

Paducah's revised tax code: new rules and liabilities

Paducah has two types of license taxes: A gross receipts license tax on business gross receipts and an employee license tax withheld from employee wages. Each business owner must pay these taxes via annual returns. Each return must be prepared and filed in accordance with the tax regulations of the city's code.

In 2004, the Kentucky legislature passed a law requiring Kentucky cities to adopt uniform regulations on these taxes. Under this mandate, the Paducah City Commission revised its tax code to incorporate the regulations effective Jan. 1, 2008.

Some of these new regulations are procedural, but others are substantive and far more onerous. Noncompliant business owners are now subject to increased liabilities and penalties.

More importantly, other people, like officers and managers, can be held personally liable for a business owner's noncompliance.

Here's a quick look at some of those changes.

Gross receipts

There's a new formula for determining taxable gross receipts of business owners who operate in two or more taxing districts. This formula is based on two factors: payroll and sales. The formula computes the percentage of gross receipts attributable to each tax district.

Federal returns

Federal returns have new regulations. Business owners now must comply with the following requirements:

- Owners must file copies of their federal tax return and 1099 forms with their annual gross receipts and employee license tax returns.

- Owners must report all adjustments made on the federal return to the city finance director. They must also pay addi-



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tional gross receipts taxes on adjustments that increase gross receipts, plus penalty and interest.

- Extensions on annual gross receipts returns will be based on permitted extensions on the owner's federal return, provided a request for extension is timely made.

- The city finance director has the right to audit anything that relates to the federal return and examine anyone with relevant knowledge of that return.

License fee liability

The revised tax code clarifies an employee's liability for license fees. If the employer fails to withhold license fees, the employee must file his or her own return and pay the license fees under that return. If an employee willfully disregards this responsibility, the employee could be subject to criminal penalties.

Late penalties

Failure to pay gross receipts taxes or employee withholdings will result in higher penalties and interest. The penalty is 5 percent of the unpaid taxes and license fees for each month of noncompliance. The penalty can't be more than 25 percent of tax owed or less than \$25. Interest also accrues on the unpaid taxes at the rate of 12 percent. Noncompliance with the regulations can also

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result in fines up to \$500 and imprisonment up to 30 days.

Responsible parties

There are new liabilities for "responsible parties," including business owners, officers and managers with control over employee withholdings. If a responsible party fails to withhold or pay employee withholdings, he or she will be held personally liable for those withholdings. Furthermore, the city has the right to assert a lien against their property and ultimately foreclose on it. The city also can recover its costs in any enforcement proceeding, including attorney fees.

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Here's some free legal advice to all you business owners: You better comply with these new regulations. The cost of noncompliance can be a real killer.

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