of Congress and signed by the President. With two different bills on the table, Congress will need to reconcile differences into a single unified bill, which would then require Congressional approval.

To stay on top of developments and the profession's advocacy efforts, visit the AICPA's Tax Reform Resource Center at [www.aicpa.org/taxreform](http://www.aicpa.org/taxreform).





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# 2018 legislative preview



## Yet another difficult budget session awaits the General Assembly

The late, great Tom Petty famously recorded “I Won’t Back Down” in 1989. Nearly 40 years later, the Kentucky General Assembly can’t afford to back down during the 2018 legislative session, despite a productive 2017 that saw passage of numerous high-profile bills – from right to work to prevailing wage repeal to charter school authorization.

Last session certainly had its share of controversy, but it appears 2017 was just the opening act for the new Republican majority. The headliner is next session, when legislators will not only be tasked with passing their lone constitutional responsibility, a two-year balanced budget, but also tackling the most pressing (and sticky) issues facing the Commonwealth - shoring up our crippled pension system and updating our antiquated tax code. That’s subject to change, of course, since Gov. Matt Bevin continues to insist that a special session on pension reform will happen in December.

Unfortunately for an already-weary legislature, the 2018 set list not only includes the hits — budget, tax reform and pension reform — but also lesser-known (and still important) tunes like workers compensation, licensing board re-organization and infrastructure improvement. It will be interesting to see if the legislature can find the time and political fortitude to address these other issues. Not to mention, the House will be operating with an interim Speaker after Rep. Jeff Hoover abruptly stepped down in early November.

The upcoming 2018 session, a 60-day or “long” session, kicks off on Jan. 2 and is slated to end just before Tax Day on April 13. Throughout the session, KyCPA will advocate for our members on tax, license and general business issues, and any other issue that affects the CPA profession. Below is a preview of some of the key issues we’ll be closely watching this session.

## Budget, pension reform

Determining how the state spends about \$21 billion over the next two years is never an easy task, but it’s especially difficult when public pension costs continue to put pressure on other government services. According to a report by PFM Consulting released this summer, the systems face an unfunded



liability between \$33 and \$84 billion. Using reasonable investment assumptions for private pension plans in similar shape, the liability is \$64 billion. If the legislature does nothing, the next state budget will be “Free Fallin’” and forced to devote an additional \$700 million per year to pensions, on top of the \$1.5 billion this fiscal year.

This need for additional funding is against the backdrop of an already shaky budget. Though tax revenues continue to increase, they’re not growing at the rate projected by economists. As a result, the state is expecting a \$155 million shortfall for FY18, meaning immediate cuts to agencies that have already been trimmed.

In the previous budget cycle, spending for most state programs was reduced by 9 percent, although large programs such as K-12 education, Medicaid, public protection and debt service were excluded from the cuts. However, because of the increased need for pension funding, protecting these same programs from cuts in FY19 would require a whopping 34 percent cut to other programs. Not surprisingly, Moody’s downgraded the debt issued by the commonwealth by one level, to an Aa3 rating, in July.

If significant reforms are not made to the systems now, pensions will continue to absorb dollars from education and other vital services, and ultimately, there won’t be enough money to

pay benefits later. While no plan is perfect, KyCPA looks forward to working with the governor and legislature on common sense reform proposals that keep the promises owed to retirees, pay down our unfunded liability, improve our bond rating and minimize taxpayer risk.

## Tax reform

It may seem like the legislature is “Runnin’ Down a Dream” when it comes to tax reform, but it continues to be a huge topic of discussion in Frankfort. Behind the scenes, the State Budget Office, led by John Chilton, CPA, has been working on a proposal for months. Publicly, Gov. Bevin has indicated that he favors

**Continued on p. 20**

## Taxpayer rights

While comprehensive tax reform should be a top priority, the fair administration of our tax code also plays a significant role in our economic development efforts. To its credit, the DOR has recently engaged in constructive dialogue with tax practitioners to improve tax policies and administration. While the department has taken many positive steps, KyCPA supports the following statutory modifications to improve taxpayer rights and tax administration.

