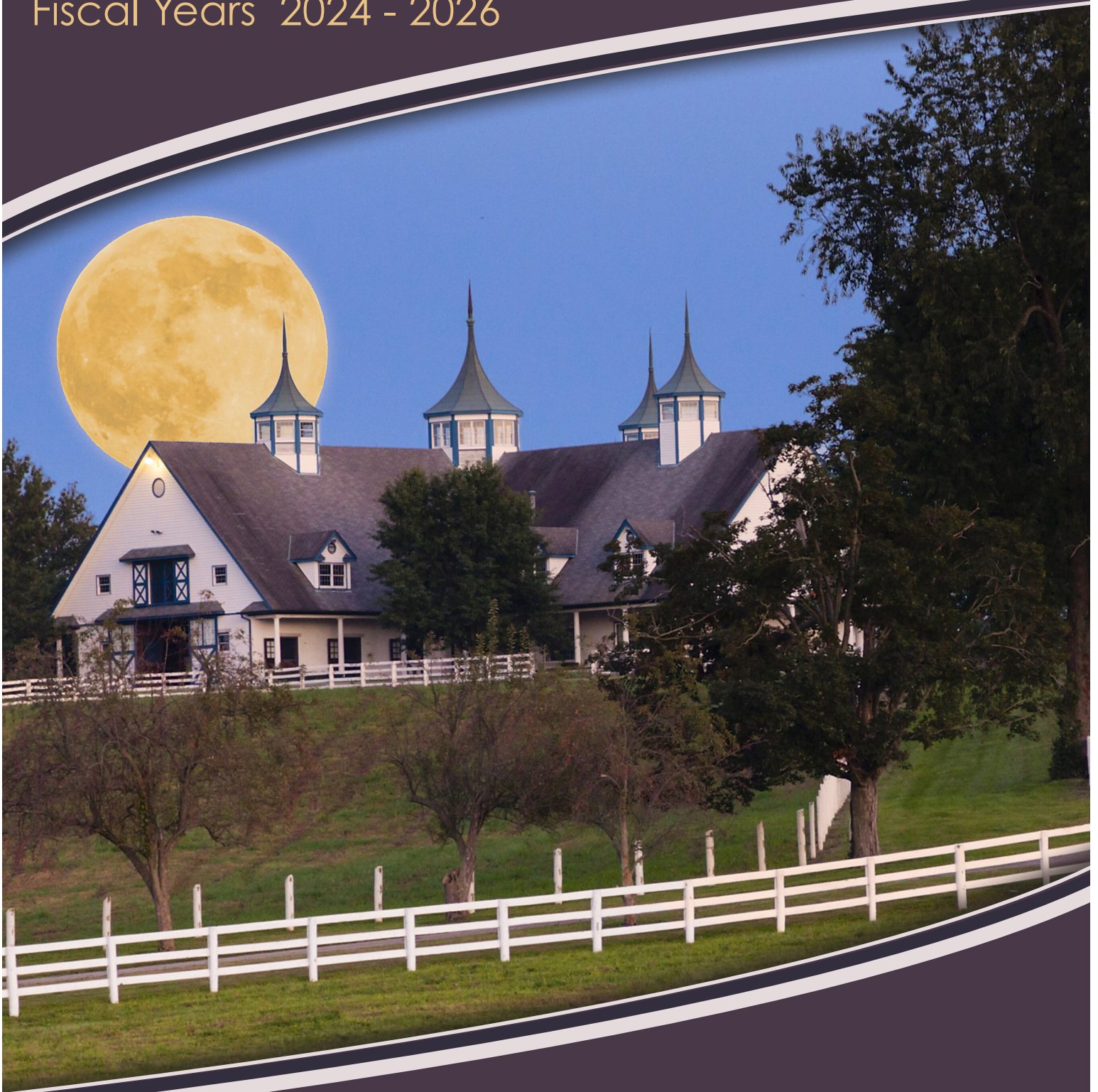


Commonwealth of Kentucky

Tax Expenditure Analysis

Fiscal Years 2024 - 2026





Office of State Budget Director
200 Mero Street, 5th Floor
Frankfort, Kentucky 40622

Andy Beshear
Governor

(502) 564-7300
Internet: osbd.ky.gov

John T. Hicks
State Budget Director

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

October 16, 2023

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

Dear Governor Beshear:

State and federal governments have a responsibility to be accountable to the public for the use of each and every tax dollar. As such and in accordance with the biennial budget bill, 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.

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 (FY24 through FY26). 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.

Sincerely,

A handwritten signature in black ink that reads "John T. Hicks".

John T. Hicks
State Budget Director

TEAM
KENTUCKY

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Executive Summary

The Office of State Budget Director is presenting this Tax Expenditure Report as required by House Bill 1 of the 2022 Regular Session of the General Assembly. This report, which will be delivered to each branch of government, includes detailed estimates of General Fund and Road Fund revenue losses attributable to tax expenditures for the current fiscal year (FY24) and next two fiscal years (FY25 and FY26).

House Bill 1 defines “tax expenditure” as: 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, and a categorization of the data source associated with the estimated amount of the tax expenditure.

A grand total of all tax expenditures, excluding Tourism credits/subsidies and Tax Increment Financing projects, is as follows:

FY24: \$9,093.3 million

FY25: \$9,192.4 million

FY26: \$9,598.3 million

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 state tax revenues are 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 or receive refunds that would otherwise be received by the Commonwealth as tax receipts.

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 formal process to systematically review or periodically re-evaluate tax expenditures in subsequent years, except through this Tax Expenditure Analysis. While the use of sunsets has increased at the state level in recent years, 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 or types of transactions. 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 textbooks in Kentucky. Textbooks 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 the gross receipts from the sale of sewer services, water, and fuel to Kentucky residents for use in heating, water heating, cooking, lighting, and other residential uses. In general, Kentucky imposes tax on the sale of electricity, but not if it is used for residential purposes. Regardless of whether the tax expenditure is for exempt property or exempt transactions, these exemptions result in 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 tax 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 reduced as a result of the provisions in statute.

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

- ◆ ***Individual Income Tax*** – First imposed in 1936, this tax has become the most productive revenue source in Kentucky. For tax years beginning on or after January 1, 2019, Kentucky has adopted a flat rate of five percent for net income minus allowable deductions and tax credits. The rate was reduced to 4.5 percent for tax year 2023 and will be further reduced to four percent effective in tax year 2024. For FY23, this tax generated \$5,843.9 million. Tax expenditures for the individual income tax are estimated at \$2,875.8 million for FY24.
- ◆ ***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, digital property, or selected services at a rate of six percent of the sales price. For FY23, the sales and use tax generated \$5,576.3 million. Tax expenditures are estimated at \$3,674.6 million for FY24.
- ◆ ***Property Taxes*** – Kentucky has levied a property tax since becoming a Commonwealth on June 1, 1792. Property is constitutionally assessed at its fair market value with rates that vary depending upon the type of property. For FY23, property taxes generated \$774.4 million. Tax expenditures are estimated at \$1,208.1 million for FY24.
- ◆ ***Corporation Income Tax and Limited Liability Entity Tax*** – The corporate income tax was first assessed in 1936 against the net income attributable to Kentucky. The Limited Liability Entity Tax (LLET) was enacted during the 2006 Extraordinary Session of the General Assembly. The tax base for the LLET is gross receipts or gross profits, and it 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. For FY23, the corporation income tax and LLET generated \$1,221.6 million. Tax expenditures for these taxes are estimated at \$343.6 million for FY24.

- ◆ ***Multiple Tax Incentive Programs*** – Kentucky has numerous business incentives and credit programs that allow taxpayers to take credits against multiple taxes. In previous versions of this report, these programs were included within the respective tax chapters. This report aggregates these tax expenditures into a single chapter to provide a concise description and estimation of the impact of these programs. Tax expenditures for these programs and incentives are estimated at \$470.4 million for FY24.
- ◆ ***Motor Vehicle Usage Tax*** – First assessed in 1936, the motor vehicle usage tax is assessed at rate of 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 FY23, this tax generated \$660.3 million. Tax expenditures are estimated at \$192.9 million for FY24.
- ◆ ***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 \$149.0 million for FY24.
- ◆ ***Gasoline, Liquefied Petroleum, and Special Fuels Tax*** – First levied in 1920, these taxes are assessed on gallons of gasoline sold in Kentucky. The liquefied petroleum tax was implemented in 1960 as a “companion” to the gasoline tax, and the tax is assessed on gallons sold. The special fuels tax includes fuels other than gasoline that are used in motor vehicles. The floor of the variable rate for gasoline, liquefied petroleum and special fuels is 19.6 cents per gallon; if the weighted wholesale price of gasoline rises above \$2.177, the variable tax rate will rise. For FY23, these taxes generated \$798.3 million. Tax expenditures for these taxes are estimated at \$62.3 million for FY24.
- ◆ ***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 FY23, the inheritance tax generated \$71.8 million. Tax expenditures for this tax are estimated at \$75.0 million for FY24.

- ◆ ***Coal and Natural Resources Severance and Processing Tax*** – Assessed on the severance (removal) and processing of coal, the coal severance tax was first imposed 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. Natural Resources severance taxes were first assessed in 1980. These taxes are levied against the gross value of all minerals severed or processed in Kentucky, excluding coal, natural gas, and oil which are taxed separately. For FY23, the combination of all severance taxes generated \$147.0 million. Tax expenditures for this tax type are estimated at \$18.5 million for FY24.

- ◆ ***Alcoholic Beverage Taxes*** – Various excise and gross receipts 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 at the wholesaler or distributor level of the product. For FY23, alcoholic beverage taxes generated \$192.0 million in Kentucky. Tax expenditures within these tax types are estimated at \$12.0 million for FY24.

- ◆ ***Insurance Premiums Tax*** - 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 FY23, the insurance premiums tax generated \$196.0 million. Tax expenditures for these taxes are estimated to total \$7.2 million in FY24.

- ◆ ***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 \$1.10 and is composed of the original excise tax of three cents (\$0.03), a surtax of \$1.06, 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 taxation of Vaping Products began in 2019. Closed vapor cartridges are taxed at a rate of \$1.50 per cartridge. Open vapor systems are taxed at 15 percent of the actual distributor sales price. The distributor, wholesaler, or stamping agent pays all tobacco taxes except the final retail sales tax. For FY23, tobacco and vaping taxes generated \$341.3 million. The tax expenditures associated with these taxes are estimated at \$3.9 million for FY24.

