Big Changes in Kentucky Telecommunications Property Tax

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The Kentucky Department of Revenue recently made significant changes regarding taxation of tangible personal property owned by telecommunications companies. Specifically, the Department has changed its tangible personal property tax return form, Revenue Form 61A500, which telecommunications companies use to report and value tangible property for Kentucky state and local tax purposes.

The Department's revised telecommunications tax return form reclassifies tangible personal property, such as cable television equipment, set top boxes, routers, modems, wiring, cable and drop lines into six different "Classes" to more accurately reflect the shorter economic lives of telecommunications equipment than the classifications set forth in prior Department telecommunications tax return forms.

The Department changed the "conversion factors" used to calculate the value of tangible property based on the year acquired and the amount of depreciation, and reduced the salvage value "floor" for valuation of property from 20 percent of cost to 10 percent. It should be noted that the Department also changed the conversion factors and reduced the salvage value floor to 10 percent on the general Tangible Personal Property Tax Form, Revenue Form 62A500, filed by taxpayers that are not in the telecommunications industry.

The revised telecommunications tax return form includes Schedule A-1 to be used by the wireless industry, including cellular and other wireless carriers and paging companies, and Schedule A-2 to be used by the wireline industry, including providers of voice, data, text, sound or video using a wired telecommunications network.

Further, the revised form deletes the prior requirement that following a merger, the value of tangible property should be reported as if it were newly acquired property at the restated post-merger cost, rather than at its historical age and depreciated value. The revised form also adds "prewritten software" to the classes of property subject to tax.

It should be noted that if a taxpayer disagrees with the methodology set forth in the telecommunications tax return form, one completed tax return using the Department's method and a second return based on the taxpayer's alternative method of valuation may be filed with the Department. The Department will then review both returns and the taxpayer may protest any resulting assessment.

Taxpayers should be aware that the telecommunications personal property tax return should be filed with the Department on or before May 15, 2018.

The Department has indicated that it will issue administrative guidance regarding implementation and interpretation of the new telecommunications tax return form.

Overall, the revised tables and reclassifications of property on the revised tax return form may result in significant tax savings for many telecommunications taxpayers, and may reduce the necessity to file second returns based on an alternative valuation methodology.