

Commonwealth of Kentucky

# TAX EXPENDITURE ANALYSIS

FISCAL YEARS 2018 - 2020



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



**Office of State Budget Director**

702 Capitol Avenue, Suite 284

Frankfort, Kentucky 40601

(502) 564-7300

[www.osbd.ky.gov](http://www.osbd.ky.gov)

**Matthew G. Bevin**  
Governor

**John E. Chilton**  
State Budget Director

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

November 30, 2017


The Honorable Matthew G. Bevin  
Governor  
Commonwealth of Kentucky  
State Capitol  
Frankfort, KY 40601

Dear Governor Bevin:

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 (FY18 through FY20). 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."*

We hope 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,



John E. Chilton  
State Budget Director



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# Executive Summary

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The Office of State Budget Director is presenting this Tax Expenditure Report as required by 2016 House Bill 303. This report, which will be delivered to each branch of government, includes detailed estimates of General Fund and Road Fund revenue losses attributable tax expenditures for the current fiscal year (FY18) and next two fiscal years (FY19 and FY20).

The 2016 House Bill 303 defines “tax expenditure” as the estimated amount of revenue loss resulting from 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. This report includes estimates of the amount of revenue loss for each tax expenditure, a citation of the legal authority for the tax expenditure, the year in which it was enacted, and the tax year in which it became effective.

A grand total of all tax expenditures, excluding Tourism credits/subsidies, Tax Increment Financing projects, Federal tax expenditures, and tax expenditures associated with the sales taxation of services, is as follows:

<b>FY18:</b>	<b>\$ 9,370.5 million</b>
<b>FY19:</b>	<b>\$ 9,691.6 million</b>
<b>FY20:</b>	<b>\$ 10,027.6 million</b>

The purpose of a Tax Expenditure Analysis is to quantify and catalog specific tax reductions that have been established by 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 enacted by the Kentucky General Assembly.

Direct budgetary expenditures, or appropriations, are made by distributing funds actually collected by the Commonwealth. Tax expenditures are made by authorizing preferential tax treatment that allows the targeted recipient to retain money 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 primarily at the time of adoption and implementation, unless the enabling legislation expires, or “sunset” at some future date. There is no process to systematically review or periodically re-evaluate tax expenditures in subsequent years, except by this Tax Expenditure Analysis. Sunset provisions are much more

common at the federal level, thereby forcing Congress to re-examine the efficacy of programs before renewal.

Tax expenditures come in many forms. Tax relief may be granted to specific recipients or perhaps to specific goods. For example, sales tax exemptions usually result in an exemption of a type of taxable property or a type of transaction from taxation. A common example is tombstones in Kentucky. Tombstones are exempt from taxation as a class of tangible personal property regardless of the nature of the transaction. A common example of a transactional expenditure is electricity sold for residential use. In general, Kentucky imposes tax on the sale of electricity, but not if it is used for residential purposes. Either way, these exemptions result in no tax obligation 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 estimated amount of potential tax revenue that is foregone because of the statutory implementation of these expenditures.

The following list describes 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 each tax expenditure.

### **Summary of Tax Expenditures for the Major Taxes**

- ◆ ***Alcoholic Beverage Taxes*** – Various excise and sales 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 FY17, alcoholic beverage taxes generated \$146.0 million in Kentucky. Tax expenditures within these tax types are estimated at \$7.0 million for FY18.

- ◆ **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 FY17, this tax generated \$105.1 million. Tax expenditures for this tax type are estimated at \$5.0 million for FY18.
- ◆ **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 FY17, this tax generated \$100.5 million. Tax expenditures for this tax type are estimated at \$2.3 million for FY18.
- ◆ **Corporation Income Tax** – This tax was first assessed in 1936 against the net income attributable to Kentucky. Current rates of tax range from four percent to six percent of net income for tax years beginning on or after January 1, 2007. For FY17, the corporation income tax generated \$497.5 million. Tax expenditures for this tax are estimated at \$365.9 million for FY18.
- ◆ **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 19.6 cents per gallon; if the wholesale price rises above \$2.177, the variable tax rate will rise. For FY17, this tax generated \$760.5 million. Tax expenditures for this tax are estimated at \$14.7 million for FY18.
- ◆ **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 six 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 FY17, this tax generated \$4.4 billion. State tax expenditures for the individual income tax are estimated at \$1,621.2 million for FY18. Federal tax expenditures for the individual income tax are estimated at \$3,010.7 million for FY18.

- ◆ ***Inheritance Tax*** – First adopted in 1906, the inheritance 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 FY17, the inheritance tax generated \$44.7 million. Tax expenditures for this tax are estimated at \$68.1 million for FY18.
- ◆ ***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). For FY17, the insurance premiums tax generated \$148.2 million. Tax expenditures for these taxes are estimated to total \$32.0 million in FY18.
- ◆ ***Limited Liability Entity Tax*** – Enacted during the 2006 Extraordinary Session of the General Assembly, this gross receipts tax applies to all entities that provide limited liability to 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. Tax receipts for FY17 totaled \$245.6 million but because the LLET is a minimum tax that is offset against income tax, the net revenue from the LLET was approximately \$85.0 million. Tax expenditures for this are estimated to total \$97.9 million in FY18.
- ◆ ***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 19.6 cents per gallon. If the wholesale price rises above \$2.177, the variable tax rate will also rise. For FY17, this tax generated \$81,400. Tax expenditures for this tax are estimate at \$1,000 for FY18.
- ◆ ***Motor Vehicle Usage Tax*** – First assessed in 1936, the current tax rate is six 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 on the public highways of the Commonwealth. As such, the proceeds are deposited in the Road Fund. For FY17, this tax generated \$499.8 million. Tax expenditures are estimated at \$133.4 million for FY18.



- ◆ ***Natural Resources Severance and Processing Tax*** – First assessed in 1980, these taxes are levied against the gross value of all minerals severed or processed in Kentucky, excluding coal and oil which are taxed separately. For FY17, these taxes generated \$130.1 million. Tax expenditures are estimated at \$7.0 million for FY18.
- ◆ ***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 FY17, property taxes generated \$602.1 million. Tax expenditures are estimated at \$873.6 million for FY18.
- ◆ ***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 of tangible personal property, digital property, and certain services within the state, at a rate of six percent of the gross receipts. The use tax is imposed on the storage, use or other consumption of tangible property at a rate of six percent of the sales price. For FY17, the sales and use tax generated \$3,485.2 million. Tax expenditures are estimated at \$3,031.3 million for FY18.
- ◆ ***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 19.6 cents per gallon; if the wholesale price rises above \$2.177, the variable tax rate will also rise. For FY17, this tax generated \$499.8 million. Tax expenditures for this tax are estimated at \$65.5 million for FY18.
- ◆ ***Tobacco Taxes*** – The cigarette tax is a tax on each pack of cigarettes and was first assessed in 1936. The per-pack rate currently equals sixty cents and is composed of the original excise tax of three cents (\$0.03), a surtax of fifty-six cents (\$0.56), and a cancer research surtax of one cent (\$0.01). The tobacco products tax includes taxes on loose tobacco, cigars, dry snuff, and other smokeless tobacco products. Snuff is taxed at the rate of nineteen cents (\$0.19) per tin. Chewing tobacco is taxed at nineteen cents (\$0.19) per single unit sold, \$0.40 per each half pound, or \$0.65 per each pound sold. All remaining tobacco products are taxed at 15 percent of the actual distributor price. The distributor pays all tobacco taxes. For FY17, tobacco taxes generated \$243.0 million. The tax expenditures associated with these taxes are estimated at \$1.2 million for FY18.

- ◆ ***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 because the tax is still collected from the taxpayer. Identified earmarked funds that are not deposited into the General Fund are estimated at \$57.5 million for FY18.
  
- ◆ ***Tax Increment Financing*** – The funding mechanism for TIF projects typically involves the individual income tax, sales and use tax, and property taxes; the pledge of these aforementioned revenue sources may be in amounts equal to the cost of public infrastructure created by the new development.

In addition to the certification of TIF projects, the Office of State Budget Director and the Cabinet for Finance and Administration are required to due similar diligence regarding the Tourism Development Act (TDA). The funding mechanism for TDA projects is limited to recovery through the sales tax collected at the tourism destination, not to exceed 25 percent of the certified approved cost of construction, as determined by the Cabinet of jurisdiction – Tourism Arts, and Heritage.

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# Introduction

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House Bill 303 from the 2016 Regular Session of the General Assembly directs the Office of State Budget Director to prepare estimates of the state tax expenditure.

***Tax Expenditure Revenue Loss Estimates:** By November 30, 2017, the Office of State Budget Director shall provide to each branch of government detailed estimates for the General Fund and Road Fund for the current and next two fiscal years of the revenue loss affected by tax expenditures. The Department of Revenue shall provide assistance and furnish data which is not restricted by KRS 131.190. “Tax expenditure” as used in this section means 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. The estimates shall include for each tax expenditure the amount of revenue loss, a citation of the legal authority for the tax expenditure, the year in which it was enacted, and the tax year in which it became effective.*

The reporting of tax expenditure was incorporated into the federal budget process through the enactment of the *Congressional Budget and Impoundment Act* in 1974. This Act requires the President to report on tax expenditures in the budget and requires Congressional committees to provide tax expenditure estimates for each tax bill they report. Through the process, legislators may recognize the costs associated with tax expenditures and analyze such measures under comparable scrutiny to traditional budget expenditures.

The Commonwealth of Kentucky began tracking tax expenditures in 1988, when the Finance and Administration Cabinet and the Revenue Cabinet produced the inaugural edition of the Tax Expenditure Report. As stated in the introduction of that report, the purpose of a state tax expenditure analysis is to provide legislators, business groups, government officials and other interested persons, information about the various tax expenditures existing in the Kentucky Revised Statutes. This information was collected to permit the review and evaluation of the numerous tax expenditures in much the same manner as that used for the review of direct outlays of government funds during the normal budgetary process.

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 the need for 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.

*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 303, enacted by the General Assembly during the 2016 Regular Session 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.

Not all deductions and exemptions allowed pursuant to the laws are classified as tax expenditures. Tax expenditures could be thought of 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. 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 do not create a tax expenditure because these classes of transactions are incongruous with the philosophical underpinnings of a retail sales tax. However, actual income that is exempted because of special circumstances, such as retirement income, would be considered a tax expenditure because all types of individual income, in general, are subject to taxation.

*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 numerous changes. In many cases, these decisions lead to less similarity between state and federal laws and ultimately to even more complexity. If 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 lost revenues.

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 because they are automatically deducted from the revenue projections used to formulate the biennial budget. 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 comprehensive review of tax expenditures has value in its own right. Without thorough, long-term reviews, tax policy often becomes overly focused on immediate, short-term problems. In such an environment, more fundamental government goals may fall by the wayside. For example, day-to-day tax policy issues often involve the analysis of a single tax expenditure designed to address a particular perceived need. When viewed in isolation, a tax expenditure may have considerable merit and be motivated by the best of intentions. However, ad hoc preferences incrementally add to the complexity of the tax code and may threaten its fairness, distort decision-making, and gradually erode the tax base. Before long, the fundamental objectives of a tax system – equity, efficiency, simplicity and adequacy – may be compromised.

Periodic review is necessary because time can dramatically alter the complexion of tax expenditures. Tax breaks for a select and small group of people can quickly grow into expensive entitlements as demographic conditions or economic incentives induce change. Conversely, tax preferences can lose their usefulness as the income or business conditions that undergird the tax expenditure evolve.

Tax expenditure reports are useful tools in the biennial budget process. They offer insight into foregone revenue that could be recovered, allowing budget shortfalls to be closed without resorting to tax rate increases or direct expenditure cuts. Incorporating tax expenditure reports directly into the budget process would enhance the visibility of these fiscal options.

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, quantifying when possible, and explains many of the Kentucky tax expenditures. 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 some cases, precise information is not reflected on tax returns or the data is not 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. There are some tax expenditures that cannot be reliably quantified, because of conflicting data or lack of data. Whenever 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 the 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 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 because 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.

Additionally, while the Commonwealth's income tax statutes specify certain exemptions, exclusions, or deductions from the base of the income tax, Kentucky's income tax computations begin with Federal income taxable income. Consequently, many of the Commonwealth's income tax expenditures are the same as the tax expenditures imbedded in Federal tax law.

Because of the coordination with Federal tax rules, the Office of State Budget Director believes that it would not be practical or advisable to consider elimination of many of the Federal expenditures. For example, as in Federal tax law, no state taxes pension contributions, earnings in pension plans, employer-paid health insurance, capital gains on property transferred at death, etc. Consequently, we are presenting those types of Federal tax expenditures separately.

Finally, there are two fundamental concepts that are important to an understanding of sales tax expenditures.

First, sales taxes are imposed at the time when taxable property is sold to the person who will actually consume it. Sales tax does not generally apply to items used in the manufacturing, production and distribution processes or purchased for resale. For example, sales tax does not apply when a clothing manufacturer buys cloth, thread, buttons, zippers and packaging materials and sales tax does not apply when the retailer purchases the finished product from the manufacturer. The tax does apply when the consumer buys clothing from the retailer. The general principle is that sales tax should not apply at multiple levels of the manufacturing, production and distribution process; it should only apply when purchased for consumption.

Second, historically, the sales tax has been applied primarily to the sale of tangible goods but not to services or real estate. Some people have contended that the economy has increasingly become more of a service economy and, thus, the sales tax base should be expanded to include services. Several points are relevant to this assertion.

One consideration is to examine the validity of the basic assertion that the average consumer purchases more services than consumers did 20, 30 or more years ago. To understand the validity of this general assertion, it is important to consider the types of services offered in the modern economy. Certain categories of services are purchased primarily by businesses, not individual consumers. Consider for example, engineering, architectural, advertising, legal, and accounting services – those are purchased primarily by businesses. Because those costs are incurred at multiple levels in the manufacturing, production and distribution process, it is not appropriate

to subject those costs to sales tax, just as it is not appropriate to subject the cost of materials used in the manufacturing, production and distribution processes (as described above).

In addition, subjecting service (labor) costs to sales tax would put external service providers at a six percent competitive disadvantage compared to costs incurred by businesses internally. Furthermore, for services that can be obtained within or outside the Commonwealth, taxation of those services would put Kentucky service providers at a six percent competitive disadvantage compared to service providers outside Kentucky. It is also important to note other states have imposed sales tax only on selected services, not services in general.

For the reasons stated above, tax expenditures related to the taxation of services are presented separately in this report.

To be clear, most tax expenditures would require an extra stage of scrutiny in order to arrive at the fiscal impact that would be proper in scoring a bill to change particular tax expenditures. Every attempt was made to adjust policies that have been the topic of recent legislation, but the adjustment process is very laborious and impractical for a document of this size. An example may clarify the complexity of the process. In the sales tax section of this report we list several services that, if taxed, would be a revenue pick-up for the Commonwealth. To arrive at the numbers used in this book, since the services are not currently taxed, we try to estimate the amount of the service being consumed in Kentucky and then apply an appropriate rate. However, many real world factors affect the amount of tax that would be ultimately collected. For instance, if the service is sold by a business that has already set up a sales tax account with Kentucky, then we might expect higher compliance (e.g., if a business sells garage doors and does installations, sales tax is currently being collected on the garage door itself but not the installation. It would not be a dramatic change to extend the tax to installations in this case since the business owner is already a compliant remitter of the tax from the door sales).

In juxtaposition to the above example, consider a tax on lawn care. It would not be reasonable to assume the same level of compliance here because many lawn care companies are not currently obliged to collect and remit the sales tax on any tangible personal property. Moreover, there are many suppliers of lawn services – including very informal service providers such as the proverbial “neighbor kid”. Therefore the number associated with the current level of lawn services in Kentucky needs to be adjusted downward to account for inevitable compliance problems.



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 statute(s), 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.

Readers of this report may be inclined 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 forecast while the current estimates are based on the most up-to-date information available. Several tax expenditure estimates have materially changed since 2016 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.

This report continues to quantify the exemption of certain services from sales tax even though these exemptions/exclusions are not considered tax expenditures. A list of specific services and the estimated costs can be found at the end of the Sales and Use Tax section.

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 at the end of this publication.

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 Dan Bork, Commissioner of the Department of Revenue, and to the many members of his staff who participated in the data collection process of this project also other departments within State Government. Without their assistance, this publication would not have been possible:

**Office of Elections**

Mary Ellen Allen

**Federal Defense Finance & Accounting Service**

Matthew Brown

Kenneth Crowder

James Monday

**Military Affairs**

Col. Blaine Hedges

**Department of Revenue**

Jane Becker

Linda Benton

Tom Crawford

Jason Crothers

Eric Daniels

Lori Detwiler

Richard Dobson

Latonia Fields

Ricky Haven

Christy Kinney

Melissa Klink

Jim Oliver

James Orr

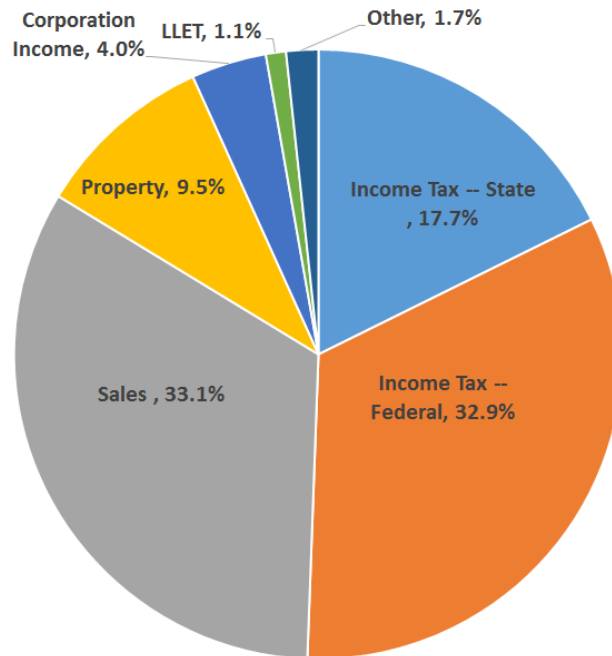
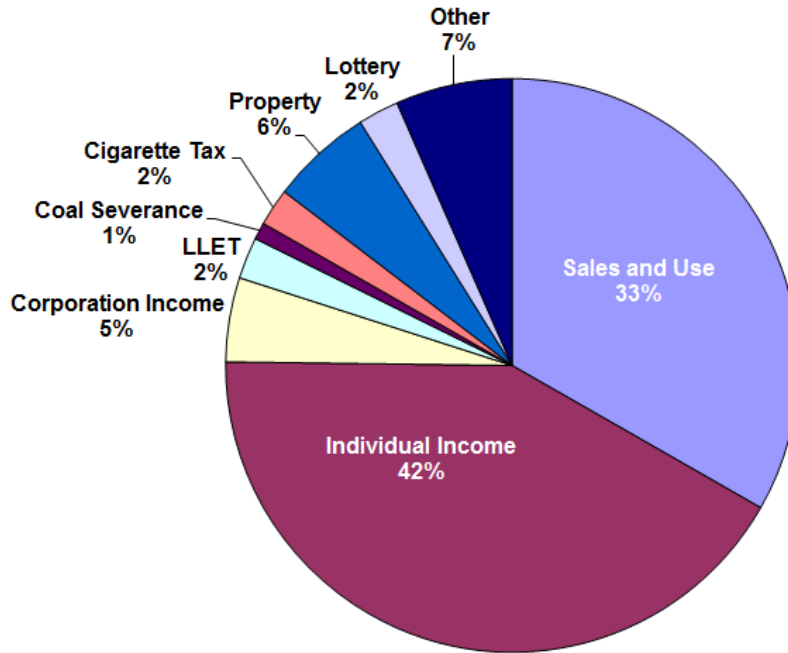
Nathan Polly

Todd Renner

Regina Ritchey

# Figure 1. General Fund Overview

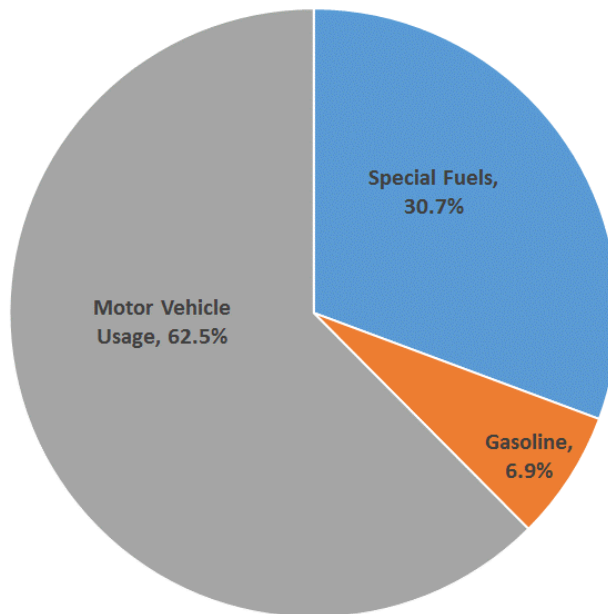
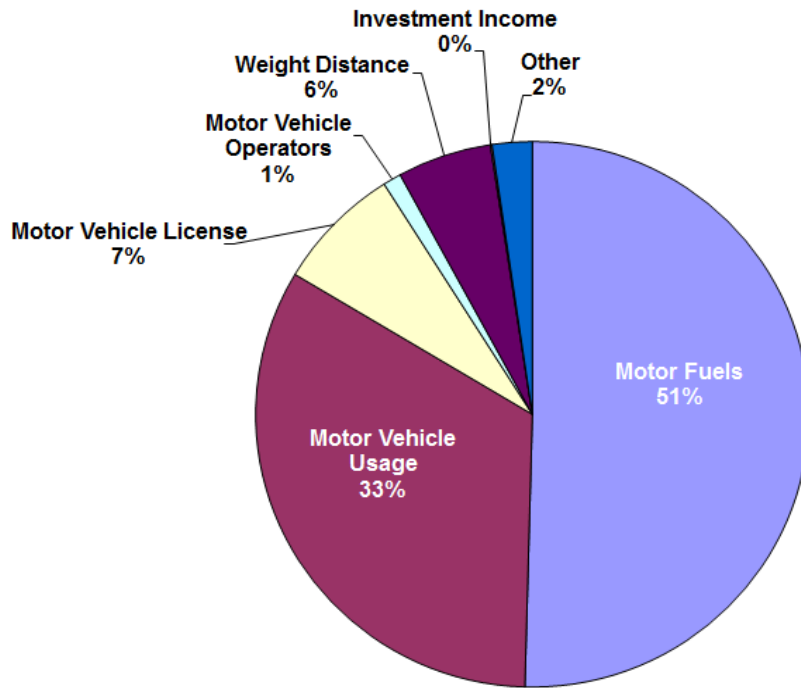
## Actual FY2017 General Fund Tax Receipts



## Estimated FY2018 General Fund Tax Expenditures

**Figure 1. Road Fund Overview**

**Actual FY2017 Tax Receipts**



**Estimated FY2018 Road Fund Tax Expenditures**

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# Summary Tables of Expenditures

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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)**

	<b><u>FY18</u></b>	<b><u>FY19</u></b>	<b><u>FY20</u></b>
<b>Total Alcoholic Beverage Taxes Expenditures (\$millions)</b>	<b>7.000</b>	<b>8.900</b>	<b>9.200</b>
Allowance for Collecting and Reporting	1.500	1.600	1.600
Low Volume Distilled Spirits Taxed at Reduced Rate	0.044	0.044	0.044
Malt Beverage Excise Tax at Reduced Rate	0.060	0.061	0.062
Small Farm Winery Exemption	0.300	0.320	0.340
Wholesale Sales Tax Imposed Rate on Beer	3.900	5.100	5.300
Wholesale Sales Tax Imposed Rate on Wine	1.200	1.800	1.900
<b>Total Bank Franchise Tax Expenditures (\$millions)</b>	<b>5.000</b>	<b>5.000</b>	<b>5.000</b>
Kentucky Historic Preservation Credit	5.000	5.000	5.000
Kentucky Investment Fund Credit	0.000	0.000	0.000
<b>Total Coal Severance &amp; Processing Tax Expenditures (\$millions)</b>	<b>2.300</b>	<b>2.400</b>	<b>2.500</b>
Coal Purchased for Alternative Energy or Gasification Facility	0.000	0.000	0.000
Coal Used to Burn Solid Waste	0.000	0.000	0.000
Thin Seam Tax Credit	2.300	2.400	2.500
<b>Total Corporation Income Tax Expenditures (\$millions)</b>	<b>365.900</b>	<b>369.400</b>	<b>374.900</b>
Coal Royalties	Minimal	Minimal	Minimal
Credit Unions	6.200	6.300	6.400
Dividend Income	191.300	192.400	195.100
Homeowner's Associations	0.150	0.150	0.150
Real Estate Investment Trust	13.200	13.500	13.800
Charitable Contributions	13.100	13.300	13.400
Deductibility of Patronage Dividends	12.200	12.300	12.400
Domestic Production Activities	11.400	11.500	11.700
Excess of Percentage over Cost Depletion	3.000	3.100	3.400
Leasehold Interest of Property Contributed as Living Quarters for Homeless	0.000	0.000	0.000
Net Operating Loss Deduction	68.000	69.000	70.000
Biodiesel Tax Credit	0.850	0.825	0.800
Cellulosic Ethanol Credit	0.070	0.070	0.070
Clean Coal Incentive Credit	0.000	0.000	0.000
Coal Conversion Credit	0.005	0.005	0.005
Coal Incentive Credit	0.000	0.000	0.000
Construction of Research Facilities Credit	0.050	0.060	0.070
Distilled Spirits Credit	0.000	0.000	0.000
Donated Edible Agricultural Products Credit	0.000	0.000	0.000
Employer GED Credit	0.000	0.000	0.000
Endow Kentucky Tax Credit	0.030	0.030	0.030
Ethanol Tax Credit	0.075	0.075	0.075
Film Industry Tax Credit	8.500	8.600	9.000
Hiring the Unemployed Tax Credit	0.067	0.068	0.069
Incentives for Energy Independence Act Tax Credit (IEIA)	0.000	0.000	0.000
Kentucky Business Investment Credit (KBI)	5.500	5.500	5.500
Kentucky Environmental Stewardship Tax Credit (KESA)	0.000	0.000	0.000
Kentucky Historic Preservation Tax Credit	0.000	0.000	0.000
Kentucky Investment Fund Tax Credit	0.040	0.040	0.040
Kentucky Industrial Development Act Credit (KIDA)	2.700	2.800	2.900

	<b><u>FY18</u></b>	<b><u>FY19</u></b>	<b><u>FY20</u></b>
Kentucky Industrial Revitalization Agreement Credit (KIRA)	0.500	0.500	0.500
Kentucky Job Retention Agreement Tax Credit (KJRA)	0.000	0.000	0.000
Kentucky Jobs Development Act Credit (KJDA)	2.000	2.000	2.000
Kentucky Reinvestment Act Tax Credit (KRA)	6.300	6.300	6.300
Kentucky Rural Economic Development Act Credit (KREDA)	3.900	4.000	4.100
Kentucky Small Business Investment Credit	0.002	0.002	0.002
Metropolitan College Program Tax Credit	0.000	0.000	0.000
New Markets Development Program Tax Credit	0.000	0.000	0.000
Railroad Expansion or Upgrade to Accommodate Transportation of Fossil Energy Resources or Biomass Resources Tax Credit	2.000	2.000	2.000
Railroad Maintenance and Improvement Tax Credit	3.000	3.100	3.200
Recycling and/or Composting Equipment Credit	11.100	11.200	11.300
Skills Training Investment Tax Credit	0.600	0.600	0.600
Voluntary Environmental Remediation Credit	0.040	0.040	0.040
<b>Total Gasoline Tax Expenditures (\$ millions)</b>	<b>14.700</b>	<b>14.800</b>	<b>14.900</b>
Agricultural Exemption	0.091	0.091	0.092
Aircraft Refund	0.145	0.150	0.155
Bus, Taxicab, and Certain Senior Citizen's Programs Refund	0.710	0.720	0.730
Dealer's Monthly Reporting Allowance	13.000	13.100	13.200
Watercraft Refund	0.720	0.723	0.725