### KyCPA’s Top 10 for Taxpayers

- 1) Return to a balanced interest rate on taxes owed to and by the commonwealth
- 2) Simplify Kentucky’s estimated tax rules
- 3) Provide a meaningful remedy for violation of taxpayer rights
- 4) Streamline the tax appeals process
- 5) Allow the DOR to forgive interest on a tax assessment
- 6) Prohibit contingency fee contracts for tax collection
- 7) Equalize assessment and refund periods for tangible personal property taxes
- 8) Extend period to protest a tax assessment from 45 to 60 days
- 9) Extend time to report federal tax changes to DOR from 30 days to 90 days
- 10) Extend statute of limitations for filing a constitutional challenge from two to four years



## Legislative preview continued

transitioning to a consumption-based tax system, repealing the inheritance and inventory taxes and reducing tax expenditures.

The common mantra is, “expand the base, lower the rates.” These beliefs fall in line with other Republican-led states, which in recent years have expanded sales taxes and reduced or repealed income taxes. Currently, Kentucky gets about 45 percent of its revenue from the income tax and 33 percent from the sales tax. Expect that script to flip.

Considering the severe underfunding for pensions, a key question is whether the governor and legislature are willing to raise revenue immediately through tax reform. Most Republican legislators say the state doesn’t need to “raise” taxes, but that revenue should increase through economic development.

Of course, that’s a risky move because even if Kentucky developed a perfect tax code (if such a thing exists) it would

likely take time for businesses to re-locate or expand.

Revenues would not likely grow significantly overnight, and the budget situation means the state has little room for error. A logical path for tax reform would likely follow what’s been done recently in other states like North Carolina, which phased in reforms over time and required certain revenue targets to be met before cuts were implemented.

KyCPA has been engaged in tax reform discussions with the legislature and state administrators. Generally, the Society supports comprehensive tax reform that increases fairness and simplicity, avoids double taxation and makes Kentucky a more competitive place to do business. KyCPA also believes that comprehensive tax reform must include local tax reform, as businesses and individuals consider both levels of government when making investment and location decisions.

## Licensing board re-organization

There’s been talk for nearly a year now that the executive branch is planning to further consolidate the administration of occupational licensing boards. It started last December, when separate executive orders consolidated boards related to the real estate and construction professions were issued. Legislation was ultimately passed during the 2017 session ratifying those orders.

It appears the consolidation of more boards will be on tap in 2018. KyCPA has worked well with the administration in determining an appropriate home for the Kentucky Board of Accountancy. Because the semi-independent, self-funded accounting board already operates efficiently, we don’t believe drastic re-structuring measures are necessary. While we understand some additional state oversight is required in light

## Want to get involved? Become a Key Contact

While KyCPA advocates work hard to ensure your voice is heard in Frankfort, nothing influences a legislator more than hearing from a friend or constituent. Key Contacts are crucial to personalizing and localizing the political impact of state and federal legislation. If you have a relationship with a state or federal lawmaker, become a Key Contact and let us know how you can help us. Responsibilities of a Key Contact include:

- Contact legislators about key legislation impacting the CPA profession when requested by KyCPA
- Maintain and build relationships with your legislators
- Keep KyCPA in the loop about issues you’ve discussed with legislators



of a recent U.S. Supreme Court case (*NC Dental*), we don't believe the board should be administered with other professions that have little or no relation to the accounting profession. When not done thoughtfully, consolidation efforts in other states have hampered the level of service to CPAs, most notably in Indiana.

### CPA firm mobility

Every state except Hawaii has passed an individual CPA mobility law. These laws allow CPAs operating within CPA firms to provide "non-attest" services in states in which they do not have a physical presence without registering or paying

fees. Now, states are moving to extend mobility to CPA firms that provide attest services.

KyCPA is pushing for CPA firm mobility legislation next session, which would allow Kentucky to join 22 other states including Indiana, Illinois, Missouri, Ohio, Tennessee and Virginia. Such a law would permit CPA firms outside the commonwealth to perform attest services and issue reports in the state without registering or paying new fees, so long as they meet Kentucky peer review and non-CPA ownership requirements.

These are just a few of the major issues to be considered

by the 2018 Kentucky General Assembly. Of course, every legislative session is "A Mind With a Heart of its Own." As always, if you have any suggested legislation that will positively impact the CPA profession, feel free to contact me. Be sure to keep up to speed with the session by reading my weekly legislative updates, and don't forget to contact your legislators!