- ◆ ***Pari-Mutuel Wagering Taxes*** – First assessed in 1948, pari-mutuel wagering taxes are imposed on live racing, historical horse racing, telephone account wagering, intertrack wagering, simulcasts and interstate wagering under the jurisdiction of the Kentucky Horse Racing Commission. For FY23, pari-mutuel taxes generated \$56.3 million. Tax expenditures are estimated to be Minimal for FY24.

- ◆ ***Tax Increment Financing and Tourism Development Act*** – The funding mechanism for Tax Increment Financing (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 perform similar due 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 Tourism Arts, and Heritage Cabinet.

Introduction

House Bill 1 from the 2022 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:** 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 resulting from 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 expenditures 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 1, enacted by the General Assembly during the 2022 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 revised statutes 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 gross income by the customary expenses incurred to produce that income. Consequently, many 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 legislatively-desired outcomes or to provide financial benefit to taxpayers in certain circumstances. 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, the decision to enact tax expenditures leads to less similarity between state and federal laws and ultimately to even more complexity. When tax expenditures are enacted, the resulting tax loss reduces the revenue available to fund other programs through the budget process. Tax expenditures narrow the base of taxation, so unless tax rates are raised or new taxes are enacted funds available for appropriation are reduced.

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, some “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 goals of government 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, insular 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 and explains many of the Kentucky tax expenditures. Estimates of the costs of the tax expenditures were developed from numerous sources and each tax expenditure is labeled to identify the data source used in the calculation.

The data sources are grouped, as follows:

Kentucky Taxpayer Data – Kentucky Taxpayer Data includes tax expenditures measured directly from data on a tax form, or other information submitted by taxpayers to the Department of Revenue. Examples would include specific line items from Kentucky tax form 740 or other tax schedules.

Kentucky Agency Data – Kentucky Agency Data includes tax expenditures measured using aggregate data obtained from Kentucky governmental agencies. Examples would include Cabinet for Economic Development databases, Department of Revenue reports, etc.

Kentucky Agency Estimate – Kentucky agency estimates include expenditures estimated using internal, non-public data, agency data, or other research.

Federal Agency Data – Federal Agency data estimates are estimated indirectly using data obtained from Federal agency estimates of economic activity. Examples would include, U.S. Census Bureau Data, U.S. Census Bureau County Business Patterns reports, US Department of Agriculture data, etc.

Federal Apportioned Estimates – Federal apportioned estimates are calculated using tax expenditures reported by the Federal government or other entities. These amounts are apportioned to Kentucky based on population, income, or other relevant factors. Examples include information from the Federal Joint Committee on Taxation, the Federal Office of Management and Budget, etc.

*Caveats
and
interpretations*

Whenever possible, an estimate of the expected value or cost of a tax expenditure that exceeds one hundred thousand dollars (\$0.1 million) 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:

- ◆ “Substantial” if its value is expected to be above \$50 million. Every attempt was made to use the “Substantial” category very sparingly.
- ◆ “Limited” if its value is below \$100,000
- ◆ “Minimal” if its value is below \$10,000

Furthermore, 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 a variety of 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.

*How to read
this report*

This report catalogs and aggregates the various tax expenditures by tax type to provide a more concise listing for quicker reference and comparison.

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:

- ◆ ***Current rate structure*** - how the tax is assessed and in what amount;
- ◆ ***Tax base*** – what items are taxed in a particular tax category;
- ◆ ***Tax due*** - how, when, and where the tax is paid; and
- ◆ ***Background*** - a brief history of the tax.

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 the prior report was published in 2021 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.

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

Cabinet for Economic Development

Sarah Butler
Katie Smith
Kylee Palmer

Tourism, Arts and Heritage Cabinet

Kimberly Gester

Department of Revenue

Tiffany Adair
Melissa Adams
Tom Crawford
Richard Dobson
Toni Fields
Travis Gooch
Kim Hensley
Christy Kinney
Lowell Manning
Leslie Mays
Nathan Polly

Department of Revenue

Angie Morris
Gary Morris
James Orr
Barbara Quackenboss
Sridhar Ramakrishnan
Kathryn Reaves
Katie Skidmore
Matt Smothermon
Cathy Thompson
Tracy Tunstill

**Defense Finance Accounting
Service**

Daniel Lawrence
Joel Carter
Matthew Whyde

Figure 1
Actual FY23 General Fund Revenues, by Type

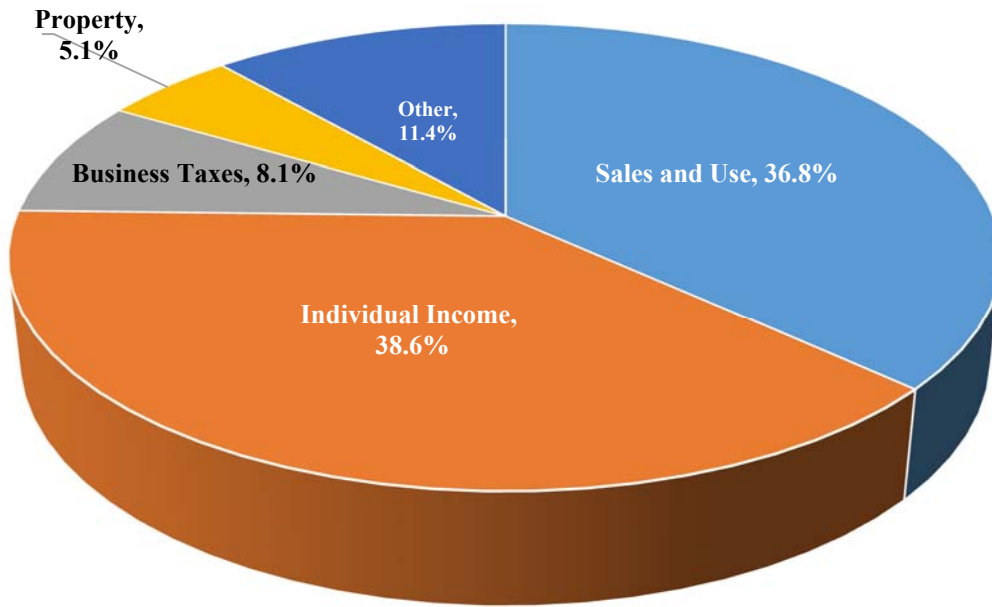


Figure 2
Estimated FY24 General Fund Tax Expenditures

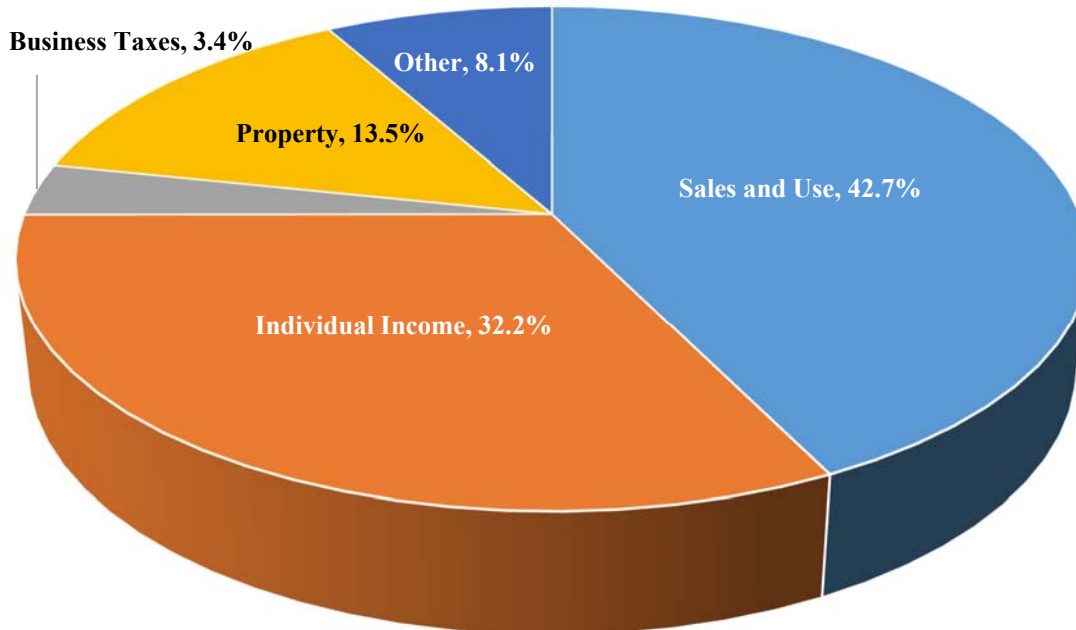


Figure 3
Actual FY23 Road Fund Reneues, by Type

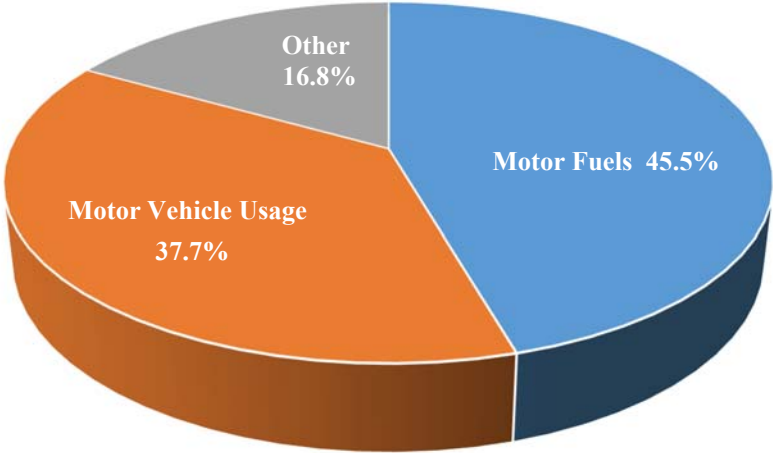
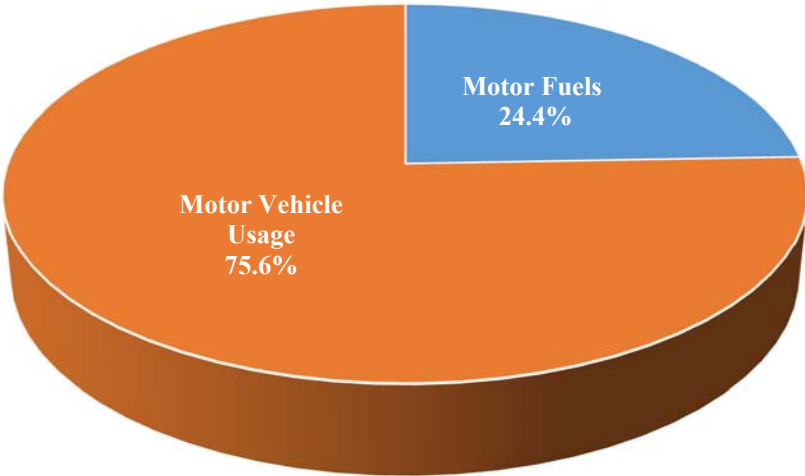