	<u>FY18</u>	<u>FY19</u>	<u>FY20</u>
<b>Total Individual Income Tax Expenditures - Federal (\$millions)</b>	<b>3,010.700</b>	<b>3,179.400</b>	<b>3,357.600</b>
<b><u>Federal - Tax Expenditures - Exclusions From Income</u></b>	<b>1,914.300</b>	<b>2,027.000</b>	<b>2,148.000</b>
Active Duty Military Pay Exemption	10.700	11.100	11.500
Assistance for Adopted Foster Children and Foster Care Payments	2.200	2.300	2.400
Basis of Property Acquired by Gifts and Transfers in Trust	12.500	13.800	15.100
Cancellation of Indebtedness	0.000	0.000	0.000
Capital Gains - Eminent Domain	0.000	0.000	0.000
Capital Gain on Property Transferred at Death	199.500	212.000	225.200
Disabled Coal Miners	0.600	0.600	0.300
Employee Stock Ownership Plan Provisions	3.000	3.000	2.600
Employer Contributions for Medical Insurance and Medical Care	872.600	924.000	986.200
Employer-Provided Benefits of Premiums on Group Term Life, Accident and Disability Insurance	11.200	11.500	11.900
Employer-Provided Child Care Exclusion	4.000	4.300	4.500
Employer-Provided Educational Assistance	3.600	3.700	3.900
Employer-Provided Meals and Lodging	17.900	18.400	18.900
Exclusion of G.I. Bill Benefits	7.400	7.900	8.300
Gain on the Sale of a Personal Residence	141.300	151.300	162.100
Income Earned Abroad by U.S. Citizens	26.300	27.700	29.000
Installment Sales	6.300	6.300	6.500
Interest on Life Insurance Savings	110.000	128.400	143.700
Miscellaneous Fringe Benefits	30.400	31.200	31.900
Passive Loss Rules Exception	29.900	31.300	32.700
Private Pensions and Individual Retirement Accounts	339.600	351.100	362.000
Public Assistance Benefits	2.300	2.400	2.500
Railroad & Supplemental Railroad Retirement System Benefits	1.100	1.100	1.000
Scholarship and Fellowship Income	13.100	13.300	13.800
Veteran's Pension, Death and Disability Compensation	30.800	31.900	33.200
Worker's Compensation Benefits	38.000	38.400	38.800
<b><u>Federal - Tax Expenditures - Deductions (\$millions)</u></b>	<b>1,067.700</b>	<b>1,122.700</b>	<b>1,179.000</b>
Casualty and Theft Losses	2.100	2.200	2.200
Charitable Contributions	134.300	138.700	143.000
Excess of Percentage over Cost Depletion	5.900	6.500	6.700
Health Savings Account Deduction	30.600	36.300	43.300
Home Mortgage Interest	181.200	187.300	193.100
Individual Retirement Account Contributions	65.500	68.700	73.200
Interest on Educational Loans	6.800	6.800	6.900
Interest on US Savings Bonds	3.800	3.700	3.700
Job Expenses & Other Miscellaneous Deductions	70.700	73.100	75.400
Keogh Plan Contributions	16.300	16.900	17.400
Medical Expenses	47.300	48.900	50.400
Net Operating Loss Deduction	64.600	66.800	68.800
Parsonage Allowances	3.100	3.200	3.400
Property Tax on Owner-Occupied Homes	145.700	156.400	166.600
State and Local Taxes Other Than Home Property Taxes	224.300	238.900	253.600
U.S. Production Activities	65.400	68.300	71.300
<b><u>Federal - Tax Expenditures - Credits</u></b>	<b>28.700</b>	<b>29.700</b>	<b>30.600</b>
Postsecondary Education Tuition Credit	28.700	29.700	30.600



	<u>FY18</u>	<u>FY19</u>	<u>FY20</u>
<b><u>Total State Tax Expenditures Excluding Federal (\$millions)</u></b>	<b>1,621.200</b>	<b>1,676.600</b>	<b>1,728.600</b>
<b><u>State - Tax Expenditures Exclusions From Income</u></b>	<b>949.500</b>	<b>982.400</b>	<b>1,013.500</b>
Armed Forces Personnel Benefits and Allowances	50.600	52.400	54.500
Federal and Military Retirement Income Received	530.900	548.800	565.900
Income Averaging for Farmers	0.500	0.500	0.500
Precinct Workers	0.100	0.100	0.100
S-Corporation Distributions Already Taxed Under the Bank			
Franchise Tax or Capital Stock Tax	Minimal	Minimal	Minimal
Social Security Benefits for Retired Workers, Disabled			
Workers, Dependents and Survivors	162.100	168.400	173.700
<b><u>State - Tax Expenditures - Deductions</u></b>	<b>205.300</b>	<b>212.200</b>	<b>218.000</b>
Standard Deduction	205.300	212.200	218.800
<b><u>State - Tax Expenditures - Credits</u></b>	<b>466.400</b>	<b>482.000</b>	<b>497.100</b>
Biodiesel Credit	0.000	0.000	0.000
Cellulosic Ethanol Credit	0.000	0.000	0.000
Child and Dependent Care Credit	9.300	9.600	9.900
Coal Incentive Credit	0.000	0.000	0.000
Construction of Research Facilities Credit	0.000	0.000	0.000
Distilled Spirits Credit	0.000	0.000	0.000
Donated Edible Agricultural Products Credit	0.000	0.000	0.000
Endow Kentucky Tax Credit	0.500	0.500	0.500
Ethanol Credit	8.200	8.400	8.700
Expanded Low Income Tax Credit	118.900	122.900	126.700
Film Industry Tax Credit	Substantial	Substantial	Substantial
Hiring the Unemployed Credit	0.000	0.000	0.000
Historic Preservation Tax Credit - Nonrefundable	0.200	0.200	0.200
Historic Preservation Tax Credit - Refundable	1.200	1.200	1.300
Job Development Credits	120.800	124.900	128.800
Kentucky Angel Investment Act	1.000	1.000	1.100
Kentucky Investment Fund Credit	0.400	0.400	0.400
Kentucky Small Business Investment Tax Credit	1.000	1.000	1.000
Limited Liability Entity Tax Credit	22.700	23.500	24.200
New Markets Development Credit	0.000	0.000	0.000
Personal and Dependent Tax Credits	63.300	65.500	67.500
Railroad Maintenance and Improvement Credit	0.000	0.000	0.000
Recycling and/or Composting Equipment Credit	0.600	0.600	0.700
Taxes Paid to Other States Credit	66.700	68.900	71.100
Voluntary Environmental Remediation Credit	0.000	0.000	0.000
Withheld Amount for Economic Development Project			
Employees Credit	51.600	53.400	55.000
<b><u>Total Inheritance and Estate Tax Expenditures (\$millions)</u></b>	<b>68.100</b>	<b>68.200</b>	<b>68.300</b>
Annuities Under Qualified Retirement Plans	Minimal	Minimal	Minimal
Assessment of Land at its Agricultural or Horticultural Value	Minimal	Minimal	Minimal
Benefits Paid to a Beneficiary of Military Personnel Under			
Certain Retirement Plans	Minimal	Minimal	Minimal
Benefits Paid by the Federal Government Due to Service			
in Time of War	Minimal	Minimal	Minimal
Certificates of Deposit Exempt from the			
Contemplation of Death Rule	Minimal	Minimal	Minimal

	<b><u>FY18</u></b>	<b><u>FY19</u></b>	<b><u>FY20</u></b>
Class A Beneficiaries	55.000	55.000	55.000
Class B Beneficiaries	Minimal	Minimal	Minimal
Class C Beneficiaries	Minimal	Minimal	Minimal
Discount for Early Payment of Tax	1.200	1.200	1.200
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	11.900	12.000	12.100
<b>Total Insurance Premiums Taxes Expenditures (\$millions)</b>	<b>32.000</b>	<b>32.000</b>	<b>32.000</b>
Hospital, Medical, or Dental Service Companies			
Exempt from Premiums Tax	2.000	2.000	2.000
Kentucky Investment Fund Credit	0.000	0.000	0.000
Life and Health Guaranty Fund Assessment Credit	20.000	20.000	20.000
New Markets Development Program Tax Credit	10.000	10.000	10.000
<b>Total Limited Liability Entity Tax Expenditures (\$millions)</b>	<b>97.900</b>	<b>98.000</b>	<b>98.100</b>
Alcohol Production Facility	0.000	0.000	0.000
Certified Fluidized Bed Energy Production Facility	0.000	0.000	0.000
Cooperatives, Cooperatives and Their Patrons, Homeowners' Assoc., Political Organizations	Minimal	Minimal	Minimal
Costs of Goods Sold, Bulk Delivery Charges, and Indirect Labor	40.000	40.000	40.000
Limited Liability Entity Tax -Exemptions - Rate	Substantial	Substantial	Substantial
Open-End Registered Investment Companies	0.000	0.000	0.000
Personal Service Corporations	2.100	2.200	2.300
Premiums Paid for Health Insurance	2.300	2.300	2.300
Publicly Traded Partnerships	Minimal	Minimal	Minimal
Qualified Farming Operation	0.015	0.015	0.015
Real Estate Investment Trust	1.000	1.000	1.000
Real Estate Mortgage Investment Conduit	Minimal	Minimal	Minimal
Regulated Investment Company	Minimal	Minimal	Minimal
Small Business Relief from the Limited Liability Entity Tax	41.000	41.000	41.000
Biodiesel Tax Credit	0.225	0.225	0.225
Cellulosic Ethanol Credit	0.150	0.150	0.150
Clean Coal Incentive Credit	0.050	0.050	0.050
Coal Conversion Credit	0.050	0.050	0.050
Coal Incentive Credit	0.000	0.000	0.000
Construction of Research Facilities Credit	0.225	0.225	0.225
Distilled Spirits Credit	0.000	0.000	0.000
Donated Edible Agricultural Products Credit	0.000	0.000	0.000
Employer GED Credit	Minimal	Minimal	Minimal
Endow Kentucky Tax Credit	0.010	0.010	0.010
Ethanol Tax Credit	0.150	0.150	0.150
Film Industry Tax Credit	0.600	0.600	0.600
Hiring the Unemployed Tax Credit	0.075	0.075	0.075
incentives for Energy Independence Act Tax Credit (IEIA)	0.000	0.000	0.000
Kentucky Business Investment Credit (KBI)	0.600	0.600	0.600
Kentucky Enterprise Initiative	0.000	0.000	0.000
Kentucky Environmental Stewardship Tax Credit (KESA)	0.000	0.000	0.000

	<b><u>FY18</u></b>	<b><u>FY19</u></b>	<b><u>FY20</u></b>
Kentucky Historic Preservation Tax Credit	2.000	2.000	2.000
Kentucky industrial Development Act Credit (KIDA)	0.650	0.650	0.650
Kentucky Industrial Revitalization Agreement Credit (KIRA)	0.500	0.500	0.500
Kentucky investment Fund Tax Credit	0.007	0.007	0.007
Kentucky Job Retention Agreement Tax Credit (KJRA)	0.000	0.000	0.000
Kentucky Jobs Development Act Credit (KJDA)	1.000	1.000	1.000
Kentucky Reinvestment Act Tax Credit (KRA)	0.950	0.950	0.950
Kentucky Rural Economic Development Act Credit (KREDA)	1.000	1.000	1.000
Kentucky Small Business Investment Tax Credit	0,020	0,020	0.020
Metropolitan College Program Tax Credit	0.250	0.250	0.250
New Markets Development Program Tax Credit	0.000	0.000	0.000
Railroad Expansion or Upgrade to Accommodate Transportation of Fossil Energy Resources or Biomass Resources Tax Credit	0.000	0.000	0.000
Railroad Maintnenace and Improvement Tax Credit	0.025	0,025	0.025
Recycling and/or Composting Equipment Credit	2.500	2.500	2.500
Skills Training Investment Tax Credit	0.425	0.425	0.425
Voluntary Environmental Remediation Credit	0.050	0.050	0.050
<b>Total Liquefied Petroleum Gas Tax Expenditures (\$millions)</b>	<b>0.001</b>	<b>0.001</b>	<b>0.001</b>
Approved Carburetion Systems	Minimal	Minimal	Minimal
Dealer's Monthly Reporting Allowance	0.001	0.001	0.001
<b>Total Motor Vehicle Usage Tax Expenditures (\$millions)</b>	<b>133.400</b>	<b>135.600</b>	<b>137.700</b>
Adapted Equipment for Physically Handicapped Persons	0.000	0.000	0.000
Change in Business Structure	0.185	0.190	0.195
Charter Bus Exemption	0.000	0.000	0.000
Commercial Motor Vehicle Exemption	0.050	0.050	0.050
Educational & Charitable Organizations	1.400	1.500	1.600
Immediate Family Member	7.000	7.300	7.500
Insurance Company Transfers	0.025	0.025	0.025
Large Truck Exclusion	19.200	20.200	21.200
Military Exemption	3.100	3.000	2.800
Partnership Interests	Minimal	Minimal	Minimal
Repossessed Exemption	0.375	0.355	0.325
Trade-In Allowance on New or Used Motor Vehicle Purchases	101.000	102.000	103.000
Transfers between a Limited Liability Company and its Members	0.120	0.130	0.140
Transfers between a Subsidiary and a Parent Corporation	0.065	0.066	0.067
Transfers by Will or Court Order	0.920	0.820	0.800
<b>Total Natural Resources Severance and Processing Tax Expenditures (\$millions)</b>	<b>7.000</b>	<b>7.200</b>	<b>7.400</b>
Ball Clay, Fluorspar, Lead, and Barite, Used for Privately Maintained but Publicly Dedicated Roads	Minimal	Minimal	Minimal
Clay Used in Landfill Construction	Minimal	Minimal	Minimal
Inactive Crude Oil & Natural Gas Wells	0.025	0.025	0.025
Limestone Sold in Interstate Commerce	3.000	3.100	3.200
Limestone Sold or Used for Agricultural Purposes	Minimal	Minimal	Minimal
Transportation Expense	4.000	4.100	4.200

	<u>FY18</u>	<u>FY19</u>	<u>FY20</u>
<b>Total Property Tax Expenditures (\$millions)</b>	<b>873.600</b>	<b>903.700</b>	<b>934.700</b>
<b><u>Real Property</u></b>			
Agricultural and Horticultural Land Assessment Protection	0.100	0.100	0.100
Agricultural Value of Real Property	49.500	51.400	53.300
Alcohol Production Facilities	0.000	0.000	0.000
Environmental Remediation Property	0.003	0.003	0.003
Homestead Exemption	19.000	19.200	19.400
Intrastate Railroads and Railway Companies	0.022	0.022	0.022
Leasehold Interest in Buildings Financed with Industrial Revenue Bonds	1.800	1.800	1.900
Property of Local Governments in Neighboring States	0.018	0.018	0.018
Real Property Owned by Exempt Entities	47.800	47.200	49.700
State Real Property Tax Yearly Revenue Ceiling	506.100	529.400	553.700
<b><u>Tangible Property</u></b>			
Agricultural Products	4.700	4.800	4.800
Aircraft	1.700	1.800	1.800
Business Inventories	75.100	75.500	75.900
Car Lines	1.300	1.300	1.300
Federally Documented Vessels	0.594	0.612	0.624
Foreign Trade Zone	29.000	30.000	30.100
Historic Vehicles	0.220	0.220	0.220
In-Transit Goods	20.100	20.300	20.500
Intrastate Railroads and Railway Companies	0.190	0.190	0.190
Interstate Trucks, Tractors and Buses	3.400	3.400	3.400
Leasehold Interests	4.400	4.500	4.600
Machinery Used in Farming and Livestock & Domestic Fowl	46.000	47.400	48.100
Manufacturing Machinery; Pollution Control Equipment; and Radio, Television & Telephonic Equipment	62.600	64.500	65.000
Motor Vehicles with a Salvage Title	Minimal	Minimal	Minimal
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
<b>Total Sales and Use Tax Expenditures (\$millions)</b>			
<b>(w/o excluded services)</b>	<b>3,031.300</b>	<b>3,090.700</b>	<b>3,157.600</b>
Admissions to and Purchases by Historical Sites	0.510	0.512	0.514
Charter Bus Repair & Replacement Parts	0.066	0.068	0.070
Coal Used in the Manufacture of Electricity	35.000	35.500	36.000
Coin-Operating Bulk Vending Machines	Minimal	Minimal	Minimal
Construction Expenses for Alternative Fuel or Gasification Facility	0.060	0.065	0.065
Construction Expenses for Near Zero Emission Power Plants	0.000	0.000	0.000
County Fair Admissions	0.500	0.505	0.510
Donated Goods	0.660	0.660	0.660
Energy and Energy Producing Fuels	100.000	104.000	109.000
Federal Taxes Imposed on Sales of Tangible Personal Property	10.000	10.400	10.800
Food Items	481.600	490.000	500.000
4-H Sales	Minimal	Minimal	Minimal

	<b><u>FY18</u></b>	<b><u>FY19</u></b>	<b><u>FY20</u></b>
Garage or Yard Sales	0.300	0.305	0.310
Interstate Business Communication Service	Substantial	Substantial	Substantial
Interstate Cargo & Passenger Aircraft, Parts & Supplies	16.300	16.700	17.100
Jet Fuel	31.000	33.000	37.000
Kentucky Enterprise Initiative	5.500	6.000	6.500
Labor or Services Used in Property Sold	325.000	330.000	335.000
Locomotives and Rolling Stock	11.500	11.500	11.500
Lodgings of Thirty Days or More	0.325	0.325	0.325
Machinery for New & Expanded Industry	74.000	75.000	76.400
New & Replacement Machinery or Equipment for Energy Efficient Projects	Minimal	Minimal	Minimal
Non-Profit Educational, Qualified Non-Profit Organizations, Charitable and Religious Institutions, Historical Sites	415.000	423.000	430.000
Occasional Sales	Substantial	Substantial	Substantial
Pay Phones	Minimal	Minimal	Minimal
Pollution Control Facilities	32.500	34.000	35.500
Prescription Medicine, Prosthetic Devices & Physical Aids	600.000	612.000	624.000
Procurement, Processing or Distribution of Blood or Human Tissue	4.000	4.300	4.500
Property Certified as a Fluidized Bed Energy Production Facility	0.000	0.000	0.000
Rate Increase for School Taxes Added to Residential Phone Bills	0.000	0.000	0.000
Rebate on Sales of Admission & Tangible Personal Property at Governmental Facility	0.117	0.120	0.122
Recycling Machinery and Equipment	2.400	2.600	2.800
Refund on Building Materials Used for Disaster Recovery	0.103	0.090	0.090
Reimbursement of Seller's Collection Costs	1.300	1.400	1.400
Repair or Replacement Parts for Large Trucks	2.100	2.200	2.300
Residential Utilities	293.300	300.000	310.000
Sales by Elementary and Secondary Nonprofit, School-Sponsored Clubs and Organizations	5.800	5.900	5.900
Sales by Nonprofit Higher Educational School-Sponsored Clubs and Organizations	0.150	0.150	0.150
Sales of Tangible Personal Property Made by a Federally Chartered Corporation's Annual National Convention Held in the Commonwealth	Minimal	Minimal	Minimal
Sales to Motion Picture Companies	Minimal	Minimal	Minimal
Semi-Trailers and Trailers	6.000	6.200	6.300
State, Cities, Counties and Special Districts	262.000	265.000	269.000
Textbooks	3.300	3.400	3.400
Tombstones and Other Grave Markers	8.500	8.600	8.600
Tourism Attraction Project Credit/Refund	5.200	5.600	6.000
Vessels and Maritime Supplies	6.400	6.600	6.700
Water Withdrawal Fees Paid to Kentucky River Authority	0.192	0.195	0.198

	<b><u>FY18</u></b>	<b><u>FY19</u></b>	<b><u>FY20</u></b>
<b>Subtotal for Farming Tax Expenditures (\$millions)</b>	<b>290.700</b>	<b>294.900</b>	<b>298.900</b>
Aquaculture	0.188	0.189	0.192
Equine Water	1.700	1.700	1.800
Farm Chemicals	11.100	11.300	11.400
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	45.500	46.000	46.500
Fuel Used for Farm Purposes	13.000	13.900	15.000
Horses Less Than Two Years of Age	16.500	17.000	17.500
Horses Purchased for Breeding	12.500	12.800	13.500
Livestock, Poultry, Ratite Birds, Lama, Alpaca, Aquatic Organisms, Buffalo, Cervids, Embryos and Semen, Farm Work Stock and Feed, Seeds and Fertilizers	169.000	170.000	170.000
Twine and Wire	Minimal	Minimal	Minimal
Water Used for Farm Purposes	21.200	22.000	23.000
<b>Total Special Fuels Tax Expenditures (\$millions)</b>	<b>65.500</b>	<b>64.500</b>	<b>63.300</b>
Agricultural Use	6.800	6.700	6.600
Bus, Taxicab and Certain Senior Citizen's Programs Refunds	0.870	0.880	0.890
Dealer's Monthly Reporting Allowance	3.700	3.600	3.500
Non-Highway Use	25.000	24.000	23.000
Railroad Companies	28.000	28.100	28.200
Religious, Charitable or Educational Use	0.075	0.076	0.077
Residential Heating	0.600	0.700	0.600
State and Local Government Use	0.350	0.360	0.370
Watercraft	0.060	0.065	0.070
	<b><u>FY18</u></b>	<b><u>FY19</u></b>	<b><u>FY20</u></b>
<b>Total Tobacco Taxes Expenditures (\$millions)</b>	<b>1.200</b>	<b>1.100</b>	<b>1.100</b>
Compensation Allowed Wholesaler	1.200	1.100	1.100
	<b><u>FY18</u></b>	<b><u>FY19</u></b>	<b><u>FY20</u></b>
<b>Total Earmarked Funds (\$millions)</b>	<b>57.417</b>	<b>55.537</b>	<b>57.357</b>
Cancer Research Fund - Cigarette Tax	3.800	3.700	3.600
County Clerk Share for Collection of Nonresident Sales Tax	0.100	0.102	0.104
Department of Energy Development and Independence	0.400	0.400	0.400
Equine Breeder Development Funds - Sales Tax - Kentucky Thoroughbred Breeders Incentive Fund	11.300	11.700	12.200
Kentucky Standardbred Breeders Incentive Fund	1.800	1.900	2.000
Kentucky Horse Breeders Incentive Fund	0.900	1.000	1.000
Equine Drug Research – Pari-mutuel Tax	0.575	0.600	0.625
Equine Industry Program Trust and Revolving Fund – Pari-mutuel Tax	0.940	0.950	0.960
Higher Education Equine Trust and Revolving Fund – Pari-mutuel Tax	0.570	0.575	0.580
Kentucky Aviation Economic Development Fund – Sales Tax	10.200	10.200	10.300
Kentucky Heritage Land Conservation Fund	0.676	0.650	0.625
Kentucky Quarter Horse, Appaloosa and Arabian Development Fund	0.019	0.019	0.019
Kentucky Transportation Center – Motor Fuels Tax	0.190	0.190	0.190
Malt Beverage Educational Fund	0.669	0.675	0.680
Tax Increment Financing – Various Taxes	23.700	21.400	22.600
Tobacco Enforcement Program – Cigarette Tax	0.178	0.176	0.174
Tobacco Research Trust Fund – Cigarette Tax	1.400	1.300	1.300
<b>Tourism Development Act (\$millions)</b>	<b>5.100</b>	<b>6.400</b>	<b>7.600</b>

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# Alcoholic Beverage Taxes

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## **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. In 1948, it was raised to \$1.28. In 1970, the rate for excise taxes on distilled spirits 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 six 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 nine 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.

Effective July 1, 2015 the following alcoholic beverage tax rates apply to wholesalers of wine and beer:

- 10.75 percent for wholesale sales made on or after July 1, 2015 and before June 1, 2016;
- 10.50 percent for wholesale sales made on or after June 1, 2016 and before June 1, 2017;
- 10.25 percent for wholesales made on or after June 1, 2017 and before June 1, 2018; and
- 10.00 percent for wholesale sales made on or after June 1, 2018.

The rate changes were enacted in 2014 in HB 445, but the wholesale rate on distilled spirits remained at 11 percent.

Effective July 15, 2016, small farm wineries that produce more than 50,000 gallons but less than 100,000 gallons per calendar year are no longer exempt from the wine wholesale sales tax. This change was enacted in Senate Bill 11.

Although insignificant from a revenue standpoint, each wholesaler pays a 5-cents-per-case (\$0.05) tax on each case of distilled spirits sold within the state.

### **Current Rate Structure:**

Total alcoholic beverage taxes were \$146.0 million in FY17, which represents 1.4 percent of total General Fund revenue.

- Distilled Spirits Excise Tax: \$1.92 a gallon but not less than \$0.12 per half-pint retail container (*KRS 243.720*)
- Distilled Spirits of 6.0 percent or less alcohol of the total volume: \$0.25 per gallon (*KRS 243.720*)
- Distilled Spirits Case Sales Tax: \$0.05 per case (*KRS 243.710*)
- Beer/Malt Beverages Excise Tax: \$2.50 per barrel of 31 gallons (*KRS 243.720*)
- Wine Excise Tax: \$0.50 a gallon but not less than \$0.04 per any retail container (*KRS 243.720*)
- Wholesale Sales Tax: 10.25 percent of gross receipts (*KRS 243.884*)

### **Tax Base:**

- For excise and consumption taxes, the tax base is volume
- For the wholesale taxes, the tax base is wholesale sales price

### **Tax Due:**

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.

Wholesalers of distilled spirits and wine and distributors of malt beverages shall pay and report the wholesale sales tax (10.25 percent) and excise tax (8.0645 percent per taxable gallon) on or before the 20<sup>th</sup> day of the calendar month next succeeding the month in which possession or title of the distilled spirits, wine or malt beverages is transferred from the wholesaler or distributor to retailers or consumers in Kentucky.



**Exemptions:**

- Wine manufactured, sold, given away, or distributed and used solely for sacramental purposes (*KRS 243.720 (4)(a)*).
- Distilled spirits and wine purchased by holders of special licenses provided for in KRS 243.320 and used as non-beverage alcohol, e.g. medicinal alcohol, antiseptic alcohol, flavoring extracts, syrups, etc.
- Sales to federal agencies and instrumentalities (*103 KAR 40:035*).
- Sales for shipment outside Kentucky for sales through retail outlets and consumption outside Kentucky (*KRS 243.790*).

**Table 1. Total Alcoholic Beverage Tax Expenditures**

<b>FY 2018</b>	\$7.0 million
<b>FY 2019</b>	\$8.9 million
<b>FY 2020</b>	\$9.2 million

**Tax Expenditures**

**1. Allowance for Collecting and Reporting**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$1.5 million
<b>FY 2019</b>	\$1.6 million
<b>FY 2020</b>	\$1.6 million

## **2. Low Volume Distilled Spirits Taxed at Reduced Rate**

*Kentucky Revised Statutes 243.720(1)(b), effective 1986*

Distilled spirits in containers where the distilled spirits represent six percent or less of the total volume of the contents of such containers are taxed for purposes of the distilled spirits excise tax at the reduced rate of 25 cents (\$0.25) per gallon.

<b>FY 2018</b>	\$44,000
<b>FY 2019</b>	\$44,000
<b>FY 2020</b>	\$44,000

## **3. Malt Beverage Excise Tax at Reduced Rate**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$60,000
<b>FY 2019</b>	\$61,500
<b>FY 2020</b>	\$62,700

## **4. Small Farm Winery Exemption**

*Kentucky Revised Statutes 243.884(3), effective July 15, 1994*

Gross receipts from sales at wholesale or wholesale sales made by a small farm winery or wholesaler of wine produced by a small farm winery which produces no more than 50,000 gallons of wine per year shall be exempt.

<b>FY 2018</b>	\$300,000
<b>FY 2019</b>	\$320,000
<b>FY 2020</b>	\$340,000

## **5. Wholesale Sales Tax Imposed Rate on Beer**

*Kentucky Revised Statutes 243.884 (1)(c), effective July 1, 2015*

Effective July 1, 2015 the gross receipts of any such wholesalers or distributors derived from “sales at wholesale” or “wholesale sales” for beer made within the Commonwealth have been reduced from the rate of 11 percent to 10.75 percent for wholesale sales or sales at wholesale made on or after July 1, 2015 and before June 1, 2016; 10.5 percent for wholesale sales or sales at wholesale made on or after July 1, 2016 and before June 1, 2017; 10.25 percent for wholesale sales or sales at wholesale made on or after July 1, 2017 and before June 1, 2018; 10 percent for wholesales or sales at wholesale made on or after June 1, 2018.

<b>FY 2018</b>	\$3.9 million
<b>FY 2019</b>	\$5.1 million
<b>FY 2020</b>	\$5.3 million

## **6. Wholesale Sales Tax Imposed Rate on Wine**

*Kentucky Revised Statutes 243.884 (1)(c), effective July 1, 2015*

Effective July 1, 2015 the wholesale sales tax imposed upon all wholesalers of wine have been reduced from the rate of 11 percent to 10.75 percent for wholesale sales or sales at wholesale made on or after July 1, 2015 and before June 1, 2016; 10.5 percent for wholesale sales or sales at wholesale made on or after July 1, 2016 and before June 1, 2017; 10.25 percent for wholesale sales or sales at wholesale made on or after July 1, 2017 and before June 1, 2018; 10 percent for wholesales or sales at wholesale made on or after June 1, 2018.

<b>FY 2018</b>	\$1.2 million
<b>FY 2019</b>	\$1.8 million
<b>FY 2020</b>	\$1.9 million

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# Bank Franchise Tax

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## **Background:**

Kentucky Revised Statutes 136.500 through 136.575 were enacted during the 1996 Session of the Kentucky General Assembly and were 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 levied in KRS Chapter 141 and the corporation license tax levied in KRS Chapter 136.