*About the author:*  
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**SAVE THE DATE - FEB. 7**  
Legislative Update Meetings with legislators

**KY CPA**

**CPA DAY AT THE CAPITOL**  
Contact Charles George for more information at [cgeorge@kycpa.org](mailto:cgeorge@kycpa.org).

# CPE calendar

| Date     | Code      | Title   | City       | CPE Credit | CPE Type | Member Early Fee |
|----------|-----------|---|------------|------------|----------|------------------|
| 12/18    | ITEB1218  | Advanced Selected Issues for Trusts, Estates, & Their Beneficiaries   | Louisville | 8          | Tax      | 289              |
| 12/18-19 | BC21218   | Boot Camps for Individuals and LLCs Partnerships and S Corps  | Louisville | 16         | Tax      | 478              |
| 12/18    | TPBC1218  | Tax Prep Boot Camp-Individuals  | Louisville | 8          | Tax      | 289              |
| 12/19    | 4CCD1219  | Capitalized Costs & Depreciation: Key Issues & Answers AM  | Louisville | 4          | Tax      | 159              |
| 12/19    | 4TAI1219  | Tax Accounting for Inventories PM                            | Louisville | 4          | Tax      | 159              |
| 12/19    | TFBC1219  | Tax Forms Boot Camp: LLCs, Partnerships, & S Corporations   | Louisville | 8          | Tax      | 289              |
| 12/20    | ERTW1220  | Effective & Efficient Senior-Level Review of Individual Tax Returns   | Louisville | 8          | Tax      | 289              |
| 12/20    | SCORP1220 | S Corporations: Key Issues, Compliance & Tax Strategies (A)   | Louisville | 8          | Tax      | 289              |
| 1/3-4/18 | FTU213    | Vern Hoven 2- day Federal Tax Update  | Lexington  | 16         | Tax      | 529              |
| 1/5/18   | FTU115    | Vern Hoven 1-day Federal Tax Update   | Louisville | 8          | Tax      | 369              |

## Save the date for these 2018 spring conferences

### Spring Business Conference

April 20 - Gratz Education Center, Louisville

### Employee Benefit Plans Conference

April 25 - Gratz Education Center, Louisville

### Nonprofit Conference

April 26 - Gratz Education Center, Louisville

### Governmental Accounting & Auditing Conference

May 7-8 - Louisville Marriott East, Louisville

### Kentucky Accounting Educators Conference

May 17-18 - Gratz Education Center, Louisville

### Retirement Planning for the CPA Conference

May 22 - Gratz Education Center, Louisville

### Health Care Conference

May 23 - Gratz Education Center, Louisville

## Are you a subject matter expert?

Show us your stuff -- teach for KyCPA. We have opportunities for conference speakers, seminar instructors and course developers. Contact Lisa Kemper, Education Director, at 502.736.1365 or [lkemper@kycpa.org](mailto:lkemper@kycpa.org).

 Live Webcast option



## Got ethics?

We have plenty of ways you can fulfill your Ethics CPE requirement by Dec. 31, 2017, including webinars and webcasts and options for self-study ethics credits.

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-  Louis T. Roth Memorial
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-  National Insurance Agency
-  Papa John's International
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## Nailing the scholarship essay

You've been there before. You read about a wonderful new scholarship opportunity, get excited and decide to apply. The ball is rolling, and you're confidently cruising through the application, listing references and supplying a resume. As you approach the final steps, however, all of that momentum comes to a halt. The last hurdle, the personal essay, stands in your way like a brick wall.

It is true that the essay is a very important component of any scholarship application. After all, it allows the committee to gain a much better sense of who you are as an individual and exactly why you should be considered for the honor. To some, this reality may seem intimidating. With a little strategy and the right approach, you can turn your next essay into one of the most valuable components of your scholarship application.

There are several tricks of the trade, the first of which you've heard many times before: proper grammar is priority number one. If you are hoping to be awarded financial resources at the undergraduate level and competing against other qualified applicants, any grammatical errors will likely be your quickest pathway to elimination from consideration. In the eyes of the scholarship committee, if you have not developed the skills or

have chosen not to take the time to correct of any grammatical mistakes, then your essay will not be given time or consideration, either. Supplying an interesting introduction and clear thesis are worth mentioning here as well. Though these aspects sound simple, they are also vital and should be your first concern.