Figure 4
Estimated FY24 Road Fund Tax Expenditures



Summary Table of Tax Expenditures

Tax Expenditures by Tax Type (\$millions)

| | <u>FY24</u> | <u>FY25</u> | <u>FY26</u> |
|--|----------------|----------------|----------------|
| Total Individual Income Tax Expenditures | 2,875.8 | 2,773.6 | 2,995.8 |
| Individual Income Tax - Exclusions | | | |
| Employer Contributions for Medical Insurance and Medical Care | 684.5 | 678.9 | 786.7 |
| Pension Plans, Retirement Income, and Individual Retirement Accounts | 566.3 | 528.6 | 538.1 |
| Gain on the Sale of a Principal Residence | 141.7 | 138.1 | 157.9 |
| Capital Gain on Property Transferred at Death | 140.6 | 136.7 | 144.0 |
| Pension, Profit-Sharing, & Annuity Plans of Self-Employed Individuals | 103.0 | 100.5 | 120.3 |
| Social Security Benefits for Retired Workers, Disabled Workers, Dependents, and Survivors | 86.9 | 82.1 | 94.9 |
| Interest on Life Insurance Savings | 51.4 | 49.7 | 51.5 |
| Armed Forces Personnel Benefits and Allowances | 43.7 | 42.8 | 39.6 |
| Veteran's Pension, Death and Disability Compensation | 32.8 | 31.6 | 34.0 |
| Miscellaneous Fringe Benefits | 27.9 | 27.3 | 28.3 |
| Worker's Compensation Benefits | 24.8 | 23.3 | 23.3 |
| Income Earned Abroad by U.S. Citizens | 20.7 | 20.5 | 21.5 |
| Active Duty Military Pay | 19.3 | 18.0 | 18.4 |
| Employer-Provided Meals and Lodging | 18.3 | 17.6 | 20.8 |
| Passive Loss Rules Exception | 14.4 | 14.4 | 15.8 |
| Scholarship and Fellowship Income | 12.2 | 12.2 | 13.6 |
| Employer-Provided Benefits of Premiums on Group Term Life, Accident and Disability Insurance | 10.4 | 10.1 | 11.3 |
| Basis of Property Acquired by Gifts and Transfers in Trust | 9.1 | 9.9 | 10.4 |
| Employer-Provided Educational Assistance | 4.7 | 4.7 | 4.2 |
| Installment Sales | 4.7 | 4.6 | 4.8 |
| GI Bill Benefits | 4.1 | 3.9 | 4.2 |
| Assistance for Adopted Foster Children and Foster Care Payments | 2.6 | 2.6 | 2.8 |
| Alimony Payments | 2.3 | 2.2 | 2.2 |
| Employer-Provided Child Care | 2.2 | 2.2 | 2.9 |
| Public Assistance Benefits | 1.8 | 1.8 | 1.9 |
| Cancellation of Indebtedness | 1.3 | 1.3 | 0.5 |
| Railroad & Supplemental Railroad Retirement System Benefits | 0.7 | 0.6 | 0.6 |
| Employee Stock Ownership Plan Provisions | 0.6 | 0.6 | 0.6 |
| Income Averaging for Farmers | 0.6 | 0.6 | 0.6 |
| Disabled Coal Miners | 0.2 | 0.2 | 0.2 |

| | | | |
|---|---------|---------|---------|
| Precinct Workers | 0.2 | 0.2 | 0.2 |
| Capital Gains - Eminent Domain | Minimal | Minimal | Minimal |
| Community Property Trust Act | Minimal | Minimal | Minimal |
| Disaster Workers | Minimal | Minimal | Minimal |
| Educational Opportunity Account Program - Beneficiary Exemption | Minimal | Minimal | Minimal |

Individual Income Tax - Deductions

| | | | |
|---|-------|-------|-------|
| Standard Deduction | 211.5 | 197.4 | 200.9 |
| Home Mortgage Interest | 123.4 | 115.1 | 117.2 |
| Charitable Contributions | 120.0 | 112.0 | 114.0 |
| Individual Retirement Account Contributions | 68.5 | 68.6 | 84.9 |
| Health Savings Accounts | 38.7 | 38.0 | 43.4 |
| Net Operating Loss | 26.8 | 25.1 | 25.5 |
| Gambling Losses | 8.6 | 8.0 | 8.1 |
| Keogh Plan Contributions | 7.9 | 7.3 | 7.5 |
| Interest on Educational Loans | 6.4 | 6.4 | 6.8 |
| Investment Interest | 4.1 | 3.9 | 3.9 |
| Excess of Percentage over Cost Depletion | 3.9 | 3.7 | 3.9 |
| Parsonage Allowances | 2.9 | 2.9 | 3.1 |
| Interest on US Savings Bonds | 2.2 | 2.1 | 2.1 |

Individual Income Tax - Credits

| | | | |
|---|---------|---------|---------|
| Family Size Tax Credit | 151.9 | 150.6 | 153.3 |
| Blind, over 65, and National Guard | 38.4 | 38.4 | 38.4 |
| Postsecondary Education Tuition | 19.1 | 18.9 | 19.2 |
| Child and Dependent Care | 6.7 | 6.6 | 6.7 |
| Kentucky Angel Investment Act | 0.8 | 0.8 | 0.8 |
| High School Equivalency Diploma Program | Minimal | Minimal | Minimal |

Total Sales and Use Tax Expenditures (\$millions)

| | | | |
|--|-------|-------|---------|
| Prescription Medicine, Prosthetic Devices & Physical Aids | 924.0 | 964.5 | 1,007.5 |
| Food Items | 639.0 | 660.0 | 681.2 |
| State, Cities, Counties and Special Districts | 470.1 | 482.0 | 499.0 |
| Residential Utilities | 398.0 | 405.0 | 410.0 |
| Non-Profit Educational, Qualified Non-Profit Organizations, Charitable and Religious Institutions | 388.3 | 407.7 | 428.0 |
| Industrial Supply Exemption expanded to include repair, replacement, or spare parts | 140.0 | 155.0 | 145.0 |
| Machinery for New & Expanded Industry | 98.5 | 100.0 | 102.0 |
| Energy and Energy Producing Fuels | 55.9 | 57.0 | 58.2 |
| Coal Used in the Manufacture of Electricity | 33.2 | 31.0 | 29.8 |
| Admissions to Nonprofit Civic, Governmental, or Other Nonprofit Organizations and Fundraising Event Sales | 24.0 | 25.0 | 25.5 |
| Jet Fuel | 23.4 | 24.0 | 24.5 |
| Interstate Cargo & Passenger Aircraft, Parts & Supplies | 16.2 | 16.6 | 16.9 |

| | | | |
|---|---------|---------|---------|
| Reimbursement of Seller's Collection Costs | 14.3 | 14.4 | 14.6 |
| Building Materials, Fixtures, and Supplies for Sewer and Water projects | 13.6 | 11.2 | 10.4 |
| Federal Taxes Imposed on Sales of Tangible Personal Property | 11.4 | 11.5 | 11.5 |
| Locomotives and Rolling Stock | 10.0 | 10.0 | 10.0 |
| Tombstones and Other Grave Markers | 7.8 | 7.9 | 7.9 |
| Semi-Trailers and Trailers | 7.3 | 7.5 | 7.6 |
| Vessels and Maritime Supplies | 6.8 | 6.8 | 6.9 |
| Sales by Elementary and Secondary Nonprofit, School-Sponsored Clubs and Organizations | 6.5 | 6.5 | 6.6 |
| Occasional Sales | 6.0 | 6.2 | 6.4 |
| Procurement, Processing or Distribution of Blood or Human Tissue | 5.5 | 5.5 | 5.5 |
| De Minimis Standard for Services | 5.2 | 5.4 | 5.7 |
| Textbooks | 4.8 | 4.9 | 5.0 |
| Kentucky Enterprise Initiative | 4.2 | 4.3 | 4.5 |
| Recycling Machinery and Equipment | 4.0 | 4.5 | 4.5 |
| Garage or Yard Sales | 3.3 | 3.5 | 3.6 |
| Repair or Replacement Parts for Large Trucks | 3.1 | 3.1 | 3.2 |
| Lodgings of Thirty Days or More | 2.7 | 2.6 | 2.6 |
| Purchases by Historical Sites | 0.9 | 0.9 | 0.9 |
| Donated Goods | 0.8 | 0.9 | 0.9 |
| Refund on Building Materials Used for Disaster Recovery | 0.5 | 0.3 | 0.2 |
| Sales by Nonprofit Higher Educational School-Sponsored Clubs and Organizations | 0.3 | 0.3 | 0.3 |
| Water Withdrawal Fees Paid to Kentucky River Authority | 0.3 | 0.3 | 0.3 |
| Rebate on Sales of Admission & Tangible Personal Property at Governmental Facility | 0.2 | 0.2 | 0.2 |
| Charter Bus Repair & Replacement Parts | 0.1 | 0.1 | 0.1 |
| Admissions to Fishing Tournaments and Boat Ramp Fees | Limited | Limited | Limited |
| Sales to Motion Picture Companies | Limited | Limited | Limited |
| Medicinal Cannabis | Minimal | 7.8 | 15.5 |
| 4-H Sales | Minimal | Minimal | Minimal |
| Coin-Operating Bulk Vending Machines | Minimal | Minimal | Minimal |
| Construction Expenses for Alternative Fuel or Gasification Facility | Minimal | Minimal | Minimal |
| Construction Expenses for Near-Zero Emission Power Plants | Minimal | Minimal | Minimal |
| Interstate Business Communication Service | Minimal | Minimal | Minimal |
| Marketing Services | Minimal | Minimal | Minimal |
| New & Replacement Machinery or Equipment for Energy Efficient Projects | Minimal | Minimal | Minimal |
| Pay Phones | Minimal | Minimal | Minimal |
| Property Certified as a Fluidized Bed Energy Production Facility | Minimal | Minimal | Minimal |
| Sales of Extended Warranty Services, Small Telephone Utilities and CMRS Providers of Communication Services or Broadband | Minimal | Minimal | Minimal |

