

COMMONWEALTH OF KENTUCKY

Tax Expenditure Analysis

Fiscal Year 2012 • 2014

A large, circular, stone clock face is the central focus of the image. The clock face is made of dark stone and features a large, stylized clock tower in the center. The clock face is surrounded by a fountain with several water jets. In the foreground, there are stone steps leading up to the clock face, and two wooden benches are positioned on either side of the steps. The background is filled with lush greenery and trees.

Governor's Office for Economic Analysis
Office of State Budget Director

On May 4, 2011 the State of Kentucky celebrated the 50th anniversary of the Floral Clock at the State Capitol.

The Floral Clock was built in 1961 during the administration of Governor Bert T. Combs. Relatives and former staff members said that Gov. Combs first decided to construct this clock in Frankfort after seeing a similar clock located near Niagara Falls in Canada. He thought it would be an unusual feature that would generate tourism for the Capitol and for Frankfort.

Facts about the clock:

- 34 feet in diameter and tilted at a 26-degree angle*
- Minute hand is 20 feet long and the hour hand is 15 feet long (each weighs approximately 500 pounds)*
- William C. Livingston Jr., a Frankfort resident was the architect of the clock*



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Steven L. Beshear
Governor

Mary E. Lassiter
State Budget Director

Governor's Office for Policy and Management
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Governor's Office for Policy Research

November 15, 2011

The Honorable Steven Beshear
Governor
Commonwealth of Kentucky
State Capitol
Frankfort, KY 40601

Dear Governor Beshear:

State and federal governments have a responsibility to be accountable to the public for the use of each and every tax dollar. As such, the Office of State Budget Director prepares a biennial tax expenditure report to be delivered to the heads of all three branches of state government. This report has been prepared in odd-numbered years prior to biennial budget sessions since 1995. Enclosed is a detailed report of the tax expenditure items resulting from the current Kentucky Revised Statutes. This report includes tax expenditures for the General Fund and the Road Fund for the current and next two fiscal years (FY12 through FY14). For purposes of this report, the term tax expenditure means: *"an exemption, exclusion, or deduction from the base of a tax, a credit against a tax, a deferral of a tax, or a preferential tax rate."*

As the Commonwealth moves forward with developing the next biennial budget, we hope that this report will be valuable to you and other policy makers. The Office of State Budget Director will continue to monitor the tax expenditures identified herein and report on their impacts during the coming biennium.

Sincerely,

A handwritten signature in cursive script that reads "Mary E. Lassiter".

Mary E. Lassiter
State Budget Director

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Executive Summary

The purpose of a Tax Expenditure Analysis is to quantify and catalog specific tax reductions that have been granted in statute. An item is determined to be a tax expenditure if the tax revenue associated with that item is reduced because of a specific statute.

Direct budgetary expenditures, or appropriations, are made by distributing funds actually collected by the Commonwealth. Tax expenditures are made by granting preferential tax treatment that allows the targeted recipient to retain or otherwise receive dollars that would otherwise be paid in taxes to the Commonwealth.

Direct expenditures are evaluated during each budget cycle, and are approved, adjusted, or rejected during the budget process. State tax expenditures, however, are evaluated and approved only in the biennium enacted, unless a sunset provision was included in the enabling legislation. There is no process to systematically review or periodically re-evaluate tax expenditures in subsequent biennia, except by this Tax Expenditure Analysis. At the federal level, the more common sunset provisions of tax expenditures forces Congress to re-examine the efficacy of programs before renewal.

Tax expenditures achieve their intended policy goal through a different channel than budget expenditures. Rather than a direct appropriation, tax expenditures are direct tax subsidies in the form of a reduced tax liability. For example, sales tax exemptions usually result in an exemption of an item or a type of transaction from taxation. A common example of the former is tombstones – in Kentucky, tombstones are exempt from taxation. A common example of the transactional expenditures would be electricity sold for residential use – in general, Kentucky taxes electricity, but not when it is used for residential purposes. Either way, the lack of this collection results in a lower net cost to the purchaser and lower revenues to the Commonwealth. An individual income tax exemption will usually result in lower amounts of tax withheld from employees (or a refund) and a correspondingly lower remittance to the Commonwealth. Corporate tax expenditures usually result in lower direct payments from businesses. Tax expenditures cover these and many more taxes. Whatever the expenditure may be and whatever the tax type involved, tax revenues are directly decreased because of these statutory exemptions.

This report itemizes tax expenditures using multiple displays and assists in a biennial review of the expenditures. The report briefly explains each tax containing tax expenditures and quantifies the amount of potential tax revenue that is foregone because of the statutory implementation of these expenditures.

The following list outlines each major tax type containing tax expenditures, with a brief description of the tax and an estimate of the amount of potential tax revenue not collected because of the tax expenditures related to that tax.

Summary of Tax Expenditures for the Major Taxes

- ◆ ***Alcoholic Beverage Wholesale Taxes*** – Various taxes are assessed on all types of alcoholic beverages. First assessed in 1936, rates vary significantly based on the type of beverage and the percent of alcohol the beverage contains. The tax is paid by the wholesaler or distributor of the product. For FY11, alcoholic beverage taxes generated \$113.3 million in Kentucky. Tax expenditures within these tax types are estimated at \$954,000 for FY12.
- ◆ ***Bank Franchise Tax*** – Assessed on financial institutions engaging in business in Kentucky, this tax was enacted during the 1996 Regular Session of the General Assembly. For FY11, this tax generated \$88.4 million. Tax expenditures for this tax type are estimated at \$1.4 million for FY12.
- ◆ ***Coal Severance and Processing Tax*** – Assessed on the severance (removal) and processing of coal, this tax was first utilized in 1972. The tax is assessed at the rate of 4.5 percent of the gross value of the coal, with a minimum of fifty cents per ton. The tax is assessed against the entity severing or processing the coal. For FY11, this tax generated \$295.8 million. Tax expenditures for this tax type are estimated at \$2.4 million for FY12.
- ◆ ***Corporation Income Tax*** – Income tax was first assessed in 1936 against the net income attributable to Kentucky. Current rates of tax range from 4 percent to 6 percent of net income for tax years beginning on or after January 1, 2007. For FY11, the corporation income tax generated \$300.8 million. Tax expenditures for this tax are estimated at \$292.3 million for FY12.

- ◆ ***Gasoline Tax*** – First levied in 1920, this tax is assessed on gallons of gasoline sold in Kentucky. The floor of the variable gasoline rate is 16.1 cents per gallon; if the wholesale price rises above \$1.786, the variable tax rate will rise. For FY11, this tax generated \$558.8 million. Tax expenditures for this tax are estimated at \$15.5 million for FY12.
- ◆ ***Individual Income Tax*** – First imposed in 1936, this tax has become the most productive revenue source in Kentucky. Beginning in 2005, a restructuring of the graduated rates occurred to apply a rate of 5.8 percent to net income over \$8,000 but less than \$75,000; the top 6 percent rate applies to net income over \$75,000. Additionally, pass-through entities were taxed at the entity level for 2005 and 2006, further reducing individual income tax receipts. For 2007 and the following years, this aspect was reversed and Kentucky once again conforms to the Federal pass-through treatment. For FY11, this tax generated \$3.4 billion. Tax expenditures for this tax are estimated at \$8.2 billion for FY12.
- ◆ ***Inheritance and Estate Tax*** – First adopted in 1906, this tax is assessed against the value transferred from the estates of deceased Kentuckians. The tax rate and the amount subject to tax are based on the “class” of the beneficiary. For FY11, the inheritance tax generated \$41.4 million, but the estate tax has been all but eliminated due to a federal law that disallowed the deduction for state estate taxes paid. Tax expenditures for this tax are estimated at \$66.0 million for FY12.
- ◆ ***Insurance Premiums Taxes*** - First adopted in 1942, this tax is assessed on the receipts of premiums collected by insurance companies in the Commonwealth. The rate of taxation varies according to type of insurer, with different rates for life insurers, insurers other than life, and captive insurers (licensed insurers owned by a business entity and offering insurance only to their owners). Tax expenditures for these taxes are estimated to total \$1.7 million in FY12.
- ◆ ***Limited Liability Entity Tax*** – Enacted during the 2006 Extraordinary Session of the General Assembly, this tax applies to all entities which provide limited liability to their owners and is assessed for the privilege of doing business in Kentucky. The tax applies to taxable periods beginning on or

after January 1, 2007. The receipts for FY11 totaled \$215.7 million. Tax expenditures for this are estimated to total \$116.1 million in FY12.

- ◆ ***Liquefied Petroleum Gas Tax*** – Implemented in 1960 as a “companion” to the gasoline tax, this tax is assessed on gallons sold. The floor of the variable tax rate is 16.1 cents per gallon; if the wholesale price rises above \$1.786, the variable tax rate will also rise. For FY11, this tax generated \$0.1 million; tax expenditures for this tax are estimate at \$2,000 for FY12.
- ◆ ***Motor Vehicle Usage Tax*** – First assessed in 1936, the current tax rate is 6 percent of the retail price of motor vehicles. Many people think of this tax as a “sales” tax since the rates are identical, but the usage tax is assessed for the privilege of using a motor vehicle upon the public highways of the Commonwealth. As such, the proceeds are deposited in the Road Fund. For FY11, this tax generated \$381.8 million; tax expenditures are estimated at \$54.5 million for FY12.
- ◆ ***Natural Resources Severance and Processing Tax*** – First assessed in 1980, taxes are levied against the gross value of all minerals severed or processed in Kentucky, excluding coal and oil. For FY11, these taxes generated \$38.1 million; tax expenditures are estimated at \$8.7 million for FY12.
- ◆ ***Property Taxes*** – Kentucky has levied a property tax since becoming a Commonwealth on June 1, 1792. Property is assessed at its fair market value; rates vary depending upon the type of property. For FY11, property taxes generated \$514.8 million; tax expenditures are estimated at \$766.4 million for FY12.
- ◆ ***Sales and Use Tax*** – The sales and use tax was first levied in its current form in 1960. The tax is collected on retail sales within the state, at a rate of 6 percent of the sales price. The use tax is imposed on the storage, use or other consumption of tangible property. For FY11, this tax generated \$2.9 billion; tax expenditures are estimated at \$2,675.8 million for FY12.

- ◆ ***Special Fuels Tax*** – This tax includes fuels other than gasoline that are used in motor vehicles. The floor of the special fuels variable rate is 16.1 cents per gallon; if the wholesale price rises above \$1.786, the variable tax rate will also rise. For FY11, this tax generated \$173.9 million; tax expenditures for this tax are estimated at \$83.1 million for FY12.

- ◆ ***Tobacco Taxes*** – The cigarette tax is a tax on each pack of cigarettes and was first assessed in 1936. The per-pack rate currently totals sixty cents and is composed of the original excise tax of three cents, a surtax of fifty six cents and a cancer research surtax of one cent. The other tobacco products tax includes taxes on loose tobacco, cigars, dry snuff, and other miscellaneous tobacco products. The unit value tax differs depending on the product. Kentucky also imposed a tax on moist snuff at the rate of nineteen cents per tin. All tobacco taxes are paid by the wholesaler. For FY11, tobacco taxes generated \$283.8 million. The tax expenditures associated with these taxes are estimated at \$1.3 million for FY12.

- ◆ ***Earmarked Funds*** – These items are included for informational purposes only. Funds collected are not available for the General Fund but are technically not a tax expenditure since the tax is still collected from the taxpayer. Identified earmarked funds that are not deposited into the General Fund are estimated at \$49.1 million for FY12.

What are tax expenditures?

Tax expenditures are provisions such as special exemptions, exclusions, deductions, credits, deferrals, and preferential rates in tax law that result in a loss of tax revenue. House Bill 1, enacted by the 2010 Extraordinary Session of the General Assembly, defines the term “tax expenditure” to mean an exemption, exclusion or deduction from the base of a tax, a credit against the tax, a deferral of a tax, or a preferential tax rate.

Tax expenditures differ from normal budget expenditures in that normal budget expenditures are explicitly appropriated on an annual or biennial basis as part of the budgetary process. Tax expenditures are approved by the legislature and then become a permanent part of a state’s tax laws until modified by future sessions of the General Assembly. As a result, tax expenditures have a tendency to become an increasingly larger part of state government expenditures without explicit approval by succeeding legislatures. That is, once a tax expenditure has been adopted, future balance sheets of legislative sessions do not explicitly account for these revenue losses.

Not all deductions and exemptions allowed under the laws are classified as tax expenditures. Tax expenditures are best described as deviations from the “normal” or “appropriate” tax structure. For example, a business income tax is normally levied on net income, after reducing for the customary expenses incurred to produce that income. Consequently, most business expenses are not tax expenditures. However, actual income that is exempted because of special circumstances, such as retirement income, would be considered a tax expenditure since individual income, in general, is subject to taxation. Similarly, sales tax is usually levied on retail sales of tangible property. Therefore the failure to tax sales for resale, wholesale sales, or sales of certain services does not create a tax expenditure because these classes of transactions are incongruous with the philosophical underpinnings of a retail sales tax.

The importance of tracking tax expenditures

Tax expenditures are increasingly used to encourage certain kinds of behavior or to provide financial benefit to taxpayers in certain circumstances. Major objectives include economic development, equity, fiscal responsibility, and tax reform. The unintended side effect is an increase in the complexity of the tax laws. Individual taxpayers, as well as tax experts, have found it difficult to keep informed of these many changes. In many cases, these decisions lead to less similarity between state and federal laws and ultimately to even more complexity. When such provisions are enacted, the resulting tax loss reduces the revenue available to fund other programs, unless tax rates are raised or new taxes are enacted to compensate for the loss.

Unlike direct appropriations, which must be continuously reviewed and approved by the General Assembly to remain in effect, state tax expenditures are usually not included in this review process. As a result, programs funded through tax expenditures receive priority funding over all other programs. In all probability, many “tax expenditure” programs would not receive the same priority if they had to compete on equal footing during the biennial appropriation process.

A tax expenditure analysis can be used to evaluate the cost to state government of the many programs funded through tax expenditures. This analysis identifies, quantifies where possible, and explains many of the Kentucky tax expenditures. When possible, estimates of the costs of the tax expenditures were developed from information contained on taxpayers’ Kentucky tax returns, the most reliable source for data. In many cases, however, other necessary information is neither reflected on tax returns nor is the data explicitly captured. For these tax expenditures, alternative sources were used, including Bureau of the Census statistics, federal tax expenditure estimates, Bureau of Labor Statistics data, information from federal tax returns, and other studies.

**Caveats
and
interpretations**

Whenever possible, an estimate of the expected value or cost of the tax expenditure is included in this report. However, there are some tax expenditures that cannot be reliably quantified, whether from conflicting data or lack of data. When this situation occurs, the value of the expenditure is reported as:

- ◆ “Minimal” if its value is expected to be below \$1 million; or
- ◆ “Substantial” if its value is expected to be above \$1 million.

The value of this analysis is not so much for potential revenue estimating purposes, but to give a description of Kentucky’s tax expenditures and their estimated impact in terms of lost General Fund and Road Fund revenue for a specific time period. The estimates for each tax expenditure contained in this analysis were made independently, with the assumption that all other provisions of the tax laws remained unchanged and that taxpayer behavior remained constant. This was done because the analysis attempts to measure the costs of the expenditures as they exist and not what would happen if one or more were repealed. This analysis should not be viewed as an estimate of the impact of repealing one or more tax expenditures since the estimated cost of the expenditure(s) may not necessarily equal the increased revenue resulting from repeal. Similarly, the costs of two or more expenditures cannot be added together to produce the impact of simultaneous repeal, because each was computed without regard to the others. Due to graduated rates or other factors, the combined impact may be more or less than the sum of the individual tax expenditure amounts.

A number of states regularly compile tax expenditure reports and many have just started issuing the report in recent years. The information provided by such studies could assist policymakers in devising a more equitable tax structure.

**How to
Read This
Report**

This report catalogs or aggregates the various tax expenditures by tax type, to provide a more concise listing for quicker reference and comparison. Also included is a catalog of tax expenditures organized by programmatic area, to allow the reader to observe how various social goals are advanced through tax expenditures.

This report also contains the traditional method of identifying each expenditure by statutes, with an estimate of the impact of that particular item, whether deduction, credit, exemption, rate reduction or other means utilized to alter or reduce a taxpayer's liability. Each identified tax type includes the following sections:

- ◆ **Background** - a brief history of the tax;
- ◆ **Current rate structure** - how the tax is assessed and in what amount;
- ◆ **Tax base** - who owes the tax, who is assessed, or who collects the tax; and,
- ◆ **Tax due** - how, when, and where the tax is paid.

The summary tables are provided within the report as a reference to quickly find amounts associated with a particular expenditure. In addition to reflecting tax expenditures by tax type, the summary tables also depict the expenditures by purpose or use of the tax expenditures.

Readers of this report may want to compare current estimates of tax expenditures in this report with estimates in previous editions of the report. Estimates in the previous edition represent a two-year ahead forecast while the current estimates are based on the most up-to-date information available. Several tax expenditure estimates have materially changed since 2009 due to the availability of more detailed and current data. In many instances, the experience of taxpayer behavior regarding the use of deductions, credits, or other benefits can significantly influence the estimates. Significant differences in estimates from the 2009 edition are explained in the endnotes.

This report continues to quantify the exemption of certain services from sales tax even though these exemptions/exclusions are not considered a tax expenditure. A list of specific services and the estimated costs can be found beginning on page 144 of this report.

Some taxes are allocated to a particular fund or purpose. These items are not listed as tax expenditures. Rather, these allocations are listed under the heading “Earmarked Funds” and can be found beginning on page 154.

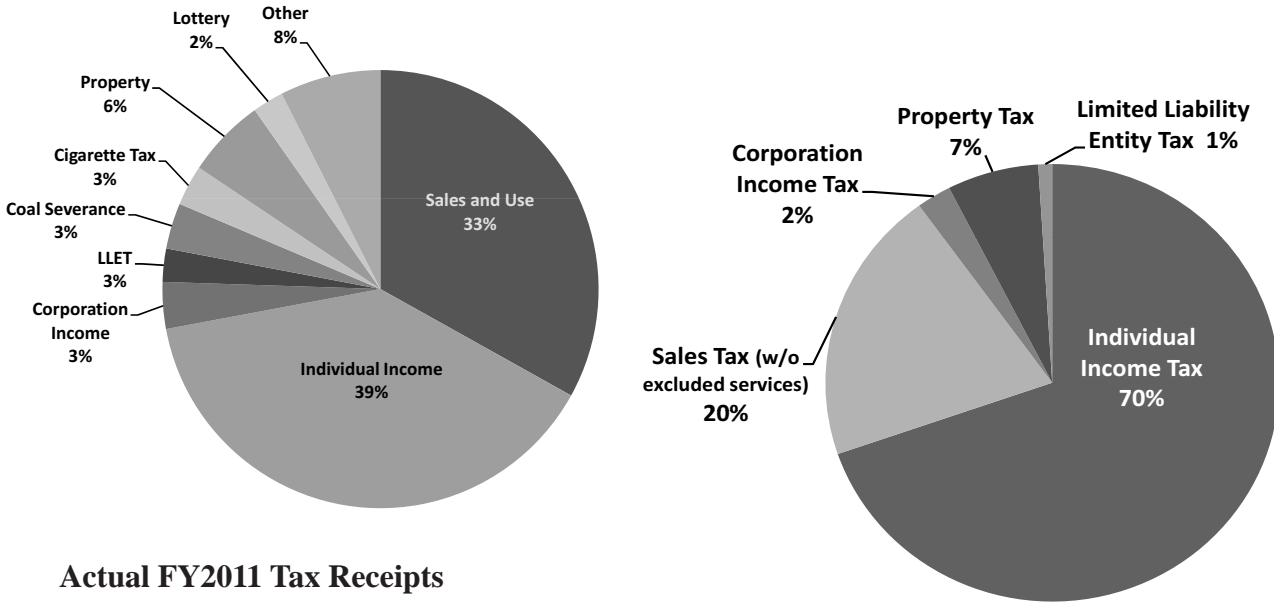
The Office of State Budget Director welcomes your comments and any questions you may have about this report. We wish to extend our deepest appreciation to Tom Miller, Commissioner of the Department of Revenue, and to the many members of his staff who participated in the data collection process of this project. Without their assistance, this publication would not have been possible:

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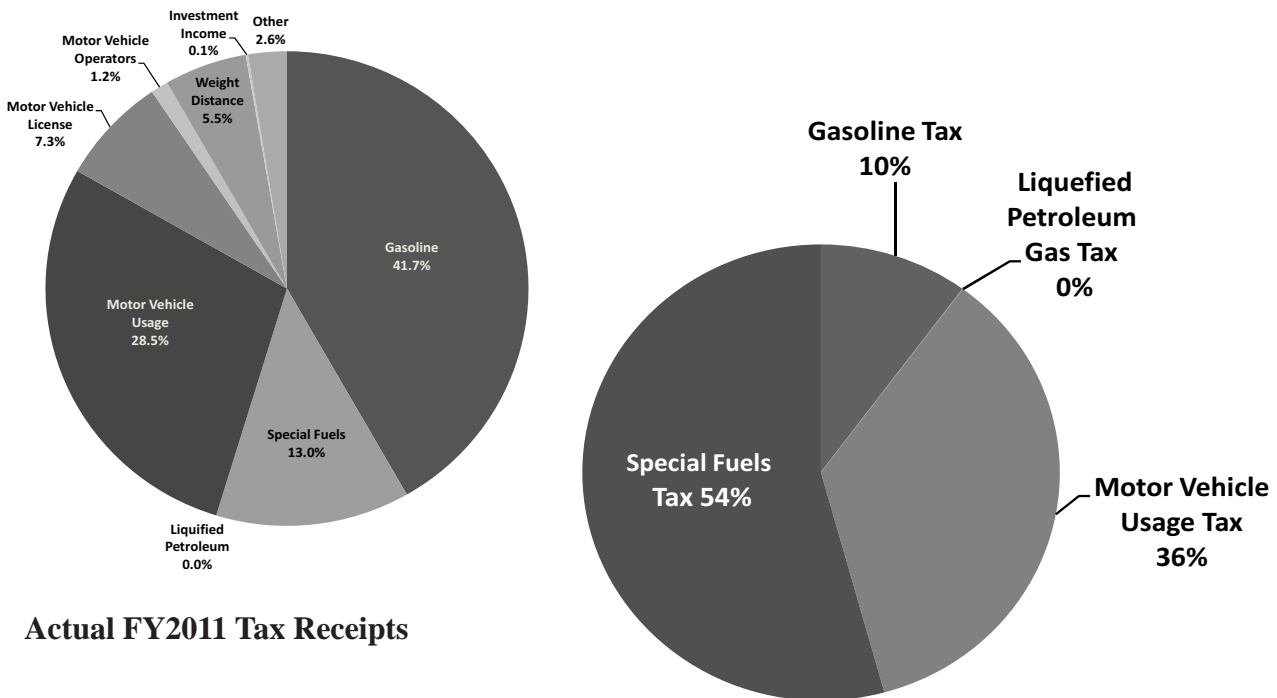
Figure 1. General Fund Overview



Actual FY2011 Tax Receipts

Estimated FY2012 Tax Expenditures

Figure 2. Road Fund Overview



Actual FY2011 Tax Receipts

Estimated FY2012 Tax Expenditures

Summary Tables of Tax Expenditures

This chapter of the Tax Expenditure Analysis contains a condensed presentation of the Tax Expenditure items in table format. The first table is a recap of the tax expenditures by major tax type. It lists each statutory exemption, deduction, credit rate adjustment, or other tax reduction by major tax type.

The second table is a recap of the expenditures categorized by the primary purpose or use of the expenditure even though many of the expenditures could be placed in multiple categories.

It is important to point out that each tax expenditure stands on its own, and that receipts from multiple expenditures repealed at the same time would not necessarily equal the sum of the amounts listed in this report. Many of the expenditures overlap, and accordingly the totals listed under each category of tax type or program/recipient benefited are not necessarily reflective of the total tax benefit afforded that tax type or group. For example, the sales tax refund for energy efficient projects, recently enacted by the General Assembly, could apply to machinery purchased for new and expanded industry, which is already exempt from sales tax. To add the estimated amounts of those two categories together would overstate the expected value if the exemptions were repealed simultaneously. The table makes no attempt to adjust for this.

Because of the interaction of tax expenditures, it is difficult to project future values for many of the expenditures listed in this report. Accordingly, these estimates may be an inadequate basis for future projections.

Tax Expenditures by Tax Type (\$ millions)

	FY12	FY13	FY14
Total Alcoholic Beverage Taxes Expenditures	0.954	1.006	1.057
Allowance for Collecting and Reporting	0.900	0.950	1.000
Malt Beverage Excise Tax at Reduced Rate	0.012	0.013	0.014
Reduced Rate for "Low Volume" Spirits	0.042	0.043	0.043
Total Bank Franchise Tax Expenditures	1.380	1.585	1.790
Kentucky Historic Preservation Credit	1.300	1.500	1.700
Kentucky Investment Fund Credit	0.080	0.085	0.090
Total Coal Severance and Processing Tax Expenditures	2.400	2.500	2.600
Coal Used to Burn Solid Waste	0.000	0.000	0.000
Coal Purchased for Alternative Energy or Gasification Facility	0.000	0.000	0.000
Thin Seam Tax Credit	2.400	2.500	2.600
Total Corporation Income Tax Expenditures	292.263	299.874	310.294
Biodiesel and Renewable Diesel Tax Credit	0.200	0.203	0.209
Charitable Contributions	9.700	9.900	10.200
Clean Coal Incentive Credit	0.000	0.000	0.000
Coal Conversion Credit	0.000	0.000	0.000
Coal Incentive Credit	4.100	4.200	4.300
Coal Royalties	minimal	minimal	minimal
Consolidation of the KEDFA Tax Credit Programs	0.000	0.000	0.000
Construction of Research Facilities Credit	0.250	0.254	0.261
Credit Unions	5.600	5.700	5.800
Deductibility of Patronage Dividends	12.800	13.000	13.400
Dividend Income	150.000	152.400	157.000
Domestic Production Activities	4.700	4.800	5.000
Employer GED Credit	0.000	0.000	0.000
Enterprise Zone Credit	0.005	0.005	0.000
Environmental Remediation Tax Credit	0.000	0.000	0.000
Environmental Stewardship Tax Credit	0.000	0.000	0.000
Ethanol and Cellulosic Ethanol Tax Credit	0.028	0.029	0.029
Excess of Percentage over Cost Depletion	2.800	2.800	2.900
Film Industry Tax Credit	1.600	2.000	3.000
Homeowner's Associations	0.000	0.000	0.000
Kentucky Investment Fund Tax Credit	0.024	0.024	0.025
Kentucky Reinvestment Act Credit	0.000	0.000	0.000
KEOZ Economic Development Credit	0.000	0.000	0.000
KIDA Economic Development Credit	7.000	7.100	7.300
KIRA Economic Development Credit	4.700	4.800	4.900
KJDA Economic Development Credit	3.600	3.700	3.800
KREDA Economic Development Credit	40.000	40.600	41.900
Leasehold Interest of Property Contributed as Living Quarters for Homeless	0.000	0.000	0.000
Metropolitan College Program Tax Credit	0.003	2.500	3.000
Net Operating Loss Deduction	38.800	39.400	40.600
Qualified Farming Operation Credit	0.000	0.000	0.000
Railroad Improvement Tax Credit	0.000	0.000	0.000
Real Estate Investment Trust	substantial	substantial	substantial
Recycling Credit	6.000	6.100	6.300
Skills Training Investment Tax Credit	0.350	0.355	0.366
Small Business Development Credit Program	0.000	0.000	0.000
Unemployment Tax Credit	0.003	0.004	0.004
Total Gasoline Tax Expenditures	15.548	17.880	20.545
Agricultural Exemption	0.080	0.085	0.090
Aircraft Refund	0.250	0.250	0.250
Bus, Taxicab, and Certain Senior Citizen's Programs Refund	0.552	0.635	0.730
Dealer's Monthly Reporting Allowance	13.700	15.800	18.200
Watercraft Refund	0.966	1.110	1.275

(\$ millions)

