



## **Unicorn HRO**

# **Kentucky Rural Economic Development Act (KREDA)**

In order to create more jobs within the state, Kentucky has established a program to encourage companies to build manufacturing or agribusiness facilities in certain areas, and therefore create jobs. If approved, this allows the company to keep a percentage of employees' pay that would otherwise go to the state in the form of income tax. Employees can use this percentage of their pay as a "credit" and apply it against what they would owe to the state, so therefore it has no effect on their net pay.

In iCON, if a company is approved for the KREDA program, the qualified employees must be assigned a separate tax to withhold the credit against state income tax (for example, 4% of pay). State tax type "KRED" must be used, since the program is hard-coded to look for this value. If the company is approved to use the full credit, assign any local taxes to employees as usual.

On-line setup includes the following:

- State Tax Types COD must contain value "KRED". Field Employee Income Tax = "no", and Auto Assign = "no" (unless all employees are subject to the fee).
- Tax Manager: Add a state employee-paid tax. The header record should only contain an Effective Date. The rate record should contain the credit percentage, i.e., 4% up to an unlimited wage ceiling.
- Account Manager: assign a G/L account number to the KRED tax.
- Pay Taxation Exclusions: KRED should be exempt from the same pay types as KY SIT.
- Deduction Taxation Exclusions: KRED should be exempt from the same deductions as KY SIT.
- W-2 Additional State Taxes: Add the KREDA tax here so that it is included with the KY income tax amount on the W-2 form.
- The KRED tax is assigned to employees either through Payroll Activation Process or Employee Tax Option.

Programming changes include the following:

***Payroll Activation:***

Because all employees may not be subject to KREDA, a field was added in State Tax Types COD called Auto Assign. If "yes", the Payroll Activation Process will automatically assign this tax. If "no", the tax is not assigned during the process. It must then be assigned in Tax Elections if the employee is subject to the tax.

***Payroll Feeder, On Demand Payment Feeder, Manual Payments and Net To Gross Calculator:***

When pay, taxes and deductions are being calculated, *if*:

- the employee has an active Kentucky SIT tax record, and
- the employee has an active state tax “KRED” (hard-coded)

*Then:*

Subtract the KRED amount from the calculated Kentucky SIT amount, and only withhold the difference as Kentucky SIT. (Do not allow Kentucky SIT to become negative.)

Examples would be:

KY SIT \$60.00	KY SIT: \$37.00	KY SIT: \$0.00
KRED : <u>40.00</u>	KRED: <u>40.00</u>	KRED: <u>40.00</u>
Difference: 20.00	Diff.: -3.00	Diff.: -40.00
Change KY SIT to \$20.00	KY SIT: \$0	KY SIT: \$0

***W-2 Process:***

If the KREDA tax exists for the employee, it will be added to the state income tax withheld, and the total will print in box 17, per state requirements.

If there is a local tax credit, the client must change the locality description to JDAF <local tax>. Local tax information will print as usual in boxes 18, 19 and 20.