Sales Tax Exemptions for Farmers

| | | | |
|--|----------------|----------------|----------------|
| Livestock, Poultry, Ratite Birds, Llama, Alpaca, Aquatic Organisms, Buffalo, Cervids, Embryos and Semen, Farm Work Stock and Feed, Seeds and Fertilizers | 154.6 | 154.6 | 154.6 |
| 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 | 57.1 | 58.5 | 60.0 |
| Farm Chemicals | 46.1 | 48.5 | 49.0 |
| Water Used for Farm Purposes | 18.8 | 19.0 | 19.2 |
| Horses Less Than Two Years of Age | 18.6 | 20.7 | 22.0 |
| Horses Purchased for Breeding | 18.1 | 18.8 | 19.4 |
| Fuel Used for Farm Purposes | 16.5 | 16.2 | 16.7 |
| Farm Drugs and Over-the-Counter Drugs used in the Treatment of Livestock | 10.6 | 10.9 | 11.5 |
| Equine Water | 2.6 | 2.7 | 2.7 |
| Aquaculture | 1.0 | 1.0 | 1.0 |
| Twine and Wire | 0.4 | 0.4 | 0.4 |
| Total Property Tax Expenditures (\$millions) | 1,208.1 | 1,256.3 | 1,310.3 |
| Real Property | | | |
| State Real Property Tax Yearly Revenue Ceiling | 702.8 | 737.9 | 774.8 |
| Real Property Owned by Exempt Entities | 64.7 | 66.6 | 68.6 |
| Agricultural Value of Real Property | 56.4 | 58.1 | 59.8 |
| Homestead Exemption | 23.5 | 24.7 | 27.8 |
| Leasehold Interest in Buildings Financed with IRBs | 5.9 | 6.2 | 6.5 |
| Intrastate Railroads and Railway Companies | 0.3 | 0.3 | 0.3 |
| Agricultural and Horticultural Land Assessment Protection | Minimal | Minimal | Minimal |
| Alcohol Production and Fluidized Bed Energy Production Facilities | Minimal | Minimal | Minimal |
| Environmental Remediation Property | Minimal | Minimal | Minimal |
| Property of Local Governments in Neighboring States | Minimal | Minimal | Minimal |
| Tangible Property | | | |
| Manufacturing Machinery; Pollution Control Equipment; and Radio, and Television Equipment | 121.6 | 124.0 | 127.2 |
| Business Inventories | 111.2 | 115.0 | 119.3 |
| In-Transit Goods | 55.6 | 55.4 | 54.9 |
| Foreign Trade Zone | 49.5 | 50.2 | 51.8 |
| Machinery Used in Farming and Livestock & Domestic Fowl | 6.9 | 7.4 | 7.9 |
| Agricultural Products | 2.8 | 3.0 | 3.0 |
| Leasehold Interests | 2.6 | 2.9 | 3.6 |
| Noncommercial Aircraft | 1.7 | 1.9 | 2.1 |
| Car Lines | 1.5 | 1.6 | 1.7 |
| Federally Documented Vessels | 0.5 | 0.5 | 0.5 |
| Historic Vehicles | 0.3 | 0.3 | 0.2 |

| | | | |
|--|--------------|--------------|--------------|
| Intrastate Railroads and Railway Companies | 0.3 | 0.3 | 0.3 |
| Micro-Business Personal Property Tax Return Filing | Minimal | Minimal | Minimal |
| Motor Vehicles with a Salvage Title | Minimal | Minimal | Minimal |
| Personal Property Used in Vending Stands Operated by the Blind | Minimal | Minimal | Minimal |
| Veteran Service Organizations | Minimal | Minimal | Minimal |
| Total Corporation Income & Limited Liability Entity Tax Expenditures (\$millions) | 343.6 | 342.1 | 342.1 |
| Exemptions | | | |
| Dividend Income | 213.0 | 213.0 | 213.0 |
| Alternative Apportionment and Retained Three-Factor Apportionment | 40.0 | 40.0 | 40.0 |
| Costs of Goods Sold, Bulk Delivery Charges, and Indirect Labor | 27.0 | 25.0 | 25.0 |
| Small Business Relief from the Limited Liability Entity Tax | 5.4 | 5.4 | 5.4 |
| Publicly Traded Partnerships | 1.5 | 2.0 | 2.0 |
| Real Estate Investment Trust | 1.2 | 1.2 | 1.2 |
| Personal Service Corporations | 1.0 | 1.0 | 1.0 |
| Cooperatives, Cooperatives and Their Patrons | | | |
| Homeowners' Associations, Political Organizations | 0.6 | 0.6 | 0.6 |
| Limited Liability Entity Tax Exemptions | 0.5 | 0.5 | 0.5 |
| Alcohol Production Facility | Minimal | Minimal | Minimal |
| Certified Fluidized Bed Energy Production Facility | Minimal | Minimal | Minimal |
| Coal Royalties | Minimal | Minimal | Minimal |
| Open-End Registered Investment Companies | Minimal | Minimal | Minimal |
| Premiums Paid for Health Insurance | Minimal | Minimal | Minimal |
| Qualified Farming Operation | Minimal | Minimal | Minimal |
| Real Estate Mortgage Investment Conduit | Minimal | Minimal | Minimal |
| Regulated Investment Company | Minimal | Minimal | Minimal |
| Deductions from Income | | | |
| Net Operating Loss Deduction | Substantial | Substantial | Substantial |
| Corporation Deferred Tax Deduction | 44.8 | 44.8 | 44.8 |
| Charitable Contributions | 6.5 | 6.5 | 6.5 |
| Tax Credits | | | |
| Construction of Research Facilities Credit | 1.1 | 1.1 | 1.1 |
| Railroad Expansion or Upgrade to Accommodate | | | |
| Transportation of Fossil Energy Resources or Biomass | | | |
| Resources Tax Credit | 1.0 | 1.0 | 1.0 |
| Coal Conversion Credit | Minimal | Minimal | Minimal |
| Employer GED Credit | Minimal | Minimal | Minimal |

| Total Multiple Tax Incentive Programs (\$millions) | 470.4 | 485.4 | 492.8 |
|--|--------------|--------------|--------------|
| Expensing Capital Purchases (Section 179 Expensing) | Substantial | Substantial | Substantial |
| Limited Liability Entity Tax | 247.0 | 255.4 | 261.6 |
| Kentucky Historic Preservation Tax Credit | 51.5 | 51.5 | 51.5 |
| Kentucky Business Investment Credit (KBI) | 39.4 | 40.4 | 41.4 |
| Kentucky Job Retention Agreement Tax Credit (KJRA) | 26.0 | 26.0 | 26.0 |
| Kentucky Entertainment Incentive (KEI) Program | 22.6 | 22.6 | 22.6 |
| Inventory Tax Credit | 14.5 | 19.3 | 19.1 |
| Biodiesel Tax Credit | 10.0 | 10.0 | 10.0 |
| New Markets Development Program Tax Credit | 10.0 | 10.0 | 10.0 |
| Kentucky Rural Economic Development Act Credit (KREDA) | 9.6 | 9.6 | 9.6 |
| Ethanol Tax Credit | 8.0 | 7.9 | 8.1 |
| Decontamination Property Credit | 7.8 | 8.7 | 8.9 |
| Kentucky Reinvestment Act Tax Credit (KRA) | 7.5 | 7.5 | 7.5 |
| Endow Kentucky | 2.9 | 2.9 | 2.9 |
| Recycling and/or Composting Equipment Credit | 2.7 | 2.7 | 2.7 |
| Metropolitan College Program Tax Credit | 2.5 | 2.5 | 2.5 |
| Kentucky Industrial Revitalization Agreement Credit (KIRA) | 1.6 | 1.6 | 1.6 |
| Construction of Research Facilities | 1.1 | 1.1 | 1.1 |
| Cryptocurrency Incentives | 1.0 | 1.0 | 1.0 |
| Railroad Maintenance and Improvement Tax Credit | 1.0 | 1.0 | 1.0 |
| Skills Training Investment Tax Credit | 1.0 | 1.0 | 1.0 |
| Kentucky Small Business Investment Credit (KSBTC) / Selling Farmers Tax Credit | 0.9 | 0.9 | 0.9 |
| Distilled Spirits Credit | 0.8 | 0.8 | 0.8 |
| Kentucky Industrial Development Act Credit (KIDA) | 0.5 | 0.5 | 0.5 |
| Kentucky Jobs Development Act Credit (KJDA) | 0.2 | 0.2 | 0.2 |
| Hiring the Unemployed Tax Credit | 0.1 | 0.1 | 0.1 |
| Cellulosic Ethanol Credit | Minimal | Minimal | Minimal |
| Clean Coal Incentive Credit | Minimal | Minimal | Minimal |
| Educational Opportunity Account Program - Tax Credit | Minimal | Minimal | Minimal |
| Kentucky Investment Fund Act Credit (KIFA) | Minimal | Minimal | Minimal |
| Renewable Chemical Production Credit | Minimal | Minimal | Minimal |
| Voluntary Environmental Remediation Credit | Minimal | Minimal | Minimal |
| Total Motor Vehicle Usage Tax Expenditures (\$millions) | 192.9 | 189.0 | 190.2 |
| Trade-In Allowance on New or Used Motor Vehicle Purchases | 145.0 | 140.0 | 140.0 |
| Large Truck Exclusion | 25.0 | 26.0 | 27.0 |
| Sales to Governments | 12.0 | 12.1 | 12.2 |
| Immediate Family Member | 4.0 | 4.0 | 4.0 |
| Military Exemption | 4.0 | 4.0 | 4.0 |
| Educational & Charitable Organizations | 1.4 | 1.4 | 1.5 |
| Transfers by Will or Court Order | 0.9 | 0.9 | 0.9 |
| Repossessed Exemption | 0.2 | 0.2 | 0.2 |