FY12 FY13 FY14

Total Individual Income Tax Expenditures	8,188.400	8,718.900	9,357.900
Active Duty Military Pay Exemption	18.600	18.600	18.600
Armed Forces Personnel Benefits and Allowances	151.000	134.400	139.700
Assistance for Adopted Foster Children and Foster Care Payments	5.800	6.200	6.600
Basis of Capital Gains on Gifts	21.900	29.300	31.400
Cancellation of Indebtedness	1.400	0.000	0.000
Capital Gain on Property Transferred at Death	677.200	728.000	782.500
Capital Gains - Eminent Domain	minimal	minimal	minimal
Charitable Contributions	80.000	83.300	86.900
Child and Dependent Care Credit	7.800	8.200	8.500
Credit for Hiring Unemployed	0.000	0.000	0.000
Disabled Coal Miners	0.400	0.400	0.400
Employee Stock Ownership Plan Provisions	3.200	3.300	5.200
Employer Contributions for Medical Insurance and Medical Care	2,031.900	2,161.500	2,329.400
Employer-Provided Benefits of Premiums on Group Term Life, Accident and Disability Insurance	22.900	23.400	23.700
Employer-provided Child Care Exclusions	0.000	0.000	0.000
Employer-provided Education Assistance	0.000	0.000	0.000
Employer-provided Meals and Lodging	12.900	13.500	14.300
Excess of Percentage over Cost Depletion	20.800	20.800	21.100
Exclusion of G.I. Bill Benefits	11.100	13.200	14.700
Expanded Low Income Tax Credit	90.800	94.400	98.500
Federal and Military Retirement Income Received	62.200	67.000	72.700
Financial Institutions Structured as S Corporations	minimal	minimal	minimal
Gain on the Sale of a Personal Residence	387.700	428.300	473.000
Health Savings Account Deduction	21.800	22.800	24.300
Historic Preservation Tax Credit	0.800	0.900	0.900
Home Mortgage Interest	1,085.600	1,219.000	1,354.600
Income Averaging for Farmers	1.000	1.000	1.000
Income Earned Abroad by US Citizens	59.500	63.900	67.600
Individual Retirement Account Contributions	5.300	5.500	5.800
Installment Sales	9.100	11.200	13.500
Interest on Educational Loans	9.900	10.600	11.300
Interest on Life Insurance Savings	249.600	266.800	284.500
Interest on US Savings Bonds	14.300	14.500	14.700
Job Development Credit	64.200	66.800	69.700
Job Expenses & Other Miscellaneous Deductions	44.500	46.300	48.300
Keogh Plan Contributions	188.000	215.700	230.700
Medical Expenses	110.300	109.400	123.800
Miscellaneous Fringe Benefits	14.100	15.200	16.500
Net Operating Loss Deduction	48.100	50.000	52.200
New Home Tax Credit	2.000	2.000	2.100
Parsonage Allowances	8.300	8.800	9.500
Passive Loss Rules Exception	144.400	163.400	184.300
Pension Contributions and Earnings from Employer Plans	498.200	511.800	544.800
Personal and Dependent Tax Credits	91.500	95.200	99.300
Postsecondary Education Tuition Credit	14.800	15.400	16.000
Precinct Workers	0.100	0.100	0.100
Private Pensions and Individual Retirement Accounts	916.500	937.200	966.500
Property Tax on Owner-Occupied Homes	53.800	56.000	58.400
Public Assistance Benefits	7.800	8.300	8.500
Railroad and Supplemental Railroad Retirement System Benefits	3.400	3.100	3.000
Recycling & Composting Equipment Credit	1.100	1.200	1.200
Scholarship and Fellowship Income	34.500	35.700	37.000
Social Security Benefits for Retired Workers, Disabled Workers, and Dependents and Survivors	359.200	379.900	402.500
Standard Deduction	115.600	120.300	125.500
State and Local Taxes Other Than Home Property Taxes	40.500	42.100	44.000
State Employee Pension Benefits and Contributions	65.000	67.600	70.500
U.S. Production Activities	161.200	170.800	180.800
Veteran's Pension, Death and Disability Compensation	55.200	60.800	67.300
Worker's Compensation Benefits	81.600	85.800	90.000

(\$ millions)

	FY12	FY13	FY14
Total Inheritance and Estate Tax Expenditures	66.000	66.100	65.200
Annuities Under Qualified Retirement Plans	minimal	minimal	minimal
Assessment of Land at its Agricultural or Horticultural Value	minimal	minimal	minimal
Benefits Paid by the Federal Government Due to Service in Time of War	minimal	minimal	minimal
Benefits Paid to a Beneficiary of Military Personnel Under Certain Retirement Plans	minimal	minimal	minimal
Class A Beneficiaries	54.000	54.000	53.000
Certificates of Deposit Exempt from the Contemplation of Death Rule	minimal	minimal	minimal
Class B Beneficiaries	minimal	minimal	minimal
Class C Beneficiaries	minimal	minimal	minimal
Discount for Early Payment of Tax	1.000	1.000	1.000
Individual Retirement Accounts	minimal	minimal	minimal
Life Insurance Proceeds	substantial	substantial	substantial
Recurring Tax Credits	minimal	minimal	minimal
Transfers to Educational, Religious, Charitable, or Certain Governmental Organizations	11.000	11.100	11.200
Total Insurance Premiums Taxes Expenditures	1.700	1.750	1.800
Hospital, Medical, or Dental Service Companies Exempt from Premium Tax	1.700	1.750	1.800
Total Limited Liability Entity Tax Expenditures	116.166	120.089	122.701
Alcohol Production Facility	minimal	minimal	minimal
Certified Fluidized Bed Energy Production Facility	minimal	minimal	minimal
Cooperatives, Homeowners' Assoc., Political Organizations	2.000	2.000	2.100
Costs of Goods Sold, Bulk Delivery Charges, and Indirect Labor	78.200	80.800	82.400
Endow Kentucky Tax Credit	0.200	0.300	0.500
New Markets Development Program Tax Credit	0.000	0.000	0.000
Open-End Registered Investment Companies	0.001	0.001	0.001
Personal Service Corporations	1.600	1.700	1.700
Publicly Traded Partnerships	0.080	0.083	0.084
Real Estate Investment Trust	0.543	0.561	0.572
Regulated Investment Company	0.033	0.034	0.034
Real Estate Mortgage Investment Conduit	0.010	0.010	0.010
Small Business Relief from the Limited Liability Entity Tax	33.500	34.600	35.300
Total Liquefied Petroleum Gas Tax Expenditures	0.002	0.002	0.002
Approved Carburetion Systems	0.000	0.000	0.000
Dealer's Monthly Reporting Allowance	0.002	0.002	0.002
Total Motor Vehicle Usage Tax Expenditures	54.485	57.540	60.295
Adapted Equipment for Physically Handicapped Persons	0.069	0.070	0.071
Change in Business Structure	0.092	0.093	0.093
Charter Bus Exemption	0.058	0.059	0.060
Commercial Motor Vehicle Exemption	minimal	minimal	minimal
Educational & Charitable Organizations	1.500	1.600	1.700
Immediate Family Member	7.700	7.800	7.900
Insurance Company Transfers	0.109	0.110	0.111
Large Truck Exclusion	12.000	12.700	13.100
Military Exemption	5.600	5.750	5.900
Partnership Interests	minimal	minimal	minimal
Repossessed Exemption	1.100	1.200	1.300
Trade-In Allowance on Used Vehicle Purchases	22.500	24.100	25.700
Transfers between a Limited Liability Company and its Members	1.400	1.500	1.600
Transfers between a Subsidiary and a Parent Corporation	0.157	0.158	0.160
Transfers by Will or Court Order	2.200	2.400	2.600
Total Natural Resources Severance and Processing Tax Expenditures	8.700	9.200	9.430
Ball Clay, Fluorspar, Lead, Zinc, Tar Sands, Barite, and Stone Used for Privately Maintained but Publicly Dedicated Roads	0.300	0.300	0.300
Clay Used in Landfill Construction	minimal	minimal	minimal
Inactive Crude Oil & Natural Gas Wells	0.200	0.200	0.230
Limestone Sold in Interstate Commerce	4.200	4.300	4.500
Limestone Sold or Used for Agricultural Purposes	minimal	minimal	minimal
Limit on Tax from Clay	minimal	minimal	minimal
Transportation Expense	4.000	4.400	4.400

	(\$ millions)		
	FY12	FY13	FY14
Total Property Tax Expenditures	766.396	791.532	830.068
Real Property			
Agricultural and Horticultural Land Assessment Protection	0.100	0.100	0.100
Agricultural Value of Real Property	39.600	41.100	42.600
Alcohol Production Facilities	0.000	0.000	0.000
Environmental Remediation Property	0.002	0.002	0.002
Homestead Exemption	16.000	16.500	17.000
Intrastate Railroads and Railway Companies	0.025	0.026	0.027
Leasehold Interest in Buildings Financed with Industrial Revenue Bonds	2.900	3.000	3.100
Property of Local Governments in Neighboring States	0.020	0.020	0.020
Real Property Owned by Exempt Entities	45.600	48.400	51.400
State Real Property Tax Yearly Revenue Ceiling	473.000	491.800	510.500
Tangible Property			
Agricultural Products	5.200	5.500	5.800
Aircraft	1.800	1.900	2.000
Business Inventories	72.200	74.100	76.100
Carlines	0.653	0.701	0.749
Federally Documented Vessels	0.311	0.275	0.239
Foreign Trade Zone	0.000	0.000	0.000
Historic Vehicles	0.229	0.246	0.262
In-Transit Goods	27.200	28.000	28.800
Intrastate Railroads and Railway Companies	0.216	0.222	0.229
Interstate Trucks, Tractors and Buses	2.600	2.900	3.100
Leasehold Interests	4.400	4.600	4.700
Machinery Used in Farming and Livestock & Domestic Fowl	33.700	35.100	36.500
Manufacturing Machinery; Pollution Control Equipment; and Radio, Television & Telephonic Equipment	40.600	37.000	46.800
Motor Vehicles with a Salvage Title	0.040	0.040	0.040
Property of Local Government in Neighboring States	0.000	0.000	0.000
Personal Property Used in Vending Stands Operated by the Blind	minimal	minimal	minimal
Total Sales and Use Tax Expenditures (w/o excluded services)	2,675.835	2,756.653	2,836.273
4-H Sales	minimal	minimal	minimal
Admissions to and Purchases by Historical Sites	0.503	0.503	0.503
Alcohol Production Facilities	0.000	0.000	0.000
Charter Bus Repair & Replacement Parts	0.037	0.038	0.039
Coal Used in the Manufacture of Electricity	76.400	75.400	77.900
Coin-Operating Bulk Vending Machines	0.165	0.165	0.165
Construction Expenses for Alternative Fuel or Gasification Facility	1.600	3.800	0.000
Construction Expenses for Near Zero Emission Power Plants	0.000	0.000	0.000
County Fair Admissions	0.435	0.435	0.435
Donated Goods	0.000	0.000	0.000
Energy and Energy Producing Fuels	48.000	49.400	50.900
Federal Taxes Imposed on Sales of Tangible Personal Property	8.500	8.600	8.700
Food Items	484.000	498.500	513.500
Garage or Yard Sales	0.125	0.125	0.125
Interstate Business Communications Services	0.000	0.000	0.000
Interstate Cargo and Passenger Aircraft, Parts and Supplies	14.200	14.600	15.100
Jet Fuel	24.900	25.700	26.400
Kentucky Enterprise Initiative	17.600	18.100	18.600
Labor or Services Used in Property Sold	248.800	256.300	264.000
Locomotives and Rolling Stock	12.300	12.300	12.300
Lodgings of Thirty Days or More	0.265	0.265	0.265
Machinery for New & Expanded Industry	60.500	61.600	62.700
New & Replacement Machinery or Equipment for Energy Efficient Projects	0.000	1.000	2.000
Non-profit Educational, Charitable and Religious Institutions	348.700	359.200	369.900
Occasional Sales	substantial	substantial	substantial
Pay Phones	minimal	minimal	minimal
Pollution Control Facilities	24.300	25.000	25.800
Prescription Medicine, Prosthetic Devices and Physical Aids	375.000	386.300	397.800
Procurement, Processing or Distribution of Blood or Human Tissue	2.000	2.100	2.100
Property Certified as a Fluidized Bed Energy Production Facility	0.000	0.000	0.000
Rate Increase for School Taxes added to Residential Telephone Bills	5.600	5.600	5.600
Recycling Machinery and Equipment	1.200	1.300	1.400
Repair Parts for Large Trucks	1.500	1.600	1.600
Residential Utilities	347.000	357.400	368.100
Retailers' Compensation for Collecting and Remitting the Tax	21.800	22.500	23.100
Sales by Elementary and Secondary Nonprofit, School-Sponsored Clubs and Organizations	4.100	4.100	4.100
Sales by Nonprofit Higher Educational School-Sponsored Clubs and Organizations	0.136	0.136	0.137
Sales to Common Carriers Under a Bill of Lading	0.000	0.000	0.000
Sales to Motion Picture Companies	1.000	1.000	1.000
Semi-Trailers and Trailers	4.100	4.100	4.100
State, Cities, Counties and Special Districts	262.000	269.900	278.000
Textbooks	3.100	3.200	3.300
Tombstones and Other Grave Markers	7.500	7.600	7.600
Tourism Attraction Project Credit/Refund	5.000	5.200	5.300
Vessels and Maritime Supplies	15.200	15.200	15.200
Water Withdrawal Fees Paid to Kentucky River Authority	0.158	0.167	0.177

(\$ millions)

	FY12	FY13	FY14
Subtotal for Farming Tax Expenditures	248.111	258.219	268.327
Aquaculture	0.211	0.219	0.227
Equine Water	1.300	1.300	1.300
Farm Chemicals	7.300	7.600	7.900
Farm Machinery, Attachments, and Replacements, On-Farm Grain Storage Facilities, and On-Farm Facilities for Raising Chickens, Livestock, Ratite Birds, Llamas and Alpacas, and Buffalo	50.800	53.000	55.300
Fuel Used for Farm Purposes	15.900	16.900	17.800
Horses Less Than Two Years of Age	9.800	9.800	9.800
Horses Purchased for Breeding	9.600	9.600	9.600
Livestock, Poultry, Ratite Birds, Embryos and Semen, Alpacas, Llamas, Buffalo, Farm Work Stock and Feed, Seeds and Fertilizers	143.500	150.100	156.700
Twine and Wire	minimal	minimal	minimal
Water Used for Farm Purposes	9.700	9.700	9.700
Total for Excluded Services	1,761.300	1,830.400	1,902.900
Advertising	36.600	38.600	40.900
Personal services	59.200	62.400	66.100
Amusement and recreational services	30.000	30.700	30.600
Automotive and miscellaneous repair services	108.300	114.000	120.800
Computer system designs	123.100	130.000	137.400
Education services	16.500	16.200	15.800
Engineering, accounting, research, management	215.700	227.200	240.600
Health services	531.000	538.700	543.700
Legal services	82.400	86.800	91.900
Other professional services	112.700	118.700	125.700
Other services	74.400	76.000	75.700
Scientific R&D	8.800	9.200	9.800
Social services	87.200	91.900	97.300
Specialized design services	5.900	6.200	6.600
Total business services	269.500	283.800	300.000
Total Special Fuels Tax Expenditures	83.148	86.953	91.094
Agricultural Use	6.620	6.950	7.300
Bus, Taxicab and Certain Senior Citizen's Programs Refunds	0.670	0.690	0.710
Dealer's Monthly Reporting Allowance	4.300	4.400	4.500
Non-Highway Use	44.000	45.300	46.700
Railroad Companies	25.500	27.500	29.700
Religious, Charitable or Educational Use	0.180	0.190	0.200
Residential Heating	1.200	1.200	1.200
State and Local Government Use	0.063	0.073	0.084
Watercraft	0.615	0.650	0.700
Total Tobacco Taxes Expenditures	1.300	1.200	1.200
Compensation Allowed Wholesaler	1.300	1.200	1.200
Total Earmarked Funds	49.115	51.022	52.866
Cancer Research Fund	4.300	4.200	4.000
County Clerk Share for Collection of Nonresident Sales Tax	2.400	2.500	2.700
Equine Drug Research – Pari-mutuel Tax	0.300	0.290	0.280
Equine Industry Program Trust and Revolving Fund – Pari-mutuel Tax	0.340	0.335	0.330
Higher Education Equine Trust and Revolving Fund – Pari-mutuel Tax	0.295	0.290	0.290
Kentucky Aviation Economic Development Fund – Sales Tax	6.100	6.300	6.500
Kentucky Horse Breeders Incentive Fund	0.800	0.780	0.770
Kentucky Standardbred Breeders Incentive Fund	1.500	1.500	1.400
Kentucky Thoroughbred Breeders Incentive Fund	9.300	9.200	9.000
Kentucky Transportation Center – Motor Fuels Tax	0.190	0.190	0.190
Standardbred Development Fund – Pari-mutuel Tax	0.090	0.092	0.094
Tax Increment Financing – Various Taxes	17.000	19.000	21.000
Thoroughbred Development Fund-Pari-mutuel Tax	4.300	4.200	4.200
Tobacco Enforcement Program – Cigarette Tax	0.200	0.195	0.192
Tobacco Research Trust Fund – Cigarette Tax	2.000	1.950	1.920

Tax Expenditures by Program (\$ millions)

Tax Type		FY12	FY13	FY14
Agricultural Development		313.711	327.354	341.017
Corporation Income	Qualified Farming Operation Credit	0.000	0.000	0.000
Gasoline Tax	Agricultural Exemption	0.080	0.085	0.090
Individual Income	Income Averaging for Farmers	1.000	1.000	1.000
Inheritance Tax	Assessment of Land at its Agricultural or Horticultural Value	minimal	minimal	minimal
Natural Resources	Limestone Sold or Used for Agricultural Purposes	minimal	minimal	minimal
Real Property Tax	Agricultural and Horticultural Land Assessment Protection	0.100	0.100	0.100
Real Property Tax	Agricultural Value of Real Property	39.600	41.100	42.600
Tangible Property Tax	Machinery Used in Farming and Livestock & Domestic Fowl	33.700	35.100	36.500
Tangible Property Tax	Agricultural Products	5.200	5.500	5.800
Sales Tax	Livestock, Poultry, Ratite Birds, Embryos and Semen, Alpacas, Llamas, Buffalo, Farm Work Stock and Feed, Seeds and Fertilizers	143.500	150.100	156.700
Sales Tax	Farm Machinery, Attachments, and Replacements, On-Farm Grain Storage Facilities, and On-Farm Facilities for Raising Chickens, Livestock, Ratite Birds, Llamas and Alpacas, and Buffalo	50.800	53.000	55.300
Sales Tax	Fuel Used for Farm Purposes	15.900	16.900	17.800
Sales Tax	Water Used for Farm Purposes	9.700	9.700	9.700
Sales Tax	Aquaculture	0.211	0.219	0.227
Sales Tax	Twine and Wire	minimal	minimal	minimal
Sales Tax	Farm Chemicals	7.300	7.600	7.900
Special Fuels	Agricultural Use	6.620	6.950	7.300
Banking Support		6.700	6.900	7.100
Corporation Income	Credit Unions	5.600	5.700	5.800
Corporation Income	Real Estate Investment Trust	substantial	substantial	substantial
Individual Income	Financial Institutions Structured as S Corporations	minimal	minimal	minimal
Motor Vehicle	Repossessed Exemption	1.100	1.200	1.300
Charitable Organization Support		505.415	522.925	541.435
Corporation Income	Charitable Contributions	9.700	9.900	10.200
Corporation Income	Leasehold Interest of Property Contributed as Living Quarters for Homeless	0.000	0.000	0.000
Individual Income	Charitable Contributions	80.000	83.300	86.900
Individual Income	Parsonage Allowances	8.300	8.800	9.500
Inheritance Tax	Transfers to Educational, Religious, Charitable, or Certain Governmental Organizations	11.000	11.100	11.200
Inheritance Tax	Class C Beneficiaries	minimal	minimal	minimal
Motor Vehicle	Educational & Charitable Organizations	1.500	1.600	1.700
Real Property Tax	Real Property Owned by Exempt Entities	45.600	48.400	51.400
Sales Tax	Non-profit Educational, Charitable and Religious Institutions	348.700	359.200	369.900
Sales Tax	4-H Sales	minimal	minimal	minimal
Sales Tax	Donated Goods	0.000	0.000	0.000
Sales Tax	County Fair Admissions	0.435	0.435	0.435
Special Fuels	Religious, Charitable or Educational Use	0.180	0.190	0.200
Community Development		21.158	21.876	22.682
Corporation Income	Enterprise Zone Credit	0.005	0.005	0.000
Corporation Income	KEOZ Economic Development Credit	0.000	0.000	0.000
Corporation Income	Homeowner's Associations	0.000	0.000	0.000
Individual Income	Historic Preservation Tax Credit	0.800	0.900	0.900
Individual Income	Capital Gains - Eminent Domain	minimal	minimal	minimal
Limited Liability Entity	Cooperatives, Homeowners' Assoc., Political Organizations	2.000	2.000	2.100
Limited Liability Entity	Real Estate Investment Trust	0.543	0.561	0.572
Limited Liability Entity	Real Estate Mortgage Investment Conduit	0.010	0.010	0.010
Limited Liability Entity	Endow Kentucky Tax Credit	0.200	0.300	0.500
Limited Liability Entity	New Markets Development Program Tax Credit	0.000	0.000	0.000
Sales Tax	Kentucky Enterprise Initiative	17.600	18.100	18.600
Earmarked Funds		49.115	51.072	52.946
Earmarked Funds	Thoroughbred Development Fund-Pari-mutuel Tax	4.300	4.200	4.200
Earmarked Funds	Equine Industry Program Trust and Revolving Fund – Pari-mutuel Tax	0.340	0.335	0.330
Earmarked Funds	Higher Education Equine Trust and Revolving Fund – Pari-mutuel Tax	0.295	0.290	0.290
Earmarked Funds	Standardbred Development Fund – Pari-mutuel Tax	0.090	0.092	0.094
Earmarked Funds	Tobacco Enforcement Program – Cigarette Tax	0.200	0.195	0.192
Earmarked Funds	Kentucky Transportation Center – Motor Fuels Tax	0.190	0.190	0.190
Earmarked Funds	Tobacco Research Trust Fund – Cigarette Tax	2.000	2.000	2.000
Earmarked Funds	Cancer Research Fund	4.300	4.200	4.000
Earmarked Funds	Equine Drug Research – Pari-mutuel Tax	0.300	0.290	0.280
Earmarked Funds	Kentucky Aviation Economic Development Fund – Sales Tax	6.100	6.300	6.500
Earmarked Funds	Tax Increment Financing – Various Taxes	17.000	19.000	21.000
Earmarked Funds	Kentucky Thoroughbred Breeders Incentive Fund	9.300	9.200	9.000
Earmarked Funds	Kentucky Standardbred Breeders Incentive Fund	1.500	1.500	1.400
Earmarked Funds	Kentucky Horse Breeders Incentive Fund	0.800	0.780	0.770
Earmarked Funds	County Clerk Share for Collection of Nonresident Sales Tax	2.400	2.500	2.700

(\$ millions)

Tax Type		FY12	FY13	FY14
Economic and Job Development		346.783	362.898	384.021
Bank Franchise Tax	Kentucky Investment Fund Tax Credit	0.080	0.085	0.090
Corporation Income	Construction of Research Facilities Credit	0.250	0.254	0.261
Corporation Income	Unemployment Tax Credit	0.003	0.004	0.004
Corporation Income	Domestic Production Activities	4.700	4.800	5.000
Corporation Income	KREDA Economic Development Credit	40.000	40.600	41.900
Corporation Income	KIDA Economic Development Credit	7.000	7.100	7.300
Corporation Income	KIRA Economic Development Credit	4.700	4.800	4.900
Corporation Income	KJDA Economic Development Credit	3.600	3.700	3.800
Corporation Income	Kentucky Reinvestment Act Credit	0.000	0.000	0.000
Corporation Income	Skills Training Investment Tax Credit	0.350	0.355	0.366
Corporation Income	Film Industry Tax Credit	1.600	2.000	3.000
Corporation Income	Consolidation of the KEDFA Economic Development Tax Credit Programs	0.000	0.000	0.000
Corporation Income	Small Business Development Credit Program	0.000	0.000	0.900
Individual Income	Employee Stock Ownership Plan Provisions	3.200	3.300	5.200
Individual Income	U.S. Production Activities	161.200	170.800	180.800
Individual Income	Employer-Provided Benefits of Premiums on Group Term Life, Accident & Disability Ins.	22.900	23.400	23.700
Individual Income	Employer-Provided Meals and Lodging	12.900	13.500	14.300
Individual Income	Credit for Hiring Unemployed	0.000	0.000	0.000
Individual Income	Miscellaneous Fringe Benefits	14.100	15.200	16.500
Individual Income	Job Development Credit	64.200	66.800	69.700
Sales Tax	Tourism Attraction Project Credit/Refund	5.000	5.200	5.300
Sales Tax	Interstate Business Communications Services	0.000	0.000	0.000
Sales Tax	Sales to Motion Picture Companies	1.000	1.000	1.000
Tangible Property Tax	Foreign Trade Zone	0.000	0.000	0.000
Education Support		66.539	71.636	74.836
Corporation Income	Employer GED Credit	0.000	0.000	0.000
Corporation Income	Metropolitan College Program Tax Credit	0.003	2.500	3.000
Individual Income	Employer-provided Education Assistance	0.000	0.000	0.000
Individual Income	Scholarship and Fellowship Income	34.500	35.700	37.000
Individual Income	Interest on Educational Loans	9.900	10.600	11.300
Individual Income	Postsecondary Education Tuition Tax Credit	14.800	15.400	16.000
Sales Tax	Sales by Nonprofit Higher Educational School-Sponsored Clubs and Organizations	0.136	0.136	0.136
Sales Tax	Textbooks	3.100	3.200	3.300
Sales Tax	Sales by Elementary and Secondary Nonprofit, School-Sponsored Clubs and Organizations	4.100	4.100	4.100
Energy Development and Coal Industry Support		540.508	555.815	569.052
Coal Severance	Thin Seam Tax Credit	2.400	2.500	2.600
Corporation Income	Biodiesel and Renewable Diesel Tax Credit	0.200	0.203	0.209
Corporation Income	Coal Conversion Credit	0.000	0.000	0.000
Corporation Income	Coal Incentive Tax Credit	4.100	4.200	4.300
Corporation Income	Coal Royalties	minimal	minimal	minimal
Corporation Income	Ethanol and Cellulosic Ethanol Credit	0.028	0.029	0.029
Sales Tax	Property Certified as a Fluidized Bed Energy Production Facility	0.000	0.000	0.000
Sales Tax	Residential Utilities	347.000	357.400	368.100
Limited Liability Entity	Certified Fluidized Bed Energy Production Facility	minimal	minimal	minimal
Limited Liability Entity	Alcohol Production Facility	minimal	minimal	minimal
Limited Liability Entity	Publicly Traded Partnerships	0.080	0.083	0.084
Natural Resources	Inactive Crude Oil & Natural Gas Wells	0.200	0.200	0.230
Real Property Tax	Alcohol Production Facilities	0.000	0.000	0.000
Sales Tax	Energy and Energy Producing Fuels	48.000	49.400	50.900
Sales Tax	Alcohol Production Facilities	0.000	0.000	0.000
Sales Tax	Coal Used in the Manufacture of Electricity	76.400	75.400	77.900
Sales Tax	New and Replacement Machinery and Equipment for Energy Efficient Projects	0.000	1.000	2.000
Sales Tax	Machinery for New and Expanded Industry	60.500	61.600	62.700
Sales Tax	Construction Expenses for Alternative Fuel or Gasification Facility	1.600	3.800	0.000
Environmental Conservation and Historical Preservation		34.734	35.851	37.167
Bank Franchise Tax	Historic Preservation Tax Credit	1.300	1.500	1.700
Coal Severance	Coal Used to Burn Solid Waste	0.000	0.000	0.000
Corporation Income	Recycling Credit	6.000	6.100	6.300
Corporation Income	Environmental Remediation Tax Credit	0.000	0.000	0.000
Corporation Income	Environmental Stewardship Tax Credit	0.000	0.000	0.000
Corporation Income	Clean Coal Incentive Credit	0.000	0.000	0.000
Individual Income	Recycling and/or Composting Equipment	1.100	1.200	1.200
Liquefied Petroleum	Approved Carburetion Systems	0.000	0.000	0.000
Real Property Tax	Environmental Remediation Property	0.002	0.002	0.002
Sales Tax	Recycling Machinery and Equipment Credit	1.300	1.300	1.400
Sales Tax	Pollution Control Facilities	24.300	25.000	25.800
Sales Tax	Admissions to and Purchases by Historical Sites	0.503	0.503	0.503
Sales Tax	Construction Expenses for Near Zero Emission Power Plants	0.000	0.000	0.000
Tangible Property Tax	Historic Vehicles	0.229	0.246	0.262
Equine Industry Support		20.700	20.700	20.700
Sales Tax	Equine Water	1.300	1.300	1.300
Sales Tax	Horses Purchased for Breeding	9.600	9.600	9.600
Sales Tax	Horses Less Than Two Years of Age	9.800	9.800	9.800

(\$ millions)