**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**

<b>FY 2018</b>	\$5.0 million
<b>FY 2019</b>	\$5.0 million
<b>FY 2020</b>	\$5.0 million

**Tax Expenditures**

**1. Kentucky Historic Preservation Credit**

*Kentucky Revised Statutes 171.397, effective 2005, Amended various times*  
*Kentucky Revised Statutes 171.396, effective 2005, Amended various times*

The 2005 Kentucky General Assembly created the Kentucky Historic Preservation Credit. The credit applies to KRS 141.020, KRS 141.040, KRS 141.0401, or KRS 136.505. For all applications for a preliminary approval received prior to April 30, 2010, 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. For all applications for a preliminary approval received on or after April 30, 2010, the credit shall be refundable if the taxpayer makes an election under (2)(b) in KRS 171.397.

The maximum credit that may be claimed with regard to owner-occupied residential property is \$60,000. The maximum credit which may be claimed with regard to all other property that is not owner-occupied residential shall be \$400,000. 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.

<b>FY 2018</b>	\$5.0 million
<b>FY 2019</b>	\$5.0 million
<b>FY 2020</b>	\$5.0 million

## **2. Kentucky Investment Fund Credit**

*Kentucky Revised Statutes 154.20-255, effective July 15, 2002, amended 2014*

*Kentucky Revised Statutes 154.20-258, effective July 15, 2002*

The 2002 Kentucky General Assembly amended the Kentucky Investment Fund credit so that the tax credit may now be applied against the bank franchise tax. The credit can also be applied against KRS 141.020 or KRS 141.040, KRS 141.0401. The credit may also applied against Insurance Premiums 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.

Total qualified investments made by an investment fund, including initial and subsequent investments made by an investment fund, in any single small business using approved qualified investments, shall not exceed thirty percent of the committed cash contributions to the investment fund. This restriction shall not apply to investments of money by the investment funds that are not qualified investments. The total amount of tax credits available to any single investment fund awarded tax credits shall not exceed, in aggregate, (\$8,000,000) for all investors and all taxable years.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

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# Coal Severance and Processing Tax

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**Background:**

The coal severance tax was enacted in 1972. 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. The tax base was broadened in 1978 to tax both the severance and processing of coal in Kentucky.

During FY17, the coal tax produced \$100.5 million, which accounted for one 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 (\$0.50) per ton (*KRS 143.020*). The minimum tax does not apply to taxpayers who only process coal. The tax on coal used for burning solid waste is limited to the lesser of four percent of the selling price or fifty cents (\$0.50) 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 gross value is reduced by the amount paid or payable to the registered taxpayer that severed 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**

<b>FY 2018</b>	\$2.3 million
<b>FY 2019</b>	\$2.4 million
<b>FY 2020</b>	\$2.5 million

#### **Tax Expenditures**

##### **1. Coal Purchased for Alternative Energy or Gasification Facility**

*Kentucky Revised Statutes 154.27-060, effective August 30, 2007, Amended July 15, 2010*

*Kentucky Revised Statutes 143.024, effective August 30, 2007, Amended 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 up to eighty percent (80%) of the severance taxes paid on the purchase or severance of coal that is specifically used as feedstock for the facility.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

##### **2. Coal Used to Burn Solid Waste**

*Kentucky Revised Statutes 143.023, effective February 26, 1991*

Tax is limited to fifty cents (\$0.50) per ton or four percent of the selling price, whichever is less, on coal used for burning solid waste.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0



### **3. Thin Seam Tax Credit**

*Kentucky Revised Statutes 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 and whether the coal is mined from an above-drainage seam or a below-drainage seam.

<b>FY 2018</b>	\$2.3 million
<b>FY 2019</b>	\$2.4 million
<b>FY 2020</b>	\$2.5 million

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# Corporation Income Tax

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**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 for taxable years beginning on or after January 1, 2005 and prior to January 1, 2007 and six percent 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 FY17 were \$497.5 million and accounted for seven percent of total General Fund tax receipts.

## Current Rate Structure:

### Table 4. Corporation Income Tax Rates

For taxable years beginning after December 31, 2006

(KRS 141.040)(6))

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:

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

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

Single – 21 states

More than double weight – 3 states

Double weight – 13 states

Original 3 factor – 7 states

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;
- Maintaining an interest in a pass-through entity doing business in this state;

- Deriving income from or attributable to sources within this state, including deriving income directly or indirectly from a trust or single-member limited liability company that is 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 entities 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).

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.

**Tax Due:**

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. 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

<b>FY 2018</b>	\$365.9 million
<b>FY 2019</b>	\$369.4 million
<b>FY 2020</b>	\$374.9 million

### Exemptions

#### 1. Coal Royalties

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	Minimal
<b>FY 2019</b>	Minimal
<b>FY 2020</b>	Minimal

#### 2. Credit Unions

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$6.2 million
<b>FY 2019</b>	\$6.3 million
<b>FY 2020</b>	\$6.4million

#### 3. Dividend Income

*Kentucky Revised Statutes 141.010(12)(b), effective 1936*

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

<b>FY 2018</b>	\$191.3 million
<b>FY 2019</b>	\$192.4 million
<b>FY 2020</b>	\$195.1 million

#### **4. Homeowners' Associations**

*Kentucky Revised Statutes 141.010(14)(c), effective 1988*

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

<b>FY 2018</b>	\$150,000
<b>FY 2019</b>	\$150,000
<b>FY 2020</b>	\$150,000

#### **5. Real Estate Investment Trust**

*Kentucky Revised Statutes 141.010(14)(d), effective 1998*

REITs 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).

<b>FY 2018</b>	\$13.2 million
<b>FY 2019</b>	\$13.5 million
<b>FY 2020</b>	\$13.8 million

### **Deductions from Income**

#### **6. Charitable Contributions**

*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.

<b>FY 2018</b>	\$13.1 million
<b>FY 2019</b>	\$13.3 million
<b>FY 2020</b>	\$13.4 million

## **7. Deductibility of Patronage Dividends**

*Kentucky Revised Statutes 141.010(12)(b), IRC Sec. 1385, effective 1954*

Dividends paid to members or patrons of incorporated cooperatives, such as farmer cooperatives, are deductible, to the extent that the amount of dividend is properly taken into account as an adjustment to basis of property or is attributable to personal, living, or family items.

<b>FY 2018</b>	\$12.2 million
<b>FY 2019</b>	\$12.3 million
<b>FY 2020</b>	\$12.4 million

## **8. Domestic Production Activities**

*Kentucky Revised Statutes 141.010(13)(c), 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 Internal Revenue Code (IRC), calculated at six percent as allowed in Section 199(a)(2) for taxable years beginning before 2010.

<b>FY 2018</b>	\$11.4 million
<b>FY 2019</b>	\$11.5 million
<b>FY 2020</b>	\$11.7 million

## **9. Excess of Percentage Over Cost Depletion**

*IRC Sec. 631(c), effective 1954*

The method of computing the depletion deduction is based upon an arbitrary percentage of gross income from production (gross income from the property). Exclude 50 percent of gross income derived from any disposal of coal covered by Section 631(c) of Internal Revenue code if the corporation doesn't claim any deduction for percentage depletion, or for expenditures attributable to the making and administering of the contract under which such disposition occurs.

<b>FY 2018</b>	\$3.0 million
<b>FY 2019</b>	\$3.1 million
<b>FY 2020</b>	\$3.4 million

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

*Kentucky Revised Statutes 141.0202, effective 1990*

A deduction is allowed for the value of any leasehold interest of property contributed 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.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

## **11. Net Operating Loss Deduction**

*Kentucky Revised Statutes 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 taxable years beginning on or after January 1, 2005.

<b>FY 2018</b>	\$68.0 million
<b>FY 2019</b>	\$69.0 million
<b>FY 2020</b>	\$70.0 million

### **Tax Credits**

## **12. Biodiesel Tax Credit**

*Kentucky Revised Statutes 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. A nonrefundable tax credit may be applied against the taxes imposed by KRS 141.020, 141.040 and 141.0401.

<b>FY 2018</b>	\$850,000
<b>FY 2019</b>	\$825,000
<b>FY 2020</b>	\$800,000



### **13. Cellulosic Ethanol Credit**

*Kentucky Revised Statutes 141.4244(1)(a), effective August 30, 2007*

For taxable years beginning after December 31, 2007 a cellulosic ethanol producer shall be eligible for a non-refundable tax credit against the taxes imposed by KRS 141.020 or 141.040 and 141.0401. The credit rate shall be one dollar (\$1) per cellulosic ethanol gallon produced, unless the total amount of approved credit for all cellulosic ethanol producers exceeds the annual cellulosic ethanol tax credit cap (\$5,000,000).

<b>FY 2018</b>	\$70,000
<b>FY 2019</b>	\$70,000
<b>FY 2020</b>	\$70,000

### **14. Clean Coal Incentive Credit**

*Kentucky Revised Statutes 141.428, 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.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

## 15. Coal Conversion Credit

*Kentucky Revised Statutes 141.041, effective 1984*

There shall be allowed a nonrefundable credit against the tax imposed on any corporation in which, on or after July 1, 1984, installs, modifies and utilizes facilities located in Kentucky for generating steam or hot water for space-heating or materials processing or for providing direct heat for industrial processes. The amount of the allowable credit shall be equal to four and one-half percent of the purchase price of the coal consumed or substituted in each eligible heating facility minus any transporting costs included in the purchase price. The credit can be carried forward for 10 consecutive years. This credit shall be allowed against the tax imposed by KRS 141.040 or KRS 141.0401.

<b>FY 2018</b>	\$500
<b>FY 2019</b>	\$500
<b>FY 2020</b>	\$500

## 16. Coal Incentive Credit

*Kentucky Revised Statutes 141.0405, effective 2000*

A nonrefundable credit against the taxes imposed by KRS 141.020 or 141.040 and KRS 141.0401 is allowed to any electric power company subject to tax pursuant to KRS 136.120, any entity that operates a coal-fired electric generation plant or any entity that is an alternative fuel facility or gasification facility not already approved for incentives pursuant to KRS Chapter 154 § 27. The credit is equal to \$2 per each incentive ton of coal purchased subject to tax pursuant to KRS 143.020 and is used to generate electric power or used as feedstock for an alternative fuel facility or gasification facility. Incentive tons are calculated as current year usage minus the base year, where the base year is that coal purchased in calendar year 1999. For entities created after this base year, the base shall be equal to zero.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

## 17. Construction of Research Facilities Credit

*Kentucky Revised Statutes 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. A nonrefundable credit is permitted against the tax assessed by both KRS 141.020 or 141.040 and 141.0401. Any unused credit may be carried forward 10 years.

<b>FY 2018</b>	\$50,000
<b>FY 2019</b>	\$60,000
<b>FY 2020</b>	\$70,000

## 18. Distilled Spirits Credit

*Kentucky Revised Statutes 141.389(1)(a)(b), effective July 15, 2014*

There shall be allowed a non-refundable and nontransferable credit to each taxpayer paying the distilled spirits ad valorem tax as follows:

1. For taxable years beginning on or after January 1, 2015, and before December 31, 2015, the credit shall be equal to twenty percent of the tax;
2. For taxable years beginning on or after January 1, 2016, and before December 31, 2016, the credit shall be equal to forty percent of the tax;
3. For taxable years beginning on or after January 1, 2017, and before December 31, 2017, the credit shall be equal to sixty percent of the tax;
4. For taxable years beginning on or after January 1, 2018, and before December 31, 2018, the credit shall be equal to eighty percent of the tax;
5. For taxable years beginning on or after January 1, 2019, the credit shall be equal to one hundred percent of the tax.

The credit may be taken against the tax imposed by KRS 141.020 (individual income tax), KRS 141.040 (corporation tax), and KRS 141.0401 (limited liability entity tax).

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

## **19. Donated Edible Agricultural Products Credit**

*Kentucky Revised Statutes 141.392(2)(a) and (5), effective June 25, 2013*

For taxable years beginning on or after January 1, 2014, but before January 1, 2018, any donor shall be allowed a nonrefundable credit against the tax imposed by KRS 141.020, or 141.040 and 141.0401 in the amount equal to ten percent of the value of the donated edible agricultural products.

Any tax credit allowable under this section that is not used by the qualified taxpayer in the current tax year may be carried forward for up to four (4) succeeding years, until the credit has been exhausted.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

## **20. Employer GED Credit**

*Kentucky Revised Statutes 164.0062, effective June 25, 2013*

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.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

## **21. Endow Kentucky Tax Credit**

*Kentucky Revised Statutes 141.438, effective June 4, 2010, amended July 15, 2014*

This tax credit was created to encourage donations to community foundations across the Commonwealth. KRS 141.438 was created to allow a nonrefundable income tax KRS 141.020 or 141.040 and limited liability entity tax credit under KRS 141.0401 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 in each year beginning on or before July 1, 2015 and \$1,000,000 in each fiscal year beginning on or after July 1, 2016.

<b>FY 2018</b>	\$30,000
<b>FY 2019</b>	\$30,000
<b>FY 2020</b>	\$30,000

## **22. Ethanol Tax Credit**

*Kentucky Revised Statutes 141.422-425 (1)(c), effective 2007*

*Kentucky Revised Statutes 141.4242, effective 2007*

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. For taxable years beginning after December 31, 2017 an ethanol producer shall be eligible for a nonrefundable tax credit shall be imposed by KRS 141.020 or 141.040 and 141.0401.

<b>FY 2018</b>	\$75,000
<b>FY 2019</b>	\$75,000
<b>FY 2020</b>	\$75,000

### **23. Film Industry Tax Credit**

*Kentucky Revised Statutes 141.383, effective June 26, 2009*

*Kentucky Revised Statutes 148.546(3)(b) effective July 15, 2014*

*Kentucky Revised Statutes 148.544(4)(c), effective July 15, 2014*

Approved companies that film or produce a motion picture or entertainment production, commercial, or documentary may recover up to 30 percent for a motion picture or entertainment production filmed or produced in whole or in part in any Kentucky county other than in an enhanced incentive county and 35 percent for an enhanced incentive county. Qualifying expenditures include expenditures made in Kentucky that are directly used in or for a motion picture or entertainment production. There was a cap of \$5.0 million for FY11 and \$7.5 million for FY12. There has been no cap on film credits since the cap was repealed in FY12. A nonrefundable tax credit may be taken against that tax imposed under KRS 141.020 or 141.040 and 141.0401.

<b>FY 2018</b>	\$8.5 million
<b>FY 2019</b>	\$8.6 million
<b>FY 2020</b>	\$9.0 million

### **24. Hiring the Unemployed Tax Credit**

*Kentucky Revised Statutes 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 a nonrefundable credit for each qualified person. The credit may be taken against taxes imposed by KRS 141.020 or 141.040 and 141.0401.

<b>FY 2018</b>	\$67,000
<b>FY 2019</b>	\$68,000
<b>FY 2020</b>	\$69,000

## **25. Incentives for Energy Independence Act Tax Credit (IEIA)**

*Kentucky Revised Statutes 154.27-80, effective August 30, 2007*

*Kentucky Revised Statutes 141.421, effective August 30, 2007*

A credit of up to 100 percent of the IEIA shall be imposed under KRS 141.040 or 141.020 or 141.0401. The approved company may require that each employee subject to the state income tax imposed by 141.020 as a condition of employment agrees to pay an assessment of up to four percent of their gross wages.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

## **26. Kentucky Business Investment Credit (KBI)**

*Kentucky Revised Statutes 154.32-090, effective June 26, 2009*

*Kentucky Revised Statutes 141.415, effective June 26, 2009*

For taxable years beginning after December 31, 2009, an approved company may be eligible for a credit of up to one hundred percent (100%) of the Kentucky income tax imposed under KRS 141.020 or 141.040, and the limited liability entity tax imposed under KRS 141.0401 that would otherwise be owed by the approved company to the Commonwealth for the approved company's taxable year, on the income, Kentucky gross profits, or Kentucky gross receipts of the approved company generated by or arising from the economic development project.

Any credit not used in the year in which it was first available may be carried forward to subsequent years, provided that no credit may be carried forward beyond the term of the tax incentive agreement.

The amount of incentives allowed in any year shall not exceed the lesser of the tax liability of the approved company related to the economic development project for that year or the annual maximum approved costs set forth in the tax incentive agreement. The incentives shall be allowed for each fiscal year of the approved company during the term of the tax incentive agreement for which a tax return is filed by the approved company.

<b>FY 2018</b>	\$5.5 million
<b>FY 2019</b>	\$5.5 million
<b>FY 2020</b>	\$5.5 million

## **27. Kentucky Environmental Stewardship Tax Credit (KESA)**

*Kentucky Revised Statutes 154.48-010(13), effective January 2005*

*Kentucky Revised Statutes 154.48-025, effective March 2005*

*Kentucky Revised Statutes 154.48-020(4), effective January 2005*

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 the 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.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

## **28. Kentucky Historic Preservation Tax Credit**

*Kentucky Revised Statutes 171.397, effective June 26, 2005*

*Kentucky Revised Statutes 171.396, effective July 15, 2005*

*Kentucky Revised Statutes 171.3961, effective July 15, 2014*

The 2005 Kentucky General Assembly created the Kentucky Historic Preservation Credit. The credit applies to tax KRS 141.020, KRS 141.040, tax KRS 141.0401, or the KRS 136.505. For all applications for a preliminary approval received prior to April 30, 2010, 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. For all applications for a preliminary approval received on or after April 30, 2010, the credit shall be refundable if the taxpayer makes an election under (2)(b) in KRS 171.397. The maximum credit that may be claimed with regard to owner-occupied residential property is \$60,000. The maximum credit which may be claimed with regard to all other property that is not owner-occupied residential shall be \$400,000. 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.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0



## **29. Kentucky Investment Fund Tax Credit**

*Kentucky Revised Statutes 154.20-255, effective July 15, 2002, amended 2014*

*Kentucky Revised Statutes 154.20-258, effective July 15, 2002*

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. The credit may be applied against KRS 141.020, 141.040 and 141.0401. The credit may be applied against Bank Franchise and Insurance Premiums taxes. The total amount of tax credits available to any single investment fund awarded tax credits shall not exceed, in aggregate, (\$8,000,000) for all investors and all taxable years

<b>FY 2018</b>	\$40,000
<b>FY 2019</b>	\$40,000
<b>FY 2020</b>	\$40,000

## **30. Kentucky Industrial Development Act Credit (KIDA)**

*Kentucky Revised Statutes 141.400, effective 1992, 154.28-105, Repealed 2009*

*Kentucky Revised Statutes 154.28-090, effective 2006*

A 100 percent credit is allowed against the income of an approved company under KRS 141.020, 141.040 and 141.0401 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. Kentucky continues to pay out credits that were approved before the repealed date of the statute.

<b>FY 2018</b>	\$2.7 million
<b>FY 2019</b>	\$2.8 million
<b>FY 2020</b>	\$2.9 million

### **31. Kentucky Industrial Revitalization Agreement Credit (KIRA)**

*Kentucky Revised Statutes 141.403 and 154.26-090, effective 1992*

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 under KRS 141.020 or KRS 141.040 or KRS 141.0401 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.

<b>FY 2018</b>	\$500,000
<b>FY 2019</b>	\$500,000
<b>FY 2020</b>	\$500,000

### **32. Kentucky Job Retention Agreement Tax Credit (KJRA)**

*Kentucky Revised Statutes 154.25-030 (2)(b), effective March 23, 2007*

Jobs retention project means the acquisition, construction, and installation of new equipment to facilities necessary to house the acquisition, construction, and installation of new equipment. One hundred percent of the KJRA tax credit is applied against KRS 141.020 or 141.040 and 141.0401. The balance of unused approved costs from a previously existing KIDA or KJDA project to be transferred to KJRA project.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

### **33. Kentucky Jobs Development Act Credit (KJDA)**

*Kentucky Revised Statutes 154.24-110, effective 1992, Repealed 2009*

A 100 percent credit is allowed against the income of an approved company under KRS 141.020 or KRS 141.040 and KRS 141.0401 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. Kentucky continues to pay out credits that were approved before.

<b>FY 2018</b>	\$2.0 million
<b>FY 2019</b>	\$2.0 million
<b>FY 2020</b>	\$2.0 million

### **34. Kentucky Reinvestment Act Tax Credit (KRA)**

*Kentucky Revised Statutes 154.34-120, effective 2010*

For taxable years beginning after December 31, 2009, an approved company may be eligible for a nonrefundable credit Kentucky Reinvestment Act (KRA) of up to 100 percent of the Kentucky income tax imposed under KRS 141.020 or 141.04 and 141.0401. Any credit not used in the year in which it was first available may be carried forward two subsequent years, provided that no credit may be carried forward beyond the term of the reinvestment agreement.

<b>FY 2018</b>	\$6.3 million
<b>FY 2019</b>	\$6.3 million
<b>FY 2020</b>	\$6.3 million

### **35. Kentucky Rural Economic Development Act Credit (KREDA)**

*Kentucky Revised Statutes 154.22-050, effective 1988*

A 100 percent credit is allowed against the income of an approved company under KRS 141.020 or KRS 141.040 and KRS 141.0401 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. Kentucky continues to pay out credits that were approved before.

<b>FY 2018</b>	\$3.9 million
<b>FY 2019</b>	\$4.0 million
<b>FY 2020</b>	\$4.1 million

### **36. Kentucky Small Business Investment Tax Credit**

*Kentucky Revised Statutes 141.384, 154.60-020, effective June 4, 2010 (Amended various times)*

A small business under the provisions of 154.60-010 may be eligible for a non-refundable credit of up to 100 percent of the tax imposed pursuant to KRS 141.020 or 141.040 and KRS 141.0401. The maximum amount of credits that may be committed in each fiscal year by the Kentucky Economic Development Finance Authority shall be capped at \$3 million. The maximum amount of credit for each small business for each year shall not exceed \$25,000. Unused credits may be carried forward for up to five years.

<b>FY 2018</b>	\$2,500
<b>FY 2019</b>	\$2,500
<b>FY 2020</b>	\$2,500

### **37. Metropolitan College Program Tax Credit**

*Kentucky Revised Statutes 141.381, effective June 4, 2009, Amended various times*

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, 2027 unless extended by the General Assembly.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

### **38. New Markets Development Program Tax Credit**

*Kentucky Revised Statutes 141.432-141.434, effective June 4, 2010, amended July 15, 2014*

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 amount of the credit shall be equal to thirty nine percent of the purchase price of the qualified equity investment made by the person or entity claiming the credit. The maximum investment in any individual qualified active low-income community business is \$10 million. In case of a qualified equity investment issued prior to January 1, 2014 has at least eighty five percent of its cash purchase price used by the issuer to make qualified low-income community investments in qualified active low-income community business located in the Commonwealth and on/or after January 1, 2014 has at least 100 percent.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

### **39. Railroad Expansion or Upgrade to Accommodate Transportation of Fossil Energy Resources or Biomass Resources Tax Credit**

*Kentucky Revised Statutes 141.386, effective June 26, 2009*

For taxable years beginning after December 31, 2009 a corporation that owns fossil energy resources or a railway company shall be entitled to a nonrefundable tax credit against the taxes imposed under KRS 141.040 and 140.0401. The credit shall be equal to 25 percent of the expenditures paid or incurred by the corporation or railway company. The credit shall be limited to \$1 million.

<b>FY 2018</b>	\$2.0 million
<b>FY 2019</b>	\$2.0 million
<b>FY 2020</b>	\$2.0 million

#### **40. Railroad Maintenance and Improvement Tax Credit**

*Kentucky Revised Statutes 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. A 50 percent credit is allowed against the nonrefundable taxes imposed by KRS 141.020 or 141.040 and 141.0401.

<b>FY 2018</b>	\$3.0 million
<b>FY 2019</b>	\$3.1 million
<b>FY 2020</b>	\$3.2 million

#### **41. Recycling and/or Composting Equipment Credit**

*Kentucky Revised Statutes 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. The credit shall be limited to a period of ten years commencing with the approval of the recycling credit application. The credit may be used against the taxes imposed by KRS 141.020, 141.040 and 141.041

<b>FY 2018</b>	\$11.1 million
<b>FY 2019</b>	\$11.2 million
<b>FY 2020</b>	\$11.3 million

#### **42. Skills Training Investment Tax Credit**

*Kentucky Revised Statutes 154.12-2086, 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.

<b>FY 2018</b>	\$600,000
<b>FY 2019</b>	\$600,000
<b>FY 2020</b>	\$600,000

### **43. Voluntary Environmental Remediation Credit**

*Kentucky Revised Statutes 141.418, effective July 15, 2005*

There shall be allowed a non-refundable credit against the tax imposed under KRS 141.020 or KRS 141.040 for taxable years beginning after December 31, 2004. There shall be allowed a non-refundable credit against the tax imposed under KRS 141.0401 for taxable years beginning after December 31, 2006. The credit is based on expenditures made at a qualifying voluntary environmental remediation property in order to correct the effect of release of hazardous substances. The maximum credit for each taxpayer shall not exceed \$150,000. The amount of the allowable credit for any taxable year shall be twenty-five percent (25%) of the maximum credit approved. The credit may be carried forward for ten (10) successive taxable years.

The maximum total credit for each taxpayer shall not exceed one hundred fifty thousand dollars (\$150,000).

The amount of the allowable credit for any taxable year shall be twenty-five percent of the maximum credit approved. The credit may be carried forward for then (10) successive taxable years.

<b>FY 2018</b>	\$40,000
<b>FY 2019</b>	\$40,000
<b>FY 2020</b>	\$40,000

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# Gasoline Tax

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## **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 nine 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. Effective April 1, 2015 the wholesale floor price was increased to \$2.177 per gallon beginning on and after April 1, 2015 (*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 FY17, gasoline tax collections totaled \$589 million. This accounted for 39.1 percent of total Road Fund tax receipts. For the last three fiscal years, receipts have declined 4.0 percent, 11.8 percent and increased 1.4 percent down \$126 million in three years.

## **Current Rate Structure:**

The gasoline tax rate has a variable component and two fixed parts. The variable portion of the tax is nine percent of the average wholesale price (AWP) of gasoline (*KRS 138.220*). The fixed parts are the supplemental highway user tax which is assessed at 5 cents (\$0.05) per gallon and the petroleum storage tank environmental assurance fee is assessed at 1.4 cents per gallon (*KRS 224.60-145(4)*).

Prior to July 1, 2015 the AWP was calculated on a quarterly basis by the Department of Revenue and weighted by grade and formulation of the motor fuel. The AWP was calculated in the first month of each fiscal quarter (July, October, January, and April) and applied to the following quarter. The AWP could not increase more than 10 percent over the AWP in effect at the close of the previous fiscal year but could fall to the statutory floor in effect at that time.



House Bill 299, enacted by the 2015 Regular Session of the General Assembly, altered the way in which the variable portion of the gasoline tax was calculated. The bill eliminated the quarterly tax rate adjustment and replaced it with an annual rate. For FY16, AWP was set at the floor and for FY17 and beyond, the tax rate is calculated as the average of the four quarters from the previous fiscal year. Moreover, in addition to a 10 percent limit on an annual increase in the AWP, there is a 10 percent limit on how far the AWP can decline in a given year (*KRS 138.228*).

The current AWP floor is \$2.177 per gallon (*KRS 138.210(21)*). Therefore, the variable portion of the gasoline tax cannot be less than 19.6 cents per gallon (*KRS 138.220(1)(a)*). Adding the fixed components of the tax brings the minimum gasoline tax to 26.0 cents per gallon.

**Tax Base:**

The tax becomes a per gallon 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 of 2.25 percent to cover evaporation, shrinkage, unaccountable losses, collection costs, bad debts, and handling and reporting the tax (*KRS 138.270(1)(b)*). 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**

<b>FY 2018</b>	\$14.7 million
<b>FY 2019</b>	\$14.8 million
<b>FY 2020</b>	\$14.9 million

## **Tax Expenditures**

### **1. Agricultural Exemption**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$91,000
<b>FY 2019</b>	\$91,500
<b>FY 2020</b>	\$92,000

### **2. Aircraft Refund**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$145,000
<b>FY 2019</b>	\$150,000
<b>FY 2020</b>	\$155,000

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

*Kentucky Revised Statutes 138.446, effective 1960, 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.

<b>FY 2018</b>	\$710,000
<b>FY 2019</b>	\$720,000
<b>FY 2020</b>	\$730,000

#### **4. Dealer's Monthly Reporting Allowance**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$13.0 million
<b>FY 2019</b>	\$13.1 million
<b>FY 2020</b>	\$13.2 million

#### **5. Watercraft Refund**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$720,000
<b>FY 2019</b>	\$723,000
<b>FY 2020</b>	\$725,000

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# Individual Income Tax

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**Background:**

The 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 \$4.4 billion in FY17. This amount accounted for 42 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, 2015.