Secondly, and more strategically, you should strive to be unique. In the world of higher education today, it is not uncommon for there to be 50 or more applicants for one scholarship. As a result, the committee has no other choice but to go through the submissions and look for easy ways to eliminate submissions out. Reasons for dismissal may include grammatical errors, but may also include a generic exposition. In order to really be considered for a scholarship, you need to stand out from the crowd. Very rarely, if ever, will a committee side with an essay that is not distinctive in some regard.

The question is, how do you avoid being unoriginal? The answer lies in your approach. With a plethora of business scholarships available online, it can be tempting to write a one-size-fits-all essay, change a few words here and there, then attach it to a whole host of applications. We will let you in on a tough truth: while you may be leading an

Continued on p. 28

## KyCPA Educational Foundation year end giving

*The donation is deductible; the impact is remarkable*

As the year wraps up, we wanted to remind you of a great giving opportunity that not only provides a tax benefit, but also helps secure the future of the profession - a gift to the KyCPA Educational Foundation.

The Foundation delivers on the promise of a bright future for the profession by providing outstanding programs and opportunities for today's students - the CPAs of tomorrow - at every level. From establishing a "CPA Firm" at Junior Achievement's BizTown for elementary students to BASE Camp for high school juniors and seniors and college scholarships for accounting students, we have made great strides in the effort to enhance the CPA professional pipeline, but there's more work ahead of us.

The profession still faces a huge shortage of ready talent in the coming years. What's the solution? Your gift - in any amount - will help answer that call for the next generation of professionals.

Please consider a gift to the KyCPA Educational Foundation. Donate online at [kycpa.org](http://kycpa.org).

## Scholarship essay continued

interesting life, there are others out there who are doing the same. Talking about yourself and your accomplishments is fine, but in order for a typical scholarship committee to really identify with your strengths, you need to consider your talents within the context of a specific scholarship's criteria.

For example, if a business scholarship is being awarded based heavily on demonstrated leadership, it would be a good idea to really play up some roles and instances of leadership you have taken up in the business world. An essay focusing more on your

academic qualifications, personal background or teamwork skills would be less likely to attract the committee. Tailor your essay to the individual scholarship. The bottom line is, if you really want that scholarship, the committee will be able to tell.

A final strategy to consider is research. Reading biographies of great men and women can help you learn how to become one, and the same concept applies to scholarship winners. Before writing your essay, consider researching previous winners. What do these people have in common? How do they stand out? The answers to these

questions can help you mold your own story in such a way that will help propel it to the top.

The essay portion of a scholarship very much aligns the old adage, 'You get out what you put in.' As scholarships become more visible in the digital age, applicants must find new ways and strive harder to differentiate themselves from the crowd. Maintaining proper grammar, identifying commonalities between past winners and crafting a unique essay geared specifically towards one scholarship can help you do just that.



*About the author:* Brian Hancock is a graduate student and working at the University of Louisville's College of Business.

## Scholarship applications accepted Dec. 1 - Feb. 19

The KyCPA Educational Foundation is getting ready to give away thousands of dollars in academic scholarships and needs your help in finding the best and brightest candidates. Applicants must be college accounting students enrolled in an accredited Kentucky-based college or university and at least a sophomore in academic standing. Scholarship levels range between \$1,000 and \$2,500. Applications will be accepted Dec. 1, 2017 through Feb. 19, 2018. For more information or to apply, visit [kycpa.org](http://kycpa.org) or contact Julie Salvaggio at [jsalvaggio@kycpa.org](mailto:jsalvaggio@kycpa.org).





**KyCPA Board President Kevin Joynt meets Quandre Chisolm, Brandon Cooney, Noah Thornberry and Christian Tan at a campus visit at the University of the Cumberland.**



**Jaclyn Badeau Director of Internal Audit for Tempur Sealy International and former KyCPA board member meets Lindsey Thompson, Autumn Gover, Keng-Pang Chang and Katriel Ulrich at a campus visit at Eastern Kentucky University.**

# KyCPA honors 100% Champions



The following firms and businesses ensure all eligible CPA employees are members of KyCPA. This demonstrates their commitment to the profession, to the Society's high ethical standards and a commitment to life-long learning. We appreciate their support of KyCPA and its mission.