Tax Type		FY12	FY13	FY14
Excluded Services		1,761.300	1,831.400	1,902.900
Sales Tax	Personal services	59.200	62.400	66.100
Sales Tax	Business services	269.500	283.800	300.000
Sales Tax	Specialized Design Services	5.900	6.200	6.600
Sales Tax	Computer System Designs	123.100	130.000	137.400
Sales Tax	Scientific Research and Development	8.800	9.200	9.800
Sales Tax	Health services	531.000	538.700	543.700
Sales Tax	Legal services	82.400	86.800	91.900
Sales Tax	Education services	16.500	16.200	15.800
Sales Tax	Social services	87.200	91.900	97.300
Sales Tax	Engineering, accounting, research, management	215.700	227.200	240.600
Sales Tax	Automotive and miscellaneous repair services	108.300	114.000	120.800
Sales Tax	Amusement and recreational services	30.000	30.700	30.600
Sales Tax	Other services	74.400	76.000	75.700
Sales Tax	Advertising	36.600	38.600	40.900
Sales Tax	Other Professional Services	112.700	118.700	125.700
Existing Business Support		848.941	870.897	908.752
Alcoholic Beverage	Reduced Rate for "Low Volume" Spirits	0.042	0.043	0.043
Alcoholic Beverage	Malt Beverage Excise Tax at Reduced Rate	0.012	0.013	0.014
Alcoholic Beverage	Allowance for Collecting and Reporting	0.900	0.950	1.000
Corporation Income	Net Operating Loss Deduction	38.800	39.400	40.600
Corporation Income	Kentucky Investment Fund Tax Credit	0.024	0.024	0.025
Corporation Income	Dividend Income	150.000	152.400	157.000
Corporation Income	Deductibility of Patronage Dividends	12.800	13.000	13.400
Gasoline Tax	Dealer's Monthly Reporting Allowance	13.700	15.800	18.200
Individual Income	Net Operating Loss Deduction	48.100	50.000	52.200
Individual Income	Installment Sales	9.100	11.200	13.500
Limited Liability Entity	Costs of Goods Sold, Bulk Delivery Charges, and Indirect Labor	78.200	80.800	82.400
Limited Liability Entity	Open-End Registered Investment Companies	0.001	0.001	0.001
Limited Liability Entity	Personal Service Corporations	1.600	1.700	1.700
Limited Liability Entity	Regulated Investment Company	0.033	0.034	0.034
Limited Liability Entity	Small Business Relief from the Limited Liability Entity Tax	33.500	34.600	35.300
Liquefied Petroleum	Dealer's Monthly Reporting Allowance	0.002	0.002	0.002
Motor Vehicle	Change in Business Structure	0.092	0.093	0.093
Motor Vehicle	Transfers between a Limited Liability Company and its Members	1.400	1.500	1.600
Motor Vehicle	Transfers between a Subsidiary and a Parent Corporation	0.157	0.158	0.160
Motor Vehicle	Partnership Interests	minimal	minimal	minimal
Motor Vehicle	Insurance Company Transfers	0.109	0.110	0.111
Sales Tax	Labor or Services Used in Property Sold	248.800	256.300	264.000
Sales Tax	Coin-Operating Bulk Vending Machines	0.165	0.165	0.165
Sales Tax	Occasional Sales	substantial	substantial	substantial
Sales Tax	Pay Phones	minimal	minimal	minimal
Sales Tax	Retailers' Compensation for Collecting and Remitting the Tax	21.800	22.500	23.100
Special Fuels	Dealer's Monthly Reporting Allowance	4.300	4.400	4.500
Special Fuels	Non-Highway Use	44.000	45.300	46.700
Tangible Property Tax	Manufacturing Machinery; Pollution Control Equipment; and Radio, Television & Telephonic Equipment	40.600	37.000	46.800
Tangible Property Tax	In-Transit Goods	27.200	28.000	28.800
Tangible Property Tax	Business Inventories	72.200	74.100	76.100
Tangible Property Tax	Motor Vehicles with a Salvage Title	0.004	0.004	0.004
Tobacco Tax	Compensation Allowed Wholesaler	1.300	1.300	1.200
Family Support		1,146.800	1,227.100	1,305.500
Individual Income	Assistance for Adopted Foster Children and Foster Care Payments	5.800	6.200	6.600
Individual Income	Employer-provided Child Care Exclusions	0.000	0.000	0.000
Individual Income	Personal and Dependent Tax Credits	91.500	95.200	99.300
Individual Income	Interest on Life Insurance Savings	249.600	266.800	284.500
Individual Income	Child and Dependent Care Credit	7.800	8.200	8.500
Individual Income	Active Duty Military Pay Exemption	18.600	18.600	18.600
Individual Income	New Home Tax Credit	2.000	2.000	2.000
Individual Income	Basis of Capital Gains on Gifts	21.900	29.300	31.400
Individual Income	Capital Gain on Property Transferred at Death	677.200	728.000	782.500
Inheritance Tax	Class A Beneficiaries	54.000	54.000	53.000
Inheritance Tax	Class B Beneficiaries	minimal	minimal	minimal
Inheritance Tax	Life Insurance Proceeds	substantial	substantial	substantial
Inheritance Tax	Certificates of Deposit Exempt from the Contemplation of Death Rule	minimal	minimal	minimal
Inheritance Tax	Recurring Tax Credits	minimal	minimal	minimal
Inheritance Tax	Discount for Early Payment of Tax	1.000	1.000	1.000
Motor Vehicle	Immediate Family Member	7.700	7.800	7.900
Motor Vehicle	Transfers by Will or Court Order	2.200	2.400	2.600
Sales Tax	Tombstones and Other Grave Markers	7.500	7.600	7.600

(\$ millions)

Tax Type		FY12	FY13	FY14
	Federal Government Support	22.800	23.100	23.400
Individual Income	Federal Taxes Imposed on Sales of Tangible Personal Property	8.500	8.600	8.700
Sales Tax	Interest on U.S. Savings Bonds	14.300	14.500	14.700
	Health Care Support	2,542.769	2,683.920	2,879.271
Individual Income	Employer Contributions for Medical Insurance and Medical Care	2,031.900	2,161.500	2,329.400
Individual Income	Health Savings Account Deduction	21.800	22.800	24.300
Individual Income	Deductibility of Medical Expenses	110.300	109.400	123.800
Insurance Premiums	Hospital, Medical, or Dental Service Companies	1.700	1.750	1.800
Motor Vehicle	Adapted Equipment for Physically Handicapped Persons	0.069	0.070	0.071
Sales Tax	Prescription Medicine, Prosthetic Devices and Physical Aids	375.000	386.300	397.800
Sales Tax	Procurement, Processing or Distribution of Blood or Human Tissue	2.000	2.100	2.100
	Housing Development	1,687.765	1,883.465	2,087.565
Individual Income	Passive Loss Rules Exception	144.400	163.400	184.300
Individual Income	Home Mortgage Interest	1,085.600	1,219.000	1,354.600
Individual Income	Property Tax on Owner-Occupied Homes	53.800	56.000	58.400
Individual Income	Gain on the Sale of a Personal Residence	387.700	428.300	473.000
Real Property Tax	Homestead Exemption	16.000	16.500	17.000
Sales Tax	Lodgings of Thirty Days or More	0.265	0.265	0.265
	Income Maintenance	1,324.525	1,372.925	1,423.925
Individual Income	Cancellation of Indebtedness	1.400	0.000	0.000
Individual Income	Job Expenses and Other Miscellaneous Deductions	44.500	46.300	48.300
Individual Income	Standard Deduction	115.600	120.300	125.500
Individual Income	Worker's Compensation Benefits	81.600	85.800	90.000
Individual Income	Public Assistance Benefits	7.800	8.300	8.500
Individual Income	Expanded Low Income Tax Credit	90.800	94.400	98.500
Individual Income	Casualty and Theft Losses	2.000	2.100	2.100
Motor Vehicle	Trade-In Allowance on Used Vehicle Purchases	22.500	24.100	25.700
Real Property Tax	State Real Property Tax Yearly Revenue Ceiling	473.000	491.800	510.500
Sales Tax	Food Items	484.000	498.500	513.500
Sales Tax	Garage or Yard Sales	0.125	0.125	0.125
Special Fuels	Residential Heating	1.200	1.200	1.200
	Intergovernmental Transfers	59.500	63.900	67.600
Individual Income	Income Earned Abroad by US Citizens	59.500	63.900	67.600
	Military Support	241.500	232.750	246.200
Individual Income	Armed Forces Personnel Benefits and Allowances	151.000	134.400	139.700
Individual Income	Exclusion of GI Bill Benefits	11.100	13.200	14.700
Individual Income	Veteran's Pension, Death and Disability Compensation	55.200	60.800	67.300
Individual Income	Active Duty Military Pay Exemption	18.600	18.600	18.600
Inheritance Tax	Benefits Paid to a Beneficiary of Military Personnel Under Certain Retirement Plans	minimal	minimal	minimal
Inheritance Tax	Benefits Paid by the Federal Government Due to Service in Time of War	minimal	minimal	minimal
Motor Vehicle	Military Exemption	5.600	5.750	5.900
	Natural Resources	32.100	32.600	33.200
Corporation Tax	Excess of Percentage over Cost Depletion	20.800	20.800	21.100
Individual Income	Excess of Percentage Over Cost Depletion	4.000	4.400	4.400
Natural Resources	Transportation Expense	4.200	4.300	4.500
Natural Resources	Limestone Sold in Interstate Commerce	0.300	0.300	0.300
Natural Resources	Ball Clay, Fluorspar, Lead, Zinc, Tar Sands, Barite, and Stone Used for Privately Maintained but Publicly Dedicated Roads	minimal	minimal	minimal
Natural Resources	Limit on Tax from Clay	2.800	2.800	2.900
Natural Resources	Clay Used in Landfill Construction	minimal	minimal	minimal

(\$ millions)

Tax Type		FY12	FY13	FY14
Retirement Support		2,098.200	2,188.200	2,296.900
Individual Income	Pension Contributions and Earnings from Employer Plans	498.200	511.800	544.800
Individual Income	Social Security Benefits for Retired Workers, Disabled Workers, and Dependents and Survivors	359.200	379.900	402.500
Individual Income	Individual Retirement Account Contributions	5.300	5.500	5.800
Individual Income	Keogh Plan Contributions	188.000	215.700	230.700
Individual Income	Federal and Military Retirement Income Received	62.200	67.000	72.700
Individual Income	Railroad and Supplemental Railroad Retirement System Benefits	3.400	3.100	3.000
Individual Income	State Employee Pension Benefits and Contributions	65.000	67.600	70.500
Inheritance Tax	Private Pensions and Individual Retirement Accounts	916.500	937.200	966.500
Inheritance Tax	Disabled Coal Miners	0.400	0.400	0.400
Individual Income	Annuities Under Qualified Retirement Plans	minimal	minimal	minimal
Individual Income	Individual Retirement Accounts	minimal	minimal	minimal
State and Local Government Support		315.740	325.560	335.780
Individual Income	Deductibility of State and Local Taxes Other Than Home Property Taxes	40.500	42.100	44.000
Individual Income	Precinct Workers	0.100	0.100	0.100
Real Property Tax	Leasehold Interest in Buildings Financed with Industrial Revenue Bonds	2.900	3.000	3.100
Real Property Tax	Property of Local Governments in Neighboring States	0.020	0.020	0.020
Sales Tax	Rate Increase for School Taxes added to Residential Telephone Bills	5.600	5.600	5.600
Sales Tax	State, Cities, Counties and Special Districts	262.000	269.900	278.000
Sales Tax	Water Withdrawal Fees Paid to Kentucky River Authority	0.157	0.167	0.176
Special Fuels	State and Local Government Use	0.063	0.073	0.084
Tangible Property Tax	Leasehold Interest	4.400	4.600	4.700
Tangible Property Tax	Personal Property in Vending Stands Operated by the Blind	minimal	minimal	minimal
Tangible Property Tax	Property of Local Governments in Neighboring States	0.000	0.000	0.000
Transportation Industry Support		118.477	123.180	127.635
Corporation Tax	Railroad Improvement Tax Credit	0.000	0.000	0.000
Gasoline Tax	Aircraft Refund	0.250	0.250	0.250
Gasoline Tax	Watercraft Refund	0.966	1.110	1.275
Gasoline Tax	Bus, Taxicab, and Certain Senior Citizen's Program Refund	0.552	0.635	0.730
Motor Vehicle	Commercial Motor Vehicle Exemption	minimal	minimal	minimal
Motor Vehicle	Large Truck Exclusion	12.000	12.700	13.100
Motor Vehicle	Charter Bus Exemption	0.058	0.059	0.060
Real Property Tax	Intrastate Railroads and Railway Companies	0.025	0.025	0.027
Sales Tax	Federally Documented Vessels	0.311	0.275	0.239
Sales Tax	Sales to Common Carriers Under a Bill of Lading	0.000	0.000	0.000
Sales Tax	Semi-Trailers and Trailers	4.100	4.100	4.100
Sales Tax	Vessels and Maritime Supplies	15.200	15.200	15.200
Sales Tax	Interstate Cargo and Passenger Aircraft, Parts and Supplies	14.200	14.600	15.100
Sales Tax	Locomotives and Rolling Stock	12.300	12.300	12.300
Sales Tax	Jet Fuel	24.900	25.700	26.400
Sales Tax	Repair Parts for Large Trucks	1.500	1.600	1.600
Sales Tax	Charter Bus Repair & Replacement Parts	0.037	0.038	0.039
Special Fuels	Railroad Companies	25.500	27.500	29.700
Special Fuels	Bus, Taxicab and Certain Senior Citizen's Programs Refunds	0.670	0.690	0.710
Special Fuels	Watercraft	0.615	0.650	0.700
Tangible Property Tax	Intrastate Railroads and Railway Companies	0.025	0.025	0.027
Tangible Property Tax	Intrastate Railroads and Railway Companies	0.215	0.222	0.229
Tangible Property Tax	Interstate Trucks, Tractors, Semi-Trailers and Buses	2.600	2.900	3.100
Tangible Property Tax	Carlines	0.653	0.701	0.749
Tangible Property Tax	Aircraft	1.800	1.900	2.000

Alcoholic Beverage Taxes

Background

Alcoholic beverage excise taxes on distilled spirits, beer, and wine became effective in 1936 at the following rates: distilled spirits - \$1.04 a gallon; beer - \$1.50 a barrel; and wine - \$0.25 a gallon.

In 1940, the excise tax rate for distilled spirits was raised to \$1.20 and in 1948, it was raised to \$1.28. In 1970, the rate was raised to \$1.92 a gallon where it remains today. In 1986, the tax rate was lowered to \$0.25 per gallon on distilled spirits placed in containers for sale at retail, where the distilled spirits represent 6 percent or less of the total volume of contents of such containers.

In 1954, the rate on wine excise was raised to \$0.50 a gallon, and the rate on beer excise was increased to \$2.50 a barrel (\$0.081/gallon). Effective August 1, 1992, the liability for the excise tax on beer was shifted from the brewer to the distributor or retailer.

In 1982, a wholesale sales tax was imposed at the rate of 9 percent of the gross receipts derived from “sales at wholesale” or “wholesale sales of distilled spirits, wine, and beer”. The 2005 General Assembly raised the wholesale sales tax to 11 percent effective June 1, 2005.

Although insignificant from a revenue standpoint, each wholesaler pays a 5-cents-per-case tax on each case of distilled spirits sold within the state.

Current Rate Structure

Total alcoholic beverage taxes were \$113.3 million in FY11, which represents 1.3 percent of total General Fund revenue.

Distilled Spirits Excise Tax	\$1.92 a gallon
<i>(KRS 243.720)</i>	
Beer Excise Tax	\$2.50 a barrel
<i>(KRS 243.720)</i>	
Wine Excise Tax	\$0.50 a gallon
<i>(KRS 243.720)</i>	

- Wholesale Sales Tax 11% of gross receipts
(KRS 243.884)
- Distilled Spirits Case Sales Tax \$0.05 per case
(KRS 243.710)

Tax Base The consumption tax is a gallonage tax and becomes the liability of the distilled spirits and wine wholesaler when these beverages are sold to retailers or consumers within the state. The gallonage tax on beer is paid by the distributor selling in this state. The wholesale sales tax is based on gross receipts derived at the wholesale level. When reporting and paying the sales tax, the wholesaler, distributor, or anyone required to pay the tax is allowed to deduct one percent of the tax due as compensation. The wholesaler of distilled spirits in Kentucky pays the case sales tax.

Tax Due The consumption tax, the wholesale sales tax and the case sales tax must be remitted to the Department of Revenue on or before the twentieth day of the month following the month in which the transactions occurred.

- Exemptions**
- ◆ Wine manufactured, sold, given away or distributed and used solely for sacramental purposes.
 - ◆ Distilled spirits and wine purchased by holders of special licenses provided for in KRS 243.320 and 243.330 and used as non-beverage alcohol, e.g. medicinal alcohol, antiseptic alcohol, flavoring extracts, syrups, etc.
 - ◆ Holders of railroad or commercial airline system licenses exempt from excise tax.
 - ◆ Sales to federal agencies and instrumentalities.
 - ◆ Sales for shipment outside Kentucky for sales through retail outlets and consumption outside Kentucky.

Table 1. Total Alcoholic Beverage Tax Expenditures

FY 2012	FY 2013	FY 2014
\$954,000	\$1.0 million	\$1.1 million

Tax Expenditures

1. Allowance for Collecting and Reporting

Kentucky Revised Statute 243.886, effective 1982

As compensation, each wholesaler required to pay and report the wholesale sales tax is permitted to deduct on each report one percent of the tax due.

FY 2012	FY 2013	FY 2014
\$900,000	\$950,000	\$1.0 million

2. Low Volume Distilled Spirits Taxed at Reduced Rate

Kentucky Revised Statute 243.720(1)(b), effective 1986

Distilled spirits in containers where the distilled spirits represent 6 percent or less of the total volume of the contents of such containers are taxed at the reduced rate of 25 cents per gallon.

FY 2012	FY 2013	FY 2014
\$42,000	\$42,500	\$43,000

3. Malt Beverage Excise Tax at Reduced Rate

Kentucky Revised Statute 243.720(3)(b), effective 1986

Each brewer producing malt beverages in Kentucky shall be entitled to a credit of 50 percent of the tax levied on each barrel of malt beverages sold in Kentucky, up to 300,000 barrels per annum.

FY 2012	FY 2013	FY 2014
\$12,000	\$13,000	\$14,000

Bank Franchise Tax

Background Kentucky Revised Statutes 136.500 through 136.575 was enacted during the 1996 Session of the Kentucky General Assembly and was titled the Bank Franchise and Local Deposit Tax Act. Within the same act, the General Assembly repealed KRS 136.270, commonly called the bank shares tax. The new statutory framework for the bank franchise tax became effective July 15, 1996.

In the early part of 1996, the statutory structure of KRS 136.270 was being challenged in the courts and receipts were rapidly diminishing because of the litigation. The ongoing court proceedings were a result of discontent within the banking community with the method by which the Department of Revenue arrived at fair market values. Sometimes, banks were surprised by large and unexpected property tax assessments. Bank officials felt that there had to be a better way to calculate the liability, one that was more stable and did not fluctuate with economic trends. The new tax was enacted and implemented as a partnership between the Department of Revenue, the Kentucky Bankers Association, and the banking community. With the enactment, the court cases were settled, receipts were stabilized, and the banking community welcomed a reliable and steady tax environment.

Current Rate Structure The bank franchise tax is assessed at the rate of 1.1 percent of net capital averaged over five years with a minimum of \$300 per year.

Tax Base Every financial institution regularly engaged in business in Kentucky is required to pay an annual state franchise tax measured by its net capital as apportioned, if applicable. A financial institution is presumed to be regularly engaging in business in Kentucky if during any taxable year it obtains or solicits business with 20 or more persons within Kentucky, or if receipts attributable to sources in Kentucky equal or exceed \$100,000.

The bank franchise tax is in lieu of all city, county and local taxes, except the real estate transfer tax levied in KRS Chapter 142, real property and tangible personal property taxes levied in KRS Chapter 132, the local franchise tax levied in KRS 136.575, and taxes upon users of utility services. Every financial institution regularly engaged in business in Kentucky is subject to all state taxes except the corporation income tax and the limited liability entity tax levied in KRS Chapter 141.

Tax Due Returns and payment of the tax are due on the fifteenth day of March reflecting the tax computation for the preceding calendar year. An automatic extension of up to ninety days for the filing of returns will be granted upon receipt of a written request.

Table 2. Total Bank Franchise Tax Expenditures

FY 2012	FY 2013	FY 2014
\$1.4 million	\$1.6 million	\$1.8 million

Tax Expenditures

1. Kentucky Historic Preservation Credit

Kentucky Revised Statute 171.397, effective for tax periods ending on or after 12/31/2005

The 2005 Kentucky General Assembly created the Kentucky Historic Preservation Credit. The credit applies to individual income tax, corporation income tax, limited liability entity tax, or the bank franchise tax. The credit may be an amount equal to 30 percent of the qualified rehabilitation expenses, in the case of owner-occupied residential property, and 20 percent of the qualified rehabilitation expenses, in the case of all other property. The maximum credit which may be claimed with regard to owner-occupied residential property is \$60,000. The total amount of credit approved for calendar years before 2010 was \$3.0 million. After calendar year 2010, the certified rehabilitation credit cap goes to \$5.0 million.

FY 2012	FY 2013	FY 2014
\$1.3 million	\$1.5 million	\$1.7 million

2. Kentucky Investment Fund Credit

Kentucky Revised Statute 154.20-255, effective July 15, 2002

The 2002 Kentucky General Assembly amended the Kentucky Investment Fund Act (KIFA) so that the KIFA tax credit may now be applied against the bank franchise tax. A financial institution that makes a cash contribution to an investment fund approved by the Kentucky Economic Development Finance Authority (KEDFA) is entitled to a nonrefundable credit equal to 40 percent of the investor's proportional ownership share of all qualified investment made by its investment fund and verified by the authority. To claim the credit, a copy of the notification from KEDFA reflecting the amount of credit granted and the year in which the credit may first be claimed must be attached to the return.

FY 2012	FY 2013	FY 2014
\$80,000	\$85,000	\$90,000

*Note: The Kentucky Investment Fund Act (KIFA) can also be applied against: KRS 141.020 or KRS 141.040
See KRS 154.20-258*

Coal Severance and Processing Tax

Background **T**he coal severance tax was enacted in 1972. The tax base was increased in 1978 to tax both the severance and processing of coal in Kentucky. Transportation expense is an allowable exclusion from the gross value. A deduction from gross value is also allowed for coal purchased for the purpose of processing if the coal was purchased from a taxpayer registered with the Commonwealth for coal tax purposes. The 1974 session of the General Assembly provided for a portion of the severance tax to be returned to the counties in which the coal was severed. The Governor's Office for Local Development administers the local program.

During FY11, the coal tax produced \$295.8 million, which accounted for 3.4 percent of total General Fund receipts.

**Current
Rate
Structure**

The severance and processing tax rate is 4.5 percent of gross value with a minimum tax of fifty cents per ton. (*KRS 143.020*)
The minimum tax does not apply in the case of taxpayers who only process coal. For coal used for burning solid waste the tax is limited to the lesser of 4 percent of the selling price or fifty cents per ton. (*KRS 143.023*)

Tax Base

The tax is levied on the gross value of the coal. Gross value is the amount received or receivable for the coal, or market value if the coal is consumed and not sold, less transportation expense.

In instances where coal is purchased for processing, the processor is taxed on the final sales price, or market value, in the case of consumption, reduced by the amount paid for the coal and transportation expense.

Tax Due

The tax return and payment is due on the twentieth day of the month following the close of the taxable period.

Table 3. Total Coal Severance and Processing Tax Expenditures

FY 2012	FY 2013	FY 2014
\$2.4 million	\$2.5 million	\$2.6 million

Tax Expenditures

1. Coal Purchased for Alternative Energy or Gasification Facility

Kentucky Revised Statute 154.27-010, effective July 15, 2010

Kentucky Revised Statute 143.024, effective July 15, 2010

An approved company that purchases or severs coal used by an alternative fuel facility or a gasification facility may be eligible for an incentive equal to eighty percent of the severance taxes paid on the purchase or severance of coal that is specifically used as feedstock for the facility.

FY 2012	FY 2013	FY 2014
-0-	-0-	-0-

2. Coal Used to Burn Solid Waste

Kentucky Revised Statute 143.023, effective February 26, 1991

Tax is limited to fifty cents per ton or 4 percent of the selling price, whichever is less, on coal used for burning solid waste.

FY 2012	FY 2013	FY 2014
-0-	-0-	-0-

3. Thin Seam Tax Credit

Kentucky Revised Statute 143.021, effective July 14, 2000

A non-refundable tax credit is allowed for mining coal from thin seams or from areas with a high mining ratio. The credit is on a sliding scale from 2.25 percent to 3.75 percent of the gross value of the severed coal, based on the thickness of the seam, the ratio of overburden removed to coal severed, or the sulfur content of the coal.

FY 2012	FY 2013	FY 2014
\$2.4 million	\$2.5 million	\$2.6 million

Corporation Income Tax

Background The corporation income tax was first levied in 1936. The rate was 4 percent of net income attributable to Kentucky after the deduction of federal income tax. In 1972 the deduction of federal income tax was repealed. Several rate changes have occurred, including increasing the top rate of the graduated scale to 7.25 percent and 8.25 percent in 1985 and 1990, respectively.

The 2005 General Assembly made significant changes to the corporation income statutes by:

- ◆ including limited liability entities within the definition of corporation;
- ◆ providing an alternative minimum calculation with two optional calculations;
- ◆ reducing the top rate of the graduated scale to seven percent (7%) for taxable years beginning on or after January 1, 2005 and prior to January 1, 2007 and six percent (6%) for taxable years beginning on or after January 1, 2007; and
- ◆ closing multiple loopholes in order to provide a broader base on which to assess the lower rates.

During the 2006 Special Session of the General Assembly, the inclusion of limited liability entities and the alternative minimum calculation were repealed. Effective for taxable periods beginning on or after January 1, 2007, only formally incorporated entities file the corporation income tax return. The treatment of pass-through income from limited liability pass-through entities conforms to the federal treatment. The alternative minimum calculation was eliminated and a new limited liability entity tax was enacted. This new tax is described in the tab marked “Limited Liability Entity Tax,” which follows later in this publication.

Corporate income tax receipts for FY11 were \$300.8 million and accounted for 3.4 percent of total General Fund tax receipts.

Table 4. Corporation Income Tax Rates

Current Rate Structure <i>KRS 141.040</i>	For taxable years beginning after December 31, 2006			
	First	-	\$50,000	4.00%
	\$50,001	-	\$100,000	5.00%
	Over	-	\$100,000	6.00%

Tax Base The tax base for the corporation income tax is taxable net income. Taxable net income is essentially gross income minus allowable deductions, with apportionment and allocation provisions for multistate corporations.

For corporations taxable only in Kentucky, taxable net income is the same as “net income”. For corporations taxable both within and without Kentucky, taxable net income is “net income” after apportionment and allocation. The total of the corporation’s net income, after direct allocation of income not resulting from activities that are integral parts of the corporation’s business, is apportioned using the following apportionment formula:

$$\left[\left(\frac{\text{KY Property}}{\text{Total Property}} \right) + \left(\frac{\text{KY Payroll}}{\text{Total Payroll}} \right) + \frac{\text{KY Sales}}{\text{Total Sales}} (\text{X } 2) \right] / 4$$

Kentucky “double weights” the sales factor in the above formula, which is common practice for most states that impose corporate income tax.

Every corporation doing business in this state must pay an annual tax. The term “doing business” is defined to include, but is not limited to:

- ◆ Being organized under the laws of this state;
- ◆ Having a commercial domicile in this state;
- ◆ Owning or leasing property in this state;
- ◆ Having one or more individuals performing services in this state;

- ◆ Deriving income from or attributable to sources within this state, including deriving income directly or indirectly from a trust doing business in this state; or
- ◆ Directing activities at Kentucky customers for the purpose of selling them goods or services.

The following corporations are specifically exempted from the corporation income tax:

- (a) State and national banks and trust companies;
- (b) Savings and loan associations organized under the laws of Kentucky and under the laws of the United States and making loans to members only;
- (c) Banks for cooperatives;
- (d) Production credit associations;
- (e) Insurance companies, including farmers' or other mutual hail, cyclone, windstorm, or fire insurance companies, insurers, and reciprocal underwriters;
- (f) Corporations or other entites exempt under Section 501 of the IRC;
- (g) Religious, educational, charitable, or like corporations not organized or conducted for pecuniary profit; and
- (h) Corporations whose only owned or leased property located in this state is located at the premises of a printer with which it has contracted for printing, provided that (1) the property consists of the final printed product, or copy from which the printed product is produced; and (2) the corporation has no employee receiving compensation in this state as provided in KRS 141.120(8)(b).

Tax Due

The taxable period for income tax is one year (or less in limited circumstances). Corporations must use the same accounting period as is used for federal income tax purposes. Corporations with an anticipated liability in excess of \$5,000 for the year must file declarations of estimated tax and make estimated tax payments.

The tax return and payment of any remaining tax liability are due on the fifteenth day of the fourth month following the close of the taxable period, April 15 for calendar-year corporations. Extensions of time within which to file the return are available. However, to avoid penalty, the entire amount of tax due must be paid by the original due date of the return.

Table 5. Total Corporation Income Tax Expenditures

FY 2012	FY 2013	FY 2014
\$292.3 million	\$299.9 million	\$310.3million

Exemptions

1. Coal Royalties

Kentucky Revised Statute 141.010(12)(d), effective 1962

A corporation owning an economic interest in coal land may exclude 50 percent of any royalties received from such land if it does not deduct certain expenses related to the production of the royalty income, including percentage depletion.

FY 2012	FY 2013	FY 2014
Minimal	Minimal	Minimal

2. Credit Unions

Kentucky Revised Statute Renumbered 286.6-115 effective 1984

Credit unions are exempt from corporation income tax. The shares of credit unions shall not be subject to any stock transfer tax either when issued or when transferred from one member to another.

FY 2012	FY 2013	FY 2014
\$5.6 million	\$5.7 million	\$5.8 million

3. Dividend Income

Kentucky Revised Statute 141.010(12)(b), effective 1969

Dividend income (domestic and foreign) is excluded from gross income.

FY 2012	FY 2013	FY 2014
\$150.0 million ^(a)	\$152.4 million	\$157.0 million

4. Homeowners' Associations

Kentucky Revised Statute 141.010(14)(c), effective 1998

Certain income of qualified homeowners' associations is considered exempt function income and is therefore not taxable for income tax purposes.

FY 2012	FY 2013	FY 2014
-0-	-0-	-0-

5. Real Estate Investment Trust

Kentucky Revised Statute 141.010(14)(d), effective 1998

REIT's are allowed the dividend paid deduction for corporation income tax if the REIT is not a captive real estate investment trust as defined by KRS 141.010(29).