| | | | |
|--|--------------|--------------|--------------|
| Transfers between a Limited Liability Company and its Members | 0.2 | 0.2 | 0.2 |
| Rentals or Leases to Government | 0.1 | 0.1 | 0.1 |
| Transfers Between a Subsidiary and a Parent Corporation | 0.1 | 0.1 | 0.1 |
| Change in Business Structure | Limited | Limited | Limited |
| Adapted Equipment for Physically Handicapped Persons | Minimal | Minimal | Minimal |
| Charter Bus Exemption | Minimal | Minimal | Minimal |
| Commercial Motor Vehicle Exemption | Minimal | Minimal | Minimal |
| Insurance Company Transfers | Minimal | Minimal | Minimal |
| Partnership Interests | Minimal | Minimal | Minimal |
| Total Earmarked Funds (\$millions) | 149.0 | 163.1 | 169.0 |
| Kentucky Thoroughbred Development Fund | 50.4 | 52.0 | 54.0 |
| Kentucky Aviation Economic Development Fund – Sales Tax | 22.5 | 24.0 | 25.0 |
| Equine Breeder Development Funds - Sales Tax - | | | |
| Kentucky Thoroughbred Breeders Incentive Fund | 14.8 | 15.3 | 15.7 |
| Kentucky Standardbred Breeders Incentive Fund | 2.4 | 2.5 | 2.6 |
| Kentucky Horse Breeders Incentive Fund | 1.3 | 1.4 | 1.4 |
| Sports Wagering Administration Fund - Excise Tax | 16.9 | 26.7 | 28.0 |
| Kentucky Standardbred Development Fund | 16.1 | 16.6 | 17.2 |
| Kentucky Quarter Horse, Appaloosa and Arabian Development Fund | 6.0 | 6.0 | 6.5 |
| TVA Payments in-lieu of Taxes | 6.0 | 6.0 | 6.0 |
| Resident Advanced Deposit Wagering | 4.8 | 5.0 | 5.1 |
| Cancer Research Fund - Cigarette Tax | 2.7 | 2.6 | 2.6 |
| Equine Industry Program Trust and Revolving Fund – Pari-mutuel Tax | 2.0 | 2.0 | 2.0 |
| Tobacco Research Trust Fund – Cigarette Tax | 1.3 | 1.2 | 1.1 |
| Malt Beverage Educational Fund | 0.8 | 0.8 | 0.8 |
| Equine Drug Research – Pari-Mutuel Tax | 0.5 | 0.5 | 0.5 |
| Higher Education Equine Trust and Revolving Fund – Pari-mutuel Tax | 0.5 | 0.5 | 0.5 |
| County Clerk Share for Collection - Sales Tax | Limited | Limited | Limited |
| Department of Energy Development & Independence Ad Valorem Tax | Limited | Limited | Limited |
| Kentucky Heritage Land Conservation Fund | Limited | Limited | Limited |
| Kentucky Transportation Center – Motor Fuels Tax | Limited | Limited | Limited |
| Tobacco Enforcement Program – Cigarette Tax | Limited | Limited | Limited |
| Total Gasoline, Liquefied Petroleum & Special Fuels Tax | 62.3 | 63.0 | 63.7 |
| Railroad Companies | 18.0 | 18.0 | 18.0 |
| Dealer’s Monthly Reporting Allowance | 17.5 | 18.0 | 18.5 |
| Non-Highway Use | 17.2 | 17.3 | 17.4 |
| Agricultural Exemption | 7.2 | 7.3 | 7.4 |
| Bus, Taxicab, and Certain Senior Citizen’s Programs Refund | 0.8 | 0.8 | 0.8 |
| Watercraft Refund | 0.7 | 0.7 | 0.7 |

| | | | |
|--|-------------|-------------|-------------|
| State and Local Government Use | 0.5 | 0.5 | 0.5 |
| Residential Heating | 0.3 | 0.3 | 0.3 |
| Aircraft Refund | 0.1 | 0.1 | 0.1 |
| Religious, Charitable or Educational Use | Limited | Limited | Limited |
| Approved Carburetion Systems | Minimal | Minimal | Minimal |
| Total Inheritance and Estate Tax Expenditures (\$millions) | 75.0 | 76.0 | 77.0 |
| Class A Beneficiaries | 75.0 | 76.0 | 77.0 |
| 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 |
| Class B Beneficiaries | | | |
| Class C Beneficiaries | Minimal | Minimal | Minimal |
| Total Coal Severance & Natural Resources Processing Tax Expenditures (\$millions) | 18.5 | 15.1 | 14.5 |
| Coal Transportation Expense | 6.9 | 4.9 | 4.2 |
| Natural Resources Transportation Expense | 5.0 | 4.9 | 5.0 |
| Limestone Sold in Interstate Commerce | 3.0 | 3.0 | 3.0 |
| Thin Seam Tax Credit | 2.3 | 2.3 | 2.3 |
| Exported Coal Refund | 1.3 | Minimal | Minimal |
| Inactive Crude Oil & Natural Gas Wells | Limited | Limited | Limited |
| Clay Used in Landfill Construction | Minimal | Minimal | Minimal |
| Coal Purchased for Alternative Energy or Gasification Facility | Minimal | Minimal | Minimal |
| Coal Used to Burn Solid Waste | Minimal | Minimal | Minimal |
| Fluorspar, Lead, Zinc and Barite used for Privately Maintained but Publicly Dedicated Roads | Minimal | Minimal | Minimal |
| Limestone Sold or Used for Agricultural Purposes | Minimal | Minimal | Minimal |
| Total Alcoholic Beverage Taxes Expenditures (\$millions) | 12.0 | 12.3 | 12.5 |
| Wholesale Sales Tax Imposed Rate on Beer | 7.0 | 7.1 | 7.2 |
| Wholesale Sales Tax Imposed Rate on Wine | 2.2 | 2.2 | 2.2 |
| Allowance for Collecting and Reporting | 1.7 | 1.8 | 1.9 |
| Low Volume Distilled Spirits Taxed at Reduced Rate | 0.8 | 0.9 | 0.9 |
| Small Farm Winery Exemption | 0.3 | 0.3 | 0.3 |
| Malt Beverage Excise Tax at Reduced Rate | Limited | Limited | Limited |

| | | | |
|---|-------------|-------------|-------------|
| Total Insurance Premiums Taxes Expenditures (\$millions) | 7.2 | 7.2 | 7.2 |
| Life and Health Guaranty Fund Assessment Credit | 5.0 | 5.0 | 5.0 |
| Hospital, Medical, or Dental Service Companies | | | |
| Exempt from Premiums Tax | 2.2 | 2.2 | 2.2 |
| Total Tobacco Taxes Expenditures (\$millions) | 3.9 | 3.6 | 3.3 |
| Compensation Allowed Wholesaler | 3.9 | 3.6 | 3.3 |
| Total Pari-Mutuel Wagering Taxes (\$millions) | 0.0 | 0.0 | 0.9 |
| International Horse Racing Event | Minimal | Minimal | 0.9 |
| Live Harness Racing at a County Fair | Minimal | Minimal | Minimal |
| Noncontiguous Track Facility | Minimal | Minimal | Minimal |
| Tourism Development Act and Tax Increment Financing (\$millions) | 46.8 | 51.5 | 56.7 |

Individual Income Tax

In the 2022 Regular Session (HB 8), Kentucky reduced the flat tax rate from 5.0 percent to 4.5 percent on net income less allowable credits for tax years beginning after January 1, 2023. In the 2023 Regular Session (HB 1), Kentucky reduced the flat tax rate from 4.5 percent to 4.0 percent on net income less allowable credits for tax years beginning after January 1, 2024.

Calculation Outline:

Gross Income → Adjusted Gross Income → Net Income → Tax → Tax Liability

Gross Income is the sum of income sources, including salaries, wages, tips, taxable interest, and taxable dividends. All of these income sources are taxed with no allocation or apportionment for out-of-state income. However, there is an allowable credit for taxes paid to other states on that income which is taxed in Kentucky under KRS 141.070. Non-residents are taxed on income from sources within Kentucky, from business occurring within Kentucky. This includes income from business conducted through partnerships, S corporations and limited liability companies.

Adjusted Gross Income is the reduction in Gross Income by allowable exclusions and adjustments. Specifically, Gross Income is converted to Adjusted Gross Income by subtracting the deductions allowed by Section 62 of the IRC, as modified by KRS 141.019 (1) (a) through (p).

Net Income is Adjusted Gross Income less allowable deductions. Allowable deductions are detailed in Chapter 1 of the IRC, KRS 141.0101, and the modifications included in KRS 141.019 (2) (a) through (i). One such deduction is the Standard/Itemized Deduction. Adjusted Gross Income is reduced by the standard deduction (\$2,690 for tax year 2021, \$2,770 for tax year 2022, and \$2,980 for tax year 2023) or at the option of the taxpayer by itemized deduction. In an attempt to broaden the base of the income tax, the number of itemized deductions in Kentucky was reduced significantly by the enactment of HB 487 during the 2018 Regular Session of the General Assembly, as modified by HB 354 in the 2019 Regular Session.

The flat tax rate is applied to Net Income. Tax Liability is equal to the calculated tax less allowable tax credits. Some credits can be applied to corporate, LLET or

individual income tax. 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. Declaration payments are due on April 15th, June 15th, September 15th, and January 15th.

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, which is April 15 for calendar-year taxpayers. A six month extensions for filing the return is permitted by filing Kentucky tax form 740EXT.

Each individual is taxed on his or her separate income. Married couples may choose to file a joint return. The fiduciary income of estates, trusts, and receivers, which has not been disbursed as a distribution payment, is subject to the same provisions as other individual income.

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. By 1987, the individual income tax became the largest revenue source for the Commonwealth as it remains today. In FY88, the individual income tax became Kentucky's first billion-dollar tax. Collections from the tax totaled \$5.8 billion in FY23. The individual income tax made up 38.6 percent of total General Fund revenues in FY23.

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. For example, nothing existed in Kentucky statutes about medical expenses, most business expenses, and qualifications for dependents. Such items are included by reference to the federal code.

In tax year 2018, Kentucky moved from a progressive tax rate structure to a flat tax structure. In 2018, the flat tax rate was 5.0 percent. The flat tax rate was reduced to

4.5 percent for tax year 2023. And recently, the Commonwealth passed a further reduction of the flat tax rate to 4.0 percent which will go into effect for tax year 2024.

The Kentucky General Assembly periodically adopts many changes in the federal Internal Revenue Code as a basis for generating Kentucky Adjusted Gross Income. Kentucky currently references the Internal Revenue Code in effect on December 31, 2022 for most provisions.