The information below is verified annually at the time of membership renewals. Inclusion on this list is an opt-in basis. If your organization would like to join the list of 100% Champions, or you have questions about the program, please contact Heather Hibbs at [hhibbs@kycpa.org](mailto:hhibbs@kycpa.org) or 502.736.1368.

*We make every effort to ensure the accuracy of this list. If you have voluntarily notified us of your 100% Champion status and we have left your name off this list, please let us know immediately, by contacting Heather Hibbs at [hhibbs@kycpa.org](mailto:hhibbs@kycpa.org).*

## 100% Champions as of Nov. 3

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- Alexander Toney & Knight, PLLC, Madisonville
- Alford Nance Jones & Oakley, LLP, Madisonville
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### Resolution of Respect

**William G. Brown**, Brown & Company, CPAs,  
Bardstown

# KyCPA member profile: George Troutman



## Meet George Troutman, a CPA and KyCPA member for 49 years.

- Troutman graduated with a BA in Accounting from Bellarmine in 1963.
- Chaired the Legislative Ethics Commission in Frankfort for 24 years.
- His wife Mary and he are also pilots.
- Chaired the Kentucky Derby Festival Balloon Race for 43 years where he has held positions such as safety officer, launch director and balloon meister.

### KyCPA: Do you think becoming a CPA was a wise choice for you?

GT: I don't regret it at all. Every job has its plusses and minuses. When I do speeches, I tell students you can be a used-car salesman or the top officer in a security stock exchange with an accounting degree. It opens so many roads so you don't just have to think about yourself as a pencil pusher.

### KyCPA: What's the most rewarding part of your job?

GT: If you do your job properly you become part of the success of your clients. It's always nice to see people succeed and to see that you had some little part of that success makes you warm and fuzzy.

### KyCPA: How did you become interested in hot air balloons?

GT: I've always been interested in aviation and in my high school days I originally intended to be an airplane pilot. Ballooning became a family thing. I don't want to get teary-eyed but it's a nice thing to be able to spend time with your kids particularly when they are young. The Derby Festival is a great community event. I actually received a 40-year appreciation award three years ago from them. The Balloon Race is really my baby. It's one of my contributions to society.

### KyCPA: What's your favorite part of the balloon race?

GT: Seeing the expression on a kid's face when we put the balloons up—if that doesn't get to your heart then you're not a human being. These things are giant Christmas tree ornaments and their mouths hang open in awe. That's worth all the effort you put in over the year to see that it goes off.

### KyCPA: How important do you think it is for professionals to balance their hobbies and work?

GT: I think that's just as important as maintaining your education. There's too many people in this world that don't give back to society. I think it's important to pick and choose and do what you know how to do best and use that to give back.

### KyCPA: Do you have any advice for future CPAs or people wishing to get into accounting?

GT: Study hard. Work hard. Give back to society.



# Members in motion



Hensley



Warden



Groza

Congratulations to KyCPA members **Jerry Hensley**, **Lori Warden** and **Lee Groza** for being named to several AICPA boards. Hensley will serve on the joint trial board, Warden on the peer review board and Groza on the nominations committee. All three begin their appointment on Feb. 1, 2018.

Blue & Co., LLC is proud to announce that several KyCPA members have been promoted. In the Lexington office, **Eric Riggs** has been promoted to Manager while **Parker Banta**, **Jordan Rebsch** and **Monica Youtsey** have all been promoted to Senior Accountant. In their Louisville office, **Gretchen Griggs**, **Hannah Meredith** and **Lance Williams** have all been promoted to Senior Accountant.



Riggs



Banta



Rebsch



Youtsey



Griggs



Meredith



Williams

Continued on p. 36



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Members in motion continued

Calhoun & Company is pleased to announce that a trio of long term CPAs, **Debbie Fuller**, **Karen Lamb**, and **Jaime Petersen**, have all earned partnership status with the firm.



Fuller



Lamb



Petersen



Dean Dorton Allen Ford, PLLC is proud to announce the addition of **Erica L. Horn**. She joins the firm as an Associate Director of Tax Services and recently received the 2017 Outstanding Board Leadership

Award at the 15th anniversary Kentucky Nonprofit Leadership Forum in Lexington Oct. 25.