FY 2012	FY 2013	FY 2014
Substantial	Substantial	Substantial

Deductions from Income

6. Charitable Contributions

Kentucky Revised Statute 141.010(13)(d)(6), IRC Sec. 170, effective 1954

Charitable donations of up to 10 percent of taxable income are deductible from net income. A carryover of excess contributions is allowed for up to five years.

FY 2012	FY 2013	FY 2014
\$9.7 million	\$9.9 million	\$10.2 million

7. Deductibility of Patronage Dividends

Kentucky Revised Statute 141.010(12)(b), IRC Sec. 521, effective 1954

Dividends paid to members or patrons of incorporated cooperatives, such as farmer cooperatives, are deductible.

FY 2012	FY 2013	FY 2014
\$12.8 million	\$13.0 million	\$13.4 million

8. Domestic Production Activities

Kentucky Revised Statute 141.010(13)(d), IRC Sec. 199, effective 2010

For taxable years beginning on or after January 1, 2010, the domestic production activities deduction allowed under Section 199 of the IRC.

FY 2012	FY 2013	FY 2014
\$4.7 million	\$4.8 million	\$5.0 million

9. Excess of Percentage Over Cost Depletion

Kentucky Revised Statute 141.010(12)(d), IRC Sec. 631(c)

The method of computing the depletion deduction based upon an arbitrary percentage of gross income from production (gross income from the property). The percentage depletion allowance is limited to 100 percent of the taxable income from oil and gas operations computed with respect to each separate operating mineral interest.

FY 2012	FY 2013	FY 2014
\$2.8 million	\$2.8 million	\$2.9 million

10. Leasehold Interest of Property Contributed as Living Quarters for Homeless

Kentucky Revised Statute 141.0202, effective 1990

A deduction is allowed for the value of any leasehold interest of property contrib-

uted to a charitable organization if the leased property is to be used by the charitable organization to provide temporary living quarters for a homeless family.

FY 2012	FY 2013	FY 2014
-0-	-0-	-0-

11. Net Operating Loss Deduction

Kentucky Revised Statute 141.011, effective 1980

In calculating Kentucky taxable income, a corporation may carry forward a net operating loss for twenty years, in order to reduce taxable income in profitable years. The net operating loss carry back deduction is not allowed for losses incurred in tax years beginning on or after January 1, 2005.

FY 2012	FY 2013	FY 2014
\$38.8 million	\$39.4 million	\$40.6 million

Tax Credits

12. Biodiesel and Renewable Diesel Tax Credit

Kentucky Revised Statute 141.423, effective 2005

A credit of up to \$1 per gallon may be taken for producing or blending biodiesel and renewable diesel fuels. The total amount that may be taken is capped each fiscal year. The amounts shown below are equal to the capped total for each year.

FY 2012	FY 2013	FY 2014
\$200,000 ^(a)	\$203,000	\$209,000

13. Clean Coal Incentive Credit

Kentucky Revised Statutes 141.428(1)(a), effective 2005

A credit is available at a rate of \$2 per ton of qualifying coal burned by an electricity generation facility investing more than \$150 million and certified by the Energy and Environmental Cabinet as using clean coal equipment and technology

and burning coal subject to Kentucky’s severance tax. The credit shall not be carried forward and must be used on the tax return filed for the period during which the eligible coal was purchased.

FY 2012	FY 2013	FY 2014
-0-	-0-	-0-

14. Coal Conversion Credit

Kentucky Revised Statutes 141.041, effective 1984

Corporations may claim an income tax credit equal to 4.5 percent of the purchase price, minus transportation costs, of coal consumed or substituted in heating facilities that are currently using a different source of energy.

FY 2012	FY 2013	FY 2014
-0-	-0-	-0-

15. Coal Incentive Credit

Kentucky Revised Statute 141.0405, effective 2000

A credit is allowed to any electric power company or any entity that operates a coal-fired electric generation plant, is an alternative fuel facility or gasification facility. The credit is equal to \$2 multiplied by the increase in tons burned in the tax year over the tons burned in the base year.

FY 2012	FY 2013	FY 2014
\$4.1 million ^(a)	\$4.2 million	\$4.3 million

16. Consolidation of the Kentucky Economic Development Finance Authority (KEDFA) Economic Development Tax Credit Programs

Kentucky Revised Statute 154.32-070, effective June 26, 2009

The Incentives for a New Kentucky (INK) bill streamlines and modernizes Kentucky’s business incentive programs including the consolidation of four long-standing programs, Kentucky Rural Economic Development Act, Kentucky

Industrial Development Act, Kentucky Jobs Development Act, and Kentucky Economic Opportunity Zone Act, into a single, more flexible tax incentive program called the Kentucky Business Investment (KBI) program.

KBI provides income tax credits and wage assessments to new and existing agribusinesses, regional and national headquarters, manufacturing companies, and non-retail service or technology related companies that locate or expand operations in Kentucky. Increased incentives are available to projects occurring in enhanced incentive counties.

FY 2012	FY 2013	FY 2014
-0-	-0-	-0-

Note: No fiscal impact is projected due to the timing of passage of the legislation. Estimates for previous programs are reported elsewhere in this report.

17. Construction of Research Facilities Credit

Kentucky Revised Statute 141.395, effective July 15, 2002

Five percent of the qualified costs of construction of research facilities is allowed as a nonrefundable credit against corporation income tax.

FY 2012	FY 2013	FY 2014
\$250,000	\$254,000	\$261,000

18. Employer GED Credit

Kentucky Revised Statute 151B.127(3), effective July 12, 2006

An employer who assists an individual to complete coursework leading to his or her high school equivalency diploma (GED) shall receive a state tax credit against the income tax equal to 50 percent of the student's hourly salary for time released by the employer to study for the test, limited to a total of \$1,250.

FY 2012	FY 2013	FY 2014
-0-	-0-	-0-

19. Enterprise Zone Credit

Kentucky Revised Statute 154.45-090, effective 1992-Repealed effective December 31, 2007

As of December 31, 2007 all enterprize zones have expired. However, previous year carry forwards are allowed. Any portion of the credit not used in the year earned may be carried forward for up to five years.

FY 2012	FY 2013	FY 2014
\$5,000	\$5,100	-0-

20. Environmental Remediation Tax Credit

Kentucky Revised Statute 141.418, effective 2005

Taxpayers who agree to clean up or develop an existing abandoned brownfield area may qualify for a credit against corporation income taxes in a maximum amount of \$150,000.

FY 2012	FY 2013	FY 2014
-0-	-0-	-0-

21. Environmental Stewardship Tax Credit

Kentucky Revised Statute KRS 154.48-010; KRS 141.020; KRS 141.040; KRS 141.0401, effective August 2007

A credit is available for a taxpayer undertaking an environmental stewardship project with a minimum investment of at least \$5 million. The credit covers 100 percent of eligible skills upgrade training costs and up to 25 percent of eligible equipment costs. The Cabinet for Economic Development approves a project producing a new or improved manufactured product that has a lesser or reduced adverse effect on human health or the environment for a taxpayer meeting certain wage requirements.

FY 2012	FY 2013	FY 2014
-0-	-0-	-0-

22. Ethanol and Cellulosic Ethanol Tax Credit

Kentucky Revised Statute 141.422-425, effective 2009

A producer of ethanol or cellulosic ethanol is allowed a credit equal to \$1 per gallon, capped at a total of \$10 million in credits authorized for each type of product per year for all producers.

FY 2012	FY 2013	FY 2014
\$28,000	\$28,500	\$29,300

23. Film Industry Tax Credit

Kentucky Revised Statute 141.383 and 148.542-546(3)(b), effective June 4, 2010

Approved companies which film or produce a motion picture or entertainment production, commercial, or documentary may recover up to 20 percent of qualifying expenditures and recoverable payroll in refundable income tax credits. Qualifying expenditures include expenditures made in Kentucky that are directly used in or for a motion picture or entertainment production. There is a cap of \$5.0 million for FY10-FY11 and \$7.5 million for FY11-FY12.

FY 2012	FY 2013	FY 2014
\$1.6 million	\$2.0 million	\$3.0 million

24. Kentucky Investment Fund Tax Credit

Kentucky Revised Statute 154.20-256, effective June 28, 2006

An investor making a cash contribution to a qualified investment fund is allowed a credit equal to 40 percent of the contribution against the corporate income tax liability. The credit may be carried forward up to 15 years, but cannot exceed 50 percent of the initial aggregate credit amount approved for the investment fund, which would be proportionally available to investors.

FY 2012	FY 2013	FY 2014
\$24,000	\$24,400	\$25,100

25. Kentucky Reinvestment Act Credit

Kentucky Revised Statute 154.34-120, KRS 141.415 effective June 4, 2010

Manufacturers may receive a credit against costs incurred for reinvesting in existing facilities in Kentucky.

FY 2012	FY 2013	FY 2014
-0-	-0-	-0-

**26. (KEOZ) Economic Development Credit
Kentucky Economic Opportunity Zone**

Kentucky Revised Statute 141.401, effective 2000, Repealed 2009

A 100 percent credit is allowed against the income tax liability of an approved company generated by or arising out of the economic development project within the KEOZ. Significant restrictions apply to the location of the zone and the qualifications for employees. In 2009, the General Assembly consolidated all economic credits into one program. No new applications are being accepted. However, Kentucky continues to pay out credits that were approved before the repealed date of the statute.

FY 2012	FY 2013	FY 2014
-0-	-0-	-0-

**27. (KIDA) Economic Development Credit
Kentucky Industrial Development Act**

Kentucky Revised Statute 141.400, effective 1992, Repealed 2009

A 100 percent credit is allowed against the income of an approved company generated by or arising out of the economic development project. The credit can be carried forward for up to ten years, but cannot exceed, in any fiscal year, the authorized cumulative approved costs paid in the three-year period commencing with the date of final approval of the economic development project. In 2009, the General Assembly consolidated all economic credits into one program. No new

applications are being accepted. However, Kentucky continues to pay out credits that were approved before the repealed date of the statute.

FY 2012	FY 2013	FY 2014
\$7.0 million ^(a)	\$7.1 million	\$7.3 million

28. (KIRA) Economic Development Credit Kentucky Industrial Revitalization Agreement

Kentucky Revised Statute 141.403; KRS 154.26-090, effective 1992, Repealed 2009

A 100 percent credit of the computed license tax attributable to the location of the economic revitalization project is allowed against the income of an approved company generated by or arising out of the economic development project. The credit can be carried forward for up to ten years, but cannot exceed 75 percent of the approved costs of the project. In 2009, the General Assembly consolidated all economic credits into one program. No new applications are being accepted. However, Kentucky continues to pay out credits that were approved before the repealed date of the statute.

FY 2012	FY 2013	FY 2014
\$4.7 million	\$4.8 million	\$4.9 million

29. (KJDA) Economic Development Credit Kentucky Jobs Development Act

Kentucky Revised Statute 154.24-130, effective 1992, Repealed 2009

A 100 percent credit is allowed against the income of an approved company generated by or arising out of the economic development project. The credit can be carried forward for up to ten years, but cannot exceed 50 percent of the total approved start-up costs plus 50 percent of the annualized rental payments connected to the project. In 2009, the General Assembly consolidated all economic credits into one program. No new applications are being accepted. However, Kentucky continues to pay out credits that were approved before the repealed date of the statute.

FY 2012	FY 2013	FY 2014
\$3.6 million ^(a)	\$3.7 million	\$3.8 million

**30. (KREDA) Economic Development Credit
Kentucky Rural Economic Development Act**

Kentucky Revised Statute 154.22-050, effective 1988, Repealed 2009

A 100 percent credit is allowed against the income of an approved company generated by or arising out of the economic development project. The credit can be carried forward for up to fifteen years, but cannot exceed the authorized cumulative approved costs under the respective financing agreement. In 2009, the General Assembly consolidated all economic credits into one program. No new applications are being accepted. However, Kentucky continues to pay out credits that were approved before the repealed date of the statute.

FY 2012	FY 2013	FY 2014
\$40.0 million ^(a)	\$40.6 million	\$41.9 million

31. Metropolitan College Program Tax Credit

Kentucky Revised Statute 141.381, effective June 26, 2009

Parties to the Metropolitan College Consortium Agreement may qualify for a 50 percent tax credit for tuition and other educational expenses paid on behalf of a student participating in the metropolitan college. The credit shall expire on April 15, 2013 unless extended by the General Assembly.

FY 2012	FY 2013	FY 2014
\$300,000	\$2.5 million	\$3.0 million

32. Qualified Farming Operation Credit

Kentucky Revised Statute 141.414, effective June 2006

A corporation engaged in farming in Kentucky that provides raw materials for food producing facilities in Kentucky, that purchases new buildings or equipment, or that incurs training expenses to support its participation in a networking project is entitled to a nonrefundable credit for those charges against the corporation income tax imposed on income arising from its participation in the networking project. The annual credit shall be available for the first five (5) years that the farming operation is involved in the networking project not to exceed the income generated by the qualified farm.

FY 2012	FY 2013	FY 2014
-0-	-0-	-0-

33. Railroad Improvement Tax Credit

Kentucky Revised Statute 141.385, effective June 26, 2009

Class II and Class III railroads, as defined by the Federal Surface Transportation Board, may receive credit against costs incurred for railroad maintenance and improvement and for railroad expansion or upgrades to accommodate the transport of fossil energy or biomass resources.

FY 2012	FY 2013	FY 2014
-0-	-0-	-0-

34. Recycling Credit

Kentucky Revised Statute 141.390, effective 1991

A credit of 50 percent of the installed cost of recycling or composting equipment, used exclusively in this state, for post consumer waste is allowed.

FY 2012	FY 2013	FY 2014
\$6.0 million ^(a)	\$6.1 million	\$6.3 million

35. Skills Training Investment Tax Credit

Kentucky Revised Statute 154.12 -2086, KRS 141.020, KRS 141.040 KRS 141.0401 effective 1998

A credit of 50 percent of the approved cost of a company’s skills training program is allowed against the corporate income tax liability.

FY 2012	FY 2013	FY 2014
\$350,000	\$355,000	\$366,000

36. Small Business Development Credit Program

Kentucky Revised Statute 141.384, 154.60 -020 effective June 26, 2009

Beginning on January 1, 2011, a small business may be eligible for a nonrefundable credit of up to 100 percent of their income capped at \$3.0 million. The Small Business Development Credit incentive program is administered by the Kentucky Economic Development Finance Authority for companies with 50 or fewer employees. To qualify, a business must create one new job and spend at least \$5,000 on qualifying equipment or technology. Qualifying businesses will receive a nonrefundable annual credit against the income tax or LLET of up to \$25,000.

FY 2012	FY 2013	FY 2014
-0-	-0-	-0-

37. Unemployment Tax Credit

Kentucky Revised Statute 141.065, effective 1982

Corporations hiring persons who have been unemployed for 60 days and who remain employed for 180 days, are allowed a \$100 tax credit for each qualified person.

FY 2012	FY 2013	FY 2014
\$3,000	\$3,500	\$3,700

Gasoline Tax

Background In 1920, Kentucky levied a tax at the rate of one cent per gallon of gasoline. It was the fifth state to implement such a tax. In 1980, because the price of gasoline had increased so rapidly and was projected to continue to increase, the legislature changed the tax base to the average wholesale price per gallon and the rate to 9 percent of the average wholesale price per gallon. As designed, if the price of gasoline increased, the tax increased proportionally. At the same time, a minimum wholesale price of \$1.00 per gallon was established, thus creating a “floor”, or minimum tax, of 9 cents per gallon. In 1982, the minimum wholesale price was increased to \$1.11 per gallon, increasing the “floor” to 10 cents per gallon. In 1986, the “supplemental highway user tax”, at the rate of 5 cents per gallon, was enacted. This raised the minimum tax to 15 cents per gallon. In 2009, the minimum wholesale price was increased to \$1.786. *KRS 138.210*

Pursuant to the provisions of Section 230 of the Kentucky Constitution, the receipts generated by the tax are deposited in the Road Fund to be used for the construction and maintenance of Kentucky’s roads.

For FY11, gasoline tax collections totaled \$558.8 million. This accounted for 41.7 percent of total Road Fund tax receipts. The total motor fuel taxes are one of the fastest growing taxes. The motor fuel share of the total Road Fund is on the rise due to statutory calculation.

**Current
Rate
Structure**

The gasoline tax rate has a variable component and two fixed parts. The variable portion of the tax is 9 percent of the average wholesale price (AWP) of gasoline. The fixed parts are the supplemental highway user tax which is assessed at 5 cents per gallon and the petroleum storage tank environmental assurance fee is assessed at 1.4 cents per gallon.

The AWP is calculated on a quarterly basis by the Department of Revenue and is weighted by grade and formulation. The AWP is calculated in the first month of each fiscal quarter (July, October,

January, and April) and applies to the following quarter. The AWP may not increase more than 10 percent over the AWP in effect at the close of the previous fiscal year.

The current AWP floor is \$1.786 per gallon. Therefore, the variable portion of the gasoline tax cannot be less than 16.1 cents per gallon. Adding the fixed components of the tax brings the minimum gasoline tax to 22.5 cents per gallon.

Tax Base

The tax becomes a liability of the dealer when the gasoline is received or enters the dealer’s storage facility. In reporting and paying the tax, the dealer is allowed a deduction to cover evaporation, shrinkage, unaccountable losses, collection costs, bad debts, and handling and reporting the tax. An exemption is allowed for sales to the federal government, transfers to other licensed dealers, and for amounts exported out of state or lost through accountable losses. Refunds or exemptions are allowed for amounts used in agriculture, aircraft, motorboats, city and suburban buses and taxicabs, senior citizen transportation programs, and nonprofit buses.

Tax Due

Returns and payments of the tax are due monthly and are to be submitted by the twenty-fifth day of the following month.

Table 6. Total Gasoline Tax Expenditures

FY 2012	FY 2013	FY 2014
\$15.5 million	\$17.9 million	\$20.5 million

Tax Expenditures

1. Agricultural Exemption

Kentucky Revised Statute 138.344(1), effective 1946, revised 2006

Special fuels are sold tax free if the gasoline is used exclusively in tractors or stationary engines for agricultural purposes. Taxes paid on gasoline or special fuel sold shall be reimbursed if the refund is requested.

FY 2012	FY 2013	FY 2014
\$80,000	\$85,000	\$90,000

2. Aircraft Refund

Kentucky Revised Statute 138.341, effective 1942, Revised 2005

One hundred percent of the tax paid is refunded to qualified purchasers if the gasoline is used in aircraft engaged in the transportation of persons or property.

FY 2012	FY 2013	FY 2014
\$250,000	\$250,000	\$250,000

3. Bus, Taxicab and Certain Senior Citizens' Programs Refunds

Kentucky Revised Statute 138.446, effective 1978, Revised 2005

Seven-ninths of the tax paid is refunded if the gasoline is used in regularly scheduled operations of the city and suburban buses, taxicabs, senior citizen transportation and non-profit buses.

FY 2012	FY 2013	FY 2014
\$552,000	\$635,000	\$730,000

4. Dealer’s Monthly Reporting Allowance

Kentucky Revised Statute 138.270(1)(b), effective 1942, Revised 2006

A gasoline dealer is allowed a 2.25 percent credit of the net tax due when timely filing and paying a monthly tax return.

FY 2012	FY 2013	FY 2014
\$13.7 million	\$15.8 million	\$18.2 million

5. Watercraft Refund

Kentucky Revised Statute 138.445, effective 1960, Revised 2005

The entire tax paid is refunded to qualified boat dock operators if the gasoline is used to operate or propel watercraft.

FY 2012	FY 2013	FY 2014
\$966,000	\$1.1 million	\$1.3 million

Individual Income Tax

Background **T**he individual income tax was first imposed in Kentucky in 1936. From 1943 to 1960, it was the most productive General Fund revenue source. From 1960 through 1986, it was second only to the sales and use tax. In 1987, it again became the most productive revenue source and continues so today. In FY88 the individual income tax became Kentucky's first billion-dollar tax. Collections from the tax totaled \$3.4 billion in FY11, an increase of 8.3 percent over the prior year. This amount accounted for 39.0 percent of total General Fund receipts for the year.

In 1954, Kentucky became the fourth state to adopt a general withholding system. Previously, the law provided for withholding on nonresidents only. The 1954 law also adopted the federal definition of net income, using the Internal Revenue Code as a base, with minor exceptions.

Prior to 1954, Kentucky's income tax was quite different from the federal tax in many ways. The first adoption of the federal code provided uniformity in determining income and itemized deductions and in certain definitions. For example, nothing exists in Kentucky law about such basic elements as medical expenses, most business expenses, and qualifications for dependents. Such items are included by reference to the federal code.

As a precaution against unforeseen revenue variations, Kentucky does not automatically adopt changes in the federal code, except for changes in accounting provisions and methods. Any adoption of changes made in the federal code require ratification by the General Assembly. Many times the impacts of adopting changes in the federal code on Kentucky taxpayers and General Fund receipts can only be made after extensive studies of the changes. Kentucky currently references the Internal Revenue Code in effect on December 31, 2006.

Kentucky income tax law provides for tax rates, credits, a standard deduction, interest and penalties, withholding procedures, and certain other items, independent of federal law. Kentucky tax law encourages husbands and wives to file separately on a

combined return because a tax savings is usually involved. The individual income tax return is filed by individuals, including sole proprietors, shareholders in an S corporation, partners in a partnership, and individual members of a limited liability company.

**Current
Rate
Structure**

The following rates are currently in effect, for both separately and jointly filed returns.

Table 7. Individual Income Tax Rates

Taxable Income			Rate (%)
First	-	\$3,000	2
\$3,001	-	\$4,000	3
\$4,001	-	\$5,000	4
\$5,001	-	\$8,000	5
\$8,001	-	\$75,000	5.8
Over		\$75,000	6

Tax Base

The individual income tax is levied on taxable income. Taxable income is computed by reducing gross income by trade or business expenses and the standard deduction (\$2,210 for 2010) or at the option of the taxpayer by itemized deduction. Gross income is defined as gross income under the 2009 Internal Revenue Code with certain adjustments.

Kentucky residents are taxed on their net income from all sources with no allocation or apportionment for out-of-state income, but are allowed a limited credit on their return for income taxes paid to other states on income taxed by Kentucky. Nonresidents are taxed on income from sources within Kentucky, from business carried on within Kentucky, and for the performance of services in Kentucky. This includes income from business conducted through partnerships, S corporations and limited liability companies.

Taxable Unit Each individual is taxed on his or her separate income. Married couples may choose to file a joint return. The income of estates, trusts, and receivers is, with minor exceptions, subject to the same provisions as individuals.

Tax Due The taxable period is one year (or less in limited circumstances), usually a calendar year. Taxpayers must use the same accounting period as is used for federal purposes. Taxpayers with income from sources not subject to withholding must, in most cases, file tax liability declarations and pay estimated tax.

The tax return and payment of any remaining tax liability are due on the fifteenth day of the fourth month following the close of the taxable period, April 15 for calendar-year taxpayers. Extensions of time for filing the return are available under limited circumstances.

Table 8. Total Individual Income Tax Expenditures

FY 2012	FY 2013	FY 2014
\$8,188.4 million	\$8,718.9 million	\$9,357.9 million

Tax Expenditures - Exclusions from Income

1. Active Duty Military Pay Exemption

Kentucky Revised Statute 141.010(10)(u), effective 2010

For taxable years beginning on or after January 1, 2010, exclude all non-combat military pay received by active duty members of the Armed Forces of the United States, members of reserve components of the Armed Forces of the United States, and members of the National Guard, including compensation for state active duty as described in KRS 38.205. Combat pay is also excluded from Kentucky income taxation by virtue of it being exempt from federal taxation. Please see expenditure No. 2 to see the additional value of the combat pay.

FY 2012	FY 2013	FY 2014
\$18.6 million	\$18.6 million	\$18.6 million

2. Armed Forces Personnel Benefits and Allowances

Internal Revenue Code Section 112, effective 1996

Internal Revenue Code Section 134, effective 1986

The housing and meals provided military personnel, either in cash or in kind, as well as certain amounts of pay related to combat service, are excluded from income subject to tax.

FY 2012	FY 2013	FY 2014
\$151.0 million	\$134.4 million	\$139.7 million

3. Assistance for Adopted Foster Children and Foster Care Payments

Internal Revenue Code Section 131 and 137, effective 1978 and 2002, respectively

Taxpayers who adopt eligible children from the public foster care system can receive monthly payments for the children’s significant and varied needs and a reimbursement of up to \$3,000 for expenses. These payments are excluded from gross income. This federal provision will sunset for some taxpayers for taxable years beginning after December 31, 2009. Additionally, gross income does not include amounts received by a foster care provider. There is a \$10,000 exclusion for adoption of a child with special needs regardless of expenses.

FY 2012	FY 2013	FY 2014
\$5.8 million	\$6.2 million	\$6.6 million

4. Basis of Capital Gains on Gifts

Internal Revenue Code Section 1015, effective 1959

When a gift is made, the donor’s basis in the transferred property (the cost that was incurred when the transferred property was first acquired) carries over to the donee. The carryover of the donor’s basis allows a continued deferral of unrealized capital gains.

FY 2012	FY 2013	FY 2014
\$21.9 million	\$29.3 million	\$31.4 million

5. Cancellation of Indebtedness

Internal Revenue Code Section 108, effective 1980

Individuals are not required to report the cancellation of certain indebtedness as current income. If the canceled debt is not reported as current income, however, the basis of the underlying property must be reduced by the amount canceled. Negative tax expenditures can occur when incoming tax receipts from past deferrals are greater than deferred receipts from new activity.

FY 2012	FY 2013	FY 2014
\$1.4 million	-0-	-0-

6. Capital Gains - Eminent Domain

Kentucky Revised Statute 141.010(10)(n), effective 2010

Capital gains on property taken by eminent domain are exempt from individual income tax. When incoming tax receipts from past deferrals are greater than deferred receipts from new activity, the cash-basis tax expenditure estimate can be negative despite the fact that in present-value terms, current deferrals have a positive cost to the government.

FY 2012	FY 2013	FY 2014
Minimal	Minimal	Minimal

7. Capital Gain on Property Transferred at Death

Internal Revenue Code Section 1014, effective 1954

No tax is imposed on capital gains resulting from the transfer at death of appreciated property. The appreciation that accrued during the lifetime of the transferor is never taxed as income.

FY 2012	FY 2013	FY 2014
\$677.2 million ^(b)	\$728.0 million	\$782.5 million

8. Disabled Coal Miners

Internal Revenue Code Section 104 and 192, effective 2002 and 1992, respectively

Although it is income to the recipient, disability payments to former coal miners

out of the Black Lung Trust Fund are not subject to the income tax.

FY 2012	FY 2013	FY 2014
\$0.4 million	\$0.4 million	\$0.4 million

9. Employee Stock Ownership Plan Provisions

Internal Revenue Code Section 421, effective 1981, Amended 2004

Employer-paid contributions to ESOPs are deductible by the employer as part of employee compensation costs. They are not included in the employee’s gross income for tax purposes, however, until they are paid out as benefits.

FY 2012	FY 2013	FY 2014
\$3.2 million	\$3.3 million	\$5.2 million

10. Employer Contributions for Medical Insurance and Medical Care

Internal Revenue Code Section 105 (b) and 106, effective 2008 and 2006, respectively

Employer-paid health insurance premiums and other medical expenses (including long-term care) are deducted as a business expense by employers, but they are not included in employee gross income. The self-employed also may deduct up to 100 percent of their family health insurance premiums.

FY 2012	FY 2013	FY 2014
\$2,031.9 million ^(b)	\$2,161.5 million	\$2,329.4 million

11. Employer-Provided Benefits of Premiums on Group Term Life, Accident and Disability Insurance

Internal Revenue Code Section 79(a) and 106, effective 1990 and 2006, respectively

Employer payment of employee group term life insurance premiums for coverage up to \$50,000 per employee is excluded from an employee’s gross income even though the employer’s cost for the benefit is a deductible business expense.

Employer contributions for premiums on accidental injury and accidental death insurance are not included in income by the employee and are deductible by the employer.

FY 2012	FY 2013	FY 2014
\$22.9 million	\$23.4 million	\$23.7 million

12. Employer-Provided Child Care Exclusion

Internal Revenue Code Section 129, effective 1981

Up to \$5,000 of employer-provider child care is excluded from an employee's gross income even though the employer's costs for the child care are a deductible business expense.

FY 2012	FY 2013	FY 2014
-0-	-0-	-0-

13. Employer-Provided Educational Assistance

Internal Revenue Code Section 127, effective 1986

Employer-provided educational assistance is excluded from an employee's gross income.

FY 2012	FY 2013	FY 2014
-0-	-0-	-0-

14. Employer-Provided Meals and Lodging

Internal Revenue Code Section 119, effective 1998

Employer-provided meals and lodging are excluded from an employee's gross income even though the employer's costs for these items are a deductible business expense.

FY 2012	FY 2013	FY 2014
\$12.9 million	\$13.5 million	\$14.3 million

15. Exclusion of GI Bill Benefits

Internal Revenue Code Section 72(n), and 104, effective 2008

GI bill benefits paid by the Veterans Administration are excluded from gross income.