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. 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**

*(KRS 141.020(2)(b))*

<u>Taxable Income</u>		<u>Rate (%)</u>
First	- \$3,000	2.0
\$3,001	- \$4,000	3.0
\$4,001	- \$5,000	4.0
\$5,001	- \$8,000	5.0
\$8,001	- \$75,000	5.8
Over	\$75,000	6.0

**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 (\$2,290 for tax year 2012, \$2,360 for tax year 2013, \$2,400 for tax year 2014, \$2,440 for tax year 2015 and \$2,460 for tax year 2016) or at the option of the taxpayer by itemized deduction. Gross income is defined as gross income under the 2013 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 (*KRS 141.070*). 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. Some credits can be applied to corporate, LLET or individual income tax. Those are noted in individual items.

**Table 8. Total Individual Income Tax Expenditures**

	<u>Federal</u>	<u>State</u>	<u>Total</u>
<b>FY 2018</b>	<b>\$3,010.7 mil</b>	<b>\$1,621.2 mil</b>	<b>\$4,631.9 mil</b>
<b>FY 2019</b>	<b>\$3,179.4 mil</b>	<b>\$1,676.6 mil</b>	<b>\$4,856.0 mil</b>
<b>FY 2020</b>	<b>\$3,357.6 mil</b>	<b>\$1,728.6 mil</b>	<b>\$5,086.2 mil</b>

**FEDERAL****Tax Expenditures – Exclusions from Income****1. Active Duty Military Pay Exemption**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$10.7 million
<b>FY 2019</b>	\$11.1 million
<b>FY 2020</b>	\$11.5 million

## **2. 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 \$2,000 for nonrecurring adoption 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 \$13,170 exclusion for adoption of a child with special needs regardless of expenses.

<b>FY 2018</b>	\$2.2 million
<b>FY 2019</b>	\$2.3 million
<b>FY 2020</b>	\$2.4 million

## **3. Basis of Property Acquired by Gifts and Transfers in Trust**

*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.

<b>FY 2018</b>	\$12.5 million
<b>FY 2019</b>	\$13.8 million
<b>FY 2020</b>	\$15.1 million

## **4. 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, 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.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

## 5. Capital Gains - Eminent Domain

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

## 6. 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.

<b>FY 2018</b>	\$199.5 million
<b>FY 2019</b>	\$212.0 million
<b>FY 2020</b>	\$225.2 million

## 7. Disabled Coal Miners

*Internal Revenue Code Section 104 and 192, effective 1960*

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. Contributions to the Black Lung Trust Fund are deductible.

<b>FY 2018</b>	\$0.6 million
<b>FY 2019</b>	\$0.6 million
<b>FY 2020</b>	\$0.3 million



## **8. Employee Stock Ownership Plan Provisions**

*Internal Revenue Code Section 409, 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 until they are paid out as benefits.

<b>FY 2018</b>	\$3.0 million
<b>FY 2019</b>	\$3.0 million
<b>FY 2020</b>	\$2.6 million

## **9. Employer Contributions for Medical Insurance and Medical Care**

*Internal Revenue Code Section 105(b) and 106, effective 1982*

*Kentucky Revised Statutes 141.062, effective June 28, 2006*

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.

<b>FY 2018</b>	\$872.6 million
<b>FY 2019</b>	\$924.0 million
<b>FY 2020</b>	\$986.2 million

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

*Internal Revenue Code Section 79(a) and 106, effective 1936*

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.

<b>FY 2018</b>	\$11.2 million
<b>FY 2019</b>	\$11.5 million
<b>FY 2020</b>	\$11.9 million

## **11. Employer-Provided Child Care Exclusion**

*Internal Revenue Code Section 129, effective 1981*

Up to \$5,000 of employer-provided 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.

<b>FY 2018</b>	\$4.0 million
<b>FY 2019</b>	\$4.3 million
<b>FY 2020</b>	\$4.5 million

## **12. Employer-Provided Educational Assistance**

*Internal Revenue Code Section 127, effective 1986*

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

<b>FY 2018</b>	\$3.6 million
<b>FY 2019</b>	\$3.7 million
<b>FY 2020</b>	\$3.9 million

## **13. Employer-Provided Meals and Lodging**

*Internal Revenue Code Section 119, effective 1978*

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.

<b>FY 2018</b>	\$17.9 million
<b>FY 2019</b>	\$18.4 million
<b>FY 2020</b>	\$18.9 million

## **14. Exclusion of GI Bill Benefits**

*Internal Revenue Code Sections 72(n) and 104, effective 1965 and 1960, respectively*

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

<b>FY 2018</b>	\$7.4 million
<b>FY 2019</b>	\$7.9 million
<b>FY 2020</b>	\$8.3 million

## **15. Gain on the Sale of a Principal Residence**

*Internal Revenue Code Section 121, effective 1964 with various amendments*

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.

<b>FY 2018</b>	\$141.3 million
<b>FY 2019</b>	\$151.3 million
<b>FY 2020</b>	\$162.1 million

## **16. Income Earned Abroad by U.S. Citizens**

*Internal Revenue Code Section 911 and 912, effective 1954 and 1981, respectively*

U.S. citizens who lived abroad, worked in the private sector, and satisfied a foreign residency requirement may be entitled to a foreign earned income exclusion that reduces taxable income. 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.

<b>FY 2018</b>	\$26.3 million
<b>FY 2019</b>	\$27.7 million
<b>FY 2020</b>	\$29.0 million

## **17. Installment Sales**

*Internal Revenue Code Section 453, effective 1960*

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 code update that synchronized the Kentucky statutes to federal tax code.

<b>FY 2018</b>	\$6.3 million
<b>FY 2019</b>	\$6.3 million
<b>FY 2020</b>	\$6.5 million

## **18. 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.

<b>FY 2018</b>	\$110.0 million
<b>FY 2019</b>	\$128.4 million
<b>FY 2020</b>	\$143.7 million

## **19. Miscellaneous Fringe Benefits**

*Internal Revenue Code Section 132, effective 1986*

Any fringe benefit that qualifies as a no-additional-cost service, qualified employee discount, working condition fringe, 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.

<b>FY 2018</b>	\$30.4 million
<b>FY 2019</b>	\$31.2 million
<b>FY 2020</b>	\$31.9 million

## **20. Passive Loss Rules Exception**

*Internal Revenue Code Section 469, effective 1993*

In general, the passive activity loss or the passive activity credits may not offset income from other sources. Losses up to \$25,000 attributable to certain rental real estate activity are exempt from this rule.

<b>FY 2018</b>	\$29.9 million
<b>FY 2019</b>	\$31.3 million
<b>FY 2020</b>	\$32.7 million

## **21. Private Pensions and Individual Retirement Accounts**

*Kentucky Revised Statutes 141.010(10)(i)(2), 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.

<b>FY 2018</b>	\$339.6 million
<b>FY 2019</b>	\$351.1 million
<b>FY 2020</b>	\$362.0 million

## **22. 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.

<b>FY 2018</b>	\$2.3 million
<b>FY 2019</b>	\$2.4 million
<b>FY 2020</b>	\$2.5 million

## **23. Railroad and Supplemental Railroad Retirement System Benefits**

*45 USCA Section 231M and Kentucky Revised Statutes 141.010(10)(b), effective 1970*

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.

<b>FY 2018</b>	\$1.1 million
<b>FY 2019</b>	\$1.1 million
<b>FY 2020</b>	\$1.0 million

## **24. Scholarship and Fellowship Income**

*Internal Revenue Code Section 117, effective 1961*

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.

<b>FY 2018</b>	\$13.1 million
<b>FY 2019</b>	\$13.3 million
<b>FY 2020</b>	\$13.8 million

## **25. Veteran’s Pension, Death and Disability Compensation**

*Internal Revenue Code Section 104(a)(4)(5), effective 1960*

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

<b>FY 2018</b>	\$30.8 million
<b>FY 2019</b>	\$31.9 million
<b>FY 2020</b>	\$33.2 million

## **26. Worker’s Compensation Benefits**

*Internal Revenue Code Section 104(a), effective 1960*

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

<b>FY 2018</b>	\$38.0 million
<b>FY 2019</b>	\$38.4 million
<b>FY 2020</b>	\$38.8 million

## **FEDERAL Tax Expenditures – Deductions**

## **27. Casualty and Theft Losses**

*Internal Revenue Code Section 165*

*Kentucky Revised Statutes 141.011, effective 1980*

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.

<b>FY 2018</b>	\$2.1 million
<b>FY 2019</b>	\$2.2 million
<b>FY 2020</b>	\$2.2 million

## 28. Charitable Contributions

*Internal Revenue Code Section 170(b)(c), effective 1956*

The deduction ceiling for most charitable contributions is 50 percent of 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.

<b>FY 2018</b>	\$134.3 million
<b>FY 2019</b>	\$138.7 million
<b>FY 2020</b>	\$143.0 million

## 29. Excess of Percentage over Cost Depletion

*Internal Revenue Code Section 613, effective 1963*

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

<b>FY 2018</b>	\$5.9 million
<b>FY 2019</b>	\$6.5 million
<b>FY 2020</b>	\$6.7 million

## 30. 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.

<b>FY 2018</b>	\$30.6 million
<b>FY 2019</b>	\$36.3 million
<b>FY 2020</b>	\$43.3 million

## 31. Home Mortgage Interest

*Internal Revenue Code Section 163(a), effective 1962*

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

<b>FY 2018</b>	\$181.2 million
<b>FY 2019</b>	\$187.3 million
<b>FY 2020</b>	\$193.1 million



### **32. Individual Retirement Account Contributions**

*Internal Revenue Code Section 219, effective 1977*

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 \$5,500 in 2017 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.

<b>FY 2018</b>	\$65.5 million
<b>FY 2019</b>	\$68.7 million
<b>FY 2020</b>	\$73.2 million

### **33. Interest on Educational Loans**

*Internal Revenue Code Section 221, effective 1998*

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

<b>FY 2018</b>	\$6.8 million
<b>FY 2019</b>	\$6.8 million
<b>FY 2020</b>	\$6.9 million

### **34. 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.

<b>FY 2018</b>	\$3.8 million
<b>FY 2019</b>	\$3.7 million
<b>FY 2020</b>	\$3.7 million

### **35. 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 two 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.

<b>FY 2018</b>	\$70.7 million
<b>FY 2019</b>	\$73.1 million
<b>FY 2020</b>	\$75.4 million

### **36. Keogh Plan Contributions**

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

A self-employed individual may make deductible contributions to his or her own retirement (Keogh) plan equal to 25 percent of his or her 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.

<b>FY 2018</b>	\$16.3 million
<b>FY 2019</b>	\$16.9 million
<b>FY 2020</b>	\$17.4 million

### **37. Medical Expenses**

*Internal Revenue Code Section 213, effective 1960*

For taxable year beginning after December 31, 2012 and ending before January 1, 2017. Medical and dental expenses in excess of 10.0 percent of Adjusted Gross Income are deductible when itemizing deductions.

<b>FY 2018</b>	\$47.3 million
<b>FY 2019</b>	\$48.9 million
<b>FY 2020</b>	\$50.4 million

### **38. Net Operating Loss Deduction**

*Kentucky Revised Statutes 141.011, 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.

<b>FY 2018</b>	\$64.6 million
<b>FY 2019</b>	\$66.8 million
<b>FY 2020</b>	\$68.8 million

### **39. Parsonage Allowances**

*Internal Revenue Code Section 265(a)(6) and 107, effective 1964 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.

<b>FY 2018</b>	\$3.1 million
<b>FY 2019</b>	\$3.2 million
<b>FY 2020</b>	\$3.4 million

### **40. Property Tax on Owner-Occupied Homes**

*Internal Revenue Code Section 164, effective 1964*

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

<b>FY 2018</b>	\$145.7 million
<b>FY 2019</b>	\$156.4 million
<b>FY 2020</b>	\$166.6 million

### **41. State and Local Taxes Other Than Home Property Taxes**

*Internal Revenue Code Section 164(a), effective 1964*

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.

<b>FY 2018</b>	\$224.3 million
<b>FY 2019</b>	\$238.9 million
<b>FY 2020</b>	\$253.6 million

## **42. U.S. Production Activities**

*Internal Revenue Code Section 199(a)(2), effective 2005*  
*Kentucky Revised Statutes 141.010(11)(c), effective 1995*

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 three percent of taxable income attributable to domestic production. For taxable years 2007, 2008 or 2009 the amount of the deduction is six percent and for taxable years beginning after 2009 the amount of the deduction is nine percent. For taxable years beginning on or after January 1, 2010, the amount of domestic production activities deduction is six percent.

<b>FY 2018</b>	\$65.4 million
<b>FY 2019</b>	\$68.3 million
<b>FY 2020</b>	\$71.3 million

### **FEDERAL Tax Expenditures - Credits**

## **43. Postsecondary Education Tuition Credit**

*Kentucky Revised Statutes 141.069, effective 2005*

A credit equal to 25 percent of the amount of the federal Hope Scholarship and the lifetime learning credit is available. The credit shall not be allowed for expenses for graduate level course study. Any unused credit may be carried forward for five years.

<b>FY 2018</b>	\$28.7 million
<b>FY 2019</b>	\$29.7 million
<b>FY 2020</b>	\$30.6 million

**STATE**  
**Tax Expenditures – Exclusions from Income**

**44. Armed Forces Personnel Benefits and Allowances**

*Internal Revenue Code Section 112, effective 1996*

*Internal Revenue Code Section 134, effective 1986*

Any qualified military benefit such as any allowance or in-kind benefit (other than personal use of a vehicle), travel benefit, and any bonus payment by a state to any member or former member of the uniformed services of the United States or any dependent of such member only by reason of such member's service in a combat zone are excluded from income subject to tax. Gross income does not include compensation received for active service as a member who was hospitalized as a result of wounds, disease, or injury incurred while serving in a combat zone.

<b>FY 2018</b>	\$50.6 million
<b>FY 2019</b>	\$52.4 million
<b>FY 2020</b>	\$54.5 million

**45. Federal and Military Retirement Income Received**

*Kentucky Revised Statutes 141.010(10)(i), effective 1995*

A total exclusion is allowed from gross income for federal and military retirement income. For taxable years beginning after December 31, 2005, up to \$41,110 is excluded.

<b>FY 2018</b>	\$530.9 million
<b>FY 2019</b>	\$548.8 million
<b>FY 2020</b>	\$565.9 million

**46. Income Averaging for Farmers**

*Internal Revenue Code Section 1301, effective 1986 with various amendments*

A taxpayer may lower his or her tax liability by averaging, over the prior three-year period, the taxable income from farming and fishing.

<b>FY 2018</b>	\$0.5 million
<b>FY 2019</b>	\$0.5 million
<b>FY 2020</b>	\$0.5 million

#### **47. Precinct Workers**

*Kentucky Revised Statutes 141.010(10)(l), effective 1997*

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

<b>FY 2018</b>	\$0.1 million
<b>FY 2019</b>	\$0.1 million
<b>FY 2020</b>	\$0.1 million

#### **48. S-Corporation Distributions Already Taxed Under the Bank Franchise Tax or Capital Stock Tax**

*Kentucky Revised Statutes 141.010(10)(j)(1)(a), effective 1997*

Distribution from or income received from S-corporations which are subject to taxation under the bank franchise tax imposed under KRS 136.505 or the capital stock tax imposed under KRS 136.300 is not included in taxable income for purposes of the individual income tax.

<b>FY 2018</b>	Minimal
<b>FY 2019</b>	Minimal
<b>FY 2020</b>	Minimal

#### **49. Social Security Benefits for Retired Workers, Disabled Workers, Dependents and Survivors**

*Internal Revenue Code Section 86, effective 1954 and Kentucky Revised Statutes 141.010(10)(e), effective 1988*

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.

<b>FY 2018</b>	\$162.1 million
<b>FY 2019</b>	\$168.4 million
<b>FY 2020</b>	\$173.7 million

**STATE**  
**Tax Expenditures Deductions**

**50. Standard Deduction**

*Kentucky Revised Statutes 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 2016 the standard deduction was \$2,460 per taxpayer.

<b>FY 2018</b>	\$205.3 million
<b>FY 2019</b>	\$212.2 million
<b>FY 2020</b>	\$218.8 million

**STATE**  
**Tax Expenditures - Credits**

**51. Biodiesel Credit**

*Kentucky Revised Statutes 141.423(1)(3), effective August 30, 2007*

A biodiesel producer, biodiesel blender, or renewable diesel producer shall be entitled to a non-refundable tax credit against the taxes imposed by KRS 141.020 or 141.040 and KRS 141.0401. The credit rate shall be one dollar (\$1) per biodiesel gallon produced by a biodiesel producer, one dollar (\$1) per gallon of biodiesel used in the blending process by a biodiesel blender, and one dollar (\$1) per gallon of renewable diesel produced by a renewable diesel producer, unless the total amount of approved credit for all biodiesel producers, biodiesel blenders, and renewable diesel producers exceeds the annual biodiesel and renewable diesel tax credit cap. The credit shall not be carried forward for any other period.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

## 52. Cellulosic Ethanol Credit

*Kentucky Revised Statutes 141.4244(1)(a), effective August 30, 2007*

For taxable years beginning after December 31, 2007 a cellulosic ethanol producer shall be eligible for a non-refundable tax credit against the taxes imposed by KRS 141.020 or 141.040 and 141.0401. The credit rate shall be one dollar (\$1) per cellulosic ethanol gallon produced, unless the total amount of approved credit for all cellulosic ethanol producers exceeds the annual cellulosic ethanol tax credit cap (\$5,000,000).

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

## 53. Child and Dependent Care Credit

*Kentucky Revised Statutes 141.067, effective 1990*

A resident individual may deduct from the tax computed under the provisions of KRS 141.020 a credit for household and dependent care services necessary for gainful employment. A credit equal to 20 percent of the federal credit amount is allowed under Section 21 of the Internal Revenue Code.

<b>FY 2018</b>	\$9.3 million
<b>FY 2019</b>	\$9.6 million
<b>FY 2020</b>	\$9.9 million

## 54. Coal Incentive Credit

*Kentucky Revised Statutes 141.0405(1)(a) and (2), effective January 2007*

A non-refundable credit against the taxes imposed by KRS 141.020 or 141.040 and KRS 141.0401 is allowed by an electric power company, an entity that owns or operates a coal-fired electric generation plant, or is an alternative fuel facility and is subject to tax under KRS 136.120 and purchases coal subject to tax under KRS 143.020. The amount of the allowable credit shall be two dollars (\$2) per each incentive ton of coal purchased and that is used to generate electric power or used as feedstock for an alternative fuel facility.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0



## **55. Construction of Research Facilities Credit**

*Kentucky Revised Statutes 141.395, effective June 28, 2006*

A non-refundable credit is permitted against the tax for the construction of research facilities under KRS 141.020, 141.040 and 141.0401. Any unused credit may be carried forward ten (10) years. The credit allowed shall equal five percent of the qualified costs of construction of research facilities.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

## **56. Distilled Spirits Credit**

*Kentucky Revised Statutes 141.389(1)(a)(b), effective July 15, 2014*

There shall be allowed a non-refundable and nontransferable credit to each taxpayer paying the distilled spirits ad valorem tax as follows:

1. For taxable years beginning on or after January 1, 2015, and before December 31, 2015, the credit shall be equal to twenty percent of the tax;
2. For taxable years beginning on or after January 1, 2016, and before December 31, 2016, the credit shall be equal to forty percent of the tax;
3. For taxable years beginning on or after January 1, 2017, and before December 31, 2017, the credit shall be equal to sixty percent of the tax;
4. For taxable years beginning on or after January 1, 2018, and before December 31, 2018, the credit shall be equal to eighty percent of the tax;
5. For taxable years beginning on or after January 1, 2019, the credit shall be equal to one hundred percent of the tax.

The credit may be taken against the tax imposed by KRS 141.020 (individual income tax) and KRS 141.0401 (limited liability entity tax).

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

## **57. Donated Edible Agricultural Products Credit**

*Kentucky Revised Statutes 141.392(2)(a) and (5), effective June 25, 2013*

For taxable years beginning on or after January 1, 2014, but before January 1, 2018, any donor shall be allowed a nonrefundable credit against the tax imposed by KRS 141.020, or 141.040 and 141.0401 in the amount equal to ten percent of the value of the donated edible agricultural products.

Any tax credit allowable under this section that is not used by the qualified taxpayer in the current tax year may be carried forward for up to four (4) succeeding years, until the credit has been exhausted.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

## **58. Endow Kentucky Tax Credit**

*Kentucky Revised Statutes 141.438 (1)(3)(4)(6)(a)(b), effective July 15, 2014*

For taxable years beginning on or after January 1, 2011, the Endow Kentucky tax credit shall be equal to twenty percent of the value of the endowment gift provided by the taxpayer, not to exceed ten thousand dollars (\$10,000).

The credit shall be nonrefundable tax under KRS 141.020, KRS 141.040 or KRS 141.0401 but any amount of credit that a tax payer is not able to utilize during a particular taxable year may be carried forward for use in a subsequent taxable year, for a period not to exceed five (5) years.

The total amount of tax credit that may be awarded under this section shall be limited to: (a) five hundred thousand dollars (\$500,000) in each fiscal year beginning on or before July 1, 2015; and (b) one million dollars (\$1,000,000) in each fiscal year beginning on or after July 1, 2016.

<b>FY 2018</b>	\$0.5 million
<b>FY 2019</b>	\$0.5 million
<b>FY 2020</b>	\$0.5 million

## 59. Ethanol Credit

*Kentucky Revised Statutes 141.4242 (1), effective August 2007*

For taxable years beginning after December 31, 2007 an ethanol producer shall be eligible for a non-refundable tax credit against the taxes imposed by KRS 141.020 or 141.040 and 141.0401. The credit rate shall be one dollar (\$1) per ethanol gallon produced, unless total amount of approved credit exceeds the annual ethanol tax credit cap (\$5,000,000).

<b>FY 2018</b>	\$8.2 million
<b>FY 2019</b>	\$8.4 million
<b>FY 2020</b>	\$8.7 million

## 60. Expanded Low Income Tax Credit

*Kentucky Revised Statutes 141.066, effective 2005*

Kentucky residents are allowed a low income tax credit based on modified Adjusted Gross Income (MGI) that 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 2016 federal poverty level for a family of one (1) is \$11,770; for a family size of two (2) is \$15,930; for a family size of three (3) is \$20,090; and for a family size of four (4) or more (for Kentucky purposes) is \$24,250.

<b>FY 2018</b>	\$118.9 million
<b>FY 2019</b>	\$122.9 million
<b>FY 2020</b>	\$126.7 million

## 61. Film Industry Tax Credit

*Kentucky Revised Statutes 141.383(2)(3), effective June 26, 2009*

*Kentucky Revised Statutes 148.542 to 148.546, effective July 15, 2014*

A refundable tax credit may be taken against the tax imposed under KRS 141.020 or 141.040 and 141.0401, if the business has expenses that qualify under the provisions of KRS 141.383 and KRS 148.542.

<b>FY 2018</b>	Substantial
<b>FY 2019</b>	Substantial
<b>FY 2020</b>	Substantial

## **62. Hiring the Unemployed Credit**

*Kentucky Revised Statutes 141.065 (2)(9), effective June 1982*

A non-refundable credit for an amount equal to one hundred dollars (\$100) for each person hired by the taxpayer, if that person has been classified as unemployed by the Office of Employment and Training of the Department of Workforce Investment in the Education and Workforce Development Cabinet and has been so classified for at least sixty (60) days prior to his employment by the taxpayer. That person must also remain in the employ of the taxpayer for at least one hundred eighty (180) consecutive days during the taxable year in which the taxpayer claims the credit. This credit may be taken against taxes imposed by KRS 141.020 or 141.040 and 141.0401.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

## **63. Historic Preservation Tax Credit - Nonrefundable**

*Kentucky Revised Statutes 171.397(1)(a), effective June 26, 2005*

*Kentucky Revised Statutes 171.396, effective July 15, 2005*

*Kentucky Revised Statutes 171.3961, effective July 15, 2014*

A nonrefundable 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. This credit shall be allowed as a credit against the taxes imposed by KRS 141.020, 141.040, 141.0401 or 136.505.

<b>FY 2018</b>	\$0.2 million
<b>FY 2019</b>	\$0.2 million
<b>FY 2020</b>	\$0.2 million

## **64. Historic Preservation Tax Credit - Refundable**

*Kentucky Revised Statutes 171.397(1)(b), effective June 26, 2005*

*Kentucky Revised Statutes 141.0205(3)(d), effective January 1, 2007*

*Kentucky Revised Statutes 171.3961, effective July 15, 2014*

A refundable tax 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 on or after April 30, 2010. This credit shall be allowed as a credit against the taxes imposed by KRS 141.020, 141.040, and 141.0401.

**FY 2018**     \$1.2 million

**FY 2019**     \$1.2 million

**FY 2020**     \$1.3 million

## **65. Job Development Credits**

*Kentucky Revised Statutes 154.27-080 effective 2007 (IEIA); Kentucky Revised Statutes 154.32-090 effective 2009 (KBI); Kentucky Revised Statutes 154.28-090 effective 2006 (KIDA); Kentucky Revised Statutes 154.26-090 effective 2014 (KIRA); Kentucky Revised Statutes 154.24-110 effective 2006 (KJDA); Kentucky Revised Statutes 154.34-120 effective 2003 (KRA); Kentucky Revised Statutes 154.22-050 effective 2010 (KREDA)*

Job development credits occur when a company is approved for a development project and that company is allowed to assess a fee on the hired qualified employees. This fee is collected by the employer by keeping part of their normal withholding that would have gone to the state for individual income tax purposes.

There are seven different Job Development Credits currently available: Incentives for Energy Independence Act (IEIA) under KRS 154.27-080, Kentucky Business Investment (KBI) under KRS 154.32-090, Kentucky Industrial Development Act (KIDA) under KRS 154.28-090, Kentucky Industrial Revitalization Act (KIRA) under KRS 154.26-090, Kentucky Jobs Development Act (KJDA) under KRS 154.24-110, Kentucky Reinvestment Act (KRA) under KRS 154.34-120, and Kentucky Rural Economic Development Act (KREDA) under KRS 154.22-050. IEIA, KIRA, KJDA, KRA and KREDA can be taken against KRS 141.020, KRS 141.040, or KRS 141.0401. KBI and KIDA may be taken against KRS 141.020 or KRS 141.0401.

That employer is then entitled to claim a non-refundable individual income tax credit equal to the assessment fee. For KIRA, KJDA, and KREDA, if the local government in which the project is located has a local occupation license fee which is less than one percent, then the assessment fee is four percent plus the full occupational license fee. The IEIA provides for a flat four percent credit against the assessment fee. The KIDA provides for a flat three percent credit against the assessment fee.

<b>FY 2018</b>	\$120.8 million
<b>FY 2019</b>	\$124.9 million
<b>FY 2020</b>	\$128.8 million

## **66. Kentucky Angel Investment Act Credit**

*Kentucky Revised Statutes 154.20 – 232 and 154.20 – 236, effective July 15, 2014*  
*Kentucky Revised Statutes 141.396, effect July 15, 2014*

A non-refundable credit for certain investments in small business located in the Commonwealth, operating in the fields of knowledge-based, high-tech, and research and development, and showing a potential for rapid growth. The total amount of tax credit to all qualified investors shall be no more than (\$3,000,000) and for any individual qualified investor shall be no more than (\$200,000). The total amount of tax credit shall be no more than (\$40,000,000) in total for all years. This credit may be taken against the tax imposed by KRS 141.020.

<b>FY 2018</b>	\$1.0 million
<b>FY 2019</b>	\$1.0 million
<b>FY 2020</b>	\$1.1 million

## **67. Kentucky Investment Fund Credit**

*Kentucky Revised Statutes 154.20-255, effective July 15, 2002, amended 2014*

*Kentucky Revised Statutes 154.20-258, effective July 15, 2002*

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.

Total qualified investments made by an investment fund, including initial and subsequent investments made by an investment fund, in any single small business using approved qualified investments, shall not exceed thirty percent of the committed cash contributions to the investment fund. This restriction shall not apply to investments of money by the investment funds that are not qualified investments. The total amount of tax credits available to any single investment fund awarded tax credits shall not exceed, in aggregate, (\$8,000,000) for all investors and all taxable years. The credit may be applied against KRS 141.020, KRS 141.040 and KRS 141.0401. It also may be applied against Bank Franchise and Insurance Premiums tax.

<b>FY 2018</b>	\$0.4 million
<b>FY 2019</b>	\$0.4 million
<b>FY 2020</b>	\$0.4 million

## **68. Kentucky Small Business Investment Tax Credit**

*Kentucky Revised Statutes 154.60-020, effective 2009*

A small business under the provisions of 154.60-010 may be eligible for a non-refundable credit of up to 100 percent of the tax imposed pursuant to KRS 141.020 or 141.040 and KRS 141.0401. The maximum amount of credits that may be committed in each fiscal year by the Kentucky Economic Development Finance Authority shall be capped at \$3 million. The maximum amount of credit for each small business for each year shall not exceed \$25,000. Unused credits may be carried forward for up to five years.