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.

Table 1. Total Individual Income Tax Expenditures

| | |
|----------------|-------------------|
| FY 2024 | \$2,875.8 million |
| FY 2025 | \$2,773.6 million |
| FY 2026 | \$2,995.8 million |

Individual Income Tax - Exclusions

1. Employer Contributions for Medical Insurance and Medical Care

IRC Section 106, effective 1982

Data Source: Federal Apportioned Estimates

Gross income does not include employer-provided coverage under a health plan.

| | |
|----------------|-----------------|
| FY 2024 | \$684.5 million |
| FY 2025 | \$678.9 million |
| FY 2026 | \$786.7 million |

2. Pension Plans, Retirement Income, and Individual Retirement Accounts

Kentucky Revised Statutes 141.019(1)(g)(1)(b), effective date January 1, 2006, modified effective January 1, 2018

Data Source: Kentucky Taxpayer Data

Up to \$31,110 in benefits received by the taxpayer from pension plans, annuity contracts, profit sharing plans, retirement plans, or employee savings plans. Individual Retirement Accounts (IRAs), and Roth IRAs is exempted from income. The exemption changed from \$41,110 to \$31,110 effective January 1, 2018. “Pension plans, profit sharing plans, retirement plans, or employee savings plans” means any trust or other entity created or organized under a written retirement plan and forming part of a stock bonus, pension, or profit sharing plan of a public or private employer for the exclusive benefit of employees, and includes plans qualified or unqualified under Section 401 of the IRC and IRAs as defined in Section 408 of the IRC.

| | |
|----------------|-----------------|
| FY 2024 | \$566.3 million |
| FY 2025 | \$528.6 million |
| FY 2026 | \$538.1 million |

3. Gain on the Sale of a Principal Residence

IRC Section 121, effective 1964 with various amendments

Data Source: Federal Apportioned Estimates

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

| | |
|----------------|-----------------|
| FY 2024 | \$141.7 million |
| FY 2025 | \$138.1 million |
| FY 2026 | \$157.9 million |

4. Capital Gains - Property Transferred at Death

IRC Section 1014, effective 1954

Data Source: Federal Apportioned Estimates

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

| | |
|----------------|-----------------|
| FY 2024 | \$140.6 million |
| FY 2025 | \$136.7 million |
| FY 2026 | \$144.0 million |

5. Pension, Profit-Sharing, and Annuity Plans of Self-Employed Individuals

IRC Section 404(a)(8), effective 1954

Data Source: Federal Apportioned Estimates

In the case of an individual who is an employee within the meaning of IRC Section 401(c)(1), pensions, profit-sharing, and annuity plans are deducted from federal gross income.

| | |
|----------------|-----------------|
| FY 2024 | \$103.0 million |
| FY 2025 | \$100.5 million |
| FY 2026 | \$120.3 million |

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

Kentucky Revised Statutes 141.019 (1)(e), effective 2010

Data Source: Kentucky Taxpayer Data

Social Security and railroad retirement benefits that are subject to the federal income tax and restrictions are excluded from Kentucky adjusted gross income.

| | |
|----------------|-----------------|
| FY 2024 | \$ 86.9 million |
| FY 2025 | \$ 82.1 million |
| FY 2026 | \$ 94.9 million |

7. Interest on Life Insurance Savings

IRC Section 101(a)(1) and (a)(2), effective 2006

Data Source: Federal Apportioned Estimates

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

| | |
|----------------|-----------------|
| FY 2024 | \$ 51.4 million |
| FY 2025 | \$ 49.7 million |
| FY 2026 | \$ 51.5 million |

8. Armed Forces Personnel Benefits and Allowances

IRC Section 134, effective 1986

Data Source: Federal Apportioned Estimates

Any qualified military benefit such as any allowance or in-kind benefit (other than personal use of a vehicle) is excluded from gross income. These exclusions include housing, meals, housing vouchers and combat service pay.

| | |
|----------------|-----------------|
| FY 2024 | \$ 43.7 million |
| FY 2025 | \$ 42.8 million |
| FY 2026 | \$ 39.6 million |

9. Veteran's Pension, Death and Disability Compensation

IRC Section 104(a)(4) and (5), effective 1960

Data Source: Federal Apportioned Estimates

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

| | |
|----------------|----------------|
| FY 2024 | \$32.8 million |
| FY 2025 | \$31.6 million |
| FY 2026 | \$34.0 million |

10. Miscellaneous Fringe Benefits

IRC Section 132, effective 1986

Data Source: Federal Apportioned Estimates

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 are excluded from gross income.

| | |
|----------------|----------------|
| FY 2024 | \$27.9 million |
| FY 2025 | \$27.3 million |
| FY 2026 | \$28.3 million |

11. Worker's Compensation Benefits

IRC Section 104(a)(1), effective 1960

Data Source: Federal Apportioned Estimates

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

| | |
|----------------|----------------|
| FY 2024 | \$24.8 million |
| FY 2025 | \$23.3 million |
| FY 2026 | \$23.3 million |

12. Income Earned Abroad by U.S. Citizens

IRC Section 911 and 912, effective 1954 and 1981, respectively

Data Source: Federal Apportioned Estimates

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.

| | |
|----------------|----------------|
| FY 2024 | \$20.7 million |
| FY 2025 | \$20.5 million |
| FY 2026 | \$21.5 million |

13. Active Duty Military Pay

Kentucky Revised Statutes 141.019 (1)(l), effective 2010

Data Source: Federal Agency Estimate

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.

| | |
|----------------|-----------------|
| FY 2024 | \$ 19.3 million |
| FY 2025 | \$ 18.0 million |
| FY 2026 | \$ 18.4 million |

14. Employer-Provided Meals and Lodging

IRC Section 119, effective 1978

Data Source: Federal Apportioned Estimates

Employer-provided meals and lodging are excluded from an employee's gross income.

| | |
|----------------|----------------|
| FY 2024 | \$18.3 million |
| FY 2025 | \$17.6 million |
| FY 2026 | \$20.8 million |

15. Passive Loss Rules Exception

IRC Section 469(i), effective 1993

Data Source: Federal Apportioned Estimates

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 under this rule.

| | |
|----------------|----------------|
| FY 2024 | \$14.4 million |
| FY 2025 | \$14.4 million |
| FY 2026 | \$15.8 million |

16. Scholarship and Fellowship Income

IRC Section 117, effective 1961

Data Source: Federal Apportioned Estimates

Scholarships and fellowships are excluded from taxable income to the extent they pay for tuition and course-related expenses of the grantee. Similarly, tuition reductions for employees of educational institutions and their families are not included in taxable income.

| | |
|----------------|----------------|
| FY 2024 | \$12.2 million |
| FY 2025 | \$12.2 million |
| FY 2026 | \$13.6 million |

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

IRC Section 79(a) and 106, effective 1936

Data Source: Federal Apportioned Estimates

Gross income does not include employer-provided coverage under an accident or insurance plan. 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.

FY 2024 \$10.4 million

FY 2025 \$10.1 million

FY 2026 \$11.3 million

18. Basis of Property Acquired by Gifts and Transfers in Trust

IRC Section 1015, effective 1959

Data Source: Federal Apportioned Estimates

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 recipient. The carryover of the donor's basis allows a continued deferral of unrealized capital gains. This exclusion only applies to property acquired as a gift after December 31, 1920.

FY 2024 \$ 9.1 million

FY 2025 \$ 9.9 million

FY 2026 \$10.4 million

19. Employer-Provided Educational Assistance

IRC Section 127, effective 1986

Data Source: Federal Apportioned Estimates

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

FY 2024 \$4.7 million

FY 2025 \$4.7 million

FY 2026 \$4.2 million

20. Installment Sales

IRC Section 453, effective 1960

Data Source: Federal Apportioned Estimates

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 the 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.

| | |
|----------------|---------------|
| FY 2024 | \$4.7 million |
| FY 2025 | \$4.6 million |
| FY 2026 | \$4.8 million |

21. GI Bill Benefits

IRC Sections 134

Data Source: Federal Apportioned Estimates

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

| | |
|----------------|---------------|
| FY 2024 | \$4.1 million |
| FY 2025 | \$3.9 million |
| FY 2026 | \$4.2 million |

22. Assistance for Adopted Foster Children and Foster Care Payments

IRC Section 137, effective 1996

Data Source: Federal Apportioned Estimates

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.

| | |
|----------------|----------------|
| FY 2024 | \$ 2.6 million |
| FY 2025 | \$ 2.6 million |
| FY 2026 | \$ 2.8 million |

23. Alimony Payments

IRC Section 215, effective 1984, TCJA 2018

Data Source: Kentucky Taxpayer Data

For alimony agreements which began before January 1, 2019, the payer of alimony shall be eligible to receive an exemption from income equal to the amount of alimony payments made. Alimony payments based on an alimony agreement which began after January 1, 2019, are not eligible to receive an income exemption. This tax expenditure is associated with Kentucky's conformity with Federal tax law.

| | |
|----------------|---------------|
| FY 2024 | \$2.3 million |
| FY 2025 | \$2.2 million |
| FY 2026 | \$2.2 million |

24. Employer-Provided Child Care

IRC Section 129, effective 1981

Data Source: Federal Apportioned Estimates

Up to \$5,000 of employer-provided childcare is excluded from an employee's gross income.

| | |
|----------------|---------------|
| FY 2024 | \$2.2 million |
| FY 2025 | \$2.2 million |
| FY 2026 | \$2.9 million |

25. Public Assistance Benefits

IRC Section 42, effective 1999

Data Source: Federal Apportioned Estimates

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

| | |
|----------------|---------------|
| FY 2024 | \$1.8 million |
| FY 2025 | \$1.8 million |
| FY 2026 | \$1.9 million |

26. Cancellation of Indebtedness

IRC Section 108, effective 1980

Data Source: Federal Apportioned Estimates

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. Discharge of mortgage debt, business debt and student loan debt are the biggest categories of cancellation.

| | |
|----------------|---------------|
| FY 2024 | \$1.3 million |
| FY 2025 | \$1.3 million |
| FY 2026 | \$0.5 million |

27. Railroad and Supplemental Railroad Retirement System Benefits

45 USCA Section 231M, KRS 141.010(10)(b) and KRS 141.019(1)(b), effective 2010

Data Source: Federal Apportioned Estimates

All Railroad Retirement Board benefits and supplemental railroad retirement benefits are not taxed.