FY 2012	FY 2013	FY 2014
\$11.1 million	\$13.2 million	\$14.7 million

16. Federal and Military Retirement Income Received

Kentucky Revised Statute 141.021, effective 1995

A total exclusion is allowed from gross income for federal and military retirement income. Except federal retirement annuities and local government retirement annuities accrued or accruing on or after January 1, 1998, shall be subject to the tax imposed by KRS 141.020.

FY 2012	FY 2013	FY 2014
\$62.2 million	\$67.0 million	\$72.7 million

17. Financial Institutions Structured as S Corporations

Kentucky Revised Statute 141.010(10)(j)(1)(a) effective 1997

Distributive shares of income from financial institutions structured as S Corporations are excludable from gross income for individual taxpayers.

FY 2012	FY 2013	FY 2014
Minimal	Minimal	Minimal

18. Gain on the Sale of a Personal Residence

Internal Revenue Code Section 121, effective 2008

A homeowner can exclude from tax up to \$500,000 (\$250,000 for singles) of the capital gains from the sale of a principal residence. The exclusion may not be used more than once every two years.

FY 2012	FY 2013	FY 2014
\$387.7 million ^(b)	\$428.3 million	\$473.0 million

19. Income Averaging for Farmers

Internal Revenue Code Section 1301, effective 1986 with various amendments

Taxpayers can lower their tax liability by averaging, over the prior three-year period, their taxable income from farming and fishing.

FY 2012	FY 2013	FY 2014
\$1.0 million	\$1.0 million	\$1.0 million

20. Income Earned Abroad by U.S. Citizens

Internal Revenue Code Section 911 and 912, effective 2007 and 1988, respectively

U.S. citizens who lived abroad, worked in the private sector, and satisfied a foreign residency requirement may exclude up to \$80,000 in foreign earned income from U.S. taxes. In addition, if these taxpayers receive an allowance for foreign housing from their employers, they may also exclude the value of that allowance. Federal civilian employees and Peace Corps members who work outside the continental United States are allowed to exclude from U.S. taxable income allowances they receive to compensate them for the relatively high costs associated with living overseas. The allowances supplement wage income and cover expenses like rent, education and the cost of travel to and from the United States.

FY 2012	FY 2013	FY 2014
\$59.5 million	\$63.9 million	\$67.6 million

21. Interest on Life Insurance Savings

Internal Revenue Code Section 101(a), effective 2006

Favorable tax treatment is provided for investment income within qualified life insurance and annuity contracts. Investment income earned on qualified life insurance contracts held until death is permanently exempt from income tax. Investment income distributed prior to the death of the insured is tax-deferred, if not tax-exempt. Investment income earned on annuities is treated less favorably than income earned on life insurance contracts, but it benefits from tax deferral without annual contribution or income limits generally applicable to other tax-favored retirement income plans.

FY 2012	FY 2013	FY 2014
\$249.6 million ^(b)	\$266.8 million	\$284.5 million

22. Installment Sales

Internal Revenue Code Section 453, effective 2004

The general rule for installment sales is that the income is taxed when each installment is received and not in the year of the sale. The exception to this general rule is that a “dealer” cannot defer the tax on the sale, i.e., they must report the entire sales price on an installment sale regardless of when the income is received. The tax expenditure occurs since the Federal Government permits an irrevocable election, approved by the IRS commissioner, to opt out of the exception, thereby allowing the deferral of income and making the general rule apply to dealer once again. The delay in taxation of future installments is the basis for the tax expenditure. Kentucky automatically honors the irrevocable election by virtue of our last code update that synchronized the Kentucky statutes to federal tax code.

FY 2012	FY 2013	FY 2014
\$9.1 million	\$11.2 million	\$13.5 million

23. Miscellaneous Fringe Benefits

Internal Revenue Code Section 132, effective 2009

Any fringe benefit which qualifies as a no-additional-cost service, a qualified employee discount, a working condition fringe, a de minimis fringe, qualified

transportation fringe, qualified moving expense reimbursement, qualified retirement planning services, or qualified military base realignment and closure fringe is excluded from income.

FY 2012	FY 2013	FY 2014
\$14.1 million	\$15.2 million	\$16.5 million

24. Passive Loss Rules Exception

Internal Revenue Code Section 469, effective 1993

In general, neither the passive activity loss nor the passive activity credits may not offset income from other sources. Losses up to \$25,000 attributable to certain rental real estate activity, however, are exempt from this rule.

FY 2012	FY 2013	FY 2014
\$144.4 million	\$163.4 million	\$184.3 million

25. Pension Contributions and Earnings from Employer Plans

Kentucky Revised Statute 141.010(10)(d), effective 1983

Employer contributions to pension plans are excluded from an employee's gross income even though the employer can deduct the contributions. In addition, the tax on the investment income earned by the pension plans is deferred until the money is withdrawn.

FY 2012	FY 2013	FY 2014
\$498.2 million ^(b)	\$511.8 million	\$544.8 million

26. Precinct Workers

Kentucky Revised Statute 141.010(10)(l), effective 1997

Income earned by precinct workers for election training or work at election booths is exempt from income tax.

FY 2012	FY 2013	FY 2014
\$0.1 million	\$0.1 million	\$0.1 million

27. Private Pensions and Individual Retirement Accounts

Kentucky Revised Statute 141.010(10)(i)(2), effective 1995

Kentucky Revised Statute 141.0105, effective 1995

Up to \$41,110 in benefits received by the taxpayer from private pensions, Individual Retirement Accounts (IRAs), and Roth IRAs is exempted from income.

FY 2012	FY 2013	FY 2014
\$916.5 million ^(b)	\$937.2 million	\$966.5 million

28. Public Assistance Benefits

Internal Revenue Code Section 42, effective 1999

Public assistance or welfare benefits are not taxed. These include Temporary Assistance for Needy Families (TANF) and Supplemental Security Income (SSI) benefits.

FY 2012	FY 2013	FY 2014
\$7.8 million	\$8.3 million	\$8.5 million

29. Railroad and Supplemental Railroad Retirement System Benefits

45 USCA Section 231M and Kentucky Revised Statute 141.010(10)(b), effective 2010

All Railroad Retirement Board benefits and supplemental railroad retirement benefits are not taxed. In Kentucky all pension or retirement income paid under a written retirement plan is eligible for exclusion.

FY 2012	FY 2013	FY 2014
\$3.4 million	\$3.1 million	\$3.0 million

30. Scholarship and Fellowship Income

Internal Revenue Code Section 117, effective 2001

Scholarships and fellowships are excluded from taxable income to the extent they pay for tuition and course-related expenses of the grantee. Similarly, tuition

reductions for employees of educational institutions and their families are not included in taxable income.

FY 2012	FY 2013	FY 2014
\$34.5 million	\$35.7 million	\$37.0 million

31. Social Security Benefits for Retired Workers, Disabled Workers, Dependents and Survivors

Internal Revenue Code Section 86, effective 1954 and KRS 141.010(10)(e), effective 2010

Social Security benefits paid to retired workers and their dependents, to persons who are survivors of deceased workers and to disabled workers and their dependents are not taxed. Kentucky has not adopted IRC Sec. 86 which taxes a portion of these payments if the taxpayer's income is above a certain level.

FY 2012	FY 2013	FY 2014
\$359.2 million ^(b)	\$379.9 million	\$402.5 million

32. State Employee Pension Benefits and Contributions

Kentucky Revised Statute 141.010(10)(d), effective 2010

For taxable years beginning after December 31, 1997, exclude 100% but not more than \$35,000 of total distribution from pension plans, annuity contracts, profit-sharing plans, retirement plans, or employee savings plan.

FY 2012	FY 2013	FY 2014
\$65.0 million	\$67.6 million	\$70.5 million

33. Veteran's Pension, Death and Disability Compensation

Internal Revenue Code Section 104(a)(4)(5), effective 2002

All compensation due to pension payments, death or disability paid by the Veterans Administration is excluded from taxable income.

FY 2012	FY 2013	FY 2014
\$55.2 million	\$60.8 million	\$67.3 million

34. Worker’s Compensation Benefits

Internal Revenue Code Section 104(a), effective 2002

Workers compensation benefits, paid to disabled employees or their survivors for employment-related injuries or diseases, are not taxed.

FY 2012	FY 2013	FY 2014
\$81.6 million	\$85.8 million	\$90.0 million

Tax Expenditures - Deductions

35. Casualty and Theft Losses

Internal Revenue Code Section 165, effective 2008

Any uninsured losses incurred by the taxpayer during the tax year as a result of a casualty or theft are deductible as an itemized deduction.

FY 2012	FY 2013	FY 2014
\$2.0 million	\$2.1 million	\$2.1 million

36. Charitable Contributions

Internal Revenue Code Section 170(c)(b), effective 2008

The deduction ceiling for most charitable contributions is 50 percent of Kentucky adjusted gross income, computed without regard to any net operating loss deduction. If the aggregate amount of contributions exceeds the limitation, it can be carried over 15 succeeding years in order of time. Gifts to private nonprofit organizations are limited to 20 percent of AGI. Some capital gain property is limited to 30 percent of AGI.

FY 2012	FY 2013	FY 2014
\$80.0 million	\$83.3 million	\$86.9 million

37. Excess of Percentage over Cost Depletion

Internal Revenue Code Section 613, effective 2005

The deduction is the larger of the value of property being expensed by cost or by percentage of depletion.

FY 2012	FY 2013	FY 2014
\$20.8 million	\$20.8 million	\$21.1 million

38. Health Savings Account Deduction

Internal Revenue Code Section 223, effective January 1, 2006

Employee contributions to a Health Savings Account are deductible within the same limitations provided for federal purposes.

FY 2012	FY 2013	FY 2014
\$21.8 million	\$22.8 million	\$24.3 million

39. Home Mortgage Interest

Internal Revenue Code Section 163(a), effective 2009

An itemized deduction is allowed for all interest paid or accrued, on owner-occupied homes, during the taxable year.

FY 2012	FY 2013	FY 2014
\$1,085.6 million ^(b)	\$1,219.0 million	\$1,354.6 million

40. Individual Retirement Account Contributions

Internal Revenue Code Section 219(a)(b), effective 2008

Individual taxpayers can take advantage of several different IRAs: deductible IRAs, non-deductible IRAs, and Roth IRAs. The annual contributions limit applies to the total of a taxpayer's deductible, non-deductible, and Roth IRAs contributions. The IRA contribution limit is \$5,000 in 2008 and shall be increased by such dollar amount, multiplied by the cost of living adjustment thereafter. The tax on investment income earned by 401(k) plans, non-deductible IRAs, and deductible IRAs is deferred until the money is withdrawn.

FY 2012	FY 2013	FY 2014
\$5.3 million	\$5.5 million	\$5.8 million

41. Interest on Educational Loans

Internal Revenue Code Section 221 effective 2005

Up to \$2,500 of interest paid on qualified educational loans is deductible.

FY 2012	FY 2013	FY 2014
\$9.9 million	\$10.6 million	\$11.3 million

42. Interest on U.S. Savings Bonds

Internal Revenue Code Section 149, effective 1959

Taxpayers may defer paying tax on interest earned on U.S. savings bonds until the bonds are redeemed.

FY 2012	FY 2013	FY 2014
\$14.3 million	\$14.5 million	\$14.7 million

43. Job Expenses and Other Miscellaneous Deductions

Internal Revenue Code Section 62, effective 2008

Internal Revenue Code Section 67, effective 2000

Unreimbursed employee expenses and various other allowable expenses for individuals are deducted from adjusted gross income to the extent that the total expenses exceed 2 percent of adjusted gross income. Examples of these miscellaneous deductions are: moving expenses, alimony, Archer MSAs, interest on educational loans, higher education expenses and health savings accounts.

FY 2012	FY 2013	FY 2014
\$44.5 million	\$46.3 million	\$48.3 million

44. Keogh Plan Contributions

Internal Revenue Code Section 404(a)(8), effective 1963

Self-employed individuals can make deductible contributions to their own retirement (Keogh) plans equal to 25 percent of their income, up to an indexed maximum amount of income. Total plan contributions are limited to 25 percent of a firm's total wages. The tax on the investment income earned by Keogh plans is deferred until withdrawn.

FY 2012	FY 2013	FY 2014
\$188.0 million	\$215.7 million	\$230.7 million

45. Medical Expenses

Internal Revenue Code Section 213, effective 1990

Medical and dental expenses in excess of 7.5 percent of Kentucky Adjusted Gross Income are deductible when itemizing deductions.

FY 2012	FY 2013	FY 2014
\$110.3 million	\$109.4 million	\$123.8 million

46. Net Operating Loss Deduction

Kentucky Revised Statute 141.010(12)(m), effective 1980

The Kentucky net operating loss deduction is permitted in computing adjusted gross income. Beginning in 2005, taxpayers are no longer allowed to carry back a net operating loss but may continue to carry forward any net operating losses.

FY 2012	FY 2013	FY 2014
\$48.1 million	\$50.0 million	\$52.2 million

47. Parsonage Allowances

Internal Revenue Code Section 265(6) and 107 effective 2009 and 2002, respectively

The value of a minister’s housing allowance and the rental value of parsonages are not included in a minister’s taxable income.

FY 2012	FY 2013	FY 2014
\$8.3 million	\$8.8 million	\$9.5 million

48. Property Tax on Owner-Occupied Homes

Internal Revenue Code Section 164, effective 2009

State, local and foreign real property taxes are deductible as itemized deductions.

FY 2012	FY 2013	FY 2014
\$53.8 million	\$56.0 million	\$58.4 million

49. Standard Deduction

Kentucky Revised Statute 141.081(2), effective 1946, various amendments

A taxpayer who does not itemize deductions is permitted a deduction of a predetermined amount referred to as the “standard deduction”. The amount of the deduction has been amended several times; under current law it increases based on inflation. For 2011 the standard deduction was \$2,240 per taxpayer.

FY 2012	FY 2013	FY 2014
\$115.6 million	\$120.3 million	\$125.5 million

50. State and Local Taxes Other Than Home Property Taxes

Internal Revenue Code Section 164(a), effective 2009

A taxpayer who itemizes may deduct: state, local, foreign and real property taxes; personal property taxes; income, war profits and excess profits taxes; the GST tax imposed on income distributions; environmental tax; and qualified motor vehicle taxes imposed by a windfall property tax and a local occupational tax.

FY 2012	FY 2013	FY 2014
\$40.5 million	\$42.1 million	\$44.0 million

51. U.S. Production Activities

Internal Revenue Code Section 199(a)(2), effective 2008

House Bill 2, Special Session 2010

This provision was introduced by the American Jobs Creation Act (AJCA) in 2004 and allows for a deduction equal to a portion of taxable income attributable to domestic production. For taxable periods 2005 and 2006 the amount of the deduction is equal to 3 percent of taxable income attributable to domestic production. For taxable years 2007, 2008 or 2009 the amount of the deduction is 6 percent and for taxable years beginning after 2009 the amount of the deduction is 9 percent. For taxable years beginning on or after January 1, 2010, the amount of domestic production activities deduction is 6 percent based on HB 2 Special Session 2010.

FY 2012	FY 2013	FY 2014
\$161.2 million	\$170.8 million	\$180.8 million

Tax Expenditures - Credits

52. Child and Dependent Care Credit

Kentucky Revised Statute 141.067, effective 1990

A credit equal to 20 percent of the federal child care credit amount is allowed.

FY 2012	FY 2013	FY 2014
\$7.8 million	\$8.2 million	\$8.5 million

53. Credit for Hiring Unemployed

Kentucky Revised Statute 141.065, effective 2009

A credit of \$100 is allowed for each qualifying unemployed person hired.

FY 2012	FY 2013	FY 2014
-0-	-0-	-0-

54. Expanded Low Income Tax Credit

Kentucky Revised Statute 141.066, effective 2005

Kentucky residents are allowed a low income tax credit based on modified adjusted gross income (MGI) which is equal to federal adjusted gross income plus any interest income from other states’ municipal bonds and pension income from a qualifying lump-sum distribution. Single individuals whose MGI and married couples whose combined MGI is at or below federal poverty level for their family size will receive a 100 percent tax credit. The amounts are indexed for inflation each year. The 2011 federal poverty level for a family of one (1) is \$10,890; for a family size of two (2) is \$14,710; for a family size of three (3) is \$18,530; and for a family size of four (4) or more (for Kentucky purposes) is \$22,350.

FY 2012	FY 2013	FY 2014
\$90.8 million	\$94.4 million	\$98.5 million

55. Historic Preservation Tax Credit

Kentucky Revised Statute 171.396 (3)(b) and 171.397(1)(b) and (2)(a), effective 2009

A credit is allowed against individual income tax for a portion of the cost of restoring a qualified residential structure listed on the National Registry of Historic Places. The credit is equal to 30 percent of the rehabilitation expenses, in the case of owner-occupied residential property, and 20 percent of the rehabilitation expenses, in the case of all other property. The total credit available is capped at \$3 million for applications received prior to April 30, 2010 and \$5 million for applications received on or after April 30, 2010 with each individual owner-occupied property receiving no more than \$60,000.

FY 2012	FY 2013	FY 2014
\$0.8 million	\$0.9 million	\$0.9 million

56. Job Development Credits

Kentucky Revised Statute 154.22-070 effective 2002; 154.24-110, 154.26-100 effective 2006; , 154.27-020 effective 2010 ;154.28-110, effective 2002

A job development assessment fee of 4 percent, a job creation assessment fee of 5 percent, a job revitalization assessment fee of 5 percent, an industrial development fee of 3 percent, or an alternative energy development assessment fee of 4 percent may be collected from employees under several economic development plans. A portion of these fees may be claimed as credits on the employees' individual income tax returns.

FY 2012	FY 2013	FY 2014
\$64.2 million	\$66.8 million	\$69.7 million

57. New Home Tax Credit

Kentucky Revised Statute 141.388, effective June 2010

A non refundable tax credit of up to \$5,000 may be taken by a qualified buyer against individual income tax unless the new home tax credit cap has been reached. The purchase of the principle residence new home as a single-family dwelling must close between July 26, 2009 and December 31, 2010 in order to qualify for the credit. There is a \$15 million cap on all New Home Tax Credits that will be issued during the entire duration of this credit.

FY 2012	FY 2013	FY 2014
\$2.0 million	\$2.0 million	\$2.1 million

58. Personal and Dependent Tax Credits

Kentucky Revised Statute 141.020(3), effective 2005

Tax credits, when applicable, shall be deducted to arrive at the annual tax rate as follows: \$20 unmarried individual; \$40 married filing joint return; \$20 for each dependent; additional \$40 for 65 years old or older; additional \$40 if taxpayer is blind; and, an additional \$20 for members of the Kentucky National Guard.

FY 2012	FY 2013	FY 2014
\$91.5 million	\$95.2 million	\$99.3 million

59. Postsecondary Education Tuition Credit

Kentucky Revised Statute 141.069, effective 2005

Internal Revenue Code Section 25A effective 2009

A credit equal to 25 percent of the amount of the federal Hope Scholarship and the lifetime learning credit is available. The credit applies only to undergraduate studies, phases out for higher incomes and applies to most higher education opportunities within Kentucky. Any unused credit may be carried forward for five years.

FY 2012	FY 2013	FY 2014
\$14.8 million	\$15.4 million	\$16.0 million

60. Recycling and/or Composting Equipment Credit

Kentucky Revised Statute 141.390, effective 2006

A credit is allowed for 50 percent of the installed costs of recycling or composting equipment used exclusively in this state for recycling or composting post-consumer waste. The credit shall be limited to a period of 10 years commencing with the approval of the recycling credit application. In each taxable year, the amount of credits claimed for all major recycling projects shall be limited to 50 percent of the excess of the total of each tax liability over the baseline tax liability of the taxpayer or \$2,500,000 whichever is less.

FY 2012	FY 2013	FY 2014
\$1.1 million	\$1.2 million	\$1.2 million

Inheritance & Estate Tax

Background Inheritance and estate taxes are two separate taxes that are often referred to as death taxes since both are occasioned by the death of a property owner. The amount due from each tax is determined by the value of property transferred, but they are imposed on different aspects of the transfer.

The inheritance tax is a tax on a beneficiary's right to receive property from a decedent's estate; both the tax and exemptions are based on the relationship of the beneficiary to the decedent. A five (5%) percent discount is allowed if the tax is paid within nine months of the date of death. The estate tax, or "pickup tax", is the difference between Kentucky inheritance tax and the state death tax credit from the United States Estate (and Generation Skipping Transfer) Tax Return, federal Form 706. When federal Form 706 is required to be filed and Kentucky's portion of the credit for state death tax exceeds the inheritance tax, the difference between the credit and the inheritance tax must be paid to the Commonwealth of Kentucky as estate tax. No discount is allowed on estate tax. Since full phase-out of the credit for state death taxes for federal purposes was completed as of December 31, 2004, Kentucky receives zero receipts from the estate tax portion of the tax. However, if Congress fails to act further on this issue, the state death tax credit returns in 2013, for dates of death occurring after December 31, 2012.

The Kentucky inheritance tax was adopted in 1906, making it the second oldest General Fund tax. The estate tax was enacted in 1936. The tax has seen several significant changes through the years.

The most recent change occurred in 1995, when the Class A beneficiary classification was changed to include brother, sister, half-brother and half-sister. This year also began a phase-out of tax for all Class A beneficiaries beginning with dates of death that occurred on or after July 1, 1995. The exemption increased by twenty-five (25) percent each year until complete on June 30, 1998.

The 2001 Federal Economic Growth and Tax Relief Reconciliation Act (EGTRRA) increased the exemption from federal estate tax allowed to an estate. From \$1 million in 2002, the exemption increased to \$3.5 million in 2009, with a complete repeal of the tax in 2010. Additionally, the highest rate dropped to 50 percent in 2002 and decreased to 45 percent by 2007 before the repeal of the tax in 2010.

The 2010 Federal Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act (2010 Tax Relief Act) retroactively reinstates the estate tax for estates of decedents dying in 2010 and provides for an applicable exclusion amount of \$5,000,000 and a maximum tax rate of 35 percent for the year 2010. This amount may be adjusted for inflation for 2011 and 2012. The 2010 Tax Relief Act also repeals the new basis rules under Section 1022 of the Internal Revenue Code enacted under EGTRRA that are applicable to estates of decedents dying in 2010. However, the 2010 Tax Relief Act provides that an executor of a decedent's estate who died in 2010 may elect out of the estate tax and instead have the new basis rules under Section 1022 apply to the property acquired from the decedent.

The provisions of the 2010 Tax Relief Act sunset December 31, 2012. Therefore, under current law, the applicable exclusion amount will return to \$1 million and the maximum tax rate will return to 55 percent. Currently there is no estate tax, but it could come back on January 1, 2013.

During FY11, the inheritance tax produced \$41.4 million in General Fund revenues. This was a 6.5 percent increase from the prior year and accounted for 0.5 percent of total General Fund tax receipts.

Tax Base

The tax base for the inheritance tax is the fair cash value of a Kentucky domiciled decedent's property. For decedents domiciled outside Kentucky, the base is the fair cash value of real property located in Kentucky, tangible personal property that has

acquired a situs in Kentucky and is not taxed elsewhere, and intangible personal property with a business situs in Kentucky.

Transfers giving rise to an inheritance or estate tax liability include transfers by testate (a will), intestate succession (no will), and terms of the instrument (a deed, a trust, beneficiary of an annuity, payable on death accounts, a grant, a bargain, a sale or a gift made in contemplation of death or intended to take effect in possession or enjoyment at or after the death of the grantor or donor, survivorship, etc. The tax is based on the net amount transferred to the beneficiaries, heirs, or donees which is the value of the distributive shares reduced by administration expenses, funeral expenses, debts, mortgages and liens, federal estate taxes and the personal exemption.

Taxable Unit The inheritance tax is an excise tax on a beneficiary's privilege of receiving property from a decedent by reason of death. Beneficiaries are divided into three classes, with Class A beneficiaries being totally exempt:

- (a) Class A includes surviving spouse, parent, child (adult or infant) – child by blood, stepchild, child adopted during infancy, or a child adopted during adulthood who was reared by decedent during infancy, grandchild – issue of child by blood, stepchild, child adopted during infancy, or of a child adopted during adulthood who was reared by decedent during infancy, and, as of July 1, 1995, brother, sister, (whole or half);
- (b) Class B includes nephew, niece, half-nephew and half-niece, daughter-in-law, son-in-law, aunt, uncle, and great-grandchild who is grandchild of child by blood, stepchild, or child adopted during infancy (Note: Nephews and nieces by marriage and great nephews and nieces are Class C beneficiaries.); and,
- (c) Class C includes all persons not included in Classes A or B and educational, religious, or other institution, societies or associations, or public institutions not exempted by KRS 140.060.

Current Rate Structure

The inheritance tax is imposed at graduated rates from 4 percent to 16 percent for Class B beneficiaries, and 6 percent to 16 percent for Class C beneficiaries. The statutory exemptions are charges against the lowest brackets in applying the rates to the base.

The estate tax has no fixed rate structure. It is dependent on the amount of Kentucky’s share of the state death tax credit for federal purposes and the amount of the Kentucky inheritance tax. When all the taxable property is not located in Kentucky, the state tax credit is prorated based on the net estate in Kentucky subject to federal estate tax over the total net estate subject to federal estate tax.

Tax Due

The inheritance and estate taxes are levied at the decedent’s death, with payment of the taxes due eighteen months thereafter. If the inheritance tax is paid within nine months after the death, a 5 percent discount is allowed. No discount is allowed on estate tax.

Table 9. Total Inheritance And Estate Tax Expenditures

FY 2012	FY 2013	FY 2014
\$66.0 million	\$66.1 million	\$65.2 million

Tax Expenditures

1. Annuities Under Qualified Retirement Plans

Kentucky Revised Statute 140.063, effective 1982

The decedent’s gross estate does not include the value of an annuity or other payment to the extent attributable to the employer’s contribution receivable by any beneficiary other than the executor or equivalent.

FY 2012	FY 2013	FY 2014
Minimal	Minimal	Minimal

2. Assessment of Land at its Agricultural or Horticultural Value

Kentucky Revised Statute 140.300,140.310-140.360, effective 1990

In lieu of the fair cash value, agricultural or horticultural land that is qualified real estate and passes to qualified heirs may be reported in a decedent’s estate at its agricultural or horticultural value. The assessed value for ad valorem purposes is presumed to be its value for inheritance tax purposes.

FY 2012	FY 2013	FY 2014
Minimal	Minimal	Minimal

3. Benefits Paid to a Beneficiary of Military Personnel Under Certain Retirement Plans

Kentucky Revised Statute 140.015(2), effective 1980

Payments to a beneficiary of the Retired Serviceman’s Family Protection Plan or Survivor Benefit Plan are not considered taxable transfers.

FY 2012	FY 2013	FY 2014
Minimal	Minimal	Minimal

4. Benefits Paid by the Federal Government Due to Service in Time of War

Kentucky Revised Statute 140.015, effective 1980

Any benefit paid by the federal government to the surviving spouse or heirs of any person by reason or arising out of service in the armed forces of the United States in time of war is not considered a taxable transfer.

FY 2012	FY 2013	FY 2014
Minimal	Minimal	Minimal

5. Certificates of Deposit Exempt from the Contemplation of Death Rule

Kentucky Revised Statute 140.020(3), 140.050, effective 1982

All certificates of deposit jointly owned are exempt from the possibility of inclusion at 100 percent of their value regardless of when placed in joint names.

FY 2012	FY 2013	FY 2014
Minimal	Minimal	Minimal

6. Class A Beneficiaries

Kentucky Revised Statute 140.080(1)(b) and (c), effective 2005

Kentucky Revised Statute 140.070(1), effective 1995

For dates of death on or after July 1, 1998, class A beneficiaries are totally exempt.

FY 2012	FY 2013	FY 2014
\$54.0 million	\$54.0 million	\$53.0 million

7. Class B Beneficiaries

Kentucky Revised Statute 140.080(1)(d), effective 2005

Kentucky Revised Statute 140.070(2), effective 1995

Class B beneficiaries receive an exemption of \$1,000.

FY 2012	FY 2013	FY 2014
Minimal	Minimal	Minimal

8. Class C Beneficiaries

Kentucky Revised Statute 140.080(1)(e), effective 2005

Kentucky Revised Statute 140.070(3), effective 1995

Class C beneficiaries are granted a \$500 exemption.

FY 2012	FY 2013	FY 2014
Minimal	Minimal	Minimal

9. Discount for Early Payment of Tax

Kentucky Revised Statute 140.210(1), effective 2005

A 5 percent discount is allowed on inheritance tax paid within nine months of the date of death.

FY 2012	FY 2013	FY 2014
\$1.0 million	\$1.0 million	\$1.0 million

10. Individual Retirement Accounts

Kentucky Revised Statute 140.063(3) and (4), effective 1982

IRC 408(a)(b), effective 2008

The decedent’s gross estate does not include an annuity receivable by a beneficiary (other than the executor) over a period of at least thirty-six months after the decedent’s death from certain qualified retirement accounts.

FY 2012	FY 2013	FY 2014
Minimal	Minimal	Minimal

11. Life Insurance Proceeds

Kentucky Revised Statute 140.030(2), effective 1974

Life insurance proceeds payable to a designated beneficiary, other than the insured or his estate, are tax-free. The proceeds payable under a U.S. Government Life Insurance Policy or National Service Life Insurance Policy are tax free, regardless of to whom paid.

FY 2012	FY 2013	FY 2014
Substantial	Substantial	Substantial

12. Recurring Tax Credits

Kentucky Revised Statute 140.095, effective 1948

A credit is allowed against the tax imposed if the property was transferred to the immediate decedent within five (5) years prior to the death of the immediate decedent and tax was paid on the prior transfer.