<b>FY 2018</b>	\$1.0 million
<b>FY 2019</b>	\$1.0 million
<b>FY 2020</b>	\$1.0 million

## **69. Limited Liability Entity Tax Credit**

*Kentucky Revised Statutes 141.0401, effective January 1, 2007*

*Kentucky Revised Statutes 141.0205(1)(a)(2), effective January 1, 2007*

For taxable years beginning on or after January 1, 2007 an annual limited liability entity tax shall be paid by every corporation and every limited liability pass-through entity doing business in Kentucky on all Kentucky gross receipts or Kentucky gross profits. A nonrefundable business incentive credit shall be allowed against the tax imposed by KRS 141.020 or 141.040.

**FY 2018**     \$22.7 million

**FY 2019**     \$23.5 million

**FY 2020**     \$24.2 million

## **70. New Markets Development Credit**

*Kentucky Revised Statutes 141.434 (1)(2)(4), effective July 15, 2014*

The Kentucky New Markets Development Program tax credit shall be equal to thirty-nine percent (39%) of the purchase price of the qualified equity investment made by the person or entity claiming the credit. The total amount of tax credits that may be awarded by the department shall be limited to ten million dollars (\$10,000,000) in each fiscal year. Any unused credit that a taxpayer may not utilize during a particular year may be carried forward for use in any subsequent tax year. The non-refundable credit may be taken against the tax imposed by KRS 141.020, KRS 141.040, and KRS 141.0401.

**FY 2018**     \$0

**FY 2019**     \$0

**FY 2020**     \$0

## **71. Personal and Dependent Tax Credits**

*Kentucky Revised Statutes 141.020(3), effective June 25, 2013 (amended)*

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 2018**     \$63.3 million

**FY 2019**     \$65.5 million

**FY 2020**     \$67.5 million



## **72. Railroad Maintenance and Improvement Credit**

*Kentucky Revised Statutes 141.385(2)(3), effective June 26, 2009*

For taxable years beginning after December 31, 2009, an eligible taxpayer shall be entitled to a non-refundable credit, in an amount equal to fifty percent of the qualified expenditures paid or incurred by the taxpayer during the taxable year. The credit shall not exceed the product of three thousand five hundred dollars (\$3,500) multiplied by the sum of the number of miles of railroad track in Kentucky owned or leased by the eligible taxpayer as of the close of the taxable year; and, the number of miles of railroad track in Kentucky assigned for purposes of this section to the eligible taxpayer by a Class II railroad or Class III railroad which owns or leases the railroad track as of the close of the taxable year. The credit may be used against the taxes imposed by KRS 141.020 or 141.040 and 141.0401.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

## **73. Recycling and/or Composting Equipment Credit**

*Kentucky Revised Statutes 141.390(2)(b), effective 1992*

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. Beginning in 2005, a major recycling project may qualify for an expanded credit, 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. The credit may be used against the taxes imposed by KRS 141.020 or 141.040 and 141.0401.

<b>FY 2018</b>	\$0.6 million
<b>FY 2019</b>	\$0.6 million
<b>FY 2020</b>	\$0.7 million

## **74. Taxes Paid to Other States Credit**

*Kentucky Revised Statutes 141.070(2), effective June 20, 2005*

For residents of Kentucky, whenever an individual becomes liable for income tax to another state, the amount of income tax payable by him shall be credited on his return. This credit is non-refundable. This credit shall be allowed against the tax imposed by KRS 141.020.

An individual who is not a resident of this state shall not be liable for any income tax under KRS 141.020(4) if the laws of the state of which such individual was a resident at the time such income was earned in this state contained a reciprocal provision under which nonresidents were exempted from gross or net income taxes to such state, if the state of resident of such nonresident individual allowed a similar exemption to resident individuals of this state.

<b>FY 2018</b>	\$66.7 million
<b>FY 2019</b>	\$68.9 million
<b>FY 2020</b>	\$71.1 million

## **75. Voluntary Environmental Remediation Credit**

*Kentucky Revised Statutes 141.418, effective July 15, 2010*

There shall be allowed a non-refundable credit against the tax imposed under KRS 141.020 or KRS 141.040 for taxable years beginning after December 31, 2004. There shall be allowed a non-refundable credit against the tax imposed under KRS 141.0401 for taxable years beginning after December 31, 2006. The credit is based on expenditures made at a qualifying voluntary environmental remediation property in order to correct the effect of release of hazardous substances. The maximum credit for each taxpayer shall not exceed \$150,000. The amount of the allowable credit for any taxable year shall be twenty-five percent (25%) of the maximum credit approved. The credit may be carried forward for ten (10) successive taxable years.

The maximum total credit for each taxpayer shall not exceed one hundred fifty thousand dollars (\$150,000).

The amount of the allowable credit for any taxable year shall be twenty-five percent of the maximum credit approved. The credit may be carried forward for then (10) successive taxable years.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

**76. Withheld Amount for Economic Development Project Employees Credit**

*Kentucky Revised Statutes 141.350, effective June 26, 2009*

The amount deducted and withheld as tax under KRS 141.310 and 141.315 upon the wages of any individual and the amount of the credit described in KRS 154.22-070(2), 154.23-055, 154.24-110, 154.24-150(3) and (4), 154.26-100(2), 154.27-080, 154.28-110, or 154.32-090 shall be allowed as a non-refundable credit against the tax imposed by KRS 141.020.

<b>FY 2018</b>	\$51.6 million
<b>FY 2019</b>	\$53.4 million
<b>FY 2020</b>	\$55.0 million

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# Inheritance & Estate Tax

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## **Background:**

Inheritance and estate taxes are two separate taxes that are often referred to as death taxes because 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 is 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 percent discount is allowed if the tax is paid within nine months of the date of death. The estate tax or "pick up tax" is a tax on the estate equal to the amount by which the credit for state death taxes allowable under the Federal estate tax law exceeds the Kentucky inheritance tax. The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) repealed the credit with a deduction. It was made permanent by the American Taxpayer Relief Act, which was signed into law on January 2, 2013. Since state death taxes are no longer treated as a credit for federal estate taxes, there has been no Kentucky estate tax since January 2005.

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 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 \$1.0 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 pursuant to Section 1022 of the Internal Revenue Code enacted pursuant to 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 pursuant to Section 1022 apply to the property acquired from the decedent.

The exclusion amount remained at \$5,000,000 for 2011 and was adjusted for inflation to \$5,120,000 for 2012.

Before the provisions of the 2010 Tax Relief Act was set to expire on December 31, 2012, President Obama signed into law on January 2, 2013 the American Taxpayer Relief Act of 2012. It permanently provides for a maximum federal estate tax rate of 40 percent with an annually inflation-adjusted \$5,000,000 exclusion for estates of decedents dying after December 31, 2012. The exclusion amount adjusted for inflation is \$5,490,000 for 2017 up from \$5,450,000 for 2016.

The American Taxpayer Relief Act makes permanent "portability" between spouses. Prior to the permanent extension, portability was only available to the estates of decedents dying after December 31, 2010 and before January 1, 2013. Since the American Taxpayer Relief Act extended the deduction for state estate taxes, there will not be a Kentucky estate tax under current state law.

During FY17, the inheritance tax produced \$44.7 million in General Fund revenues. This was a 12.8 percent decrease from the prior year and accounted for less than one 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 four percent to 16 percent for Class B beneficiaries, and six 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 five percent discount is allowed. No discount is allowed on estate tax.

**Table 9. Total Inheritance and Estate Tax Expenditures**

<b>FY 2018</b>	\$68.1 million
<b>FY 2019</b>	\$68.2 million
<b>FY 2020</b>	\$68.3 million

**Tax Expenditures****1. Annuities Under Qualified Retirement Plans**

*Kentucky Revised Statutes 140.063(1)(2), effective 1974, revised 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.

<b>FY 2018</b>	Minimal
<b>FY 2019</b>	Minimal
<b>FY 2020</b>	Minimal

## **2. Assessment of Land at its Agricultural or Horticultural Value**

*Kentucky Revised Statutes 140.300, effective 1978, revised 1990*

*Kentucky Revised Statutes 140.310, effective 1978, revised 1986*

*Kentucky Revised Statutes 140.360, effective 1978*

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 2018** Minimal

**FY 2019** Minimal

**FY 2020** Minimal

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

*Kentucky Revised Statutes 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 2018** Minimal

**FY 2019** Minimal

**FY 2020** Minimal

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

*Kentucky Revised Statutes 140.015(1), 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 2018** Minimal

**FY 2019** Minimal

**FY 2020** Minimal



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

*Kentucky Revised Statutes 140.020(3), effective 1978 and 140.050, effective 1942*

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.

<b>FY 2018</b>	Minimal
<b>FY 2019</b>	Minimal
<b>FY 2020</b>	Minimal

## 6. Class A Beneficiaries

*Kentucky Revised Statutes 140.080(1)(b)(c), effective 1995*

*Kentucky Revised Statutes 140.070(1), effective 1995*

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

<b>FY 2018</b>	\$55.0 million
<b>FY 2019</b>	\$55.0 million
<b>FY 2020</b>	\$55.0 million

## 7. Class B Beneficiaries

*Kentucky Revised Statutes 140.080(1)(d), effective 1948. Revised 1995*

*Kentucky Revised Statutes 140.070(2), effective 1948, revised 1995*

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

<b>FY 2018</b>	Minimal
<b>FY 2019</b>	Minimal
<b>FY 2020</b>	Minimal

## 8. Class C Beneficiaries

*Kentucky Revised Statutes 140.080(1)(e), effective 1948, revised 1995*

*Kentucky Revised Statutes 140.070(3), effective 1948, revised 1995*

Class C beneficiaries are granted a \$500 exemption.

<b>FY 2018</b>	Minimal
<b>FY 2019</b>	Minimal
<b>FY 2020</b>	Minimal

## **9. Discount for Early Payment of Tax**

*Kentucky Revised Statutes 140.210(1), effective 1936*

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

<b>FY 2018</b>	\$1.2 million
<b>FY 2019</b>	\$1.2 million
<b>FY 2020</b>	\$1.2 million

## **10. Individual Retirement Accounts**

*Kentucky Revised Statutes 140.063(3)(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.

<b>FY 2018</b>	Minimal
<b>FY 2019</b>	Minimal
<b>FY 2020</b>	Minimal

## **11. Life Insurance Proceeds**

*Kentucky Revised Statutes 140.030(2), effective 1936, revised 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.

<b>FY 2018</b>	Substantial
<b>FY 2019</b>	Substantial
<b>FY 2020</b>	Substantial

## **12. Recurring Tax Credits**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	Minimal
<b>FY 2019</b>	Minimal
<b>FY 2020</b>	Minimal

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

*Kentucky Revised Statutes 140.060, effective 1936, revised 1954*

Transfers to these types of organizations are exempt.

<b>FY 2018</b>	\$11.9 million
<b>FY 2019</b>	\$12.0 million
<b>FY 2020</b>	\$12.1 million

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# Insurance Premiums Tax

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## **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 \$1.50 per \$100 of premium receipts. Stock and mutual insurance companies other than life are assessed \$2 per \$100 of receipts. Lastly, 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 (*KRS 136.330*): \$1.50 per \$100 of premium receipts.
- Stock insurance companies other than life (*KRS 136.340, KRS 136.370 and KRS 136.390*): \$2.00 per \$100 of premium receipts.
- Mutual insurance companies and Lloyds insurers other than life (*KRS 136.350*): 2% of premiums or other receipts.
- Domestic fire insurance companies or cooperative and assessment fire insurance (*KRS 299.530*): \$2.00 per \$100 of premium receipts.
- Domestic mutual companies as unauthorized reinsurance (*KRS 304.4-030*): 2% of premiums or other receipts.

- Every stock insurer other than life doing business in Kentucky shall pay 0.75 percent of all amounts paid to such insurance company or its representative for fire insurance and that portion allocable to insurance against the hazard of fire included in other coverage than life and disability insurances (*KRS136.360*).
- Retaliatory tax and fees on insurers (*KRS 340.3-270 and KRS 304.4-010*): The companies must calculate what their tax liability would have been using the premium receipts from Kentucky based on their home state's tax rates. If their tax liability is higher in their home state verses what they paid to Kentucky, then they must pay Kentucky the difference.
- Captive insurance: Direct premiums (*KRS 304.49-220(1)*):
  - 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 (*KRS 304.49-220(2)*):
  - 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.

Insurance premium taxes generated \$148.2 million in FY17.

**Table 10. Total Insurance Premiums Tax Expenditures**

<b>FY 2018</b>	\$32.0 million
<b>FY 2019</b>	\$32.0 million
<b>FY 2020</b>	\$32.0 million

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

*Kentucky Revised Statutes 136.395, effective 1972*

Health insurance contract or contracts for state employees is authorized by KRS 18A.225 shall not be subject to taxation under this section.

<b>FY 2018</b>	\$2.0 million
<b>FY 2019</b>	\$2.0 million
<b>FY 2020</b>	\$2.0 million

**2. Kentucky Investment Fund Credit**

*Kentucky Revised Statutes 154.20-255, effective July 15, 2002, amended 2014*

*Kentucky Revised Statutes 154.20-258, effective July 15, 2002*

An investor shall be entitled to a nonrefundable credit equal to 40 percent of the investor's proportional ownership share of all qualified investments made by its investment fund and verified by the authority. The aggregate tax credit available to any investor shall not exceed 40 percent of the cash contribution made by the investor to its investment fund.

The tax credit amount that may be claimed by an investor in any tax year shall not exceed 50 percent of the initial aggregate credit amount approved by the authority for the investment fund which would be proportionally available to the investor.

If the credit amount that may be claimed in any tax year exceeds the investor's combined tax liabilities against which the credit may be claimed for that year, the investor may carry excess tax credit forward until the tax credit issued, but the carry-forward of any excess tax credit shall not increase the fifty percent limitation. Any tax credits not used within fifteen (15) years of the approval by the authority of the aggregate tax credit amount available to the investor shall be lost. The credit may be applied against KRS 141.020, KRS 141.040 and KRS 141.0401 and Bank Franchise.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

### **3. Life and Health Guaranty Fund Assessment Credit**

*Kentucky Revised Statutes 304.42-130(1), effective July 15, 2010*

A member insurer, other than a nonprofit hospital, medical surgical, dental, or health service corporation may offset its tax liability to this state imposed against it, whichever may be applicable, against the assessment to the extent of twenty percent of the amount of the assessment for each of the five (5) calendar years following the year in which the assessment was paid.

<b>FY 2018</b>	\$20.0 million
<b>FY 2019</b>	\$20.0 million
<b>FY 2020</b>	\$20.0 million

### **4. New Markets Development Program Tax Credit**

*Kentucky Revised Statutes 141.434, effective July 15, 2014*

A person or entity that makes a qualified equity investment earns a vested right to the tax credit created shall be equal to thirty-nine percent of the purchase price of the qualified equity investment made by the person or entity claiming the credit.

Any tax credit that a taxpayer may not utilize during a particular year may be carried forward for use in any subsequent tax year.

No tax credit claimed may be sold or transferred.

The total amount of tax credits awarded by the department shall be limited to ten million dollars (\$10,000,000) in each fiscal year. This limitation on qualified equity investments shall be based on scheduled utilization of tax credits without regard to the potential for taxpayers to carry forward tax credits to subsequent tax years.

<b>FY 2018</b>	\$10.0 million
<b>FY 2019</b>	\$10.0 million
<b>FY 2020</b>	\$10.0 million



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# Limited Liability Entity Tax

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**Background:**

On 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 .095 cents per \$100 of gross receipts. When computing the tax using the gross profits method, the tax rate is 0.75 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 that 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 FY17 were \$245.6 million and accounted for two 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

<b>FY 2018</b>	\$97.9 million
<b>FY 2019</b>	\$98.0 million
<b>FY 2020</b>	\$98.1 million

### Tax Expenditures

#### 1. Alcohol Production Facility

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

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

<b>FY 2018</b>	Minimal
<b>FY 2019</b>	Minimal
<b>FY 2020</b>	Minimal

#### 2. Certified Fluidized Bed Energy Production Facility

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	Minimal
<b>FY 2019</b>	Minimal
<b>FY 2020</b>	Minimal

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

*Kentucky Revised Statutes 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 pursuant to 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.

<b>FY 2018</b>	Minimal
<b>FY 2019</b>	Minimal
<b>FY 2020</b>	Minimal

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

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$40.0 million
<b>FY 2019</b>	\$40.0 million
<b>FY 2020</b>	\$40.0 million

## **5. Limited Liability Entity Tax Exemptions - Rate**

*Kentucky Revised Statutes 141.0401(6)(a) – (h), effective July 15, 2008*

The tax imposed shall not apply to financial institutions, except banker's banks; Savings and loan associations organized under the laws of this state and under the laws of the United States and making loans to members only; banks for cooperatives; production credit associations; insurance companies, including farmers' or other mutual hail, cyclone windstorm, or fire insurance companies, insurers and reciprocal underwriters; some corporations of other entities; religious, educational, charitable, or like corporations not organized or conducted for pecuniary profit; 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 the property consists of the final printed product or copy from which the printed product is produced and the corporation has no individuals receiving compensation in this state; public service corporations subject to tax.

<b>FY 2018</b>	Substantial
<b>FY 2019</b>	Substantial
<b>FY 2020</b>	Substantial

## **6. Open-End Registered Investment Companies**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

## **7. Personal Service Corporations**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$2.1 million
<b>FY 2019</b>	\$2.2 million
<b>FY 2020</b>	\$2.3 million

## **8. Premiums Paid for Health Insurance**

*Kentucky Revised Statutes 141.062, effective June 2006*

The amount of premiums paid for health insurance shall be treated as a credit against the limited liability entity tax imposed by KRS 141 as follows:

20% of the first year premium;  
15% of the second year premium;  
10% of the third year premium; and  
5% of the fourth year premium.

Employers maintain participation in the trust for all full-time and part-time employees for a period of four (4) continuous years; and Employers pay at least fifty percent of the premium

<b>FY 2018</b>	\$2.3 million
<b>FY 2019</b>	\$2.3 million
<b>FY 2020</b>	\$2.3 million

## **9. Publicly Traded Partnerships**

*Kentucky Revised Statutes 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 pursuant to Section 7704(c) of the Internal Revenue Code, or its publicly traded partnership affiliate.

<b>FY 2018</b>	Minimal
<b>FY 2019</b>	Minimal
<b>FY 2020</b>	Minimal

## 10. Qualified Farming Operation

*Kentucky Revised Statutes 141.412(1)(2), effective June 28, 2006*

A qualified farming operation shall be entitled to a nonrefundable credit against the Kentucky income tax liability on any income of the qualified farming operation generated by or arising out of the qualified farming operation's participation in a networking project. The annual credit shall be available for the first five (5) years that the farming operation is involved in the networking project. The annual credit shall be equal to the approved costs incurred by the qualified farming operation during the tax year and shall not exceed the income, Kentucky gross profits or Kentucky gross receipts, as the case may be, of the qualified farming operation generated by or arising out of the qualified farming operations participation in a networking project. Credit not used in the tax year in which it first becomes available may be carried forward to the next succeeding five (5) tax years until the credit has been fully used.

<b>FY 2018</b>	\$15,400
<b>FY 2019</b>	\$15,401
<b>FY 2020</b>	\$15,402

## 11. Real Estate Investment Trust

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$1.0 million
<b>FY 2019</b>	\$1.0 million
<b>FY 2020</b>	\$1.0 million

## 12. Real Estate Mortgage Investment Conduit

*Kentucky Revised Statutes 141.0401(6)(o), 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.

<b>FY 2018</b>	Minimal
<b>FY 2019</b>	Minimal
<b>FY 2020</b>	Minimal

### **13. Regulated Investment Company**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	Minimal
<b>FY 2019</b>	Minimal
<b>FY 2020</b>	Minimal

### **14. Small Business Relief from the Limited Liability Entity Tax**

*Kentucky Revised Statutes 141.0401(2), 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.

<b>FY 2018</b>	\$41.0 million
<b>FY 2019</b>	\$41.0 million
<b>FY 2020</b>	\$41.0 million

## **Credits**

### **15. Biodiesel Tax Credit**

*Kentucky Revised Statutes 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. A nonrefundable tax credit may be applied against the taxes imposed by KRS 141.020, 141.040 and 141.0401.

<b>FY 2018</b>	\$225,000
<b>FY 2019</b>	\$225,000
<b>FY 2020</b>	\$225,000

## **16. Cellulosic Ethanol Credit**

*Kentucky Revised Statutes 141.4244(1)(a), effective August 30, 2007*

For taxable years beginning after December 31, 2007 a cellulosic ethanol producer shall be eligible for a non-refundable tax credit against the taxes imposed by KRS 141.020 or 141.040 and 141.0401. The credit rate shall be one dollar (\$1) per cellulosic ethanol gallon produced, unless the total amount of approved credit for all cellulosic ethanol producers exceeds the annual cellulosic ethanol tax credit cap (\$5,000,000).

<b>FY 2018</b>	\$150,000
<b>FY 2019</b>	\$150,000
<b>FY 2020</b>	\$150,000

## **17. 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.

<b>FY 2018</b>	\$50,000
<b>FY 2019</b>	\$50,000
<b>FY 2020</b>	\$50,000



## 18. Coal Conversion Credit

*Kentucky Revised Statutes 141.041, effective 1984*

There shall be allowed a nonrefundable credit against the tax imposed on any corporation in which, on or after July 1, 1984, installs, modifies and utilizes facilities located in Kentucky for generating steam or hot water for space-heating or materials processing or for providing direct heat for industrial processes. The amount of the allowable credit shall be equal to four and one-half percent of the purchase price of the coal consumed or substituted in each eligible heating facility minus any transporting costs included in the purchase price. The credit can be carried forward for 10 consecutive years. This credit shall be allowed against the tax imposed by KRS 141.040 or KRS 141.0401.

<b>FY 2018</b>	\$50,000
<b>FY 2019</b>	\$50,000
<b>FY 2020</b>	\$50,000

## 19. Coal Incentive Credit

*Kentucky Revised Statutes 141.0405, effective 2000*

A nonrefundable credit against the taxes imposed by KRS 141.020 or 141.040 and KRS 141.0401 is allowed to any electric power company subject to tax pursuant to KRS 136.120, any entity that operates a coal-fired electric generation plant or any entity that is an alternative fuel facility or gasification facility not already approved for incentives pursuant to KRS Chapter 154 § 27. The credit is equal to \$2 per each incentive ton of coal purchased subject to tax pursuant to KRS 143.020 and is used to generate electric power or used as feedstock for an alternative fuel facility or gasification facility. Incentive tons are calculated as current year usage minus the base year, where the base year is that coal purchased in calendar year 1999. For entities created after this base year, the base shall be equal to zero.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

## 20. Construction of Research Facilities Credit

*Kentucky Revised Statutes 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. A nonrefundable credit is permitted against the tax assessed by both KRS 141.020 or 141.040 and 141.0401. Any unused credit may be carried forward 10 years.

<b>FY 2018</b>	\$225,000
<b>FY 2019</b>	\$225,000
<b>FY 2020</b>	\$225,000

## 21. Distilled Spirits Credit

*Kentucky Revised Statutes 141.389(1)(a)(b), effective July 15, 2014*

There shall be allowed a non-refundable and nontransferable credit to each taxpayer paying the distilled spirits ad valorem tax as follows:

1. For taxable years beginning on or after January 1, 2015, and before December 31, 2015, the credit shall be equal to twenty percent of the tax;
2. For taxable years beginning on or after January 1, 2016, and before December 31, 2016, the credit shall be equal to forty percent of the tax;
3. For taxable years beginning on or after January 1, 2017, and before December 31, 2017, the credit shall be equal to sixty percent of the tax;
4. For taxable years beginning on or after January 1, 2018, and before December 31, 2018, the credit shall be equal to eighty percent of the tax;
5. For taxable years beginning on or after January 1, 2019, the credit shall be equal to one hundred percent of the tax.

The credit may be taken against the tax imposed by KRS 141.020 (individual income tax), KRS 141.040 (corporation tax) and KRS 141.0401 (limited liability entity tax).

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

## **22. Donated Edible Agricultural Products Credit**

*Kentucky Revised Statutes 141.392(2)(a) and (5), effective June 25, 2013*

For taxable years beginning on or after January 1, 2014, but before January 1, 2018, any donor shall be allowed a nonrefundable credit against the tax imposed by KRS 141.020, or 141.040 and 141.0401 in the amount equal to ten percent of the value of the donated edible agricultural products.

Any tax credit allowable under this section that is not used by the qualified taxpayer in the current tax year may be carried forward for up to four (4) succeeding years, until the credit has been exhausted.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

## **23. Employer GED Credit**

*Kentucky Revised Statutes 164.0062, effective June 25, 2013*

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.

<b>FY 2018</b>	Minimal
<b>FY 2019</b>	Minimal
<b>FY 2020</b>	Minimal

## **24. Endow Kentucky Tax Credit**

*Kentucky Revised Statutes 141.438, effective June 4, 2010, amended July 15, 2014*

This tax was created to encourage donations to community foundations across the Commonwealth. KRS 141.438 was created to allow a nonrefundable income tax KRS 141.020 or 141.040 and limited liability entity tax credit under KRS 141.0401 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 in each year beginning on or before July 1, 2015 and \$1,000,000 in each fiscal year beginning on or after July 1, 2016.

<b>FY 2018</b>	\$10,000
<b>FY 2019</b>	\$10,000
<b>FY 2020</b>	\$10,000

## **25. Ethanol Tax Credit**

*Kentucky Revised Statutes 141.422-425 (1)(c), effective 2007*

*Kentucky Revised Statutes 141.4242, effective 2007*

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. For taxable years beginning after December 31, 2017 an ethanol producer shall be eligible for a nonrefundable tax credit shall be imposed by KRS 141.020 or 141.040 and 141.0401.

<b>FY 2018</b>	\$150,000
<b>FY 2019</b>	\$150,000
<b>FY 2020</b>	\$150,000

## 26. Film Industry Tax Credit

*Kentucky Revised Statutes 141.383, effective June 26, 2009*

*Kentucky Revised Statutes 148.546(3)(b) effective July 15, 2014*

*Kentucky Revised Statutes 148.544(4)(c), effective July 15, 2014*

Approved companies that film or produce a motion picture or entertainment production, commercial, or documentary may recover up to 30 percent for a motion picture or entertainment production filmed or produced in whole or in part in any Kentucky county other than in an enhanced incentive county and 35 percent for an enhanced incentive county. Qualifying expenditures include expenditures made in Kentucky that are directly used in or for a motion picture or entertainment production. There was a cap of \$5.0 million for FY11 and \$7.5 million for FY12. There has been no cap on film credits since the cap was repealed in FY12. A nonrefundable tax credit may be taken against that tax imposed under KRS 141.020 or 141.040 and 141.0401.

<b>FY 2018</b>	\$600,000
<b>FY 2019</b>	\$600,000
<b>FY 2020</b>	\$600,000

## 27. Hiring the Unemployed Tax Credit

*Kentucky Revised Statutes 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 a nonrefundable credit for each qualified person. The credit may be taken against taxes imposed by KRS 141.020 or 141.040 and 141.0401.

<b>FY 2018</b>	\$75,000
<b>FY 2019</b>	\$75,000
<b>FY 2020</b>	\$75,000

## **28. Incentives for Energy Independence Act Tax Credit (IEIA)**

*Kentucky Revised Statutes 154.27-80, effective August 30, 2007*

*Kentucky Revised Statutes 141.421, effective August 30, 2007*

A credit of up to 100 percent of the IEIA shall be imposed under KRS 141.040 or 141.020 or 141.0401. The approved company may require that each employee subject to the state income tax imposed by 141.020 as a condition of employment agrees to pay an assessment of up to four percent of their gross wages.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

## **29. Kentucky Business Investment Credit (KBI)**

*Kentucky Revised Statutes 154.32-090, effective June 26, 2009*

*Kentucky Revised Statutes 141.415, effective June 26, 2009*

For taxable years beginning after December 31, 2009, an approved company may be eligible for a credit of up to one hundred percent (100%) of the Kentucky income tax imposed under KRS 141.020 or 141.040, and the limited liability entity tax imposed under KRS 141.0401 that would otherwise be owed by the approved company to the Commonwealth for the approved company's taxable year, on the income, Kentucky gross profits, or Kentucky gross receipts of the approved company generated by or arising from the economic development project.

Any credit not used in the year in which it was first available may be carried forward to subsequent years, provided that no credit may be carried forward beyond the term of the tax incentive agreement.

The amount of incentives allowed in any year shall not exceed the lesser of the tax liability of the approved company related to the economic development project for that year or the annual maximum approved costs set forth in the tax incentive agreement. The incentives shall be allowed for each fiscal year of the approved company during the term of the tax incentive agreement for which a tax return is filed by the approved company.