| | |
|----------------|---------------|
| FY 2024 | \$0.7 million |
| FY 2025 | \$0.6 million |
| FY 2026 | \$0.6 million |

28. Employee Stock Ownership Plan Provisions

IRC Section 409, effective 1981, amended 2004

Data Source: Federal Apportioned Estimates

Employer-paid contributions to ESOPs are not included in the employee's gross income for tax purposes until they are paid out as benefits.

| | |
|----------------|---------------|
| FY 2024 | \$0.6 million |
| FY 2025 | \$0.6 million |
| FY 2026 | \$0.6 million |

29. Income Averaging for Farmers

IRC Section 1301, effective 1986 with various amendments

Data Source: Federal Apportioned Estimates

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

| | |
|----------------|---------------|
| FY 2024 | \$0.6 million |
| FY 2025 | \$0.6 million |
| FY 2026 | \$0.6 million |

30. Disabled Coal Miners

IRC Section 104(a)(2), effective 1960

Data Source: Federal Apportioned Estimates

Disability payments to former coal miners which come from the Black Lung Trust Fund are not subject to the income tax.

| | |
|----------------|---------------|
| FY 2024 | \$0.2 million |
| FY 2025 | \$0.2 million |
| FY 2026 | \$0.2 million |

31. Precinct Workers

Kentucky Revised Statutes 141.019(1)(i), effective 1997
Data Source: Kentucky Agency Estimate

Income received by precinct workers for election training or work at election booths in state, county, and local primaries or regular or special elections is excluded from income.

| | |
|----------------|---------------|
| FY 2024 | \$0.2 million |
| FY 2025 | \$0.2 million |
| FY 2026 | \$0.2 million |

32. Capital Gains - Eminent Domain

Kentucky Revised Statutes 141.019 (1) (j), effective 2010
Data Source: Kentucky Agency Estimate

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

| | |
|----------------|---------|
| FY 2024 | Minimal |
| FY 2025 | Minimal |
| FY 2026 | Minimal |

33. Community Property Trust Act

Kentucky Revised Statutes 141.019, effective 2020
Data Source: Kentucky Agency Estimate

If a spouse dies, then the surviving spouse can ignore the change in cost basis of the property owned by a Kentucky community property trust. So this only has a tax liability effect if the spouse chooses to sell the property following the death of their spouse.

| | |
|----------------|---------|
| FY 2024 | Minimal |
| FY 2025 | Minimal |
| FY 2026 | Minimal |

34. Disaster Workers

Kentucky Revised Statutes 141.020, effective 2021

Data Source: Kentucky Agency Estimate

Disaster response income for disaster response employees and disaster response businesses receive an individual income tax exemption on that income. This statute has a sunset date of January 1, 2025.

| | |
|----------------|---------|
| FY 2024 | Minimal |
| FY 2025 | Minimal |
| FY 2026 | Minimal |

35. Educational Opportunity Account Program - Beneficiary Exemption

Kentucky General Assembly – HB563 Section 16 - 2021 Regular Session, effective 2021

Data Source: Kentucky Agency Estimate

Qualifying low income students can receive funding for education purposes from qualifying non-profit entities. Funds allocated to an Education Opportunity Account shall not constitute taxable income to the parent or the student.

| | |
|----------------|---------|
| FY 2024 | Minimal |
| FY 2025 | Minimal |
| FY 2026 | Minimal |

Individual Income Tax - Deductions

36. Standard Deduction

Kentucky Revised Statutes 141.019(2)(i) and KRS 141.081(2), effective 1946, with various amendments

Data Source: Kentucky Taxpayer Data

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 tax year 2023 the standard deduction is \$2,980 per taxpayer.

| | |
|----------------|-----------------|
| FY 2024 | \$211.5 million |
| FY 2025 | \$197.4 million |
| FY 2026 | \$200.9 million |

37. Home Mortgage Interest

IRC Section 163(a), effective 1962

Data Source: Kentucky Taxpayer Data

An itemized deduction is allowed for all interest paid or accrued on owner-occupied homes during the taxable year. The overall deductibility of mortgage interest may be impacted by the total amount of the mortgage and the date of the mortgage.

| | |
|----------------|-----------------|
| FY 2024 | \$123.4 million |
| FY 2025 | \$115.1 million |
| FY 2026 | \$117.2 million |

38. Charitable Contributions

IRC Section 170(a)(1), effective 1956

Data Source: Kentucky Taxpayer Data

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 to 20 percent of AGI. Some capital gain property is to 30 percent of AGI.

| | |
|----------------|-----------------|
| FY 2024 | \$120.0 million |
| FY 2025 | \$112.0 million |
| FY 2026 | \$114.0 million |

39. Individual Retirement Account Contributions

IRC Section 219, effective 1977

Data Source: Federal Apportioned Estimates

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.

| | |
|----------------|----------------|
| FY 2024 | \$68.5 million |
| FY 2025 | \$68.6 million |
| FY 2026 | \$84.9 million |

40. Health Savings Accounts

IRC Section 223, effective 2006

Data Source: Federal Apportioned Estimates

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

| | |
|----------------|----------------|
| FY 2024 | \$38.7 million |
| FY 2025 | \$38.0 million |
| FY 2026 | \$43.4 million |

41. Net Operating Loss

Kentucky Revised Statutes 141.011, effective 2018

Data Source: Kentucky Taxpayer Data

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. For taxable years beginning on or after January 1, 2005, but prior to January 1, 2019, the portion of a net operating loss that is not used to offset income is up to 50 percent. For net operating losses generated on or after January 1, 2018, the limitation is 80 percent.

| | |
|----------------|----------------|
| FY 2024 | \$26.8 million |
| FY 2025 | \$25.1 million |
| FY 2026 | \$25.5 million |

42. Gambling Losses

IRC Section 165(d), KRS 141.019(2)(b), effective 2019

Data Source: Kentucky Taxpayer Data

In 2018, deductions pursuant to 26 U.S.C. sec. 165 for losses were eliminated. In 2019, there was an exception created for wagering losses allowed under Section 165(d) of the Internal Revenue Code.

| | |
|----------------|---------------|
| FY 2024 | \$8.6 million |
| FY 2025 | \$8.0 million |
| FY 2026 | \$8.1 million |

43. Keogh Plan Contributions

IRC Section 404(a)(8), effective 1963

Data Source: Federal Agency, Kentucky Estimate

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 to 25 percent of a firm's total wages. The tax on the investment income earned by Keogh plans is deferred until withdrawn.

| | |
|----------------|---------------|
| FY 2024 | \$7.9 million |
| FY 2025 | \$7.3 million |
| FY 2026 | \$7.5 million |

44. Interest on Educational Loans

IRC Section 221, effective 1998

Data Source: Federal Apportioned Estimates

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

| | |
|----------------|---------------|
| FY 2024 | \$6.4 million |
| FY 2025 | \$6.4 million |
| FY 2026 | \$6.8 million |

45. Investment Interest

IRC Section 163(d)

Data Source: Kentucky Taxpayer Data

In 2018, deductions pursuant to 26 U.S.C. sec. 163 for investment interest were eliminated. In 2019, the deduction for investment allowed under Section 163 of the IRC was reinstated in Kentucky.

| | |
|----------------|---------------|
| FY 2024 | \$4.1 million |
| FY 2025 | \$3.9 million |
| FY 2026 | \$3.9 million |

46. Excess of Percentage over Cost Depletion

IRC Section 613, effective 1963

Data Source: Federal Apportioned Estimates

In the case of mines, wells, and other natural deposits, an allowance (a deduction) is given, which is the larger of the value of property being expensed by cost or by percentage of depletion.

| | |
|----------------|----------------|
| FY 2024 | \$ 3.9 million |
| FY 2025 | \$ 3.7 million |
| FY 2026 | \$ 3.9 million |

47. Parsonage Allowances

IRC 107, effective 1954

Data Source: Federal Apportioned Estimates

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

| | |
|----------------|---------------|
| FY 2024 | \$2.9 million |
| FY 2025 | \$2.9 million |
| FY 2026 | \$3.1 million |

48. Interest on U.S. Savings Bonds

IRC Section 149, effective 1959

Data Source: Federal Apportioned Estimates

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

| | |
|----------------|---------------|
| FY 2024 | \$2.2 million |
| FY 2025 | \$2.1 million |
| FY 2026 | \$2.1 million |

Individual Income Tax - Credits

All credits are non-refundable, unless explicitly stated otherwise.

49. Family Size Tax Credit

Kentucky Revised Statutes 141.066, effective 2005

Data Source: Kentucky Taxpayer Data

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 2023 federal poverty level for a family of one (1) is \$14,580; for a family size of two (2) is \$19,720; for a family size of three (3) is \$24,860; and for a family size of four (4) or more (for Kentucky purposes) is \$30,000.

| | |
|----------------|-----------------|
| FY 2024 | \$151.9 million |
| FY 2025 | \$150.6 million |
| FY 2026 | \$153.3 million |

50. Blind, Over 65, and National Guard

Kentucky Revised Statutes 141.020(3), effective 2013

Data Source: Kentucky Agency Data

Personal exemption credits are allowable as follows: \$40 for 65 years old or older; \$40 if taxpayer is blind, and \$20 for members of the Kentucky National Guard.

| | |
|----------------|----------------|
| FY 2024 | \$38.4 million |
| FY 2025 | \$38.4 million |
| FY 2026 | \$38.4 million |

51. Postsecondary Education Tuition

Kentucky Revised Statutes 141.069, effective 2005

Data Source: Kentucky Taxpayer Data

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.

| | |
|----------------|----------------|
| FY 2024 | \$19.1 million |
| FY 2025 | \$18.9 million |
| FY 2026 | \$19.2 million |

52. Child and Dependent Care

Kentucky Revised Statutes 141.067, effective 1990

Data Source: Kentucky Taxpayer Data

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. The American Rescue Plan of 2021 altered the childcare and dependent care credit in 2021 at the federal level. In January 2023, Kentucky conformed to the IRC containing these changes, which made the credit refundable, increased the percentages of employment-related expenses for qualifying care, and modified the phase-out of the credit for higher income earners.

| | |
|----------------|---------------|
| FY 2024 | \$6.7 million |
| FY 2025 | \$6.6 million |
| FY 2026 | \$6.7 million |

53. Kentucky Angel Investment Act

Kentucky Revised Statutes 154.20 – 232 effective 2014 and 154.20 – 236, effective 2018

Kentucky Revised Statutes 141.396, effective 2018

Data Source: Kentucky Taxpayer Data

A credit is allowed for certain investments in small businesses 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.