FY 2012	FY 2013	FY 2014
Minimal	Minimal	Minimal

13. Transfers to Educational, Religious, Charitable, or Certain Governmental Organizations

Kentucky Revised Statute 140.060, effective 1954

Transfers to these types of organizations are exempt.

FY 2012	FY 2013	FY 2014
\$11.0 million	\$11.1 million	\$11.2 million

Insurance Premiums Tax

Background Insurance premiums taxes include several taxes levied on the receipts of insurance premiums collected by insurers in the Commonwealth. All life insurance companies, all stock and mutual insurance companies other than life, and captive insurers except fraternal assessment life insurance companies doing business in Kentucky must pay a tax on the gross premiums collected from policyholders. The rate of tax varies by type of insurance company: life insurance companies are assessed at a rate of \$1.80 per \$100 of premium receipts; stock and mutual insurance companies other than life are assessed \$2 per \$100 of receipts; and all stock insurers other than life, every mutual insurance company and Lloyd's insurer must pay 0.75 percent of premiums paid for fire insurance and for that portion allocable to fire insurance included in other coverage. A captive insurer (defined as an insurance company owned by one or more business entities that are licensed insurance producers and that only insure risks on policies placed through their owners) must pay a minimum of \$5,000 and/or a tax calculated on a sliding scale as a percentage of receipts.

Current Rate Structure The first insurance premiums taxes were adopted in 1942, and have been modified several times since that time.

Life insurance companies	\$1.80 per \$100 of premium receipts
Stock insurance companies other than life	\$2.00 per \$100 of premium receipts
Mutual insurance companies other than life	2% of premiums or other receipts

In addition, every stock insurer other than life, every mutual insurance company and Lloyd's insurer shall pay 0.75 percent of all amounts paid for fire insurance and that portion allocable to insurance against the hazard of fire included in other coverage.

Captive insurance: Direct premiums:
 0.4% on the first \$20 million
 0.3% on the next \$20 million
 0.2% on the next \$20 million
 0.075% on each dollar thereafter

 Reinsurance premiums:
 0.225% on the first \$20 million
 0.150% on the next \$20 million
 0.050% on the next \$20 million
 0.025% on each dollar thereafter

Tax Base The minimum tax payable to captive insurers is \$5,000 regardless of calculated tax liability.

The tax is levied on premium receipts of insurance companies doing business in Kentucky. Premium receipts include single premiums, annuity premiums, premiums received for original insurance, premiums received for renewal, revival or reinstatement of the policies, annual and periodical premiums, dividends applied for premiums and additions, and all other premium payments received on policies that have been written in Kentucky, or elsewhere on business done in this state, less returned premiums. No deduction is made for dividends on life insurance or annuity policies, but dividends on accident and health insurance policies may be deducted. Premium receipts beginning in calendar year 2000 do not include annuity premiums or annuity dividends.

Tax Due Any company whose tax was \$5,000 or more in the previous year must file a declaration of estimated tax by June 1. The tax must be paid in three equal installments, on June 1, October 1, and March 1 of the following year.

Table 10. Total Insurance Premiums Tax Expenditures

FY 2012	FY 2013	FY 2014
\$1.70 million	\$1.75 million	\$1.80 million

Tax Expenditures**1. Hospital, Medical or Dental Service Companies Exempt From Premiums Tax**

Kentucky Revised Statute 136.395, effective 1972

Premiums paid to or received by a hospital service corporation, medical service plan corporation, dental service plan corporation, or a domestic mutual insurer against the risk or cost of medical and/or surgical care organized under KRS 304.24-010 to 304.24-440 and KRS 304.32-010 to 304.32-270 are exempt from the premiums tax.

FY 2012	FY 2013	FY 2014
\$1.70 million	\$1.75 million	\$1.80 million

Limited Liability Entity Tax

Background **O**n June 28, 2006, the Kentucky General Assembly enacted House Bill 1 during a Special Session convened for the purpose of small business tax relief. The bill was signed into law by Governor Fletcher the same day. Within the single piece of legislation were several modifications to the Tax Modernization measures enacted during the 2005 Regular Session. The creation of the limited liability entity tax (LLET) was one of those modifications.

Effective for taxable years beginning on or after January 1, 2007, the LLET is imposed on corporations and other entities which afford limited liability to their owners, including limited liability companies, limited liability partnerships, limited partnerships, and S corporations. The entities may choose between two computational options to calculate the amount of tax due, based on either Kentucky gross receipts or Kentucky gross profits. The lesser amount of tax resulting from the two options is the amount due.

**Current
Rate
Structure**

When computing the tax using the gross receipts method, the tax rate is nine and one-half cents per \$100 of gross receipts. When computing the tax using the gross profits method, the tax rate is seventy-five cents per \$100 of gross profits. If gross receipts or gross profits are less than \$3.0 million, the minimum tax of \$175 is due. For taxpayers with gross receipts between \$3.0 million and \$6.0 million, a partial exemption is given.

The taxable period for the LLET is the same taxable period used by the entity for income tax purposes. Entities which can reasonably expect their income tax liability plus their LLET liability to exceed \$5,000 are required to make a declaration of estimate tax, due in three installments.

Tax Due

Limited liability entity tax receipts for FY11 were \$215.7 million and accounted for 2.5 percent of total General Fund tax receipts.

The tax return and payment of any remaining liability are due on the fifteenth day of the fourth month following the close of the taxable period, April 15 for calendar-year entities. An extension of time to file the return is available; however, to avoid penalty for late payment, all tax due must be submitted by the original due date.

Table 11. Total Limited Liability Entity Tax Expenditures

FY 2012	FY 2013	FY 2014
\$116.1 million	\$120.1 million	\$122.7 million

Tax Expenditures

1. Alcohol Production Facility

Kentucky Revised Statute 141.0401(6)(l), effective January 1, 2007

The tax does not apply to an alcohol production facility as defined in KRS 247.910.

FY 2012	FY 2013	FY 2014
Minimal	Minimal	Minimal

2. Certified Fluidized Bed Energy Production Facility

Kentucky Revised Statute 141.0401(6)(k), effective January 1, 2007

The tax does not apply to a certified fluidized bed energy production facility as defined in KRS 211.390.

FY 2012	FY 2013	FY 2014
Minimal	Minimal	Minimal

3. Cooperatives, Cooperatives and Their Patrons, Homeowners' Associations, Political Organizations

Kentucky Revised Statute 141.0401(6)(q), effective January 1, 2007

IRC 521, effective 2004; IRC 1381, effective 2004; IRC 528, effective 1997; IRC 527, effective 2002

The tax does not apply to cooperatives described in Sections 521 and 1381 of the Internal Revenue Code, including farmer's agricultural and other cooperatives

organized or recognized under KRS Chapter 272, advertising cooperatives, purchasing cooperatives, homeowners associations, including those described in Section 528 of the Internal Revenue Code, political organizations as defined in Section 527 of the Internal Revenue Code, and rural electric and rural telephone cooperatives.

FY 2012	FY 2013	FY 2014
\$2.0 million	\$2.0 million	\$2.1 million

4. Costs of Goods Sold, Bulk Delivery Charges, and Indirect Labor

Kentucky Revised Statute 141.0401(2)(b), effective January 1, 2007

When computing the LLET using the gross profits method, Kentucky gross receipts are reduced by the amount of costs of goods sold attributable to Kentucky gross receipts.

FY 2012	FY 2013	FY 2014
\$78.2 million ^(c)	\$80.8 million	\$82.4 million

5. Endow Kentucky Tax Credit

Kentucky Revised Statute 141.0401, effective January 1, 2007

Kentucky Revised Statute 141.438, June 4, 2010

This tax was created to encourage donations to community foundations across the Commonwealth. KRS 141.438 was created to allow a nonrefundable income tax and limited liability entity tax credit of 20 percent of the value of the endowment gift, not to exceed \$10,000. Unused credit may be carried forward for use in a subsequent taxable year, for a period not to exceed five years. The total amount of credit that may be awarded by the Department of Revenue in each fiscal year is \$500,000.

FY 2012	FY 2013	FY 2014
\$200,000	\$300,000	\$500,000

6. New Markets Development Program Tax Credit

Kentucky Revised Statute 141.432-141.434, effective June 4, 2010

This credit was created to encourage taxpayer investment in low-income communities. A taxpayer that makes a qualified equity investment in a qualified community development entity may be eligible for a credit that may be taken against the corporation income tax, individual income tax, insurance premiums taxes and limited liability entity tax. The person or entity making the loan or making the equity investment will be able to claim a credit subject to a \$5 million credit cap each fiscal year. The total credit computation is 39 percent of the purchase price or loan amount, broken down as 0 percent, 7 percent or 8 percent. The maximum investment in any individual qualified active low-income community business is \$10 million.

FY 2012	FY 2013	FY 2014
-0-	-0-	-0-

7. Open-end Registered Investment Companies

Kentucky Revised Statute 141.0401(6)(j), effective January 1, 2007

The tax does not apply to an open-end registered investment company organized under the laws of this state and registered under the Investment Company Act of 1940.

FY 2012	FY 2013	FY 2014
\$1,000	\$1,050	\$1,075

8. Personal Service Corporations

Kentucky Revised Statute 141.0401(6)(p), effective January 1, 2007

The tax does not apply to a personal service corporation as defined in Section 269A(b) (1) of the Internal Revenue Code.

FY 2012	FY 2013	FY 2014
\$1.6 million	\$1.7 million	\$1.7 million

9. Publicly Traded Partnerships

Kentucky Revised Statute 141.0401(6)(r), effective January 1, 2007

The tax does not apply to a publicly traded partnership as defined by Section 7704(b) of the Internal Revenue Code that is treated as a partnership for federal tax purposes under Section 7704(c) of the Internal Revenue Code, or its publicly traded partnership affiliate.

FY 2012	FY 2013	FY 2014
\$80,000	\$83,000	\$84,000

10. Real Estate Investment Trust

Kentucky Revised Statute 141.0401(6)(m), effective January 1, 2007

The tax does not apply to a real estate investment trust as defined in Section 856 of the Internal Revenue Code.

FY 2012	FY 2013	FY 2014
\$543,000	\$561,000	\$572,000

11. Regulated Investment Company

Kentucky Revised Statute 141.0401(6)(n), effective January 1, 2007

The tax does not apply to a regulated investment company as defined in Section 851 of the Internal Revenue Code.

FY 2012	FY 2013	FY 2014
\$32,600	\$33,700	\$34,300

12. Real Estate Mortgage Investment Conduit

Kentucky Revised Statute 141.0401(6)(0), effective January 1, 2007

The tax does not apply to a real estate mortgage investment conduit as defined in Section 860D of the Internal Revenue Code.

FY 2012	FY 2013	FY 2014
\$9,500	\$9,800	\$10,000

13 .Small Business Relief from the Limited Liability Entity Tax

Kentucky Revised Statute 141.0401(2)(b), effective July 15, 2008

To provide relief for small businesses, all firms with Kentucky gross profits or receipts less than \$3 million are subject to the \$175 minimum Limited Liability Entity Tax. Additionally, firms with Kentucky gross receipts or profits of \$3 million to \$6 million receive a proportional reduction based upon a prescribed calculation. Those firms with Kentucky gross receipts or profits over \$6 million pay the full LLET.

FY 2012	FY 2013	FY 2014
\$33.5 million	\$34.6 million	\$35.3 million

Liquefied Petroleum Gas Tax

Background **T**he term “liquefied petroleum gas” includes any material which is composed predominantly of any of the following hydrocarbons, or mixtures of them, whether in the liquid or gaseous states, and which are used to propel vehicles of any kind upon the public highways: propane, propylene, butane (normal butane and isobutane), and butylene.

A tax on liquefied petroleum gas was first levied in 1960. In 1980, like gasoline and special fuels, the base was changed to the average per gallon wholesale price. The “supplemental highway user tax” became effective July 1, 1986.

The tax is imposed for the privilege of using the highways of the state. Consequently, the tax proceeds are deposited in the Road Fund. For FY11, the liquefied petroleum gas collections were \$0.1 million which accounts for 0.007 percent of total Road Fund tax receipts.

Current Rate Structure The liquefied petroleum tax rate has a variable component and a fixed part. The variable portion of the tax is 9 percent of the average wholesale price (AWP) of gasoline. The fixed part is the supplemental highway user tax which is assessed at 5 cents per gallon.

Tax Base The AWP is calculated on a quarterly basis by the Department of Revenue and is weighted by grade and formulation. The AWP is calculated in the first month of each fiscal quarter (July, October, January, and April) and applies to the following quarter. The AWP may not increase more than 10 percent over the AWP in effect at the close of the previous fiscal year.

The current AWP floor is \$1.786 per gallon. Therefore, the variable portion of the gasoline tax cannot be less than 16.1 cents per gallon. Adding the fixed component of the tax brings the minimum gasoline tax to 21.1 cents per gallon.

Unlike the gasoline tax, the tax is applicable to liquefied petroleum gas when use is determined. If the fuel is used to propel motor vehicles on the public highways, the tax applies, but if

used for non-highway purposes, the fuel is not subject to tax. The dealer is allowed a deduction to cover unaccountable losses, bad debts, and handling and reporting the tax.

Taxable Unit The unit for levying the liquefied petroleum gas tax is a “per gallon” basis.

Tax Due The tax must be remitted to the Department of Revenue on or before the twenty-fifth day of the month immediately following the month it is collected.

Table 12. Total Liquefied Petroleum Gas Tax Expenditures

Tax Expenditures

FY 2012	FY 2013	FY 2014
\$2,000	\$2,000	\$2,000

1. Approved Carburetion Systems

Kentucky Revised Statute 234.321(1), effective 2010

The tax is not collected when the motor vehicles using the liquefied petroleum gas are equipped with carburetion systems approved by the Natural Resources and Environmental Protection Cabinet.

FY 2012	FY 2013	FY 2014
\$300	\$300	\$300

2. Dealer’s Monthly Reporting Allowance

Kentucky Revised Statute 234.320(1), effective 2005

An allowance of one percent of the net tax due is allowed a dealer on a timely filed and paid monthly return. This allowance is given to offset the costs of unaccountable losses, bad debts and handling and reporting the tax.

FY 2012	FY 2013	FY 2014
\$1,700	\$1,700	\$1,700

Motor Vehicle Usage Tax

Background Motor vehicles were originally taxed under the 3 percent gross receipts tax that was repealed in 1936. After the repeal of that tax, a special 3 percent tax on motor vehicles was enacted. Effective April 1, 1968, the rate was increased to 5 percent. Effective July 1, 1990, the rate was increased to 6 percent.

Since 1936, the tax was paid to the county clerk when a vehicle is first registered in the owner's name. In 2005, the General Assembly changed the incidence of taxation to the time when the vehicle is titled instead of when it is registered. The proceeds derived from the tax are deposited in the Road Fund to be used in the construction and maintenance of Kentucky's roads.

During FY11, motor vehicle usage tax collections were \$381.8 million, an increase of 14.7 percent from the previous year. These receipts constituted 28.5 percent of total Road Fund tax receipts.

Current Rate Structure The motor vehicle usage rate is based on 6 percent of the retail price. A credit against the tax is allowed for substantially identical taxes paid to another state or foreign country on vehicles previously registered in such state or country, provided that the other state or country grants a similar credit for taxes paid in Kentucky.

Tax Base The retail price for new motor vehicles is defined as the actual selling price as provided in a notarized affidavit signed by both the buyer and seller. If an affidavit is not submitted, 90 percent of the Manufacturer's Suggested Retail Price, including all standard and optional equipment, and transportation charges, is used. In the case of trucks with gross weight in excess of 10,000 pounds, the tax base is 81 percent of MSRP.

House Bill 3 enacted in the 2009 Special Legislative Session modified KRS 138.450 and created a new section of KRS 138.455 - 138.470 to temporarily provide a trade-in allowance for the Motor Vehicle Usage Tax calculation for new vehicle purchases, beginning September 1, 2009 and ending August 31, 2010 or ear-

lier if the accumulated total of “trade-in credits” reduces the motor vehicle usage tax by the maximum amount authorized. The trade-in allowance was available on a first-come, first-served basis.

For used vehicles, the retail price is the total consideration paid. A trade-in credit is allowed. The total consideration paid must be disclosed in a notarized affidavit signed by both buyer and seller. If an affidavit is not submitted, the price is defined as the value appearing in the automotive reference manual prescribed by the Department of Revenue. Effective January 1, 2007, the General Assembly established a valuation floor for used motor vehicles. The value of a used motor vehicle is now based upon the affidavit of total consideration given, unless that value is less than 50 percent of its trade-in as listed in the automotive price reference manuals.

Persons holding a certificate to operate as a U-Drive-It lessee may elect to pay the motor vehicle usage tax based on gross rental or lease charges instead of the retail price of the vehicles. Gross rental charges include only time and mileage charges.

Taxable Unit The tax is levied on the privilege of using a motor vehicle on the public highways of Kentucky, based on the vehicle’s retail price.

Tax Due The tax is paid to the county clerk when the vehicle is titled. The clerk deposits the tax in a Department of Revenue bank account on a daily basis and makes reports to the Department of Revenue on a weekly basis.

Table 13. Total Motor Vehicle Usage Tax Expenditures

FY 2012	FY 2013	FY 2014
\$54.5 million	\$57.5 million	\$60.3 million

Tax Expenditures

1. Adapted Equipment for Physically Handicapped Persons

Kentucky Revised Statute 138.450-470 , effective 1992 and amended 2006

“Retail Price” does not include that portion of the price of a vehicle attributable to equipment or adaptive devices necessary to facilitate or accommodate a physically handicapped operator or passenger.

FY 2012	FY 2013	FY 2014
\$69,000	\$70,000	\$71,000

2. Change in Business Structure

Kentucky Revised Statute 138.470(8), effective 1980 and 1998

Motor vehicles transferred to a corporation from a proprietorship or limited liability company, to a limited liability company from a corporation or proprietorship, or from a corporation or limited liability company to a proprietorship, within six (6) months from the time that the business is incorporated, organized, or dissolved are exempt.

FY 2012	FY 2013	FY 2014
\$92,000	\$92,500	\$93,000

3. Charter Bus Exemption

Kentucky Revised Statute 138.470(15), effective July 1, 2005

Motor carriers operating under a charter bus certificate issued by the Transportation Cabinet under KRS Chapter 281 are not subject to the motor vehicle usage tax.

FY 2012	FY 2013	FY 2014
\$58,000	\$59,000	\$60,000

4. Commercial Motor Vehicle Exemption

Kentucky Revised Statute 138.470(5), effective 1968 and amended 2006

An exemption is provided commercial motor vehicles, excluding passenger vehicles having a seating capacity of nine persons or less, owned by nonresidents, used primarily in interstate commerce, and based in another state, which are required to be registered in Kentucky by reason of operational requirements or fleet proration agreements, and which are registered pursuant to the forced registration provisions.

FY 2012	FY 2013	FY 2014
Minimal	Minimal	Minimal

5. Educational and Charitable Organizations

Kentucky Revised Statute 138.470(2), effective 2006

Motor vehicles sold to institutions of purely public charity and institutions of education, not used or employed for gain, are exempt.

FY 2012	FY 2013	FY 2014
\$1.5 million	\$1.6 million	\$1.7 million

6. Immediate Family Member

Kentucky Revised Statute 138.470(6), effective 1976, 1992, and 1994

Motor vehicles previously registered in Kentucky and transferred between husband and wife, parent and child, stepparent and stepchild, or grandparent and grandchild are exempt.

FY 2012	FY 2013	FY 2014
\$7.7 million	\$7.8 million	\$7.9 million

7. Insurance Company Transfers

Kentucky Revised Statute 138.470(14), effective 1976

Motor vehicles transferred to an insurance company to settle a claim are exempt. However, such vehicles must be junked or held for resale only.

FY 2012	FY 2013	FY 2014
\$109,000	\$110,000	\$111,000

8. Large Truck Exclusion

Kentucky Revised Statute 138.470, (16) and (17), effective October 1, 2003.

Trucks registered with a gross weight of 44,001 pounds and greater are not subject to the motor vehicle usage tax.

FY 2012	FY 2013	FY 2014
\$12.0 million	\$12.7 million	\$13.1 million

9. Military Exemption

Kentucky Revised Statute 138.470(4), effective 1968

Motor vehicles (both new and used) sold by or transferred from Kentucky dealers to nonresident members of the armed forces on duty in this state are exempt from usage tax.

FY 2012	FY 2013	FY 2014
\$5.6 million	\$5.8 million	\$5.9 million

10. Partnership Interests

Kentucky Revised Statute 138.470(12), effective 1970

The interest of a partner in a motor vehicle is exempt when the interests of other partners are transferred to him.

FY 2012	FY 2013	FY 2014
Minimal	Minimal	Minimal

11. Repossessed Exemption

Kentucky Revised Statute 138.470(13), effective 1972

Motor vehicles that are repossessed by a secured party who has a security interest in effect at the time of repossession and a repossession affidavit are exempt provided that the reposessor has acted in accordance with all statutory requirements and the vehicle is held for resale only.

FY 2012	FY 2013	FY 2014
\$1.1 million	\$1.2 million	\$1.3 million

12. Trade-In Allowance On Used Vehicle Purchases

Kentucky Revised Statute 138.4602, effective 2009

The retail price shall be determined by reducing the amount of total consideration given by the trade-in allowance of any motor vehicle traded in by the buyer. The value of the purchased motor vehicle and the amount of the trade-in allowance shall be determined as provided in subsection (2) of this section, and the availability of the trade-in allowance shall be subject to subsection (3) of this section.

FY 2012	FY 2013	FY 2014
\$22.5 million	\$24.1 million	\$25.7 million

13. Transfers Between a Limited Liability Company and its Members

Kentucky Revised Statute 138.470(11), effective 1998

Motor vehicles transferred between a limited liability company and any of its members when there is no consideration, nominal consideration, or in sole consideration of the cancellation or surrender of stock are exempt.

FY 2012	FY 2013	FY 2014
\$1.4 million	\$1.5 million	\$1.6 million

14. Transfers Between a Subsidiary and a Parent Corporation

Kentucky Revised Statute 138.470(10), effective 1970

Motor vehicles transferred between a subsidiary corporation and its parent when there is no consideration, nominal consideration, or in sole consideration of the cancellation or surrender of stock are exempt.

FY 2012	FY 2013	FY 2014
\$157,000	\$158,500	\$160,000

15. Transfers by Will or Court Order

Kentucky Revised Statute 138.470(9), effective 1970, 1990

Motor vehicles transferred by will, court order, or transferred under the statutes covering descent and distribution of property are exempt if previously registered in Kentucky.

FY 2012	FY 2013	FY 2014
\$2.2 million	\$2.4 million	\$2.6 million

Natural Resources Severance & Processing Tax

Background Effective June 1, 1980, the General Assembly levied a 4.5 percent tax on the gross value of all minerals severed in Kentucky, including natural gas and natural gas liquids. Coal and oil were specifically excluded due to taxation under other statutes. The legislation imposed no minimum rate of tax per unit as is the case with the coal severance tax.

In 1984, the General Assembly exempted fluorspar, lead, zinc, barite, and tar sands from the tax. In addition, taxpayers who sever or process limestone through the rip-rap, construction aggregate, or agricultural limestone stages, and who sell at least 60 percent of such stone in interstate commerce, are entitled to a tax credit.

KRS 42.450(2) and 42.470(2) require that one-half of the taxes collected on the sale of minerals, other than coal, be distributed among the mineral producing counties. In FY11 the total taxes of \$38.1 million represented 0.4 percent of total General Fund tax receipts.

**Current
Rate
Structure**

The natural resources severance and processing tax rate is 4.5 percent of the gross value. Effective in 1991, the tax on severing clay was limited to 12 cents per ton. Taxpayers who sever or process clay within the state, which is sold to and used as a component of landfill construction by an approved waste management or waste disposal facility in Kentucky, are entitled to a credit equal to the tax paid.

Tax Base

The base for this tax is gross value, the amount received or receivable from the sale of the mineral after it is processed and loaded for shipment. The base for natural gas and natural gas liquids is the sales price or market value in the immediate vicinity of the well. The amount of transportation expense incurred in transporting the natural resource to the customer is deductible in arriving at gross value.

When resources are purchased for processing, gross value is the amount received or receivable reduced by the amount paid for the natural resource and the transportation expense.

Taxable Unit The tax is levied on taxpayers engaged in the business of severing or processing natural resources in Kentucky, except that no tax is levied on the processing of ball clay.

Tax Due The tax must normally be reported and remitted on a monthly basis. The Revenue Cabinet may permit or require returns or tax payments for periods other than monthly. The tax return and payment are due on the last day of the month following the close of the tax period.

Table 14. Total Natural Resources Severance and Processing Tax Expenditures

FY 2012	FY 2013	FY 2014
\$8.7 million	\$9.2 million	\$9.4 million

Tax Expenditures

1. Ball Clay, Fluorspar, Lead, Zinc, Tar Sands, Barite, and Stone Used for Privately Maintained but Publicly Dedicated Roads

Kentucky Revised Statute 143A.030, effective 2002

The severing or processing of these minerals, for any purpose, is exempt from the tax.

FY 2012	FY 2013	FY 2014
\$300,000	\$300,000	\$300,000

2. Clay Used in Landfill Construction

Kentucky Revised Statute 143A.037, effective 1991

A credit is allowed against the tax on clay severed or processed within this state and sold to and used as a component of landfill construction by an approved waste management or waste disposal facility within this state. The credit is equal to the tax.

FY 2012	FY 2013	FY 2014
Minimal	Minimal	Minimal

3. Inactive Crude Oil and Natural Gas Wells

Kentucky Revised Statute 143A.033, effective 1998

A credit equal to 4.5 percent of the total tax is allowed for natural gas and oil produced from recovered inactive wells.

FY 2012	FY 2013	FY 2014
\$200,000	\$200,000	\$230,000

4. Limestone Sold in Interstate Commerce

Kentucky Revised Statute 143A.035, effective 1984

A credit is allowed equal to the tax on the gross value of limestone sold in interstate commerce. The credit extends only to those taxpayers who sever or process limestone through the rip-rap, construction aggregate, or agricultural limestone stages, and who sell at least 60 percent of such stone in interstate commerce.

FY 2012	FY 2013	FY 2014
Minimal	Minimal	Minimal

5. Limestone Sold or Used for Agricultural Purposes

Kentucky Revised Statute 143A.030, effective 1984

Limestone sold or used for agricultural purposes is exempt if such sale or use qualifies for exemption from sales and use tax under KRS 139.480.

FY 2012	FY 2013	FY 2014
Minimal	Minimal	Minimal

6. Limit on Tax from Clay

Kentucky Revised Statute 143A.037, effective 1991

The tax on clay is limited to twelve cents per ton.

FY 2012	FY 2013	FY 2014
Minimal	Minimal	Minimal

7. Transportation Expense

Kentucky Revised Statute 143A.010(5) and (9), effective 1980 and amended 2005

Expenses incurred in transporting minerals are excluded from gross value.

FY 2012	FY 2013	FY 2014
\$4.0 million	\$4.4 million	\$4.4 million

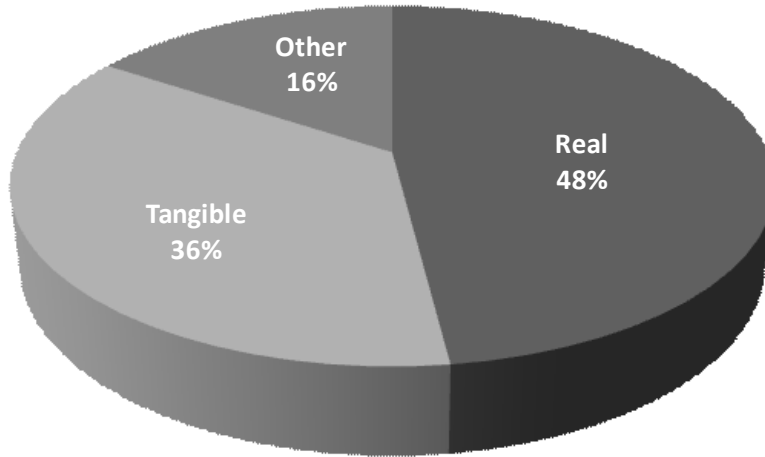
Background **K**entucky has had a tax on property since becoming a state on June 1, 1792. The original method of taxation began with a set levy for each item of tangible property owned in the state. It was not until 1814 that the standard for establishing the tax liability was changed to the ad valorem, or fair value approach, which taxes property at its fair market value. This approach remains the standard today.

In 1793, the property tax represented over 86 percent of all state government receipts. That percentage has declined dramatically over the past 200 plus years. Much of the recent decline can be attributed to legislation passed during the 1979 Special Session of the General Assembly. House Bill 44, enacted during that session, generally limited growth from the tax levied on real property to 4 percent per year. The high rate of inflation was causing property values, and the resulting tax, to rise too dramatically. To compensate for rapidly growing values, the tax rate is adjusted annually to ensure that the growth in tax receipts does not exceed the legal limits. This restriction remains in effect at the present time. House Bill 272, passed by the 2005 General Assembly, altered the rate setting mechanism by excluding new property and property subject to tax increment financing when the 4 percent growth limit is calculated. In contrast to earlier reports, this analysis does not consider the rate ceiling established by House Bill 44 to be a tax expenditure.