<b>FY 2018</b>	\$600,000
<b>FY 2019</b>	\$600,000
<b>FY 2020</b>	\$600,000

### **30. Kentucky Enterprise Initiative**

*Kentucky Revised Statutes 154.20-204, effective March 18, 2005*

*Kentucky Revised Statutes 154.20-200(6), effective 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 equipment used in research and development.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

### **31. Kentucky Environmental Stewardship Tax Credit (KESA)**

*Kentucky Revised Statutes 154.48-010(13), effective January 2005*

*Kentucky Revised Statutes 154.48-025, effective March 2005*

*Kentucky Revised Statutes 154.48-020(4), effective January 2005*

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 the 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.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

### **32. Kentucky Historic Preservation Tax Credit**

*Kentucky Revised Statutes 171.397, effective June 26, 2005*

*Kentucky Revised Statutes 171.396, effective July 15, 2005*

*Kentucky Revised Statutes 171.3961, effective July 15, 2014*

The 2005 Kentucky General Assembly created the Kentucky Historic Preservation Credit. The credit applies to tax KRS 141.020, KRS 141.040, tax KRS 141.0401, or the KRS 136.505. For all applications for a preliminary approval received prior to April 30, 2010, 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. For all applications for a preliminary approval received on or after April 30, 2010, the credit shall be refundable if the taxpayer makes an election under (2)(b) in KRS 171.397. The maximum credit that may be claimed with regard to owner-occupied residential property is \$60,000. The maximum credit which may be claimed with regard to all other property that is not owner-occupied residential shall be \$400,000. 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 2018**      \$2.0 million

**FY 2019**      \$2.0 million

**FY 2020**      \$2.0 million

### **33. Kentucky Industrial Development Act Credit (KIDA)**

*Kentucky Revised Statutes 141.400, effective 1992*

*Kentucky Revised Statutes 154.28-090, effective 2006*

A 100 percent credit is allowed against the income of an approved company under KRS 141.020, 141.040 and 141.0401 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. Kentucky continues to pay out credits that were approved before.

**FY 2018**      \$650,000

**FY 2019**      \$650,000

**FY 2020**      \$650,000



### **34. Kentucky Industrial Revitalization Agreement Credit (KIRA)**

*Kentucky Revised Statutes 141.403, effective 1992*

*Kentucky Revised Statutes 154.26-090, effective July 15, 2014*

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 under KRS 141.020 or KRS 141.040 or KRS 141.0401 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. Kentucky continues to pay out credits that were approved before.

<b>FY 2018</b>	\$500,000
<b>FY 2019</b>	\$500,000
<b>FY 2020</b>	\$500,000

### **35. Kentucky Investment Fund Tax Credit**

*Kentucky Revised Statutes 154.20-255, effective July 15, 2002, amended 2014*

*Kentucky Revised Statutes 154.20-258, effective July 15, 2002*

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. The credit may be applied against KRS 141.020, 141.040 and 141.0401. The credit may be applied against Bank Franchise and Insurance Premiums taxes. The total amount of tax credits available to any single investment fund awarded tax credits shall not exceed, in aggregate, (\$8,000,000) for all investors and all taxable years

<b>FY 2018</b>	\$7,500
<b>FY 2019</b>	\$7,500
<b>FY 2020</b>	\$7,500

### **36. Kentucky Job Retention Agreement Tax Credit (KJRA)**

*Kentucky Revised Statutes 154.25-030 (2)(b), effective March 23, 2007*

Jobs retention project means the acquisition, construction, and installation of new equipment to facilities necessary to house the acquisition, construction, and installation of new equipment. One hundred percent of the KJRA tax credit is applied against KRS 141.020 or 141.040 and 141.0401. The balance of unused approved costs from a previously existing KIDA or KJDA project to be transferred to KJRA project.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

### **37. Kentucky Jobs Development Act Credit (KJDA)**

*Kentucky Revised Statutes 154.24-130, effective 1992*

*Kentucky Revised Statutes 154.24-110, effective 2006*

A 100 percent credit is allowed against the income of an approved company under KRS 141.020 or KRS 141.040 and KRS 141.0401 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. Kentucky continues to pay out credits that were approved before.

<b>FY 2018</b>	\$1.0 million
<b>FY 2019</b>	\$1.0 million
<b>FY 2020</b>	\$1.0 million

### **38. Kentucky Reinvestment Act Tax Credit (KRA)**

*Kentucky Revised Statutes 154.34-120, effective 2010*

For taxable years beginning after December 31, 2009, an approved company may be eligible for a nonrefundable credit Kentucky Reinvestment Act (KRA) of up to 100 percent of the Kentucky income tax imposed under KRS 141.020 or 141.04 and 141.0401. Any credit not used in the year in which it was first available may be carried forward two subsequent years, provided that no credit may be carried forward beyond the term of the reinvestment agreement.

<b>FY 2018</b>	\$950,000
<b>FY 2019</b>	\$950,000
<b>FY 2020</b>	\$950,000

### **39. Kentucky Rural Economic Development Act Credit (KREDA)**

*Kentucky Revised Statutes 154.22-050, effective 1988*

A 100 percent credit is allowed against the income of an approved company under KRS 141.020 or KRS 141.040 and KRS 141.0401 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. Kentucky continues to pay out credits that were approved before.

<b>FY 2018</b>	\$1.0 million
<b>FY 2019</b>	\$1.0 million
<b>FY 2020</b>	\$1.0 million

#### **40. Kentucky Small Business Investment Tax Credit**

*Kentucky Revised Statutes 141.384, effective June 4, 2010 (amended)*

A small business under the provisions of 154.60-010 may be eligible for a non-refundable credit of up to 100 percent of the tax imposed pursuant to KRS 141.020 or 141.040 and KRS 141.0401. The maximum amount of credits that may be committed in each fiscal year by the Kentucky Economic Development Finance Authority shall be capped at \$3 million. The maximum amount of credit for each small business for each year shall not exceed \$25,000. Unused credits may be carried forward for up to five years.

<b>FY 2018</b>	\$20,000
<b>FY 2019</b>	\$20,000
<b>FY 2020</b>	\$20,000

#### **41. Metropolitan College Program Tax Credit**

*Kentucky Revised Statutes 141.381, effective June 4, 2009, amended effective July 12, 2012*

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, 2017 unless extended by the General Assembly.

<b>FY 2018</b>	\$250,000
<b>FY 2019</b>	\$250,000
<b>FY 2020</b>	\$250,000

## **42. New Markets Development Program Tax Credit**

*Kentucky Revised Statutes 141.432-141.434, effective June 4, 2010, amended July 15, 2014*

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 amount of the credit shall be equal to thirty nine percent of the purchase price of the qualified equity investment made by the person or entity claiming the credit. The maximum investment in any individual qualified active low-income community business is \$10 million. In case of a qualified equity investment issued prior to January 1, 2014 has at least eighty five percent of its cash purchase price used by the issuer to make qualified low-income community investments in qualified active low-income community business located in the Commonwealth and on/or after January 1, 2014 has at least 100 percent.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

## **43. Railroad Expansion or Upgrade to Accommodate Transportation of Fossil Energy Resources or Biomass Resources Tax Credit**

*Kentucky Revised Statutes 141.386, effective June 26, 2009*

For taxable years beginning after December 31, 2009 a corporation that owns fossil energy resources or a railway company shall be entitled to a nonrefundable tax credit against the taxes imposed under KRS 141.040 and 140.0401. The credit shall be equal to 25 percent of the expenditures paid or incurred by the corporation or railway company. The credit shall be limited to \$1 million.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

#### **44. Railroad Maintenance and Improvement Tax Credit**

*Kentucky Revised Statutes 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. A 50 percent credit is allowed against the nonrefundable taxes imposed by KRS 141.020 or 141.040 and 141.0401.

<b>FY 2018</b>	\$25,000
<b>FY 2019</b>	\$25,000
<b>FY 2020</b>	\$25,000

#### **45. Recycling and/or Composting Equipment Credit**

*Kentucky Revised Statutes 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. The credit shall be limited to a period of ten years commencing with the approval of the recycling credit application. The credit may be used against the taxes imposed by KRS 141.020, 141.040 and 141.0401

<b>FY 2018</b>	\$2.5 million
<b>FY 2019</b>	\$2.5 million
<b>FY 2020</b>	\$2.5 million

#### **46. Skills Training Investment Tax Credit**

*Kentucky Revised Statutes 154.12-2086, 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.

<b>FY 2018</b>	\$425,000
<b>FY 2019</b>	\$425,000
<b>FY 2020</b>	\$425,000

## **47. Voluntary Environmental Remediation Credit**

*Kentucky Revised Statutes 141.418, effective July 15, 2005*

There shall be allowed a non-refundable credit against the tax imposed under KRS 141.020 or KRS 141.040 for taxable years beginning after December 31, 2004. There shall be allowed a non-refundable credit against the tax imposed under KRS 141.0401 for taxable years beginning after December 31, 2006. The credit is based on expenditures made at a qualifying voluntary environmental remediation property in order to correct the effect of release of hazardous substances. The maximum credit for each taxpayer shall not exceed \$150,000. The amount of the allowable credit for any taxable year shall be twenty-five percent (25%) of the maximum credit approved. The credit may be carried forward for ten (10) successive taxable years.

The maximum total credit for each taxpayer shall not exceed one hundred fifty thousand dollars (\$150,000).

The amount of the allowable credit for any taxable year shall be twenty-five percent of the maximum credit approved. The credit may be carried forward for then (10) successive taxable years.

<b>FY 2018</b>	\$50,000
<b>FY 2019</b>	\$50,000
<b>FY 2020</b>	\$50,000

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# Liquefied Petroleum Gas Tax

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## **Background:**

The term “liquefied petroleum gas” includes any material that is composed predominantly of any of the following hydrocarbons, or mixtures of them, whether in the liquid or gaseous states, and 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 FY17, the liquefied petroleum gas collections were \$100,000, which accounts for less than one 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 nine percent of the average wholesale price (AWP) of gasoline. The fixed part is the supplemental highway user tax which is assessed at five cents per gallon (*KRS 138.220*).

## **Tax Base:**

Prior to July 1, 2015 The AWP was calculated on a quarterly basis by the Department of Revenue and weighted by grade and formulation of the motor fuel. The AWP was calculated in the first month of each fiscal quarter (July, October, January, and April) and applied to the following quarter. The AWP could not increase more than 10 percent over the AWP in effect at the close of the previous fiscal year but could fall to the statutory floor in effect at that time.

House Bill 299 enacted by the 2015 Regular Session of the General Assembly, altered the way in which the variable portion of the gasoline tax is calculated. The bill eliminated the quarterly tax rate adjustment and replaced it with an annual rate. For FY16, AWP was set at the floor and for FY17 and beyond, the tax rate was calculated as the average of the four quarters from the previous fiscal year.



Moreover, in addition to a 10 percent limit on an annual increase in the AWP, there is a 10 percent limit on how far the AWP can decline in a given year.

The current AWP floor is \$2.177 per gallon. Therefore, the variable portion of the gasoline tax cannot be less than 19.6 cents per gallon. Adding the fixed component of the tax brings the minimum gasoline tax to 26 cents per gallon (*KRS 138.210*).

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**

<b>FY 2018</b>	\$1,000
<b>FY 2019</b>	\$1,000
<b>FY 2020</b>	\$1,000

**Tax Expenditures**

**1. Approved Carburetion Systems**

*Kentucky Revised Statutes 234.321(1), effective 1872*

The tax is not collected when the motor vehicles using the liquefied petroleum gas are equipped with carburetion systems approved by the Energy and Environment Cabinet.

<b>FY 2018</b>	Minimal
<b>FY 2019</b>	Minimal
<b>FY 2020</b>	Minimal

## **2. Dealer's Monthly Reporting Allowance**

*Kentucky Revised Statutes 234.320(1), effective 1960*

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.

<b>FY 2018</b>	\$1,000
<b>FY 2019</b>	\$1,000
<b>FY 2020</b>	\$1,000

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# Motor Vehicle Usage Tax

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## **Background:**

Motor vehicles were originally taxed under the three percent gross receipts tax that was repealed in 1936. After the repeal of that tax, a special three percent tax on motor vehicles was enacted. Effective April 1, 1968, the rate was increased to five percent. Effective July 1, 1990, the rate was increased to six 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 FY17, motor vehicle usage tax collections were \$499.8 million, an increase of \$10.5 million from the previous year. These receipts constituted 33 percent of total Road Fund tax receipts.

## **Current Rate Structure:**

The motor vehicle usage rate is based on six 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 (*KRS 138.460*).

## **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 (*KRS 138.4603*).

House Bill 3 enacted in the 2009 Special 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 earlier if the accumulated total of "trade-in credits" reduces the motor vehicle usage tax by the maximum amount

authorized \$25.0 million. The trade-in allowance was available on a first-come, first-served basis.

In 2013, the General Assembly modified the temporary allowance for new vehicle trade-in credits to make the credit permanent for sales on or after July 1, 2014.

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.

A person 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 vehicle(s). 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**

<b>FY 2018</b>	\$133.4 million
<b>FY 2019</b>	\$135.6 million
<b>FY 2020</b>	\$137.7 million

## **Tax Expenditures**

### **1. Adapted Equipment for Physically Handicapped Persons**

*Prior to 09/1/200, Kentucky Revised Statutes 138.450(12)(c)(3), effective 2007*

*Kentucky Revised Statutes 138/4602 (1)(b) from 09/1/2009 to 6/30/2014*

*Kentucky Revised Statutes 138.4603(1)(6) from 07/01/2014 to present*

“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.

<b>FY 2018</b>	Minimal
<b>FY 2019</b>	Minimal
<b>FY 2020</b>	Minimal

### **2. Change in Business Structure**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$185,000
<b>FY 2019</b>	\$190,000
<b>FY 2020</b>	\$195,000

### **3. Charter Bus Exemption**

*Kentucky Revised Statutes 138.470(15), effective July 1, 2005*

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

<b>FY 2018</b>	Minimal
<b>FY 2019</b>	Minimal
<b>FY 2208</b>	Minimal

#### **4. Commercial Motor Vehicle Exemption**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$50,000
<b>FY 2019</b>	\$50,000
<b>FY 2020</b>	\$50,000

#### **5. Educational and Charitable Organizations**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$1.4 million
<b>FY 2019</b>	\$1.5 million
<b>FY 2020</b>	\$1.6 million

#### **6. Immediate Family Member**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$7.0 million
<b>FY 2019</b>	\$7.3 million
<b>FY 2020</b>	\$7.5 million

## 7. Insurance Company Transfers

*Kentucky Revised Statutes 138.470(14), effective 1976*

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

<b>FY 2018</b>	\$25,000
<b>FY 2019</b>	\$25,000
<b>FY 2020</b>	\$25,000

## 8. Large Truck Exclusion

*Kentucky Revised Statutes 138.470,(16)(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.

<b>FY 2018</b>	\$19.2 million
<b>FY 2019</b>	\$20.2 million
<b>FY 2020</b>	\$21.2 million

## 9. Military Exemption

*Kentucky Revised Statutes 138.470(4), effective 1968*

Motor vehicles (both new and used) sold by or transferred from Kentucky dealers to resident and nonresident members of the armed forces on duty in this state are exempt from usage tax. House Bill 378 enacted in the 2015 General Assembly expanded KRS 138.470 to exempt resident military service members who are on duty in Kentucky from the usage tax on motor vehicles purchased from a Kentucky dealer. This is effective for vehicles purchased on or after June 28, 2015.

<b>FY 2018</b>	\$3.1million
<b>FY 2019</b>	\$3.0 million
<b>FY 2020</b>	\$2.8 million

## 10. Partnership Interests

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	Minimal
<b>FY 2019</b>	Minimal
<b>FY 2020</b>	Minimal

## 11. Repossessed Exemption

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$375,000
<b>FY 2019</b>	\$355,000
<b>FY 2020</b>	\$325,000

## 12. Trade-In Allowance on New or Used Motor Vehicle Purchases

*Kentucky Revised Statutes 138.4602, effective 2009 (motor vehicle retail price for sales on or after September 1, 2009 and before July 1, 2014)*

*Kentucky Revised Statutes 138.4603, revised in 2013 (new and used motor vehicle purchases, effective for sales on or after July 1, 2014)*

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. Motor vehicle retail price for sales on or after September 1, 2009 and before July 1, 2014. New and used motor vehicle purchases effective for sales on or after July 1, 2014. Beginning for sales on or after June 1, 2014, a trade-in allowance is also provided for purchases of new motor vehicles.

<b>FY 2018</b>	\$101.0 million
<b>FY 2019</b>	\$102.0 million
<b>FY 2020</b>	\$103.0 million



### **13. Transfers Between a Limited Liability Company and its Members**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$120,000
<b>FY 2019</b>	\$130,000
<b>FY 2020</b>	\$140,000

### **14. Transfers Between a Subsidiary and a Parent Corporation**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$65,000
<b>FY 2019</b>	\$66,000
<b>FY 2020</b>	\$67,000

### **15. Transfers by Will or Court Order**

*Kentucky Revised Statutes 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 the vehicles were titled in Kentucky on or after July 1, 2005 or previously registered in Kentucky.

<b>FY 2018</b>	\$920,000
<b>FY 2019</b>	\$820,000
<b>FY 2020</b>	\$800,000

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# Natural Resources Severance & Processing Tax

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**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 FY17, the total taxes of \$29.6 million represented less than one 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 (*KRS 143A.020*). Effective in 1991, the tax on severing clay was limited to 12 cents per ton (*KRS 143A.037*). The tax on limestone used in manufacture of cement shall be limited to 14 cents per ton of limestone mined in Kentucky (*KRS 143A.030*). 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**

<b>FY 2018</b>	\$7.0 million
<b>FY 2019</b>	\$7.2 million
<b>FY 2020</b>	\$7.4 million

**Tax Expenditures**

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

*Kentucky Revised Statutes 143A.020, effective 1980*

*Kentucky Revised Statutes 143A.030, effective 1980*

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

<b>FY 2018</b>	Minimal
<b>FY 2019</b>	Minimal
<b>FY 2020</b>	Minimal

## **2. Clay Used in Landfill Construction**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	Minimal
<b>FY 2019</b>	Minimal
<b>FY 2020</b>	Minimal

## **3. Inactive Crude Oil and Natural Gas Wells**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$25,000
<b>FY 2019</b>	\$25,000
<b>FY 2020</b>	\$25,000

## **4. Limestone Sold in Interstate Commerce**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$3.0 million
<b>FY 2019</b>	\$3.1 million
<b>FY 2020</b>	\$3.2 million

## **5. Limestone Sold or Used for Agricultural Purposes**

*Kentucky Revised Statutes 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 pursuant to KRS 139.480.

<b>FY 2018</b>	Minimal
<b>FY 2019</b>	Minimal
<b>FY 2020</b>	Minimal

## **6. Transportation Expense**

*Kentucky Revised Statutes 143A.010 (5)(h), effective 1980 and amended 2005*

Expenses incurred in transporting minerals are excluded from gross value.

<b>FY 2018</b>	\$4.0 million
<b>FY 2019</b>	\$4.1 million
<b>FY 2020</b>	\$4.2 million

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# Property Taxes

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**Background:**

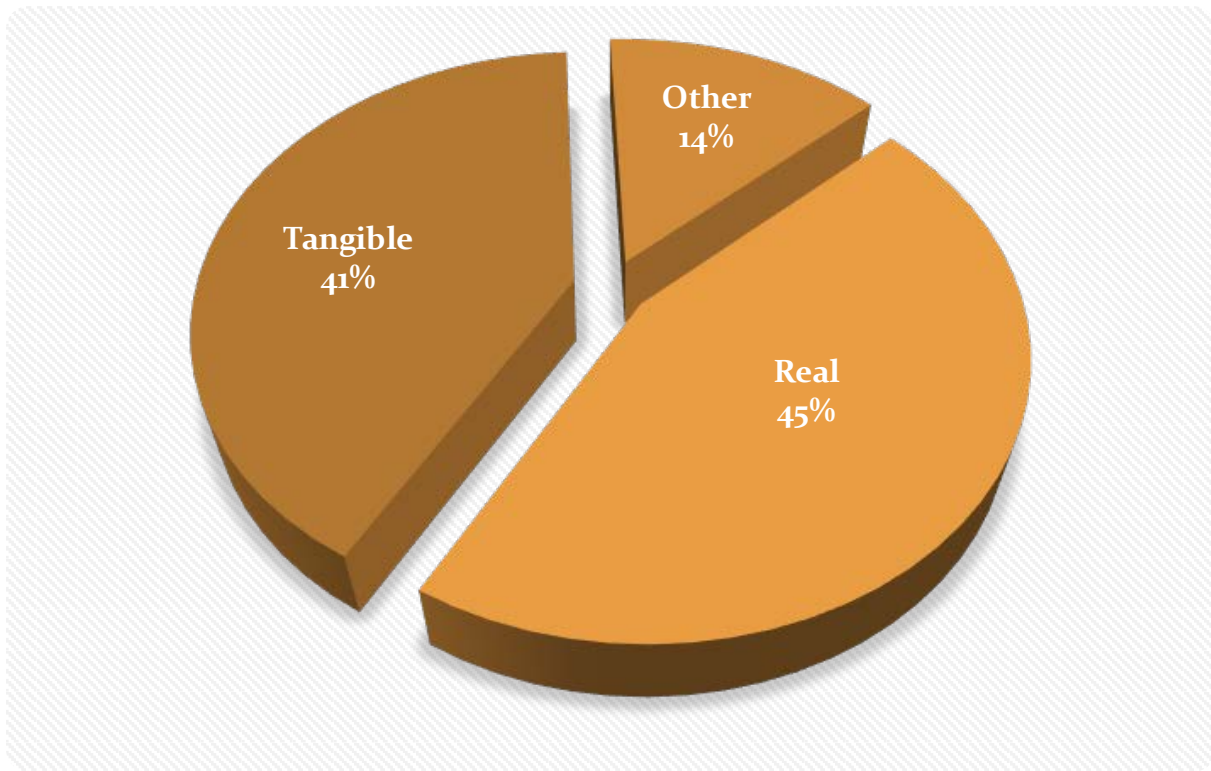
Kentucky has had a tax on property since becoming a state on June 1, 1792. The original method of taxation began with a set levy for each item of tangible property owned in the state. It was not until 1814 that the standard for establishing the tax liability was changed to the ad valorem or fair value 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 four 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 four 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 or Kentucky statutes, must be assessed for taxation at its fair cash value and taxed accordingly.

In FY17 total property tax collections of \$602.1 million accounted for six 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 FY17**

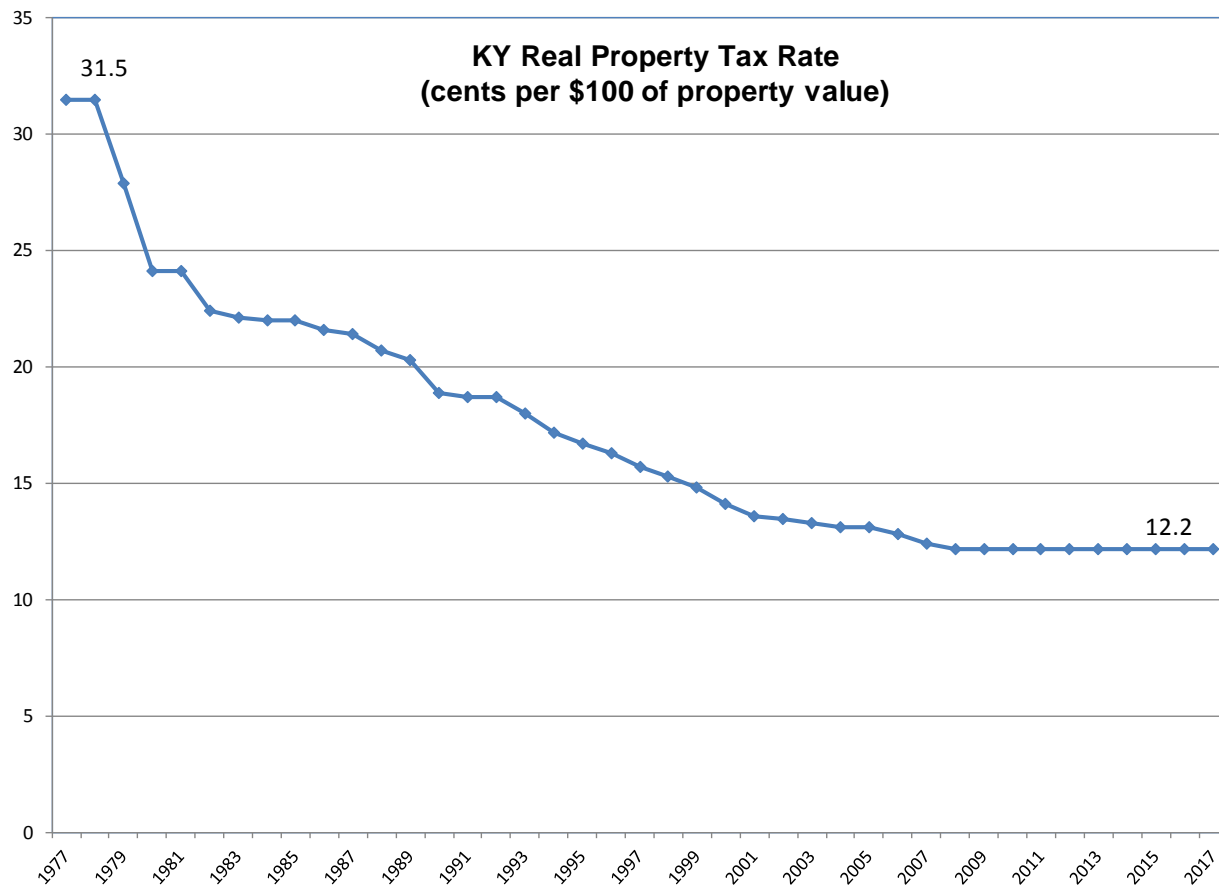


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**Current Rate Structure:**

The state tax rate for real property may be adjusted annually to comply with the provisions of House Bill 44 (*KRS 132.020(2)*). For 2016, 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 2017-2018 exemption reflects a \$700 increase over the 2015-2016, exemption of \$36,900 for a total of \$37,600.

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**

<b>FY 2018</b>	\$873.6 million
<b>FY 2019</b>	\$903.7 million
<b>FY 2020</b>	\$934.7 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 Statutes 132.450(2)(c), effective 1998*

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.

<b>FY 2018</b>	\$100,000
<b>FY 2019</b>	\$100,000
<b>FY 2020</b>	\$100,000

## **2. Agriculture Value of Real Property**

*Kentucky Revised Statutes 132.450, effective 1970, revised 1992*  
*Section 172A of the Kentucky Constitution, effective 1969*

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

<b>FY 2018</b>	\$49.5 million
<b>FY 2019</b>	\$51.4 million
<b>FY 2020</b>	\$53.3 million

## **3. Alcohol Production Facilities**

*Kentucky Revised Statutes 132.020(1)(l), 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.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

## **4. Environmental Remediation Property**

*Kentucky Revised Statutes 132.020(1)(c), effective 2005, revised 2007*

The owner of all qualifying voluntary environmental remediation property pays tax at the rate of one and one-half cents (\$0.015) upon each one hundred dollars of value for this property.

<b>FY 2018</b>	\$3,000
<b>FY 2019</b>	\$3,000
<b>FY 2020</b>	\$3,000

## 5. Homestead Exemption

*Sections 170 of the Kentucky Constitution, effective 1970 and KRS 132.810, effective 1972, revised 2011*

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 \$37,600 which reflects a \$700 increase over the 2015-2016 exemption of \$36,900.

<b>FY 2018</b>	\$19.0 million
<b>FY 2019</b>	\$19.2 million
<b>FY 2020</b>	\$19.4 million

## 6. Intrastate Railroads and Railway Companies

*Kentucky Revised Statutes 132.020(1)(o), effective 1990*

Railroads or railway companies operating solely within the Commonwealth are taxed at a reduced rate of 10 cents (\$0.10) per \$100 on their operating real property.

<b>FY 2018</b>	\$22,000
<b>FY 2019</b>	\$22,000
<b>FY 2020</b>	\$22,000

## 7. Leasehold Interests in Buildings Financed with Industrial Revenue Bonds

*Kentucky Revised Statutes 132.020(2)(c), effective 2002*

Leasehold interests privately held in industrial buildings owned and financed by tax-exempt governmental units are taxed at a reduced rate of \$0.015 cents per \$100 of value. Note: This is the real estate portion only.

<b>FY 2018</b>	\$1.8 million
<b>FY 2019</b>	\$1.8 million
<b>FY 2020</b>	\$1.9 million

## **8. Property of Local Governments in Neighboring States**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$18,000
<b>FY 2019</b>	\$18,000
<b>FY 2020</b>	\$18,000

## **9. Real Property Owned by Exempt Entities**

*Section 170 of the Kentucky Constitution, effective 1891, revised 1990*

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

<b>FY 2018</b>	\$47.8 million
<b>FY 2019</b>	\$47.2 million
<b>FY 2020</b>	\$49.7 million

## **10. State Real Property Tax Yearly Revenue Ceiling**

*Kentucky Revised Statutes 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 2016 is 12.2 cents per \$100 of assessed value.