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# Classifieds

**Classified ads:** Includes businesses for sale or volunteer, nonprofit board positions; 50-75 words, max. Cost is \$50 for KyCPA members; \$100 for non-members. Email Matt Lambert at [mlambert@kycpa.org](mailto:mlambert@kycpa.org) and include your billing information. You may post open positions in the job section of the KyCPA LinkedIn page as well.

**Middletown, Kentucky CPA practice looking for CPA to share current office space and expenses.** Sale or merger of current practices possible. Please send response to: Blind Box 2, KyCPA, 1735 Alliant Ave., Louisville, KY 40299.

**Selling your firm is complex.** We can help. Knowing what your firm is worth is the first step. Contact us TODAY to receive a free no-obligation market analysis of your firm. Accounting Biz Brokers has been offering personalized business brokerage services to CPAs for over 12 years. We know your market and our process is strictly confidential. Visit us at [www.AccountingBizBrokers.com](http://www.AccountingBizBrokers.com). NEW LISTING: St Thomas, Virgin Islands gross \$70k. Kathy Brents, CPA, CBI. Cell 501.514.4928 Office 866.260.2793. Email: [Kathy@AccountingBizBrokers.com](mailto:Kathy@AccountingBizBrokers.com).



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Visit our Employment Resources page at [kycpa.org](http://kycpa.org) and join the KyCPA LinkedIn group to see job postings or post an accounting related position.



# Attract the right talent to your team



Do you need new talent that will be a good fit for your firm/company? KyCPA can help!

**Post open positions on the KyCPA LinkedIn group.**

KyCPA now offers members the opportunity to create a dynamic recruitment video designed to showcase your firm/companies culture and highlight career opportunities to potential new accounting talent. These videos are produced at minimal cost to members (\$2,000) and KyCPA will promote your video on [kycpa.org](http://kycpa.org), KyCPA social media and e-newsletters. You also will receive a copy of the video to promote on your own web site and other media.

## **The process is simple:**

- Set up an initial meeting to discuss your culture and what you are looking for in a future employee.
- Choose those employees that best convey your message for the video.
- Featured employees will receive approximately ten questions ahead of time that will be asked during the interview.
- Filming is a 4-5 hour morning or afternoon session. (Each featured employee takes about 15-20 minutes.)
- Videographer will then provide a video for you to review and at that time you can make edits. (This may happen a few times.)
- Videographer sends final video files to KyCPA and you.

Contact Kimberly Lindsey at [kilindsey@kycpa.org](mailto:kilindsey@kycpa.org) for more information or to start the process of creating your **Recruitment Video!**

## **Recruitment video example**

To view an example of a recruitment video go to [kycpa.org](http://kycpa.org). Patterson & Company CPAs, PLLC was the first to create a recruitment video. Their video gives you an idea of what to expect. They have already received several views from Kentucky university students and other CPAs.



# By the watercooler

"a TAX LOOPHOLE is SOMETHING THAT BENEFITS THE OTHER GUY. IF IT BENEFITS YOU, IT IS TAX REFORM."

- FORMER U.S. SENATOR RUSSELL B. LONG

*"The hardest thing in the world to understand is the income tax."*

- *Albert Einstein*

"It's income tax time again, Americans: time to gather up those receipts, get out those tax forms, sharpen up that pencil, and stab yourself in the aorta."

- Dave Barry



**"Is there any chance that these ancient printers could provide \$46,000,000 in depreciation deductions?"**

## *Happy holidays from KyCPA*







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## KyCPA member benefit

AssuredPartners NL is KyCPA's sole agency of record for your health insurance needs. We chose AssuredPartners NL to represent the Society's membership regarding our group health and dental programs because we want the best and we are confident that you will receive great service from AssuredPartners NL. For more than 20 years, AssuredPartners NL has helped businesses in nearly every industry develop specialized solutions tailored for their needs, and it has done the same for the Kentucky Society of CPAs group health insurance program.

*Please contact any member of your AssuredPartners NL team if you have questions regarding your renewals or would like to enroll in the group health insurance plan.*

## Your AssuredPartners NL team

**Tom Schifano**  
**Lane Hettich**

[tom.schifano@assuredptrnl.com](mailto:tom.schifano@assuredptrnl.com) (502.259.9217)  
[lane.hettich@assuredptrnl.com](mailto:lane.hettich@assuredptrnl.com) (502.259.9211)

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to develop  
solutions that fit  
your health and  
dental insurance  
needs.**