The voters amended section 172 of the Kentucky Constitution in 1998 to give the General Assembly the authority to exempt any class of personal property. Personal property includes both tangible and intangible property. Real property, not specifically exempted by the constitution, must be assessed for taxation at its fair cash value and taxed accordingly.

In FY11 total property tax collections of \$514.8 million accounted for 5.9 percent of total General Fund revenues. The chart on the following page shows the allocation between real, tangible and other property tax receipts.

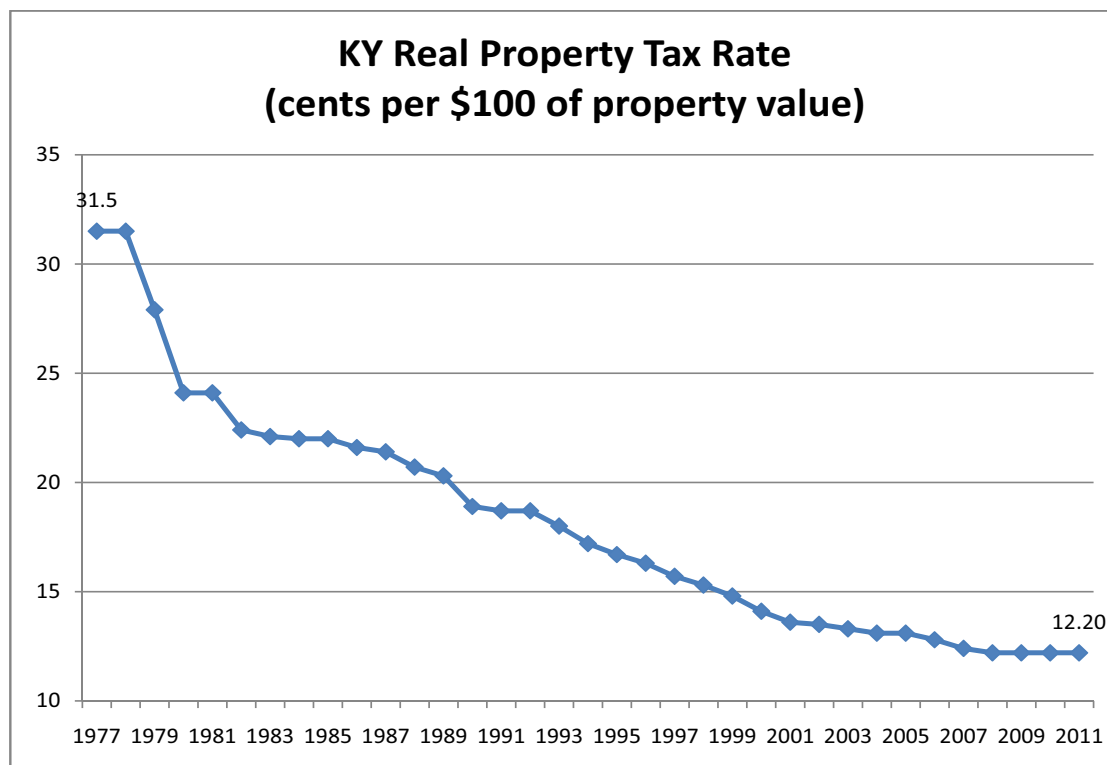
Figure 3. Allocation of Property Tax Receipts for FY11



**Current
Rate
Structure**

The state tax rate for real property must be adjusted annually to comply with the provisions of House Bill 44 (KRS 132.020(2)). For 2007, the rate was set at 12.2 cents per \$100 of assessed value. The rate in effect prior to House Bill 44 was 31.5 cents per \$100 of assessed value. It must be noted that an increase in the tax base may necessitate a corresponding decrease in the rate. Consequently, any estimates of the cost of exemptions in the real property area are based on the assumption that House Bill 44 would not affect the outcome. The normal state rate applicable to tangible personal property is 45 cents of assessed value. The General Assembly has reduced the rates for some classes of tangible and intangible personal property over the years. Legislation enacted in 2005 repealed the intangible property tax effective January 1, 2006. These reduced rates give rise to many of the expenditures detailed later.

Figure 4



Tax Base The property tax is levied on the fair cash value of all real, tangible, or intangible property unless a specific exemption exists in the Kentucky Constitution or in the case of personal property, has been granted by the General Assembly. Taxpayers who are 65 years of age or older or are classified as totally disabled qualify for a Homestead Exemption. This exemption, applied against the assessed value of a qualifying single-unit residential property, is adjusted every two years in accordance with the cost of living index. The homestead exemption amount for 2011 and 2012 is \$34,000.

In general, property is assessed at its fair cash value as of January 1 of each year. Real property must be listed for assessment with the property valuation administrator (PVA) between January 1 and March 1. Tangible personal property may be listed either with the PVA or the Department of Revenue and must be listed by May 15.

Tax Due

When the Department of Revenue certifies the assessment and the amount of taxes due to the county clerk, the clerk prepares the tax bills for delivery to the sheriff of the county, not later than September 15. The sheriff mails a notice to each taxpayer reflecting the total tax, date due, any discount, and the discount period. The tax becomes delinquent if not paid before the following January 1.

An exception to the usual method of paying property taxes involves motor vehicles. The appropriate property tax is due and payable to the county clerk on or before the last day of the month in which registration renewal is required for the vehicle.

Table 15. Total Property Tax Expenditures

FY 2012	FY 2013	FY 2014
\$766.4 million	\$791.5 million	\$830.1 million

The property tax expenditures have been categorized between real property and tangible personal property.

Real Property Tax Expenditures

(Real property is defined as land and improvements and all rights inherent in real estate.)

1. Agricultural and Horticultural Land Assessment Protection

Kentucky Revised Statute 132.450, effective 1999

This land will not lose its agricultural and horticultural assessment if it fails to meet the minimum acreage requirement due to the fact a portion of the land has been acquired for public purposes.

FY 2012	FY 2013	FY 2014
\$100,000	\$100,000	\$100,000

2. Agriculture Value of Real Property

Kentucky Revised Statute 132.450, effective 1942

A special procedure is provided for assessing real property at its agricultural or horticultural value.

FY 2012	FY 2013	FY 2014
\$39.6 million	\$41.1 million	\$42.6 million

3. Alcohol Production Facilities

Kentucky Revised Statute 132.020(1), effective 1980

Alcohol production facilities are taxed at a reduced rate of 1/10 of a cent per \$100 of value. Alcohol production facilities are defined in KRS 247.910 as facilities whose primary purpose is producing ethanol, not alcohol which will be consumed as a beverage. According to the Department of Revenue, this classification has never been utilized since its creation in 1980.

FY 2012	FY 2013	FY 2014
-0-	-0-	-0-

4. Environmental Remediation Property

Kentucky Revised Statute 132.020(1), effective 2005

The owner of all qualifying voluntary environmental remediation property pays tax at the rate of one and one-half cents upon each one hundred dollars of value for this property.

FY 2012	FY 2013	FY 2014
\$2,000	\$2,000	\$2,000

5. Homestead Exemption

Sections 170 & 172 of the Kentucky Constitution and KRS 132.810, effective 2008

A taxpayer 65 years of age or older or totally disabled is allowed an exemption against the assessed value of a single-unit residence. This exemption is now \$34,000.

FY 2012	FY 2013	FY 2014
\$16.0 million	\$16.5 million	\$17.0 million

6. Intrastate Railroads and Railway Companies

Kentucky Revised Statute 132.020(1)(0), effective 1990

Railroads or railway companies operating solely within the Commonwealth, are taxed at a reduced rate of 10 cents per \$100 on their operating real property.

FY 2012	FY 2013	FY 2014
\$25,274	\$26,032	\$26,813

7. Leasehold Interests in Buildings Financed with Industrial Revenue Bonds

Kentucky Revised Statute 132.020(2), effective 1978

Leasehold interests privately held in industrial buildings owned and financed by tax-exempt governmental units are taxed at a reduced rate of 1.5 cents per \$100 of value. Note: This is the real estate portion only.

FY 2012	FY 2013	FY 2014
\$2.9 million	\$3.0 million	\$3.1 million

8. Property of Local Governments in Neighboring States

Kentucky Revised Statute 132.192, effective 2005

All real property owned by another state or a political subdivision of another state that is used exclusively for public purposes is exempt from taxation if a

comparable exemption is provided in that state or political subdivision for property owned by the Commonwealth or its political subdivisions.

FY 2012	FY 2013	FY 2014
\$20,000	\$20,000	\$20,000

9. Real Property Owned by Exempt Entities

Section 170 of the Kentucky Constitution , effective 1891

Real property owned and occupied by institutions of religion, institutions of purely public charity, and institutions of education is exempted from taxation by the Kentucky Constitution.

FY 2012	FY 2013	FY 2014
\$45.6 million	\$48.4 million	\$51.4 million

10. State Real Property Tax Yearly Revenue Ceiling

Kentucky Revised Statute 132.020(2), effective 1979

Prior to the passage of House Bill 44 in 1979, the real property tax rate was 31.5 cents per \$100 of assessed value. The adjusted tax rate for 2010 is 12.2 cents per \$100 of assessed value.

FY 2012	FY 2013	FY 2014
\$473.0 million	\$491.8 million	\$510.5 million

Tangible Property Tax Expenditures

(The normal tangible rate is 45 cents per \$100 of value)

11. Agricultural Products

Kentucky Revised Statute 132.020(1), effective 1950

Agricultural products are taxed at a reduced rate of 1.5 cents per \$100.

FY 2012	FY 2013	FY 2014
\$5.2 million	\$5.5 million	\$5.8 million

12. Aircraft

Kentucky Revised Statute 132.020(1), effective 1999

Airplanes, not used in the business of transporting persons or property for compensation or hire, are taxed at the reduced state rate of 1.5 cents per \$100.

FY 2012	FY 2013	FY 2014
\$1.8 million	\$1.9 million	\$2.0 million

13. Business Inventories

Kentucky Revised Statute 132.020(1), effective 1990

Business inventories are taxed at a reduced rate of 5 cents per \$100. This category includes machinery and equipment held in inventory in the regular course of business for sale or lease and originating under a floor plan financing arrangement.

FY 2012	FY 2013	FY 2014
\$72.2 million	\$74.1 million	\$76.1 million

14. Carlines

Kentucky Revised Statute 136.120(1), effective 1990

Any company, other than a railroad company, which owns, uses, furnishes, leases, rents, or operates to, from, through, in, or across this state or any part thereof, any

kind of railroad car is taxed at a reduced rate. The rate is computed annually. The current rate in effect is 23.08 cents per \$100.

FY 2012	FY 2013	FY 2014
\$652,963	\$700,890	\$748,817

15. Federally Documented Vessels

Kentucky Revised Statute 132.020(1), effective 1999

Documented boats, not used in the business of transporting persons or property for compensation or hire, are taxed at a reduced rate of 1.5 cents per \$100.

FY 2012	FY 2013	FY 2014
\$311,134	\$274,867	\$238,600

16. Foreign Trade Zone

Kentucky Revised Statute 132.020(1), effective 1982

Property located in an activated foreign trade zone is taxed at a reduced rate of 1/10 of a cent per \$100.

FY 2012	FY 2013	FY 2014
-0-	-0-	-0-

17. Historic Vehicles

Kentucky Revised Statute 132.020(1), effective 1984

Historic vehicles are taxed at a reduced rate of 25 cents per \$100.

FY 2012	FY 2013	FY 2014
\$229,000	\$246,000	\$262,000

18. In-Transit Goods

Kentucky Revised Statute 132.097, effective 1999

Goods shipped into Kentucky and placed in a warehouse or distribution center with the purpose of continued shipment outside of Kentucky within six months are exempt from property tax at the state level.

FY 2012	FY 2013	FY 2014
\$27.2 million	\$28.0 million	\$28.8 million

19. Intrastate Railroads and Railway Companies

Kentucky Revised Statute 132.020(1), effective 1990

Railroads or railway companies operating solely within the Commonwealth are taxed at a reduced rate of 10 cents per \$100 on their operating tangible property.

FY 2012	FY 2013	FY 2014
\$215,787	\$222,261	\$228,929

20. Interstate Trucks, Tractors and Buses

Kentucky Revised Statute 132.760, effective 1990

Kentucky Revised Statute 136.188, effective 2007

Commercial vehicles that have routes or systems partly within this state and partly within another state or states are taxed at a reduced rate. This rate is computed annually. The rate in effect January 1, 2010 was 23.08 cents per \$100.

FY 2012	FY 2013	FY 2014
\$2.6 million	\$2.9 million	\$3.1 million

21. Leasehold Interests

Kentucky Revised Statute 132.020, effective 1990

Leasehold interests privately held in industrial buildings owned and financed by tax-exempt governmental units are taxed at a reduced rate of 1.5 cents per \$100 of value. Note: This is the tangible personal property portion only.

FY 2012	FY 2013	FY 2014
\$4.4 million	\$4.6 million	\$4.7 million

22. Machinery Used in Farming and Livestock and Domestic Fowl

Kentucky Revised Statute 132.020, effective 1917

Machinery used in farming and the value of all livestock and 25 domestic fowl is taxed at a reduced rate of 1/10 of a cent per \$100.

FY 2012	FY 2013	FY 2014
\$33.7 million	\$35.1 million	\$36.5 million

23. Manufacturing Machinery; Pollution Control Equipment; and Radio, Television and Telephonic Equipment

Kentucky Revised Statute 132.020(1), effective 1977, revised 1998

Machinery, regardless of ownership, used in the manufacturing process is taxed at a reduced rate of 15 cents per \$100. Pollution control equipment is taxed at a reduced rate of 15 cents per \$100. Radio, television and telephonic equipment are taxed at a reduced rate of 15 cents per \$100.

FY 2012	FY 2013	FY 2014
\$40.6 million	\$37.0 million	\$46.8 million

24. Motor Vehicles With a Salvage Title

Kentucky Revised Statute 134.810, effective 1999

Motor vehicles with a salvage title and held by an insurance company on January 1 are taxed at a reduced rate of 5 cents per \$100 of value. This provision allows salvage vehicles held by an insurance company to be taxed in the same manner as motor vehicle dealers' inventory.

FY 2012	FY 2013	FY 2014
\$40,000	\$40,000	\$40,000

25. Property of Local Governments in Neighboring States

Kentucky Revised Statute 132.192, effective 2005

All personal property owned by another state or a political subdivision of another state that is used exclusively for public purposes is exempt from taxation if a comparable exemption is provided in that state or political subdivision for property owned by the Commonwealth or its political subdivisions.

FY 2012	FY 2013	FY 2014
-0-	-0-	-0-

26. Personal Property Used in Vending Stands Operated by the Blind

Kentucky Revised Statute 132.193(1), effective 1998

Personal property used in vending stands leased and operated by blind persons under the auspices of the Office for the Blind is exempt from taxation.

FY 2012	FY 2013	FY 2014
Minimal	Minimal	Minimal

Sales and Use Tax

Background Kentucky's first entry into the sales tax field occurred in 1934 when the General Assembly enacted a tax of 3 percent on general retail gross receipts. The tax was subsequently repealed by the 1936 General Assembly.

Kentucky again enacted a sales and use tax effective on July 1, 1960. The sales tax is imposed upon all retailers for the privilege of making retail sales in Kentucky. The retailer must pass the tax along to the consumer as a separate charge. The use tax is imposed on the storage, use, or other consumption of tangible personal property in Kentucky. Tangible personal property, the sale of which is subject to Kentucky sales tax, is not subject to the use tax.

From its inception in 1960 until 1986, the sales and use tax was the most productive tax in the General Fund. In 1986, it was surpassed by the individual income tax and continues to be the second most productive today. Receipts for FY11 totaled \$2.896 billion. This tax represented 33.1 percent of total General Fund revenues in FY11.

**Current
Rate
Structure**

Sales and use taxes are imposed at the rate of 6 percent of gross receipts or purchase price.

Tax Base

The tax base for the sales tax is gross receipts derived from both retail sales of tangible personal property and sales of certain services to the final consumer in Kentucky. Retail sales are defined as any sales other than sales for resale. The lease and rental of tangible personal property for a consideration is considered a sale or purchase, the receipts of which are subject to the sales and use tax.

The tax base for the use tax is the purchase price of tangible personal property purchased for storage, use, or other consumption in Kentucky. The use tax is a "back stop" for sales tax and generally applies to property purchased outside the state for storage, use, or consumption within the state. The purchaser's liability

for the use tax is not extinguished until the tax has been paid to the state, either by the purchaser or by the retailer from whom the property was purchased. However, the purchaser will not be held liable for the tax provided a receipt is obtained from a retailer engaged in business in this state, or from a retailer authorized to collect Kentucky use tax, showing that the tax was collected by the retailer as a separately stated charge and the receipt is maintained in the purchaser's files.

Tax Unit The sales tax is imposed on gross receipts from the retail sale, lease, or rental price of tangible personal property and certain services in Kentucky. The use tax is imposed on the storage, use, or other consumption of tangible personal property in Kentucky, measured by the purchase price.

Tax Due The tax must normally be reported and remitted on a monthly basis. In some cases, the taxpayer may be permitted to file on a quarterly or annual basis. For most taxpayers, the tax return and payment of the tax liability are due on the twentieth day of the month following the close of the tax period. Large taxpayers must file monthly returns and include an estimate of the first fifteen days of the following calendar month. The return is due on the twenty-fifth day following the close of the calendar period. The Department of Revenue notifies taxpayers required to file on this alternate basis of their obligation.

Table 16. Total Sales And Use Tax Expenditures

FY 2012	FY 2013	FY 2014
\$2,675.8 million	\$2,756.6 million	\$2,836.3 million

The total sales and use tax exemptions do not include the cost of excluding services from the sales tax. These sales were never included in the tax base, are generally not part of most states' sales tax base and therefore do not meet the technical qualifications of a tax expenditure. We have continued to estimate the amount of lost revenue from excluding certain services from the tax and have listed them in the back of this section. They are not considered tax expenditures for the purpose of this publication.

Tax Expenditures

1. Admissions to and Purchases by Historical Sites

Kentucky Revised Statute 139.482, effective 1976

Sales of admissions and purchases made by an historical site operated by a non-profit corporation, society, or organization and listed by the United States Department of Interior in the National Register of Historic Places are exempt.

FY 2012	FY 2013	FY 2014
\$503,400	\$503,400	\$503,400

2. Alcohol Production Facilities

Kentucky Revised Statute 139.480(18), effective 1980

Any sale, use, storage or consumption of tangible property certified as an alcohol production facility as defined in KRS 247.910 is exempt. According to the Department of Revenue, this classification has never been utilized since its creation in 1980.

FY 2012	FY 2013	FY 2014
-0-	-0-	-0-

3. Charter Bus Repair and Replacement Parts

Kentucky Revised Statute 139.480(32)(b), effective August 1, 2005

Repair and replacement parts for directly operating and maintaining a charter bus certified by the Transportation Cabinet are exempt.

FY 2012	FY 2013	FY 2014
\$37,000	\$38,000	\$39,000

4. Coal Used in the Manufacture of Electricity

Kentucky Revised Statute 139.480(2), effective 1960

Coal used in the manufacturing of electricity is exempt.

FY 2012	FY 2013	FY 2014
\$76.4 million	\$75.4 million	\$77.9 million

5. Coin-Operating Bulk Vending Machines

Kentucky Revised Statute 139.470(6), effective 1966, revised 1998

Vending machine sales of 50 cents or less are exempt from tax. Prior to the 1998 legislative change the amount exempt was 25 cents or less.

FY 2012	FY 2013	FY 2014
\$165,000	\$165,000	\$165,000

6. Construction Expenses for Alternative Fuel or Gasification Facility

Kentucky Revised Statute 154.27, effective January 1, 2008

Sales taxes paid on tangible personal property used in the process of constructing an alternative fuel or gasification facility may be refunded at the end of the calendar year. This tax expenditure has only been utilized once since its inception, which is depicted in the figures shown. Due to its underutilization up to the present time, it is not expected to be employed further within the biennium once the current project is completed.

FY 2012	FY 2013	FY 2014
\$1.6 million	\$3.8 million	-0-

7. Construction Expenses for Near-Zero Emission Power Plants

Kentucky Revised Statute 139.537, effective January 1, 2007

Tangible personal property used to construct, repair, renovate or upgrade a coal-based near-zero emission power plant is exempt from sales tax, including repair and replacement parts.

FY 2012	FY 2013	FY 2014
-0-	-0-	-0-

8. County Fair Admissions

Kentucky Revised Statute 139.470, effective June 2005

The first \$50,000 in county fair admissions are exempt from sales and use tax.

FY 2012	FY 2013	FY 2014
\$435,000	\$435,000	\$435,000

9. Donated Goods

Kentucky Revised Statute 139.495(5), effective August 1, 2005

A sales tax refund equal to 25 percent (up to \$1 million) of the tax collected on sales of donated goods by resident, nonprofit, educational, charitable or religious institutions is allowed, if the entity uses the refund exclusively as reimbursement for capital construction costs of additional retail locations in this state.

FY 2012	FY 2013	FY 2014
-0-	-0-	-0-

10. Energy and Energy Producing Fuels

Kentucky Revised Statute 139.480(3), effective 1960

Energy and energy producing fuels used in manufacturing, processing, mining, or refining, to the extent that the cost of the energy or energy-producing fuels used exceeds 3 percent of the cost of production, are exempt.

FY 2012	FY 2013	FY 2014
\$48.0 million	\$49.4 million	\$50.9 million

11. Federal Taxes Imposed on Sales of Tangible Personal Property

Kentucky Revised Statute 139.470(20), effective 1960

Taxes (not including any manufacturer's excise or import duty) imposed by the United States upon or with respect to retail sales are exempt.

FY 2012	FY 2013	FY 2014
\$8.5 million	\$8.6 million	\$8.7 million

12. Food Items

Kentucky Revised Statute 139.480(22), effective 1972, revised 1986

Food for human consumption is exempt from sales and use tax. The exemption does not apply to meals served in restaurants, to meals served on or off the premises, or to meals sold on a "take-out" or "to go" basis. This exemption does include purchases made with food stamps and the exemption for baked goods which became effective July 1, 2004.

FY 2012	FY 2013	FY 2014
\$484.0 million	\$498.5 million	\$513.5 million

13. 4-H Sales*Kentucky Revised Statute 139.497(2), effective 1998, revised July 13, 1990*

Sales made by nonprofit educational youth programs affiliated with a land grant university cooperative extension service are exempt if the net proceeds from the sales are used solely for the benefit of the affiliated programs.

FY 2012	FY 2013	FY 2014
Minimal	Minimal	Minimal

14. Garage or Yard Sales*Kentucky Revised Statute 139.496(1), effective 1976, revised July 1, 1990*

Sales and use tax does not apply to the first \$1,000 of sales made in any calendar year by an individual or nonprofit organization not engaged in the business of selling.

FY 2012	FY 2013	FY 2014
\$125,320	\$125,320	\$125,320

15. Interstate Business Communication Services*Kentucky Revised Statute 139.505, effective January 1, 2001*

Certain businesses whose interstate communications service subject to sales taxes exceed 5 percent of its Kentucky gross receipts in the preceding calendar year are entitled to a refundable credit of the sales tax paid on the excess.

FY 2012	FY 2013	FY 2014
-0-	-0-	-0-

16. Interstate Cargo and Passenger Aircraft, Parts and Supplies

Kentucky Revised Statute 139.480(19) effective 1982

Certain businesses whose interstate communications service subject to sales taxes exceed 5 percent of its Kentucky gross receipts in the preceding calendar year are entitled to a refundable credit of the sales tax paid on the excess.

FY 2012	FY 2013	FY 2014
\$14.2 million	\$14.6 million	\$15.1 million

17. Jet Fuel

Kentucky Revised Statute 144.132, effective July 1, 2000

Certain businesses whose interstate communications service subject to sales taxes exceed 5 percent of its Kentucky gross receipts in the preceding calendar year are entitled to a refundable credit of the sales tax paid on the excess.

FY 2012	FY 2013	FY 2014
\$24.9 million	\$25.7 million	\$26.4 million

18. Kentucky Enterprise Initiative

Kentucky Revised Statute 154.20-204, effective January 1, 2006

A new statewide tax incentive program replaced the Enterprise Zone program as the enterprise zones expired. It extended to eligible companies the opportunity to receive refunds of sales and use tax paid on the purchase of building materials and research and development materials for tourist attractions, services, technology, manufacturing and company headquarters for any industry. The program gives preference to companies in existing enterprise zones. The minimum investment is \$100,000 for companies within the enterprise zone boundaries, \$500,000 elsewhere. It also created a statewide cap in each year of \$20 million for building materials and \$5 million for research and development on all approved projects.

FY 2012	FY 2013	FY 2014
\$17.6 million	\$18.1 million	\$18.6 million

19. Labor or Services Used in Property Sold

Kentucky Revised Statute 139.010(10)(c)(4) effective 2009

The amount charged for labor or services rendered in installing or applying the tangible personal property, digital property, or service sold, provided the amount charged is separately stated on the invoice, bill of sale, or similar document given to the purchaser.

FY 2012	FY 2013	FY 2014
\$248.8 million	\$256.3 million	\$264.0 million

20. Locomotives and Rolling Stock

Kentucky Revised Statute 139.480(1), effective 1960

Locomotives or rolling stock, including materials for their construction, repair, or modification, or fuel and supplies for the direct operation of locomotives and trains used in interstate commerce are exempt.

FY 2012	FY 2013	FY 2014
\$12.3 million	\$12.3 million	\$12.3 million

21. Lodgings of Thirty Days or More

Kentucky Revised Statute 139.200(2), effective 2009

Rooms, lodging or accommodations supplied for a continuous period of 30 days or more to an individual are exempt.

FY 2012	FY 2013	FY 2014
\$265,140	\$265,140	\$265,140

22. Machinery for New and Expanded Industry*Kentucky Revised Statute 139.480 (10), effective 1960*

Machinery for new and expanded industry that is used directly in manufacturing or processing and is incorporated for the first time into plant facilities in this state, and does not replace machinery in such plant, is exempt.

FY 2012	FY 2013	FY 2014
\$60.5 million	\$61.6 million	\$62.7 million

23. New and Replacement Machinery or Equipment for Energy Efficient Projects*Kentucky Revised Statute 139.518, effective January 1, 2008*

A manufacturer who purchases machinery or equipment that reduces energy consumption at its facility by 15 percent or more is eligible for a refund of the sales tax on the purchase. Currently no applicants have been awarded incentives under this program, but applicants are projected to receive incentives in the coming two years.

FY 2012	FY 2013	FY 2014
-0-	\$1.0 million	\$2.0 million

24. Non-Profit Educational, Qualified Non-Profit Organizations, Charitable and Religious Institutions, Historical Sites*Kentucky Revised Statute 139.495, effective 1976*

Sales to resident, nonprofit educational, charitable, and religious institutions qualified for exemption from federal income taxation under Section 501(c)(3) of the Internal Revenue Code, for use solely within their exempt function, are exempt.

FY 2012	FY 2013	FY 2014
\$348.7 million	\$359.2 million	\$369.9 million

25. Occasional Sales

Kentucky Revised Statute 139.470(4), effective 1960

Casual or isolated sales of property not held or used by a seller in the course of an activity for which he is required to hold a seller's permit are exempt.

FY 2012	FY 2013	FY 2014
Substantial	Substantial	Substantial

26. Pay Phones

Kentucky Revised Statute 139.200(2)(e), effective January 1, 2006

Communication services furnished via a pay telephone are exempt from sales tax.

FY 2012	FY 2013	FY 2014
Minimal	Minimal	Minimal

27. Pollution Control Facilities

Kentucky Revised Statute 139.480(12), effective 1974

Property certified as a pollution control facility as defined by KRS 224.01-300 is exempt.

FY 2012	FY 2013	FY 2014
\$24.3 million	\$25.0 million	\$25.8 million

28. Prescription Medicine, Prosthetic Devices and Physical Aids

Kentucky Revised Statute 139.472, effective 1971

Prescription medicine, prosthetic devices, and physical aids are exempt from sales and use tax. Prosthetic devices include artificial limbs, artificial eyes, hearing aids, crutches, and wheelchairs.

FY 2012	FY 2013	FY 2014
\$375.0 million	\$386.3 million	\$397.8 million

29. Procurement, Processing, or Distribution of Blood or Human Tissue*Kentucky Revised Statute 139.125, effective 1968*

Whole blood, plasma, blood products, tissues such as corneas, bones, or organs for the purpose of injecting, transfusing, or transplanting any of them into the human body are exempt.

FY 2012	FY 2013	FY 2014
\$2.0 million	\$2.1 million	\$2.1 million

30. Property Certified as a Fluidized Bed Energy Production Facility*Kentucky Revised Statute 139.480(20), effective 1986*

Any sale, use, storage or consumption of tangible property that has been certified as a fluidized bed energy production facility, as defined in KRS 211.390, is exempt.

FY 2012	FY 2013	FY 2014
-0-	-0-	-0-

31. Rate Increase for School Taxes Added to Residential Telephone Bills*Kentucky Revised Statute 139.470(9), effective 1979*

Any rate increase for school taxes and any other charges or surcharges added to the total amount of a residential telephone bill is exempt.

FY 2012	FY 2013	FY 2014
\$5.6 million	\$5.6 million	\$5.6 million

32. Recycling Machinery and Equipment*Kentucky Revised Statute 139.480(23), effective 1991*

Replacement machinery that will increase the consumption of recycled materials by not less than 10 percent and machinery and equipment purchased or leased by a business, industry or organization in order to collect, source separate, compress, bale, shred or otherwise handle waste materials, if that machinery or equipment is primarily used for recycling purposes, are exempt.