<b>FY 2018</b>	\$506.1 million
<b>FY 2019</b>	\$529.4 million
<b>FY 2020</b>	\$553.7 million

**Tangible Property Tax Expenditures**  
(The normal tangible rate is 45 cents per \$100 of value)

**11. Agricultural Products**

*Kentucky Revised Statutes 132.020(1)(e), effective 1950, revised 1965*

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

<b>FY 2018</b>	\$4.7 million
<b>FY 2019</b>	\$4.8 million
<b>FY 2020</b>	\$4.8 million

**12. Aircraft**

*Kentucky Revised Statutes 132.020(1)(p), 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.

<b>FY 2018</b>	\$1.7 million
<b>FY 2019</b>	\$1.8 million
<b>FY 2020</b>	\$1.8 million

**13. Business Inventories**

*Kentucky Revised Statutes 132.020(1)(n), effective 1990, revised 2013*

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.

<b>FY 2018</b>	\$75.1 million
<b>FY 2019</b>	\$75.5 million
<b>FY 2020</b>	\$75.9 million

## 14. Car Lines

*Kentucky Revised Statutes 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 rate in effect January 1, 2016 is 22.37 cents per \$100.

<b>FY 2018</b>	\$1.3 million
<b>FY 2019</b>	\$1.3 million
<b>FY 2020</b>	\$1.3 million

## 15. Federally Documented Vessels

*Kentucky Revised Statutes 132.020(1)(q), 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.

<b>FY 2018</b>	\$594,729
<b>FY 2019</b>	\$612,571
<b>FY 2020</b>	\$624,823

## 16. Foreign Trade Zone

*Kentucky Revised Statutes 132.020(1)(h), effective 1982, revised 2002*

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

<b>FY 2018</b>	\$29.0 million
<b>FY 2019</b>	\$30.0 million
<b>FY 2020</b>	\$30.1 million

## 17. Historic Vehicles

*Kentucky Revised Statutes 132.020(1)(m), effective 1984*

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

<b>FY 2018</b>	\$220,000
<b>FY 2019</b>	\$220,000
<b>FY 2020</b>	\$220,000

## **18. In-Transit Goods**

*Kentucky Revised Statutes 132.097, effective 2000*

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.

<b>FY 2018</b>	\$20.1 million
<b>FY 2019</b>	\$20.3 million
<b>FY 2020</b>	\$20.5 million

## **19. Intrastate Railroads and Railway Companies**

*Kentucky Revised Statutes 132.020(1)(o), 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.

<b>FY 2018</b>	\$190,000
<b>FY 2019</b>	\$190,000
<b>FY 2020</b>	\$190,000

## **20. Interstate Trucks, Tractors and Buses**

*Kentucky Revised Statutes 132.760, effective 2007*

*Kentucky Revised Statutes 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, 2015 is 22.38 cents per \$100.

<b>FY 2018</b>	\$3.4 million
<b>FY 2019</b>	\$3.4 million
<b>FY 2020</b>	\$3.4 million

## **21. Leasehold Interests**

*Kentucky Revised Statutes 132.020(1)(b), effective 1978, revised 2002*

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.

<b>FY 2018</b>	\$4.4 million
<b>FY 2019</b>	\$4.5 million
<b>FY 2020</b>	\$4.6 million

## **22. Machinery Used in Farming and Livestock and Domestic Fowl**

*Kentucky Revised Statutes 132.020(1)(f), effective 1965, revised 1986*

*Kentucky Revised Statutes 132.020(1)(g), effective 1965*

Machinery used in farming and the value of all livestock and over 25, 25 and fewer is exempt per KRS 132.190(i) domestic fowl is taxed at a reduced rate of 1/10 of a cent per \$100.

<b>FY 2018</b>	\$46.0 million
<b>FY 2019</b>	\$47.4 million
<b>FY 2020</b>	\$48.1 million

## **23. Manufacturing Machinery; Pollution Control Equipment; and Radio and Television Equipment**

*Kentucky Revised Statutes 132.020(1)(i)(1)(j),(1)(k), effective 1977, revised 1998, 2013, 2016*

Machinery actually engaged in the manufacturing is taxed at a reduced rate of 15 cents per \$100. Tangible pollution control equipment certified as a pollution control facility is taxed at a reduced rate of 15 cents per \$100. Commercial radio and television equipment are taxed at a reduced rate of 15 cents per \$100.

<b>FY 2018</b>	\$62.6 million
<b>FY 2019</b>	\$64.5 million
<b>FY 2020</b>	\$65.0 million



## **24. Motor Vehicles With a Salvage Title**

*Kentucky Revised Statutes 134.810(6)(c), effective 1999*

Motor vehicles with a salvage title 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.

<b>FY 2018</b>	Minimal
<b>FY 2019</b>	Minimal
<b>FY 2020</b>	Minimal

## **25. Property of Local Governments in Neighboring States**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

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

*Kentucky Revised Statutes 132.193(1), effective 1988*

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.

<b>FY 2018</b>	Minimal
<b>FY 2019</b>	Minimal
<b>FY 2020</b>	Minimal

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# Sales and Use Tax

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**Background:**

Kentucky's first entry into the sales tax field occurred in 1934 when the General Assembly enacted a tax of three 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 or digital property 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 FY17 totaled \$3,485.2 million. This tax represented 33 percent of total General Fund revenues in FY17.

**Current Rate Structure:**

Sales and use taxes are imposed at the rate of six 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, digital 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 or digital 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, digital 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**

<b>FY 2018</b>	\$3,031.3 million
<b>FY 2019</b>	\$3,090.7 million
<b>FY 2020</b>	\$3,157.6 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 Statutes 139.482, effective 1976*

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

<b>FY 2018</b>	\$510,000
<b>FY 2019</b>	\$512,000
<b>FY 2020</b>	\$514,000

### **2. Charter Bus Repair and Replacement Parts**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$66,000
<b>FY 2019</b>	\$68,000
<b>FY 2020</b>	\$70,000

### **3. Coal Used in the Manufacture of Electricity**

*Kentucky Revised Statutes 139.480(2), effective 1960*

Coal used in the manufacturing of electricity is exempt.

<b>FY 2018</b>	\$35.0 million
<b>FY 2019</b>	\$35.5 million
<b>FY 2020</b>	\$36.0 million

#### **4. Coin-Operating Bulk Vending Machines**

*Kentucky Revised Statutes 139.470(6), effective 1966, revised 1986, revised 1998*

Bulk vending machine sales of 50 cents or less are exempt from tax. From 1966 to 1986 the exempt sale was \$0.01. From 1986 until the 1998 legislative change, the amount exempt was 25 cents or less.

<b>FY 2018</b>	Minimal
<b>FY 2019</b>	Minimal
<b>FY 2020</b>	Minimal

#### **5. Construction Expenses for Alternative Fuel or Gasification Facility**

*Kentucky Revised Statutes 139.517, effective January 1, 2008*

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

<b>FY 2018</b>	\$60,000
<b>FY 2019</b>	\$65,000
<b>FY 2020</b>	\$65,000

#### **6. Construction Expenses for Near-Zero Emission Power Plants**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

## **7. County Fair Admissions**

*Kentucky Revised Statutes 139.470(22), effective June 2005*

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

<b>FY 2018</b>	\$500,000
<b>FY 2019</b>	\$505,000
<b>FY 2020</b>	\$510,000

## **8. Donated Goods**

*Kentucky Revised Statutes 139.495(6), 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.

<b>FY 2018</b>	\$660,000
<b>FY 2019</b>	\$660,000
<b>FY 2020</b>	\$660,000

## **9. Energy and Energy Producing Fuels**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$100.0 million
<b>FY 2019</b>	\$104.0 million
<b>FY 2020</b>	\$109.0 million

## **10. Federal Taxes Imposed on Sales of Tangible Personal Property**

*Kentucky Revised Statutes 139.470(19), effective 1960*

Manufacturer's excise and import duties imposed by the United States upon or with respect to retail sales are exempt.

<b>FY 2018</b>	\$10.0 million
<b>FY 2019</b>	\$10.4 million
<b>FY 2020</b>	\$10.8 million

## 11. Food Items

*Kentucky Revised Statutes 139.485 effective 1972*

*Kentucky Revised Statutes 139.480(22), effective 1986*

Food and food ingredients for human consumption is exempt from sales and use tax. The exemption does not apply to food sold through vending machines or nonmechanical vending systems, or to prepared food served in restaurants, served on or off the premises, or 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.

<b>FY 2018</b>	\$481.6 million
<b>FY 2019</b>	\$490.0 million
<b>FY 2020</b>	\$500.0 million

## 12. 4-H Sales

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	Minimal
<b>FY 2019</b>	Minimal
<b>FY 2020</b>	Minimal

## 13. Garage or Yard Sales

*Kentucky Revised Statutes 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. Prior to July 1, 1990, the exemption applied to the first \$500 of sales made in any calendar year.

<b>FY 2018</b>	\$300,000
<b>FY 2019</b>	\$305,000
<b>FY 2020</b>	\$310,000

#### **14. Interstate Business Communication Service**

*Kentucky Revised Statutes 139.505, effective June 20, 2005*

Any business whose interstate communications service, subject to the sales tax imposed under KRS Chapter 139 and deducted for federal income tax purposes, exceeds five percent of the business's Kentucky gross receipts during the preceding calendar year is entitled to a refundable credit if the business annual Kentucky gross receipts are equal to or more than \$1 million and the majority of the interstate communications service billed to a Kentucky service address for the annual period is for communication service originating outside of this state and terminating in this state.

<b>FY 2018</b>	Substantial
<b>FY 2019</b>	Substantial
<b>FY 2020</b>	Substantial

#### **15. Interstate Cargo and Passenger Aircraft, Parts and Supplies**

*Kentucky Revised Statutes 139.480(19), effective 1960, revised 1982*

Aircraft and repair and replacement parts therefor, and supplies except fuel, for the direct operation of aircraft in interstate commerce and used exclusively for the conveyance of property or passengers for hire.

<b>FY 2018</b>	\$16.3 million
<b>FY 2019</b>	\$16.7 million
<b>FY 2020</b>	\$17.1 million

#### **16. Jet Fuel**

*Kentucky Revised Statutes 144.132, effective July 15, 1998, revised June 20, 2005, revised August 1, 2017*

Any certified air carrier which is engaged in the air transportation of persons or property for hire and persons that contract with one or more certified air carriers for the transportation by air of persons, property, or mail and that purchase and pay for the fuel, used for that purpose shall be entitled to a credit against the Kentucky sales and use tax paid on aircraft fuel, including jet fuel purchased after June 30, 2000 in excess of \$1million.

<b>FY 2018</b>	\$31.0 million
<b>FY 2019</b>	\$33.0 million
<b>FY 2020</b>	\$37.0 million



## **17. Kentucky Enterprise Initiative**

*Kentucky Revised Statutes 154.20-204, effective March 18, 2005*

*Kentucky Revised Statutes 154.20-200(6), effective 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 previous 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 equipment used in research and development.

<b>FY 2018</b>	\$5.5 million
<b>FY 2019</b>	\$6.0 million
<b>FY 2020</b>	\$6.5 million

## **18. Labor or Services Used in Property Sold**

*Kentucky Revised Statutes 139.010(12)(c)(4), effective 1960, revised 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.

<b>FY 2018</b>	\$325.0 million
<b>FY 2019</b>	\$330.0 million
<b>FY 2020</b>	\$335.0 million

## **19. Locomotives and Rolling Stock**

*Kentucky Revised Statutes 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 is exempt.

<b>FY 2018</b>	\$11.5 million
<b>FY 2019</b>	\$11.5 million
<b>FY 2020</b>	\$11.5 million

## **20. Lodgings of Thirty Days or More**

*Kentucky Revised Statutes 139.200(2)(a), effective 1960, revised 1992*

Rooms, lodging or accommodations supplied for a continuous period of 30 days or more to an individual are exempt. Prior to 1992 lodging of 90 days or more were exempt.

<b>FY 2018</b>	\$325,000
<b>FY 2019</b>	\$325,000
<b>FY 2020</b>	\$325,000

## **21. Machinery for New and Expanded Industry**

*Kentucky Revised Statutes 139.480(10), effective 1960, revised 1991 and 139.010(15)*

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.

<b>FY 2018</b>	\$74.0 million
<b>FY 2019</b>	\$75.0 million
<b>FY 2020</b>	\$76.4 million

## **22. New and Replacement Machinery or Equipment for Energy Efficient Projects**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	Minimal
<b>FY 2019</b>	Minimal
<b>FY 2020</b>	Minimal

## **23. Non-Profit Educational, Qualified Non-Profit Organizations, Charitable and Religious Institutions, Historical Sites**

*KAR, the codified Kentucky Revised Statutes 139.495, effective 1960*

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

<b>FY 2018</b>	\$415.0 million
<b>FY 2019</b>	\$423.0 million
<b>FY 2020</b>	\$430.0 million

## **24. Occasional Sales**

*Kentucky Revised Statutes 139.470(4) and 139.010(15), effective 1960*

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

<b>FY 2018</b>	Substantial
<b>FY 2019</b>	Substantial
<b>FY 2020</b>	Substantial

## **25. Pay Phones**

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

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

<b>FY 2018</b>	Minimal
<b>FY 2019</b>	Minimal
<b>FY 2020</b>	Minimal

## **26. Pollution Control Facilities**

*Kentucky Revised Statutes 139.480(12), effective 1974*

Property certified as a pollution control facility as defined by KRS 224.1-300 is exempt.

<b>FY 2018</b>	\$32.5 million
<b>FY 2019</b>	\$34.0 million
<b>FY 2020</b>	\$35.5 million

## **27. Prescription Medicine, Prosthetic Devices and Physical Aids**

*Kentucky Revised Statutes 139.472, effective 1971, revised 1986, 2000, 2001, 2003, 2005, 2007, 2008 and 2009*

Prescription drug, over-the-counter drugs with a prescription, medical oxygen and oxygen delivery equipment, insulin, diabetic supplies, colostomy, urostomy or ileostomy supplies, prosthetic devices, and mobility enhancing equipment, and durable medical equipment are exempt from sales and use tax. Prosthetic devices include artificial limbs, artificial eyes, hearing aids, crutches, and wheelchairs.

<b>FY 2018</b>	\$600.0 million
<b>FY 2019</b>	\$612.0 million
<b>FY 2020</b>	\$624.0 million

## **28. Procurement, Processing, or Distribution of Blood or Human Tissue**

*Kentucky Revised Statutes 139.125, effective 1968*

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

<b>FY 2018</b>	\$4.0 million
<b>FY 2019</b>	\$4.3 million
<b>FY 2020</b>	\$4.5 million

## **29. Property Certified as a Fluidized Bed Energy Production Facility**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

### **30. Rate Increase for School Taxes Added to Residential Telephone Bills**

*Kentucky Revised Statutes 139.470(9), effective 1979 Repealed July 1, 2013*

Prior to July 1, 2013, any rate increase for school taxes and any other charges or surcharges added to the total amount of a residential telephone bill is exempt, however this has been repealed for the period after July 1, 2013.

<b>FY 2018</b>	\$0
<b>FY 2019</b>	\$0
<b>FY 2020</b>	\$0

### **31. Rebate on Sales of Admission and Tangible Personal Property at Governmental Facility**

*Kentucky Revised Statutes 139.533 (2)(a)(c), effective July 1, 2010*

A governmental entity may be granted a sales tax rebate of up to one hundred percent of the Kentucky sales tax generated by the sale of admissions to the public facility and the sale of tangible personal property at the public facility. The tax rebate shall be reduced by the vendor compensation allowed under KRS 139.570 on or after July 1, 2010. The total tax rebate for each public facility shall not exceed two hundred fifty thousand dollars (\$250,000) in each calendar year.

<b>FY 2018</b>	\$117,000
<b>FY 2019</b>	\$120,000
<b>FY 2020</b>	\$122,000

### **32. Recycling Machinery and Equipment**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$2.4 million
<b>FY 2019</b>	\$2.6 million
<b>FY 2020</b>	\$2.8 million

### **33. Refund on Building Materials Used for Disaster Recovery**

*Kentucky Revised Statutes 139.519 (2)(a), effective April 2012*

A legal owner of a building located in a disaster area and damaged, in whole or in part, as a result of a disaster may qualify for a refund of the sales and use tax paid on the purchase of building materials to: (1) repair that building; (2) construct a new building in a disaster area to replace the building damaged or destroyed by the disaster. The refund allowed shall be limited to the lesser of: one hundred percent of the Kentucky sales and use tax actually paid, reduced by the amount of vendor compensation allowed under KRS 139.570: or six thousand dollars (\$6,000) for each building in the disaster area which is damaged or destroyed by the disaster regardless of the number of legal owners.

<b>FY 2018</b>	\$103,000
<b>FY 2019</b>	\$90,000
<b>FY 2020</b>	\$90,000

### **34. Reimbursement of Seller's Collection Costs**

*Kentucky Revised Statutes 139.570, effective 1960, revised 1966, 1990 and July 2013*

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 1.5 percent of the tax due in excess of \$1,000 if the amount due is not delinquent at the time of payment. The total reimbursement allowed for each seller in any reporting period shall not exceed \$50.

<b>FY 2018</b>	\$1.3 million
<b>FY 2019</b>	\$1.4 million
<b>FY 2020</b>	\$1.4 million

### **35. Repair or Replacement Parts for Large Trucks**

*Kentucky Revised Statutes 139.480(32)(a), effective July 1, 2004, revised July 12, 2006*

Repair parts for those trucks and their towed units over 44,001 pounds that are used exclusively in interstate commerce and repair or replacement parts for direct operation and maintenance of charter buses are exempt from sales tax.

<b>FY 2018</b>	\$2.1 million
<b>FY 2019</b>	\$2.2 million
<b>FY 2020</b>	\$2.3 million

### **36. Residential Utilities**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$293.3 million
<b>FY 2019</b>	\$300.0 million
<b>FY 2020</b>	\$310.0 million

### **37. Sales by Elementary and Secondary Nonprofit, School-Sponsored Clubs and Organizations**

*Kentucky Revised Statutes 139.497(1), effective 1984, revised 1986, 1998 and 2014*

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, 4-H programs and sales made by FFA at their annual convention are exempt.

<b>FY 2018</b>	\$5.8 million
<b>FY 2019</b>	\$5.9 million
<b>FY 2020</b>	\$5.9 million

### **38. Sales by Nonprofit Higher Educational School-Sponsored Clubs and Organizations**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$150,000
<b>FY 2019</b>	\$150,000
<b>FY 2020</b>	\$150,000

**39. Sales of Tangible Personal Property Made by a Federally Chartered Corporation’s Annual National Convention Held in the Commonwealth**

*Kentucky Revised Statutes 139.497(3), effective 1984*

A corporation federally chartered under Title 36 of the United States Code and whose stated purpose is to serve students and former students of vocational agriculture in middle and secondary schools to develop character, train for useful citizenship, and foster patriotism are exempt from the sales tax made on and after October 1, 2014 but before December 31, 2021.

<b>FY 2018</b>	Minimal
<b>FY 2019</b>	Minimal
<b>FY 2020</b>	Minimal

**40. Sales to Motion Picture Companies**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	Minimal
<b>FY 2019</b>	Minimal
<b>FY 2020</b>	Minimal

**41. Semi-Trailers and Trailers**

*Kentucky Revised Statutes 139.470(21), effective 1960, revised 2008*

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

<b>FY 2018</b>	\$6.0 million
<b>FY 2019</b>	\$6.2 million
<b>FY 2020</b>	\$6.3 million



## **42. State, Cities, Counties and Special Districts**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$262.0 million
<b>FY 2019</b>	\$265.0 million
<b>FY 2020</b>	\$269.0 million

## **43. Textbooks**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$3.3 million
<b>FY 2019</b>	\$3.4 million
<b>FY 2020</b>	\$3.4 million

## **44. Tombstones and Other Grave Markers**

*Kentucky Revised Statutes 139.480(13), effective 1976*

Tombstones and other grave markers for humans are exempt.

<b>FY 2018</b>	\$8.5 million
<b>FY 2019</b>	\$8.6 million
<b>FY 2020</b>	\$8.6 million

#### **45. Tourism Attraction Project Credit/Refund**

*Kentucky Revised Statutes 139.536(2)(a), effective 1996*

*Kentucky Revised Statutes 148.853, 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.

<b>FY 2018</b>	\$5.2 million
<b>FY 2019</b>	\$5.6 million
<b>FY 2020</b>	\$6.0 million

#### **46. Vessels and Maritime Supplies**

*Kentucky Revised Statutes 139.483, effective 1966, revised 1992*

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.

<b>FY 2018</b>	\$6.4 million
<b>FY 2019</b>	\$6.6 million
<b>FY 2020</b>	\$6.7 million

#### **47. Water Withdrawal Fees Paid to Kentucky River Authority**

*Kentucky Revised Statutes 139.470(11), effective 1996*

Any water use fee paid or passed through to the Kentucky River Authority by facilities using water from the Kentucky River basin to the Kentucky River Authority in accordance with KRS 151.700 to 151.730 and administrative regulations promulgated by the Authority.

<b>FY 2018</b>	\$192,000
<b>FY 2019</b>	\$195,000
<b>FY 2020</b>	\$198,000

## Sales Tax Exemptions for Farmers

**Table 17. Subtotal for Farming Tax Expenditures**

<b>FY 2018</b>	\$290.7 million
<b>FY 2019</b>	\$294.9 million
<b>FY 2020</b>	\$298.9 million

The following tax expenditures pertain to the farming industry.

### **48. Aquaculture**

*Kentucky Revised Statutes 139.480(30), effective 1998*

Aquatic organisms feed, feed additives, chemicals, on-farm facilities, machinery and repairs and replacement parts 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.

<b>FY 2018</b>	\$188,000
<b>FY 2019</b>	\$189,900
<b>FY 2020</b>	\$192,000

### **49. Equine Water**

*Kentucky Revised Statutes 139.470(13), effective 1998*

Gross receipts from the sale of water used in the raising of equine as a business.

<b>FY 2018</b>	\$1.7 million
<b>FY 2019</b>	\$1.7 million
<b>FY 2020</b>	\$1.8 million

## **50. Farm Chemicals**

*Effective 1960 by Administration Regulation, codified Kentucky Revised Statutes 139.480(8)(24)(26),(29), (30), and (31) effective 1992, revised 1994, 1996, 1998, 2002*

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, livestock and poultry, buffalo, aquatic organism, or cervids the products of which ordinarily constitute food for human consumption are exempt.

<b>FY 2018</b>	\$11.1 million
<b>FY 2019</b>	\$11.3 million
<b>FY 2020</b>	\$11.4 million

## **51. 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 Statutes 139.480(11), effective 1968*

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

*Kentucky Revised Statutes 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 Statutes 139.480(15)(24)(26)(29) (30) and (31), effective 1990, 1994, 1996, 1998, 2002*

On-farm facilities used exclusively for raising livestock, the products of which ordinarily constitute food for human consumption, poultry, ratite birds, llamas, alpacas, buffalo, aquatic organism, or cervids including equipment, machinery, attachments, repair and replacement parts, and any materials incorporated into the construction, renovation, or repair of the facility are exempt.

<b>FY 2018</b>	\$45.5 million
<b>FY 2019</b>	\$46.0 million
<b>FY 2020</b>	\$46.5 million

**52. Fuel Used for Farm Purposes**

*Kentucky Revised Statutes 139.480(16), effective 1978, revised 1998*

Gasoline, special fuels, liquefied petroleum gas and natural gas used to operate farm machinery, on-farm grain, poultry, livestock, ratite, llama, alpaca, or dairy facilities are exempt.

<b>FY 2018</b>	\$13.0 million
<b>FY 2019</b>	\$13.9 million
<b>FY 2020</b>	\$15.0 million

**53. Horses Less Than Two Years of Age**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$16.5 million
<b>FY 2019</b>	\$17.0 million
<b>FY 2020</b>	\$17.5 million

**54. Horses Purchased for Breeding**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$12.5 million
<b>FY 2019</b>	\$12.8 million
<b>FY 2020</b>	\$13.5 million

**55. Livestock, Poultry, Ratite Birds, Llama, Alpaca, Aquatic Organisms, Buffalo, Cervids, Embryos and Semen, Farm Work Stock and Feed, Seeds and Fertilizers**

*Kentucky Revised Statutes 139.480(4), (5), (6), (7), (9), (24), (25), (29), (30), (31), 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. Llamas, alpacas, aquatic organisms, buffalo and cervids are also exempt.

<b>FY 2018</b>	\$169.0 million
<b>FY 2019</b>	\$170.0 million
<b>FY 2020</b>	\$170.0 million

**56. Twine and Wire**

*Kentucky Revised Statutes 139.480(27), effective 1998*

Baling twine and baling wire used for the purpose of baling hay and straw are exempt.

<b>FY 2018</b>	Minimal
<b>FY 2019</b>	Minimal
<b>FY 2020</b>	Minimal

## **57. Water Used for Farm Purposes**

*Kentucky Revised Statutes 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, cervids or aquatic organisms is exempt.

<b>FY 2018</b>	\$21.2 million
<b>FY 2019</b>	\$22.0 million
<b>FY 2020</b>	\$23.0 million

## **Exclusion of Services**

*Kentucky Revised Statutes 139.010 (30), effective 1960*

Kentucky's sales tax is imposed upon all retail sales of tangible personal property or digital property, unless otherwise exempted, and on select services furnished in Kentucky. Those services are:

- The rental of accommodations for periods of less than 30 days;
- Sewer services;
- The sale of admissions, unless otherwise exempted;
- Prepaid calling service and prepaid wireless calling services
- Intrastate, interstate, and international communications services, except pay telephone service; and
- Natural gas distribution, transmission, and transportation services.

Kentucky's use tax is imposed on the storage, use, or other consumption in this state of tangible personal property and digital property purchased for storage, use, or other consumption in this state and does not apply to services.

### ***Caveats to Estimates for services:***

Increased revenues tied to the expansion of the sales tax base cannot be estimated precisely because there is a limited amount of data that can be used to measure the addition to the sales tax base. In formulating the estimated tax revenue from services not currently subject to the sales tax, staff relied on data that was developed for a different purpose. While this data should provide a general sense of the magnitude of changes to the sales tax base, it is not possible to know how accurately the data will reflect the new tax base. As a result, there exists considerable risk that actual revenues will differ from the estimate.

The estimated sales tax revenue for services was derived from economic census data in which the economic activity is grouped by North American Industrial Classification System (NAICS). All dollar amounts are based upon estimated economic activity for Kentucky in CY 2018. The economic activity for each classification reflects the predominate activity for that type of firm, but may or may not be reflective of the tax revenue that would be generated should any one of these services be included in the sales tax base. As a result, estimates of the fiscal impact of applying the sales tax to any particular service could be substantially different.



Also, when preparing fiscal impact estimates, there are other factors that should be taken into account. For example:

- Services that are not related to the sale of taxable tangible personal property will require taxpayer education, training, and compliance efforts to register new taxpayers.
- Certain services that are currently performed in Kentucky may be easily performed in other states or jurisdictions where those services are not subject to the tax.
- Under Kentucky's current sourcing rules, services that are provided out of state are not sourced to Kentucky, and therefore would not be subject to Kentucky's tax even though the NAICS data would source the economic activity to Kentucky.
- The greatest challenge when trying to extend the state sales tax to specifically enumerated services is defining unambiguously the services intended for taxation. Many services are technologically complex and industry-specific. Fiscal impacts for services that are not easily defined should be reduced accordingly.

A list of the most common services are provided below to provide the reader with information as to the magnitude of economic activity generated from these services. It should be noted that this is not an exhaustive list of services that are provided in Kentucky.