FY 2012	FY 2013	FY 2014
\$1.2 million	\$1.3 million	\$1.4 million

33. Repair Parts for Large Trucks

Kentucky Revised Statute 139.480(32), effective July 12, 2006

Repair parts for those trucks and their towed units over 44,001 pounds that are used exclusively in interstate commerce are exempt from sales tax.

FY 2012	FY 2013	FY 2014
\$1.5 million	\$1.6 million	\$1.6 million

34. Retailers' Compensation for Collecting and Remitting the Tax

Kentucky Revised Statute 139.570, effective 1960

As reimbursement for the cost of collecting and remitting tax, the taxpayer shall deduct 1.75 percent of the first \$1,000 of tax due and 1 percent of the tax due in excess of \$1,000 if the amount due is not delinquent at the time of payment. The total compensation that any taxpayer can be reimbursed is limited to \$1,500 per tax return.

FY 2012	FY 2013	FY 2014
\$21.8 million	\$22.5 million	\$23.1 million

35. Residential Utilities

Kentucky Revised Statute 139.470(8), effective 1979

Sales of electricity, sewer services, water, and fuel to Kentucky residents for use in heating, cooling, lighting, and other residential uses are exempt from sales and use tax.

FY 2012	FY 2013	FY 2014
\$347.0 million	\$357.4 million	\$368.1 million

36. Sales by Elementary and Secondary Nonprofit, School-Sponsored Clubs and Organizations*Kentucky Revised Statute 139.497, effective 1984*

Sales made by elementary and secondary schools, nonprofit elementary or secondary school-sponsored clubs and organizations and nonprofit elementary or secondary school affiliated groups such as parent-teacher organizations and booster clubs are exempt.

FY 2012	FY 2013	FY 2014
\$4.1 million	\$4.1 million	\$4.1 million

37. Sales by Nonprofit Higher Educational School-Sponsored Clubs and Organizations*Kentucky Revised Statute 139.495(4), effective 1980*

Sales made by nonprofit school-sponsored clubs and organizations of higher education institutions, provided such sales do not include tickets for athletic events, are exempt.

FY 2012	FY 2013	FY 2014
\$136,000	\$136,000	\$137,000

38. Sales to Common Carriers Under a Bill of Lading*Kentucky Revised Statute 139.470(5), effective 1960*

Gross receipts from sales of tangible personal property to a common carrier, shipped by the seller via the purchasing carrier under a bill of lading, whether the freight is paid in advance or the shipment is made freight charges collect, to a point outside this state and the property is actually transported to the out-of-state destination for use by the carrier in the conduct of its business as a common carrier are exempt.

FY 2012	FY 2013	FY 2014
-0-	-0-	-0-

39. Sales to Motion Picture Companies*Kentucky Revised Statute 139.538, effective 1986*

Motion picture production companies filming or producing motion pictures in Kentucky are exempt from the tax. The exemption is accomplished by granting a refundable credit of taxes paid on purchases made in Kentucky in connection with the filming or producing of a motion picture in this state.

FY 2012	FY 2013	FY 2014
\$1.0 million	\$1.0 million	\$1.0 million

40. Semi-Trailers and Trailers*Kentucky Revised Statute 139.470(22), effective 2008*

The sales of semi-trailers and trailers as defined by KRS 189.101(12) and KRS 189.010(17) are exempt.

FY 2012	FY 2013	FY 2014
\$4.1 million	\$4.1 million	\$4.1 million

41. State, Cities, Counties and Special Districts*Kentucky Revised Statute 139.470(7), effective 1960 and 1976*

Sales to any cabinet, department, bureau, commission, board, or other statutory or constitutional agency of the state, and to cities, counties, and special districts defined in KRS 65.005 are exempt.

FY 2012	FY 2013	FY 2014
\$262.0 million	\$269.9 million	\$278.0 million

42. Textbooks

Kentucky Revised Statute 139.480(17), effective 1978

Textbooks, related workbooks, and other course material purchased for use in a course of study conducted by an institution qualified as a non-profit educational institution are exempt.

FY 2012	FY 2013	FY 2014
\$3.1 million	\$3.2 million	\$3.3 million

43. Tombstones and Other Grave Markers

Kentucky Revised Statute 139.480(13), effective 1976

Tombstones and other grave markers are exempt.

FY 2012	FY 2013	FY 2014
\$7.5 million	\$7.6 million	\$7.6 million

44. Tourism Attraction Project Credit/Refund

Kentucky Revised Statute 139.536, effective 1996

Kentucky Revised Statute 148.851, effective 1996

A credit is allowed against the sales tax generated by or arising from a tourism attraction project. The amount of the credit is calculated and refunded on an annual basis.

FY 2012	FY 2013	FY 2014
\$5.0 million	\$5.2 million	\$5.3 million

45. Vessels and Maritime Supplies

Kentucky Revised Statute 139.483, effective 1966

Ships and vessels, including their repair and construction, supplies and fuel used in their operation and supplies consumed by crew members aboard such ships and vessels, used principally in transporting property for hire are exempt.

FY 2012	FY 2013	FY 2014
\$15.2 million	\$15.2 million	\$15.2 million

46. Water Withdrawal Fees Paid to Kentucky River Authority

Kentucky Revised Statute 139.470 (12), effective July 1, 2005

Water withdrawal fees imposed by the Kentucky River Authority are exempt from sales and use tax.

FY 2012	FY 2013	FY 2014
\$157,900	\$167,300	\$176,700

Sales Tax Exemptions for Farmers

Table 17. Subtotal for Farming Tax Expenditures

FY 2012	FY 2013	FY 2014
\$248.1 million	\$258.2 million	\$268.3 million

The following tax expenditures pertain to the farming industry.

47. Aquaculture

Kentucky Revised Statute 139.480(30), effective 1998

Aquatic organisms sold directly to or raised by a person regularly engaged in the business of producing products of aquaculture for sale and items necessary for the production of aquatic organisms are exempt.

FY 2012	FY 2013	FY 2014
\$211,500	\$219,400	\$227,400

48. Equine Water

Kentucky Revised Statute 139.470(14), effective 1998

Water used in the equine-raising business is exempt.

FY 2012	FY 2013	FY 2014
\$1.3 million	\$1.3 million	\$1.3 million

49. Farm Chemicals

Kentucky Revised Statute 139.480(8),(24) and (26), effective 1992, revised 1994, 1996

Insecticides, fungicides, herbicides, rodenticides, and other farm chemicals used in the production of crops as a business, or in the raising and feeding of ratite birds, llamas and alpacas, or livestock and poultry, the products of which ordinarily constitute food for human consumption are exempt.

FY 2012	FY 2013	FY 2014
\$7.3 million	\$7.6 million	\$7.9 million

50. Farm Machinery, Attachments and Replacements, On-Farm Grain Storage Facilities, and On-Farm Facilities for Raising Chickens, Livestock, Ratite Birds, Llamas and Alpacas, and Buffalo

Kentucky Revised Statute 139.480(11), effective 1968

Farm machinery and repair and replacement parts for the operation of farm machinery are exempt.

Kentucky Revised Statute 139.480(14), effective 1978

On-farm facilities used exclusively for grain or soybean storing, drying, processing or handling, including all construction, renovation, or repair materials, parts, and equipment, are exempt.

Kentucky Revised Statute 139.480(15),(24),(26), and (29), effective 1990, 1994, and 1996

On-farm facilities used exclusively for raising chickens and livestock, ratite birds, and llamas and alpacas, the products of which ordinarily constitute food for human consumption, including equipment, machinery, attachments, repair and replacement parts, and any materials incorporated into the construction, renovation, or repair of the facility are exempt.

FY 2012	FY 2013	FY 2014
\$50.8 million	\$53.0 million	\$55.3 million

51. Fuel Used for Farm Purposes

Kentucky Revised Statute 139.480(16), effective 1978, revised 1998

Gasoline, special fuels, and liquefied petroleum gas used to operate or propel stationary engines or tractors for agricultural purposes are exempt.

FY 2012	FY 2013	FY 2014
\$15.9 million	\$16.9 million	\$17.8 million

52. Horses Less Than Two Years of Age*Kentucky Revised Statute 139.531(2)(d), effective 1976*

Sales of horses less than two years of age at the time of sale, provided the sale is made to a nonresident of Kentucky, and the horse is transported out of state, either immediately following the sale or immediately following training within the state are exempt.

FY 2012	FY 2013	FY 2014
\$9.8 million	\$9.8 million	\$9.8 million

53. Horses Purchased for Breeding*Kentucky Revised Statute 139.531(2)(a), effective 1976*

The sales and use tax does not apply to horses, interests in horses, or shares in horses, provided the purchase or use is made for breeding purposes only.

FY 2012	FY 2013	FY 2014
\$9.6 million	\$9.6 million	\$9.6 million

54. Livestock, Poultry, Ratite Birds, Embryos and Semen, Farm Work Stock and Feed, Seeds and Fertilizers*Kentucky Revised Statute 139.480(4),(5),(6),(7),(9),(25), effective 1960, 1994, 1996 and 2006*

Livestock that ordinarily constitutes food for human consumption, provided the sales are made for breeding or dairy purposes and by or to a person regularly engaged in the business of farming; poultry for use in breeding or egg production; embryos and semen used in the reproduction of livestock; and farm work stock for use in farming operations are exempt from the tax. Seeds, feed, and fertilizer, the products of which ordinarily constitute food for human consumption or which are to be sold in the regular courses of business are exempt.

FY 2012	FY 2013	FY 2014
\$143.5 million	\$150.1 million	\$156.7 million

55. Twine and Wire*Kentucky Revised Statute 139.480(27), effective 1998*

Baling twine and baling wire used for the purpose of baling hay and straw are exempt.

FY 2012	FY 2013	FY 2014
Minimal	Minimal	Minimal

56. Water Used for Farm Purposes*Kentucky Revised Statute 139.480(28), effective 1998*

Water sold to persons regularly engaged in the business of farming and used in the production of crops, milk for sale, or raising and feeding livestock, poultry, ratites, llamas, alpacas, buffalo or aquatic organisms is exempt.

FY 2012	FY 2013	FY 2014
\$9.7 million	\$9.7 million	\$9.7 million

Exclusion of Services

Kentucky Revised Statute 139.100 and 139.160, effective 1960

Table 18. Total for Excluded Services

FY 2012	FY 2013	FY 2014
\$1,761.3 million	\$1,830.4 million	\$1,902.9 million

Services are excluded from the sales and use tax by the definition of “retail sale” or “sale at retail” as a sale of tangible personal property.

(a) Personal services

FY2012	\$59.2 million
FY2013	\$62.4 million
FY2014	\$66.1 million

(b) Business services

FY2012	\$269.5 million
FY2013	\$283.8 million
FY2014	\$300.0 million

(c) Specialized Design Services

FY2012	\$5.9 million
FY2013	\$6.2 million
FY2014	\$6.6 million

(d) Computer System Designs

FY2012	\$123.1 million
FY2013	\$130.0 million
FY2014	\$137.4 million

(e) Scientific Research and Development

FY2012 \$8.8 million
FY2013 \$9.2 million
FY2014 \$9.8 million

(f) Advertising

FY2012 \$36.6 million
FY2013 \$38.6 million
FY2014 \$40.9 million

(g) Other Professional Services (includes professional, scientific, technical, information, rental and leasing services)

FY2012 \$112.7 million
FY2013 \$118.7 million
FY2014 \$125.7 million

(h) Health services

FY2012 \$531.0 million
FY2013 \$538.7 million
FY2014 \$543.7 million

(i) Legal services

FY2012 \$82.4 million
FY2013 \$86.8 million
FY2014 \$91.9 million

(j) Educational services

FY2012 \$16.5 million
FY2013 \$16.2 million
FY2014 \$15.8 million

- (k) Social services (includes individual, family, community food, housing, emergency, vocational rehabilitation and child daycare services)

FY2012	\$87.2 million
FY2013	\$91.9 million
FY2014	\$97.3 million

- (l) Engineering, accounting, research, management

FY2012	\$215.7 million
FY2013	\$227.2 million
FY2014	\$240.6 million

- (m) Automotive and miscellaneous repair services

FY2012	\$108.3 million
FY2013	\$114.0 million
FY2014	\$120.8 million

- (n) Amusement and recreational services
(Some recreational services such as commercial sports and museum services events are not included in this estimate.)

FY2012	\$30.0 million
FY2013	\$30.7 million
FY2014	\$30.6 million

- (o) Other Services (includes remediation, other waste management, religious, grantmaking, civic, and professional services)

FY2012	\$74.4 million
FY2013	\$76.0 million
FY2014	\$75.7 million

Special Fuels Tax

Background The term “special fuels” is defined to include all combustible gases and liquids capable of being used in motor vehicles, except gasoline, as defined in KRS 138.210, and liquefied petroleum gas, as defined in KRS 234.100. A tax on special fuels was first enacted in 1952. When the base was changed for gasoline in 1980 to the average wholesale price, the special fuels tax base was changed accordingly. This change provided that the special fuels rate would be a function of the wholesale price of gasoline, and as the price of gasoline rose, the rate on special fuels would rise proportionately. The “supplemental highway user tax” became effective July 1, 1986.

In 1988, the General Assembly made a major change in the special fuels law. The law now requires that the tax be levied on the dealer at the point of receipt of the fuels (as is the case for gasoline) instead of the point of sale by the dealer. Generally, special fuels used for off-highway purposes are subject to a refund of the tax, provided proper applications are filed and other procedures are followed.

The tax is imposed for the privilege of using the highways of the Commonwealth, therefore the receipts are deposited in the Road Fund. For FY11, the special fuels tax collections were \$173.9 million, which was 13.0 percent of total Road Fund tax receipts.

Current Tax Structure The special fuels tax rate has a variable component and two fixed parts. The variable portion of the tax is 9 percent of the average wholesale price (AWP) of gasoline. The fixed parts are the supplemental highway user tax which is assessed at 2 cents per gallon and the petroleum storage tank environmental assurance fee is assessed at 1.4 cents per gallon.

Tax Base The AWP is calculated on a quarterly basis by the Department of Revenue and is weighted by grade and formulation. The AWP is calculated in the first month of each fiscal quarter (July, October, January, and April) and applies to the following quarter. The AWP may not increase more than 10 percent over the AWP in effect at the close of the previous fiscal year.

The current AWP floor is \$1.786 per gallon. Therefore, the variable portion of the gasoline tax cannot be less than 16.1 cents per gallon. Adding the fixed components of the tax brings the minimum gasoline tax to 19.5 cents per gallon.

The tax becomes a liability of the dealer when the special fuel is received or enters the dealer’s storage facility. The dealer is allowed a deduction of 2.25 percent to cover evaporation, shrinkage, unaccountable losses, collection costs, bad debts, and handling and reporting the tax.

Taxable Unit The unit for levying the special fuels tax is a “per gallon” basis.

Tax Due Returns and payments of the tax are due monthly. The tax must be remitted to the Department of Revenue on or before the twenty-fifth day of the month.

Table 19. Total Special Fuels Tax Expenditures

FY 2012	FY 2013	FY 2014
\$83.1 million	\$86.9 million	\$91.1 million

Tax Expenditures

1. Agricultural Use

Kentucky Revised Statute 138.358(2), effective 1988

A credit is allowed for special fuels used for non-highway agricultural purposes.

FY 2012	FY 2013	FY 2014
\$6.6 million	\$7.0 million	\$7.3 million

2. Bus, Taxicab and Certain Senior Citizen's Programs Refunds

Kentucky Revised Statute 138.446(1), effective 1978

Seven-ninths of the tax paid is refunded if the special fuels are used in regularly scheduled operations of city and suburban buses, taxicabs, senior citizen transportation and non-profit buses.

FY 2012	FY 2013	FY 2014
\$670,000	\$690,000	\$710,000

3. Dealer's Monthly Reporting Allowance

Kentucky Revised Statute 138.270(1)(b), effective 1958

An allowance of 2.25 percent of the net tax due is allowed a dealer on a timely filed and paid monthly return. This allowance is given to offset the costs of evaporation, shrinkage, unaccountable losses, collection costs, bad debts and handling and reporting the tax.

FY 2012	FY 2013	FY 2014
\$4.3 million	\$4.4 million	\$4.5 million

4. Non-Highway Use

Kentucky Revised Statute 138.344(1), effective 1988, revised 2006

Special fuels used exclusively for non-highway use by qualified purchasers are exempt sales.

FY 2012	FY 2013	FY 2014
\$44.0 million	\$45.3 million	\$46.7 million

5. Railroad Companies

Kentucky Revised Statute 138.240(2)(f), effective 1988

Railroad companies principally engaged in the business of transporting property for others as a common carrier or in the conveyance of persons are exempt.

FY 2012	FY 2013	FY 2014
\$25.5 million	\$27.5 million	\$29.7 million

6. Religious, Charitable or Educational Use

Kentucky Revised Statute 138.358(3), effective 1988

An exemption is allowed for sales to qualifying non-profit religious, charitable or educational organizations for non-highway use.

FY 2012	FY 2013	FY 2014
\$180,000	\$190,000	\$200,000

7. Residential Heating

Kentucky Revised Statute 138.358(1), effective 1988

An exemption is allowed for special fuels used exclusively for heating personal residences.

FY 2012	FY 2013	FY 2014
\$1.2 million	\$1.2 million	\$1.2 million

8. State and Local Government Use

Kentucky Revised Statute 138.358(3), effective 1988

An exemption is allowed for sales to qualifying state and local government agencies for non-highway use.

FY 2012	FY 2013	FY 2014
\$63,000	\$72,500	\$84,000

9. Watercraft

Kentucky Revised Statute 138.445, effective 1960

One hundred percent of the tax paid on special fuels to operate or propel watercraft is refunded to qualified boat dock operators.

FY 2012	FY 2013	FY 2014
\$615,000	\$650,000	\$700,000

Background **K**entucky was the twentieth state to enact a tax on cigarettes, which became effective in 1936. The original cigarette excise tax rate was one cent per ten cents of the sales price. Over time, the “two-cents-per-package” tax gradually became a three-cent levy as more and more retailers began to charge above twenty cents per pack of cigarettes.

On July 1, 1960, a proportionate rate of two and one-half cents on each twenty cigarettes sold within the Commonwealth was assessed.

The 1970 General Assembly created the Tobacco Research Trust Fund. The legislation increased the cigarette excise tax by one-half cent per pack, to three cents per pack. The revenue generated by this tax increase was earmarked for the Tobacco Research Trust Fund.

In 1982, the General Assembly provided for a cigarette enforcement fee, in an amount calculated annually by the Department of Revenue, to recover applicable costs of enforcing the fair trade law and administering the cigarette tax law. The present rate is one-tenth of one cent per package of twenty cigarettes.

In 1994, the General Assembly enacted the Teen Tobacco Education Fund and provided that one-twentieth of one cent (\$0.0005) of the three-cent-per-pack revenue be used to offset the cost of the education efforts.

In 2000, the General Assembly enacted the Teen Tobacco Enforcement Fund and provided that one-twentieth of one cent of the three-cent-per-pack revenue be deposited in a trust and agency account to offset the costs of enforcement.

In 2005, the General Assembly enacted a cigarette surtax of a proportionate rate of twenty-six cents on each twenty cigarettes. An additional one-cent was enacted and dedicated to the Cancer Research Matching Fund. The two additional surtaxes brought Kentucky’s total tax on a pack of twenty cigarettes to thirty cents.

Additionally, a 7.5 percent gross receipts tax was imposed on other tobacco products and a tax on snuff was imposed at 9.5 cents per unit.

In 2006, the General Assembly clarified the taxation of other tobacco products by making a distinction between moist snuff and dry snuff. Dry snuff was taxed at 7.5 percent as an other tobacco product (OTP). Moist snuff is taxed as snuff. Additionally, a new wholesale cigarette paper excise tax was created. The tax is twenty-five cents per package of 32 sheets of paper.

**Current
Tax
Rate**

In 2009, HB 144 added an additional 30 cents for the cigarette surtax and doubled the rates on both other tobacco products and snuff.

Starting on April 1, 2009, the tax rate, including both the cigarette excise tax and the cigarette surtax, is sixty (60) cents per package of twenty cigarettes. The other tobacco products tax is 15.0 percent of gross receipts. The tax on snuff is 19 cents per unit.

For FY11, tobacco tax collections deposited to the General Fund were \$283.8 million and represented 3.2 percent of total General Fund tax revenues.

Tax Base

Both the cigarette excise tax and the cigarette surtax are paid through the purchase of stamps or meter units from the Department of Revenue. These stamps must be placed on each package of cigarettes as evidence that the tax has been paid. For affixing the tax evidence, the wholesaler is generally allowed the equivalent of a 9.09 percent discount against only the cigarette excise tax when the evidence is purchased.

The tax base for other tobacco products is the wholesale sales price. The tax base for moist snuff is an excise unit: a tin of snuff not to exceed 1.5 ounces.

Tax Due The wholesaler pays the tax at the time the tax stamps or meter units are purchased from the Department of Revenue. A monthly report is required by the twentieth of each month reflecting purchases and trafficking of cigarettes for the preceding month. A monthly report of other tobacco products and snuff is also due by the twentieth day of the succeeding month within which the transaction occurred.

Table 20. Total Tobacco Tax Expenditures

FY 2012	FY 2013	FY 2014
\$1.3 million	\$1.2 million	\$1.2 million

Tax Expenditures

1. Compensation Allowed Wholesaler

Kentucky Revised Statute 138.146, effective 1982

For affixing the tax evidence to each package of cigarettes, the cigarette wholesaler is allowed an amount of tax evidence equal to thirty cents for each three dollars of tax evidence purchased. This converts to a 9.09 percent discount on the purchase of tax evidence on the cigarette excise tax. The compensation afforded to cigarette stampers is limited to the excise tax and does not apply to the cigarette surtaxes.

FY 2012	FY 2013	FY 2014
\$1.3 million	\$1.2 million	\$1.2 million

EARMARKED FUNDS

Earmarked funds are reserved to be spent only on a particular program. The taxpayer is still liable for the tax, and the state is still collecting these revenues. The fact that the revenues are earmarked for special purposes does not qualify them as tax expenditures.

Earmarked funds are included for informational purposes in this report because they do have an impact on the amount of usable funds collected by the General Fund and the Road Fund.

Table 21. Total Earmarked Funds

FY 2012	FY 2013	FY 2014
\$49.1 million	\$51.1 million	\$52.9 million

Earmarked Funds**1. County Clerk Share for Collection of Sales Tax on Nonresident Sales**

Kentucky Revised Statute 139.778, effective January 1, 2007

In return for collecting sales and use taxes due on tangible personal property purchased out of state at the time of registration or titling, county clerks may retain three percent of the tax collected.

FY 2012	FY 2013	FY 2014
\$2.4 million	\$2.5 million	\$2.7 million

2. Equine Breeder Development Funds - Sales Tax

Kentucky Revised Statute 230.800, 230.802 and 230.804, effective June 1, 2005

Sales tax receipts from stud fees for breeding of horses in this state are earmarked for use in creating breeder incentives. The sales tax is deposited into special funds for future disbursement by the Kentucky Horse Racing Commis-

sion. Eighty percent of the receipts are dedicated to the “Kentucky Thoroughbred Breeders Incentive Fund”; 13 percent to the “Kentucky Standardbred Breeders Incentive Fund”; and 7 percent to the “Kentucky Horse Breeders Incentive Fund.”

Kentucky Thoroughbred Breeders Incentive Fund

FY 2012	FY 2013	FY 2014
\$9.3 million	\$9.2 million	\$9.0 million

Kentucky Standardbred Breeders Incentive Fund

FY 2012	FY 2013	FY 2014
\$1.5 million	\$1.5 million	\$1.4 million

Kentucky Horse Breeders Incentive Fund

FY 2012	FY 2013	FY 2014
\$800,000	\$780,000	\$770,000

3. Equine Drug Research - Pari-Mutuel Tax

Kentucky Revised Statute 138.510(1)(c)(5) effective 1982

An amount equal to 0.1 percent of the total amount wagered in Kentucky is deducted from the pari-mutuel tax to be used in financing drug research and testing.

FY 2012	FY 2013	FY 2014
\$300,000	\$290,000	\$280,000

4. Equine Industry Program Trust and Revolving Fund-Pari-Mutuel Tax

Kentucky Revised Statute 138.510(1)(c)(5), effective 1990

One-fifth of one percent (0.2%) of the total amount wagered on live racing in Kentucky and .05 percent of the total amount wagered on intertrack wagering are deducted from the pari-mutuel tax and deposited in this fund. The fund is used for the equine industry program at the University of Louisville.

FY 2012	FY 2013	FY 2014
\$340,000	\$335,000	\$330,000

5. Higher Education Equine Trust and Revolving Fund - Pari-Mutuel Tax

Kentucky Revised Statute 138.510(1)(c)(4), effective 1992

One-tenth of one percent (0.1%) of the total amount wagered in Kentucky is deducted from the pari-mutuel tax to be deposited in this fund. The fund is used for construction, expansion or renovation of facilities or the purchase of equipment for equine programs at state universities.

FY 2012	FY 2013	FY 2014
\$295,000	\$290,000	\$290,000

6. Kentucky Aviation Economic Development Fund - Sales Tax

Kentucky Revised Statute 183.525, effective July 1, 2000

All sales and use tax collected on the sale of aircraft fuel is deposited in this fund.

FY 2012	FY 2013	FY 2014
\$6.1 million	\$6.3 million	\$6.5 million

7. Kentucky Transportation Center - Motor Fuels Tax

Kentucky Revised Statute 177.320(4), effective 1986

The Kentucky Transportation Center receives 0.1 percent of all revenues arising from the imposition of taxes on gasoline, special fuels and liquefied petroleum gas. The receipts are limited to \$190,000 in any fiscal year.

FY 2012	FY 2013	FY 2014
\$190,000	\$190,000	\$190,000

8. Standardbred Development Fund - Pari-Mutuel Tax

Kentucky Revised Statute 138.510(1)(c)(2) effective 1990

One percent of all pari-mutuel wagering at harness host tracks under the jurisdiction of the Kentucky Horse Racing Commission, and 2 percent of wagering at receiving tracks in intertrack wagering as well as telephone account wagering, are deducted from the tax and deposited in this fund.

FY 2012	FY 2013	FY 2014
\$90,000	\$92,000	\$94,000

9. Tax Increment Financing - Various Taxes

*Kentucky Revised Statute 65.490, effective July 14, 2000 and
Kentucky Revised Statute 65.680-65.699, effective June 21, 2001
Kentucky Revised Statute 154-030.010, effective June 26, 2009*

Since 2001, tax increment financing (TIF) project grant agreements have been approved for projects eligible under the various TIF statutes. KRS 64.490 was the initial Pilot language for TIF projects involving state participation in cities of the first class. KRS 65.680-65.699 amended the Pilot language to create a variety of new TIF options, with state participation scaled to the site and impact of the project. New TIF applicants are required to apply under KRS 154.030-010 et. al. As of October 2011, thirteen (13) TIF projects have been approved to recover tax increments.

FY 2012	FY 2013	FY 2014
\$17.0 million	\$19.0 million	\$21.0 million

10. Thoroughbred Development Fund - Pari-Mutuel Tax

Kentucky Revised Statute 138.510(1)(c)(1), effective 1990

Three-quarters of one percent (0.75%) of all pari-mutuel wagering at thoroughbred horse tracks under the jurisdiction of the Kentucky Horse Racing Commission, and two percent (2%) of wagering at receiving tracks in intertrack wagering as well as telephone account wagering, is deducted from the pari-mutuel tax and deposited in this fund.

FY 2012	FY 2013	FY 2014
\$4.3 million	\$4.2 million	\$4.2 million

11. Cancer Research Fund - Cigarette Tax

Kentucky Revised Statute 138.140(3), effective June 2005

Effective June 1, 2005, an additional one-cent surtax is paid on top of the three-cent excise tax and the 56-cent cigarette surtax. This one-cent surtax is directly deposited into a cancer research institution matching fund that was created in KRS 164.043 during the 2005 Regular Session of the General Assembly. For packages other than 20 packs of cigarettes, the one-cent surtax is pro-rated.

FY 2012	FY 2013	FY 2014
\$4.3 million	\$4.2 million	\$4.0 million

12. Tobacco Enforcement Program - Cigarette Tax

Kentucky Revised Statute 438.335 and 438.337, effective 1996

One-twentieth of one cent of the three-cent per pack state excise tax on cigarettes is earmarked for the Department of Agriculture to enforce the laws aimed at the prevention of sales of tobacco products to minors.

FY 2012	FY 2013	FY 2014
\$200,000	\$195,000	\$192,000

13. Tobacco Research Trust Fund - Cigarette Tax

Kentucky Revised Statute 248.540, effective 1970

One-sixth of the excise tax collected is earmarked for the Tobacco Research Trust Fund. This calculation does not apply to the 57-cent surtax on cigarettes.

FY 2012	FY 2013	FY 2014
\$2.0 million	\$1.95 million	\$1.92 million

ENDNOTES

- (a) Revised due to updated data from the Kentucky Department of Revenue. Additionally, economic conditions affected the availability and use of exemptions, credits or deductions.
- (b) Revised due to updated data from the U.S. Office of Management and Budget and a change in methodology for converting the effective tax rate from the federal to the Kentucky level.
- (c) Revised due to updated data from the Kentucky Department of Revenue as well as assumptions made about the rate of growth of this relatively new tax.