❖ **Professional, scientific, and technical services (NAICS 54):** **\$607.3 million**

Including but not limited to:

- Legal Services (5411): \$127.0 million
- Accounting, tax preparation, bookkeeping, and payroll (5412): \$70.9 million
  - Examples:
    - Offices of CPAs: \$40.2 million
    - Payroll services: \$15.3 million
    - Tax preparation services: \$7.5 million
- Architectural, Engineering, and Related Services (5413): \$115.8 million
  - Examples:
    - Engineering services: \$90.4 million
    - Architectural services: \$10.7 million
- Specialized Design Services (5414): \$7.0 million
- Computer Systems Design and Related: \$92.0 million
  - Examples:
    - Computer systems design services: \$42.3 million
    - Custom programming services: \$29.2 million

❖ **Administrative and Support and Waste Management and Remediation (56):** **\$407.9 million**

Including but not limited to:

- Administrative and Support Services (561): \$329.5 million
  - Examples:
    - Employment services (5613): \$113.7 million
      - Including:
        - Temporary Help Services: \$101.6 million
    - Business support services (5614): \$37.7 million
      - Including but not limited to:
        - Telephone call centers: \$13.0 million
        - Telemarketing bureaus: \$11.8 million
        - Collection agencies: \$10.8 million
    - Travel Arrangement and Reservation Services (5615): \$7.4 million
    - Investigation and Security Services (5616): \$25.2 million
      - Including:
        - Security Guards and Patrol Services: \$12.6 million
        - Security Systems Services: \$10.6 million
    - Services to Buildings and Dwellings (5617): \$81.9 million
      - Including:
        - Landscaping Services: \$40.0 million
        - Janitorial Services: \$29.3 million

▪ Other Support Services (5619):	\$23.5 million
➤ Waste Management and Remediation Services (562):	\$78.4 million
Examples:	
▪ Waste Treatment and Disposal:	\$20.3 million
▪ Septic Tank and Related:	\$1.5 million
<b>❖ Health Care and Social Assistance (62):</b>	<b><u>\$2.05 billion</u></b>
Includes:	
➤ Ambulatory Health Care Services (621):	\$738.3 million
Examples:	
▪ Offices of Physicians (6211):	\$410.3 million
▪ Offices of Dentists (6212):	\$81.5 million
▪ Offices of Other Health Practitioners (6213):	\$65.1 million
Including:	
• Offices of PT, OT, Speech, and Audiologists:	\$26.1 million
• Offices of Optometrists:	\$13.4 million
• Offices of Chiropractors:	\$12.3 million
▪ Outpatient Care Centers (6214):	\$84.2 million
▪ Medical and Diagnostic Laboratories (6215):	\$19.2 million
▪ Home Health Care Services (6216):	\$44.8 million
▪ Other Ambulatory Health Care Services (6219):	\$33.2 million
Including:	
• Ambulance Services:	\$18.9 million
<b>❖ Transportation and Warehousing (48-49):</b>	<b><u>\$1.0 billion</u></b>
Including but not limited to:	
➤ Scheduled Air Transportation (4811):	\$159.6 million
➤ Water Transportation (483):	\$77.0 million
➤ Truck Transportation (484):	\$275.7 million
Examples:	
▪ General Freight Trucking (4841):	\$192.3 million
▪ Specialized Freight Trucking (4842):	\$83.3 million
Including:	
• Dump Trucking:	\$33.8 million
• Hazardous Materials Trucking:	\$7.0 million
➤ Transit and Ground Passenger Transportation (485):	\$11.6 million

➤ Pipeline Transportation (486):	\$49.9 million
Examples:	
▪ Pipeline Transportation of Natural Gas (4862):	\$43.5 million
➤ Support Activities for Transportation (488):	\$139.0 million
<b>❖ Other Services (except public administration, NAICS 81) 2018:</b>	<b><u>\$317.7 million</u></b>
Including but not limited to:	
➤ Repair and Maintenance (811):	\$145.7 million
Examples:	
▪ Automotive Repair and Maintenance (8111):	\$84.2 million
Including but not limited to:	
• General automotive repair:	\$35.7 million
• Paint, body, interior and glass repair:	\$24.8 million
• Car washes:	\$6.5 million
• Brake and wheel alignment:	\$1.5 million
▪ Electronic and precision equipment repair and maintenance (8112):	\$21.3 million
Including but not limited to:	
• Computer and office machine repair and maintenance:	\$11.4 million
• Communication equipment repair and maintenance:	\$4.1 million
▪ Commercial and Industrial machinery and equipment repair (8113):	\$35.3 million
▪ Personal and household goods repair and maintenance (8114):	\$4.8 million
Including but not limited to:	
• Appliance repair and maintenance:	\$1.4 million
• Boat repair:	\$0.6 million
➤ Personal and Laundry Services (812):	\$75.2 million
Examples:	
▪ Hair, nail, and skin care services:	\$15.2 million
▪ Barber shops:	\$0.6 million

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# Special Fuels Tax

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## **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 FY17, the special fuels tax collections were \$171.5 million, which was 11.4 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 nine 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 (*KRS 138.220(2)(B)(2)*).

## **Tax Base:**

Prior to July 1, 2015 The AWP is calculated on a quarterly basis by the Department of Revenue and weighted by grade and formulation of the motor fuel. The AWP was calculated in the first month of each fiscal quarter (July, October, January, and April) and applies to the following quarter. The AWP could not increase more than 10 percent over the AWP in effect at the close of the previous fiscal year but could fall to the statutory floor in effect at that time.

The current AWP floor is \$2.177 per gallon. The variable portion of the special fuels tax cannot be less than 19.6 cents per gallon. Adding the fixed components of the tax brings the minimum special fuels tax to 23.0 cents per gallon.

The tax becomes a liability of the dealer if 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 (*KRS 138.270(1)(b)*).

**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**

<b>FY 2018</b>	\$65.5 million
<b>FY 2019</b>	\$64.5 million
<b>FY 2020</b>	\$63.3 million

**Tax Expenditures**

**1. Agricultural Use**

*Kentucky Revised Statutes 138.358(2), effective 1988*

A credit is allowed for special fuels used for non-highway agricultural purposes.

<b>FY 2018</b>	\$6.8 million
<b>FY 2019</b>	\$6.7 million
<b>FY 2020</b>	\$6.6 million

## **2. Bus, Taxicab and Certain Senior Citizen's Programs Refunds**

*Kentucky Revised Statutes 138.446(1), effective 1960*

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.

<b>FY 2018</b>	\$870,000
<b>FY 2019</b>	\$880,000
<b>FY 2020</b>	\$890,000

## **3. Dealer's Monthly Reporting Allowance**

*Kentucky Revised Statutes 138.270(1)(b), effective 1942*

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.

<b>FY 2018</b>	\$3.7 million
<b>FY 2019</b>	\$3.6 million
<b>FY 2020</b>	\$3.5 million

## **4. Non-Highway Use**

*Kentucky Revised Statutes 138.344(1), effective 1988, revised 2006*

Special fuels used exclusively for non-highway use by qualified purchasers are exempt sales.

<b>FY 2018</b>	\$25.0 million
<b>FY 2019</b>	\$24.0 million
<b>FY 2020</b>	\$23.0 million

## 5. Railroad Companies

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$28.0 million
<b>FY 2019</b>	\$28.1 million
<b>FY 2020</b>	\$28.2 million

## 6. Religious, Charitable or Educational Use

*Kentucky Revised Statutes 138.358(3), effective 1988*

An exemption is allowed for sales to qualifying non-profit religious, charitable or educational organizations for non-highway use.

<b>FY 2018</b>	\$75,000
<b>FY 2019</b>	\$76,000
<b>FY 2020</b>	\$77,000

## 7. Residential Heating

*Kentucky Revised Statutes 138.358(1), effective 1988*

An exemption is allowed for special fuels used exclusively for heating personal residences.

<b>FY 2018</b>	\$600,000
<b>FY 2019</b>	\$700,000
<b>FY 2020</b>	\$600,000

## 8. State and Local Government Use

*Kentucky Revised Statutes 138.358(3), effective 1988*

An exemption is allowed for sales to qualifying state and local government agencies for non-highway use.

<b>FY 2018</b>	\$350,000
<b>FY 2019</b>	\$360,000
<b>FY 2020</b>	\$370,000



## 9. Watercraft

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$60,000
<b>FY 2019</b>	\$65,000
<b>FY 2020</b>	\$70,000

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# Tobacco Taxes

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**Background:**

Kentucky 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 was taxed as snuff. Additionally, a new wholesale cigarette paper excise tax was created. The tax was twenty-five cents per package of 32 sheets of paper.

In 2009, the General Assembly added an additional 30 cents for the cigarette surtax and doubled the rates on both other tobacco products and snuff. Also moist chewing tobacco was pulled out of the “other tobacco products” and was taxed by the pouch in excise form.

### **Current Tax Rate:**

The tax rate on cigarettes, including both the cigarette excise tax and the cigarette surtaxes, is sixty (60) cents per package of twenty cigarettes. The other tobacco products are taxed at 15.0 percent of wholesale gross receipts. The tax on snuff and moist chewing tobacco is 19 cents per each single unit purchased. Similar rates apply for larger volumes of moist chewing tobacco.

- 40 cents per each half-pound unit (net weight of at least 4 ounces but not more than 8 ounces) sold. For retail distributors, the tax is levied on purchases of untaxed chewing tobacco at the same rate.
- 65 cents per each pound unit (net weight of more than 8 ounces but not more than 16 ounces) sold. For retail distributors the tax is levied on purchases of untaxed chewing tobacco at the same rate.
- If the container, pouch, or package on which the tax is levied contains more than 16 ounces by net weight, the rate that shall be applied to the unit shall equal the sum of 65 cents plus 19 cents for each increment of 4 ounces or portion thereof exceeding 16 ounces sold. For retail distributors the tax is levied on purchase of untaxed chewing tobacco at the same rate.

For FY17, tobacco tax collections deposited to the General Fund were \$243.0 million and represented two percent of total General Fund tax revenues.

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 .0909 percent discount against only the cigarette excise tax when the evidence is purchased.

**Tax Base:**

The tax base for tobacco products, other than cigarettes, moist snuff, and chewing tobacco is 15 percent of the wholesale sales price. Moist snuff is taxed at the current rate of 19 cents per each 1.5 ounces or portion thereof by net weight. Moist chewing tobacco is also taxed at 19 cents per each single unit.

**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 tobacco products is also due by the twentieth day of the succeeding month within which the transaction occurred.

**Table 20. Total Tobacco Tax Expenditures**

<b>FY 2018</b>	\$1.2 million
<b>FY 2019</b>	\$1.1 million
<b>FY 2020</b>	\$1.1 million

**Tax Expenditures****1. Compensation Allowed Wholesaler**

*Kentucky Revised Statues 138.146(4)(a), 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 (\$0.30) for each three dollars (\$3.00) 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.

<b>FY 2018</b>	\$1.2 million
<b>FY 2019</b>	\$1.1 million
<b>FY 2020</b>	\$1.1 million

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# Earmarked Funds

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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**

<b>FY 2018</b>	\$57.4 million
<b>FY 2019</b>	\$55.5 million
<b>FY 2020</b>	\$57.4 million

## **Earmarked Funds**

### **1. 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.

<b>FY 2018</b>	\$3.8 million
<b>FY 2019</b>	\$3.7 million
<b>FY 2020</b>	\$3.6 million

## **2. County Clerk Share for Collection of Sales Tax on Nonresident Sales**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$100,000
<b>FY 2019</b>	\$102,000
<b>FY 2020</b>	\$104,000

## **3. Department of Energy Development and Independence**

*Kentucky Revised Statutes 132.020(5)*

The amount of \$400,000 of the state property tax on unmined coal property is paid annually to this department for public education of coal-related issues.

<b>FY 2018</b>	\$400,000
<b>FY 2019</b>	\$400,000
<b>FY 2020</b>	\$400,000

## **4. Equine Breeder Development Funds - Sales Tax**

*Kentucky Revised Statutes 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 Commission. 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

<b>FY 2018</b>	\$11.3 million
<b>FY 2019</b>	\$11.7 million
<b>FY 2020</b>	\$12.2 million

## Kentucky Standardbred Breeders Incentive Fund

<b>FY 2018</b>	\$1.8 million
<b>FY 2019</b>	\$1.9 million
<b>FY 2020</b>	\$2.0 million

## Kentucky Horse Breeders Incentive Fund

<b>FY 2018</b>	\$990,000
<b>FY 2019</b>	\$1.0 million
<b>FY 2020</b>	\$1.0 million

### **5. Equine Drug Research - Pari-Mutuel Tax**

*Kentucky Revised Statutes 138.510(1)(c)(6), 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.

<b>FY 2018</b>	\$575,000
<b>FY 2019</b>	\$600,000
<b>FY 2020</b>	\$625,000

### **6. Equine Industry Program Trust and Revolving Fund-Pari-Mutuel Tax**

*Kentucky Revised Statutes 138.510(1)(c)(4) and 138.510(2)(d)(2), effective 1990*

One-fifth of one percent 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.

<b>FY 2018</b>	\$940,000
<b>FY 2019</b>	\$950,000
<b>FY 2020</b>	\$960,000

## **7. Higher Education Equine Trust and Revolving Fund - Pari-Mutuel Tax**

*Kentucky Revised Statutes 138.510(1)(c)(5)(a), effective 1992*

One-tenth of one percent 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, except that the amount deposited from money wagered on historical horse races in any fiscal year shall not exceed \$320,000.

<b>FY 2018</b>	\$570,000
<b>FY 2019</b>	\$575,000
<b>FY 2020</b>	\$580,000

## **8. Kentucky Aviation Economic Development Fund - Sales Tax**

*Kentucky Revised Statutes 183.525, effective July 1, 2000*

All sales and use tax collected on the sale of aircraft fuel is deposited in this fund.

<b>FY 2018</b>	\$10.2 million
<b>FY 2019</b>	\$10.2 million
<b>FY 2020</b>	\$10.3 million

## **9. Kentucky Heritage Land Conservation Fund**

*Kentucky Revised Statutes 132.020(5), effective 1994*

All state property tax derived from unmined coal property is devoted to the Kentucky Heritage Land Conservation Fund except \$400,000 which is paid annually to the Department of Energy Development and Independence Fund.

<b>FY 2018</b>	\$676,300
<b>FY 2019</b>	\$650,000
<b>FY 2020</b>	\$625,000



## **10. Kentucky Quarter Horse, Appaloosa and Arabian Development Fund**

*Kentucky Revised Statutes 230.445, effective 2010*

One percent of all money wagered on live races and historical horse races at this type track, two percent of the amount wagered via telephone account.

<b>FY 2018</b>	\$19,000
<b>FY 2019</b>	\$19,200
<b>FY 2020</b>	\$19,400

## **11. Kentucky Transportation Center - Motor Fuels Tax**

*Kentucky Revised Statutes 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.

<b>FY 2018</b>	\$190,000
<b>FY 2019</b>	\$190,000
<b>FY 2020</b>	\$190,000

## **12. Malt Beverage Educational Fund**

*Kentucky Revised Statutes 211.285, effective 1998*

One percent of the wholesale sales tax collected upon the sale of malt beverages is deposited into this Fund and used to fund educational programs to deter or eliminate underage drinking.

<b>FY 2018</b>	\$669,000
<b>FY 2019</b>	\$675,000
<b>FY 2020</b>	\$680,000

### **13. Tax Increment Financing - Various Taxes**

*Kentucky Revised Statutes 65.490, effective July 14, 2000 and  
Kentucky Revised Statutes 65.680-65.699, effective June 21, 2001  
Kentucky Revised Statutes 154.30-010, 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 65.490 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 pursuant to KRS 154.30-010 et. al. As of October 2015, twenty six (26) TIF projects have been approved to recover tax increments. Effective June 24, 2013, HB 260, amended by KRS 154.30-050 to provide that the Kentucky Economic Development Finance Authority may approve a reduction in the required minimum capital investment to an amount not less than \$150 million, subject to a corresponding adjustment of the maximum incremental revenue available.

<b>FY 2018</b>	\$23.7 million
<b>FY 2019</b>	\$21.4 million
<b>FY 2020</b>	\$22.6 million

For project details see following pages beginning at page 205.

#### **14. Tobacco Enforcement Program - Cigarette Tax**

*Kentucky Revised Statutes 438.335 and 438.337, effective 1996*

One-twentieth of one cent (\$0.0005) of the three-cent (\$0.03) 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.

<b>FY 2018</b>	\$178,000
<b>FY 2019</b>	\$176,000
<b>FY 2020</b>	\$174,000

#### **15. Tobacco Research Trust Fund - Cigarette Tax**

*Kentucky Revised Statutes 248.540, effective 1970*

The tax revenues received from the additional one-half cent (\$0.005) tax levied by Chapter 255 of the Acts of 1970 shall be credited to a Tobacco Research Trust Fund. This calculation does not apply to the 57-cent surtax on cigarettes.

<b>FY 2018</b>	\$1.4 million
<b>FY 2019</b>	\$1.3 million
<b>FY 2020</b>	\$1.3 million

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# Tourism Development Act

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A new addition to this year's Tax Expenditure Report is a listing of all prior tax increment financing (TIF) and Tourism Development Act (TDA) projects. Recent acts of the Kentucky General Assembly have significantly broadened the state's arsenal of financing mechanisms for economic and community development. Incremental state revenues resulting from the development of certain areas of the Commonwealth may be pledged to pay for public infrastructure and certain other costs necessary to make development feasible. Several amendments to the TIF statutes have been adopted since the original HB 549 in 2007. For the purposes of this report, the most significant change deals with a requirement that OSBD and the Finance and Administration Cabinet must both certify that each project creates a *net positive economic impact to the Commonwealth* (as defined in KRS 154.30-030 (6) and KRS 154.30-060). The funding mechanism for TIF projects typically involves the individual income tax, sales and use tax, and property taxes; the pledge of these aforementioned revenue sources may be in amounts equal to the cost of public infrastructure created by the new development.

In addition to the certification of TIF projects, OSBD and the Cabinet for Finance and Administration are required to due similar diligence regarding the Tourism Development Act (TDA). In particular, TDA projects are subjected to the same finding of net positive economic impact (as defined in KRS 148.855). The funding mechanism for TDA projects is limited to recovery through the sales tax collected at the tourism destination, not to exceed 25 percent of the certified approved cost of construction, as determined by the Cabinet of jurisdiction – Tourism Arts, and Heritage. For both the TIF and TDA programs, the operational conveyance of the presence of a positive fiscal analysis is a letter co-signed by the State Budget Director and Secretary of Finance and Administration.

Prior Reports did not include either TIF or TDA projects due to the determination of net positive impacts. Upon further reflection, most tax expenditures listed in this report have also had benefits to offset the negative impact of foregone revenues. Therefore, this and future reports will contain a listing of all TIF and TDA projects that have been approved to date.

<b>FY 2018</b>	\$5.1 million
<b>FY 2019</b>	\$6.4 million
<b>FY 2020</b>	\$7.6 million

## KENTUCKY TOURISM DEVELOPMENT ACT PROJECTS

Project	Location	Final Approval	Project Cost	Eligible Refund	Positive Fiscal Impact *	Positive Econ Impact
Newport Aquarium	Newport	6/19/97	\$31,665,969	\$7,916,492	\$27,100,000	\$299,000,000
Kentucky Speedway	Sparta	8/27/98	\$96,187,655	\$24,047,000	\$13,400,000	\$172,300,000
Newport on the Levee, LLC	Newport	10/29/98	\$188,604,285	\$47,151,071	\$45,776,000	\$1,600,000,000
Glassworks, LLC	Louisville	5/25/00	\$3,900,000	\$975,000	\$1,300,000	\$40,000,000
Owsley Brown Frazier Historical Arms Museum Foundation	Louisville	9/25/01	\$16,573,000	\$787,537	\$1,114,400	\$1,610,500
Musselman Hotels, LLC	Louisville	1/7/02	\$17,910,000	\$4,477,500	\$1,800,000	\$51,200,000
Heaven Hill Visitor's Center	Bardstown	7/23/02	\$2,850,000	\$712,500	\$65,900	\$7,000,000
Galt House	Louisville	11/7/02	\$60,696,671	\$15,174,167	\$35,890,000	\$286,100,000
4th Street Live!	Louisville	11/7/02	\$61,680,000	\$11,455,123	\$6,464,877	\$319,000,000
21C, LLC	Louisville	4/22/03	\$21,150,000	\$3,000,000	\$765,000	\$63,416,000
Hofbrauhaus of Newport	Newport	9/23/03	\$7,156,000	\$916,353	\$1,183,647	\$19,000,000
Green River Lodge **	Campbellsville	Preliminary Approval Rescinded 11/28/06				
Thoroughbred Square *	Versailles	Declined 12/21/05				
Kentucky Horse Park Resort **	Lexington	5/2/2006 Rescinded 9/11/07				
Kentucky Horse Park Resort (2) ***	Lexington	12/11/05	\$85,050,000	\$39,000,000	\$46,050,000	\$1,336,250,000

<b>Project</b>	<b>Location</b>	<b>Final Approval</b>	<b>Project Cost</b>	<b>Eligible Refund</b>	<b>Positive Fiscal Impact *</b>	<b>Positive Econ Impact</b>
Edgewater Sports, LLC ***	Taylorsville	11/2/07	\$24,653,825	\$12,326,912	\$43,671,000	\$1,405,252,000
PKY I, LLC dba Hyatt Regency Lexington	Lexington	11/2/07	\$16,425,000	\$3,901,423	\$1,283,000	\$6,700,000
Newport on the Levee, LLC (Hotel) ***	Newport	2/8/08	\$54,170,061	\$3,864,000	\$1,932,000	\$88,000,000
Al J. Schneider Company dba Executive West	Louisville	2/8/08	\$30,120,000	\$7,530,000	\$2,259,000	\$203,500,000
Jim Beam Brands Company	Clermont	11/19/08	\$14,931,000	\$3,732,750	\$2,762,235	\$74,000,000
Kentucky Raceway, Inc. dba Kentucky Speedway	Sparta	12/20/10	\$82,000,000	\$20,500,000	\$47,425,000	\$386,200,000
Ark Encounter, LLC	Williamstown	5/19/11	\$172,500,000	\$43,125,000	\$119,000,000	\$2,990,000,000
Bryant Downtown Hotel, LLC	Owensboro	11/22/11	\$20,500,000	\$4,000,000	\$397,000	\$69,855,000
Rare Breed Distilling, LLC	Lawrenceberg	4/5/12	\$4,000,000	\$1,000,000	\$5,251,000	\$80,743,000
Oak Grove Village at Fort Campbell, Inc. *****	Oak Grove		\$341,916,343			
Bluegrass Boardwalk, Inc ***	Louisville	6/13/12	\$15,900,000	\$3,900,000	\$170,900,000	\$47,700,000
21c Lexington, LLC	Lexington	12/17/12	\$42,000,000	\$9,500,000	\$10,600,000	\$133,000,000
Riverfront Hotel Associates, LP	Owensboro	2/13/13	\$14,610,000	\$3,535,000	\$4,242,000	\$81,625,500
Kentucky Kingdom, LLLP	Louisville	4/13/13	\$40,000,000	\$10,000,000	\$18,700,000	\$419,500,000

<b>Project</b>	<b>Location</b>	<b>Final Approval</b>	<b>Project Cost</b>	<b>Eligible Refund</b>	<b>Positive Fiscal Impact *</b>	<b>Positive Econ Impact</b>
Musselman Hotels, LLC (2)	Newport	4/9/14	\$33,065,000	\$8,900,000	\$809,100	\$122,000,000
Buffalo Trace Distillery, Inc.	Frankfort	4/9/14	\$2,214,500	\$533,625	\$358,000	\$10,400,000
Paducah Convention Hotel, LLC	Paducah	6/26/14	\$18,500,000	\$4,537,500	\$5,088,000	\$116,000,000
Maker's Mark Distillery, Inc.	Loretto	6/26/14	\$2,025,000	\$500,000	\$1,546,000	\$26,000,000
Ark Encounter, LLC (2)	Williamstown	4/25/16	\$73,000,000	\$18,000,000	\$22,400,000	\$720,000,000
Somerset Center Hotel, LP	Somerset	12/10/14	\$11,523,750	\$2,550,000	\$330,000	\$25,000,000
638 Madison, LLC	Covington	4/8/15	\$20,304,500	\$5,076,125	\$2,830,000	\$111,000,000
Jim Beam Brands Co.	Louisville	4/8/15	\$5,214,900	\$1,000,000	\$180,000	\$11,346,000
Peristyle, LLC	Versailles	4/8/15	\$6,794,500	\$1,698,625	\$1,165,000	\$36,973,000
Kentucky Kingdom, LLLP (Phase 2)	Louisville	5/22/15	\$15,000,000	\$3,750,000	\$7,460,000	\$128,400,000
Maker's Mark Distillery, LLC (2)	Loretto	9/9/15	\$4,000,000	\$1,000,000	\$234,000	\$13,061,000
Paducah Riverfront Hotel, LP	Paducah	9/9/15	\$18,029,000	\$4,507,250	\$5,592,750	\$123,000,000
Rabbit Hole Distilling, LLC	Louisville	3/4/16	\$14,239,500	\$2,200,000	\$2,663,000	\$23,400,000
Paristown Preservation Trust, LLC	Louisville	3/4/16	\$33,860,000	\$6,400,000	\$7,430,000	\$71,580,000
Prizer Point Marina & Resort, LLC	Cadiz	4/25/16	\$5,398,000	\$1,619,400	\$2,278,000	\$39,919,000

<b>Project</b>	<b>Location</b>	<b>Final Approval</b>	<b>Project Cost</b>	<b>Eligible Refund</b>	<b>Positive Fiscal Impact *</b>	<b>Positive Econ Impact</b>
New Riff Distilling, LLC	Newport	9/14/16	\$18,050,000	\$1,500,000	\$6,617	\$81,303,000
6 Mile	Henry	12/6/16	\$10,100,000	\$1,800,000	\$600,000	\$30,000,000
Hopkinsville Investment Partners	Hopkinsville					
Diageo Americas, Inc.	Shelbyville					
			<b>\$1,769,098,459</b>	<b>\$350,757,853</b>	<b>\$674,714,526</b>	<b>\$11,929,118,000</b>

\* Projects receiving preliminary approval but not final approval.

\*\* Projects having preliminary approval recinded.

\*\*\* Projects receiving final approval with construction not taking place.

\*\*\*\* Application withdrawn



## TAX INCREMENT FINANCING PROJECTS

Project	Location	Final Approval	Type of TIF	Status*	Total Estimated Project Size	Total Incentive Amount
Downtown Marriott	Louisville	7/11/2002	Project Specific	Final	\$122,000,000	\$22,000,000
Churchill Downs	Louisville	7/12/2002	Project Specific	Final	\$125,000,000	\$25,000,000
Renaissance Zone	Louisville	12/8/2003	Pilot Program	Final	Undetermined	Undetermined
Louisville Arena	Louisville	12/19/2006	Pilot Program	Final	\$435,000,000	\$265,000,000
Museum Plaza	Louisville	10/19/2007	Signature	Inactive	\$498,753,170	\$344,287,618
WKU Gateway	Bowling Green	10/19/2007	Signature	Final	\$317,064,470	\$285,533,316
Ovation	Newport	11/28/2007	Signature	Final	\$885,700,000	\$311,426,623
Nucleus	Louisville	11/30/2007	Signature	Final	\$1,090,951,981	\$601,620,351
Center City	Louisville	12/27/2007	Signature	Final	\$706,000,000	\$204,000,000
Phoenix Park	Lexington	9/24/2009	Signature	Final	\$455,294,792	\$48,833,000
Distillery District	Lexington	10/29/2009	Blighted Redevelopment	Inactive	\$190,871,069	\$45,804,000
Manhattan Harbour	Dayton	1/28/2016	Property	Final	\$789,808,085	\$8,000,000
ShowProp Lexington	Lexington	9/30/2010	Blighted Redevelopment	Inactive	\$91,688,800	\$17,500,000
The Red Mile Project	Lexington	Amended 8/25/2011 4/26/2012 & 9/26/13	Blighted Redevelopment	Final	\$186,891,071	\$25,321,000
The University of Louisville Research Park	Louisville	6/28/2012	Signature	Final	\$1,113,303,500	\$709,414,000
21c Museum Hotel Lexington	Lexington	12/13/2012	Real Property Ad Valorem	Final	\$36,556,250	\$500,000
Oak Grove Village at Fort Campbell, LLC	Oak Grove	2/28/2013	Mixed-Use near Military Installation	Final	\$199,000,000	\$66,475,000
Georgetown Events & Commerce Center	Georgetown	TBD	Signature	Preliminary	\$327,496,487	TBD
The Paddocks of Woodford	Versailles	TBD	Blighted Redevelopment	Preliminary	\$38,928,475	TBD
ShelbyHurst Research and Technology Park	Louisville	12/11/2014	Signature	Final	\$831,517,378	\$253,938,000
Turfland Town Center Mixed-Use	Lexington	10/30/2014	Real Property Ad Valorem	Final	\$38,600,000	\$793,600

<b>Project</b>	<b>Location</b>	<b>Final Approval</b>	<b>Type of TIF</b>	<b>Status*</b>	<b>Total Estimated Project Size</b>	<b>Total Incentive Amount</b>
The Summit Lexington	Lexington	9/25/2014	Mixed-Use	Final	\$155,600,000	\$24,109,000
Hotel Nulu Mixed Use Development	Louisville	6/25/2015	Mixed-Use/Blighted Urban	Final	\$72,998,230	\$4,321,000
Ft. Mitchell Gateway	Ft. Mitchell	TBD	Mixed-Use/Blighted Urban	Preliminary	\$134,900,440	TBD
Midland Avenue Redevelopment Project	Lexington	TBD	Mixed-Use/Blighted Urban	Preliminary	\$167,269,239	TBD
Gateway Commons	Owensboro	TBD	Mixed-Use/Blighted Urban	Preliminary	\$407,565,194	TBD
Downtown Owensboro	Owensboro	TBD	Mixed-Use/Blighted Urban	Preliminary	\$292,466,864	TBD
<b>Grand Total</b>					<b>\$8,929,912,456</b>	<b>\$2,856,284,890</b>