FY 2024 \$0.8 million

FY 2025 \$0.8 million

FY 2026 \$0.8 million

54. High School Equivalency Diploma Program

Kentucky Revised Statutes 151B.402, KRS 141.0205(1)(k) effective 2006

Data Source: Kentucky Taxpayer Data

An employer who assists an individual to complete their learning contract under the provisions of this program shall receive a tax credit.

FY 2024 Minimal

FY 2025 Minimal

FY 2026 Minimal

Sales and Use Tax

Current Rate Structure:

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

Since our Last Report:

Enacted legislation has added several new tax expenditures.

- Materials and equipment used in water or sewer projects (2023, HB 360)
- Materials and equipment used in the construction of new bourbon warehouses for spending over \$20.0 million (2023, HB 5) has no fiscal impact until FY27
- Manufacturing or industrial supply expansion to include replacement and spare parts (Century Aluminum)
- Nothing from the 2022 session (only new services)

Tax Base:

The tax base for the sales tax is gross receipts derived from retail sales of tangible personal property or digital property and sales of statutorily enumerated services. Retail sales are defined as any sale, lease, or rental for any purpose other than resale, sublease, or subrent. The lease and rental of tangible personal property or digital property transferred electronically 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, digital property, extended warranty services, and other enumerated services purchased for storage, use, or other consumption in Kentucky. The use tax is a “back stop” for sales tax and generally applies to tangible personal property, digital property, extended warranty services, and other enumerated services purchased outside the state for storage, use, or consumption within the state. The purchaser’s liability for the use tax is not completed 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, digital property, extended warranty services, and other enumerated services 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 for accelerated filers 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 to file an accelerated return.

Background:

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

Kentucky again enacted a sales and use tax effective on July 1, 1960, at the same rate of 3 percent on general retail gross receipts. That rate stood until 1968 when the rate was raised to 5 percent. The rate was subsequently changed in 1990 to 6 percent, where it stands today.

The sales tax is imposed upon all retailers for the privilege of making retail sales of tangible personal property, digital property, and selected services in Kentucky. Except in very rare cases, 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, digital property, extended warranty services, and other enumerated services in Kentucky. Tangible personal property, digital property, and services subject to Kentucky sales tax are 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 until FY24, when the sales and use tax is estimated to once again become the most productive General Fund revenue source in terms of nominal dollars due to the

reduction of the individual income tax rate. Receipts for FY23 totaled \$5,576.3 million. The sales and use tax represented 36.8 percent of total General Fund revenues in FY23.

Recent legislative actions related to the sales and use taxes have been enacted to broaden the base, in particular, additional services and online transactions have been added to the base in growing recognition of the change in consumer consumption patterns. Remote retailers became subject to the sales tax in July 2018. Marketplace providers were brought into the sales tax base in July 2019. The receipts from these categories totaled \$265.9 million in FY 2022 and \$321.7 million in FY 2023.

The total sales and use tax expenditures do not include the cost of excluding services from the sales tax. Historically, these sales were never included in the tax base in Kentucky, are generally not part of most states' sales tax base and therefore do not meet the technical qualifications of a tax expenditure. However, due to the enactment HB 487 in 2018, HB 354 in 2019, and HB 8 in 2022, more services have been added to the sales tax base. The current list of taxable services includes:

- Accommodation rentals for periods of less than 30 days;
- Sewer services;
- Admissions, except:
 1. Admissions to racetracks taxed under KRS 138.480;
 2. Admissions to historical sites exempt under KRS 139.482;
 3. Admissions to entertainment events taxed under KRS 229.031;
 4. Admissions that are charged by nonprofit educational, charitable, or religious institutions and for which an exemption is provided under KRS 139.495; and
 5. Admissions that are charged by nonprofit civic, governmental, or other nonprofit organizations and for which an exemption is provided under KRS 139.498;
- 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.
- Landscaping services, including but not limited to: lawn care and maintenance services; tree trimming, pruning, or removal services; landscape design and installation services; landscape care and maintenance services; and snow plowing or removal services;

- Janitorial services, including but not limited to residential and commercial cleaning services, and carpet, upholstery, and window-cleaning services;
- Small animal veterinary services, excluding veterinary services for equine, cattle, swine, sheep, goats, llamas, alpacas, flightless birds, buffalo, and hoofed animals like deer;
- Pet care services, including but not limited to grooming and boarding services, pet-sitting services, and pet obedience training services;
- Fitness and recreational sports centers;
- Golf courses and country clubs;
- Overnight trailer campgrounds;
- Bowling centers;
- Industrial laundry services, including but not limited to industrial uniform supply services, protective apparel supply services, and industrial mat and rug supply services;
- Non-coin-operated laundry and dry cleaning services;
- Linen supply services, including but not limited to table and bed linen supply services and non-industrial uniform supply services;
- Indoor skin tanning services, including but not limited to tanning booth or tanning bed services and spray-tanning services;
- Non-medical diet and weight-reducing services;
- Labor and services for certain repair, installation and maintenance of personal property, such as cars;
- Extended warranty services;
- Extended warranty services (Real Property);
- Photography and photo finishing services;
- Photographic services;
- Telemarketing services;
- Public opinion and research polling services;
- Lobbying services;
- Executive employee recruitment services;
- Website design and development services;
- Website hosting services;
- Facsimile transmission services;

- Private mailroom services including:
 1. Presorting mail and packages by postal code;
 2. Address barcoding;
 3. Tracking;
 4. Delivery to postal service; and
 5. Private mailbox rentals;
- Bodyguard services;
- Residential and nonresidential security system monitoring services;
- Private investigation services;
- Process server services;
- Repossession of tangible personal property services;
- Personal background check services;
- Parking services including:
 1. Valet services ; and
 2. The use of parking lots and parking structures;
- Road and travel services by auto clubs as defined in KRS 281.010;
- Condominium time-share exchange services;
- Meeting space for conventions, short-term business uses, entertainment events, weddings, banquets, parties, and other short-term social events;
- Social event planning and coordination services;
- Leisure, recreational, and athletic instructional services;
- Recreational camp tuition and fees;
- Personal fitness training services;
- Massage services, except when medically necessary;
- Cosmetic surgery services;
- Body modification services including tattooing, piercing, scarification, branding, tongue splitting, transdermal and subdermal implants, ear pointing, teeth pointing, and any other modifications that are not necessary for medical or dental health;
- Laboratory testing services, except testing for medical or veterinary reasons, or testing required for federal, state, or other government-related requirements;

- Interior decorating and design services;
- Household moving services;
- Specialized design services including the design of clothing, costumes, fashion, furs, jewelry, shoes, textiles, and lighting;
- Lapidary services, including cutting, polishing, engraving precious stones;
- Labor and services to repair or maintain commercial refrigeration equipment and systems when no tangible personal property is sold in that transaction including service calls and trip charges;
- Labor to repair or alter apparel, footwear, watches, or jewelry when no tangible personal property is sold in that transaction; and
- Prewritten computer software access services.

Finally, it should be noted that not every exempt transaction or exempt tangible property constitutes a tax expenditure. For exempt transactions, KRS 139.470 contains exempt transactions that are not included in this report. The general rule is that if a transaction was exempt when the sales tax was re-enacted in 1960, it is not included as a tax expenditure because the exemption was not created by an act of the General Assembly. The same argument holds for exempt property in KRS 139.480.

Table 2. Total Sales and Use Tax Expenditures

| | |
|----------------|--------------------|
| FY 2024 | \$ 3,674.6 million |
| FY 2025 | \$ 3,805.7 million |
| FY 2026 | \$ 3,919.0 million |

Tax Expenditures

1. Prescription Medicine, Prosthetic Devices and Physical Aids

Kentucky Revised Statutes 139.472

Effective 1971

Data Source: Kentucky Taxpayer Data

Prescription drug, over-the-counter drugs with a prescription, medical oxygen and oxygen delivery equipment purchased for use in the home, 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.

| | |
|----------------|-------------------|
| FY 2024 | \$ 924.0 million |
| FY 2025 | \$ 964.5 million |
| FY 2026 | \$1,007.5 million |

2. Food Items

Kentucky Revised Statutes 139.480(21)

First effective 1972, revised 1986, Kentucky Revised Statutes 139.480(22)

Data Source: Kentucky Agency Estimate

Food and food ingredients for human consumption are exempt from sales and use tax. This exemption includes all purchases made with food stamps and the exemption for baked goods which became effective July 1, 2004. The food items 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.

| | |
|----------------|-----------------|
| FY 2024 | \$639.0 million |
| FY 2025 | \$660.0 million |
| FY 2026 | \$681.2 million |

3. State, Cities, Counties and Special Districts

*Kentucky Revised Statutes 139.470(6),
First effective 1960 and revised 1976*
Data Source: Kentucky Taxpayer Data

Sales of tangible personal property, digital property, or services 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 if the property or service is used solely in the governmental function.

| | |
|----------------|-----------------|
| FY 2024 | \$470.1 million |
| FY 2025 | \$482.0 million |
| FY 2026 | \$499.0 million |

4. Residential Utilities

*Kentucky Revised Statutes 139.470(7),
First effective 1979*
Data Source: Kentucky Agency Data

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

| | |
|----------------|-----------------|
| FY 2024 | \$398.0 million |
| FY 2025 | \$405.0 million |
| FY 2026 | \$410.0 million |

5. Non-Profit Educational, Qualified Non-Profit Organizations, Charitable and Religious Institutions

*Kentucky Revised Statutes 139.495,
First effective 1976*
Data Source: Kentucky Taxpayer Data

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.

| | |
|----------------|-----------------|
| FY 2024 | \$388.3 million |
| FY 2025 | \$407.7 million |
| FY 2026 | \$428.0 million |

6. Industrial Supply Exemption expanded to include repair, replacement, or spare parts

Expansion of Kentucky Revised Statutes 139.470(9)

First effective 2023

Data Source: Kentucky Agency Estimate

The Kentucky Supreme Court’s judgment in *Century Aluminum of Kentucky, GP v. Department of Revenue*, 664 S.W.3d 546 (Dec. 15, 2022) effectively expanded KRS 139.470(9) by altering the supply exemption from sales and use tax for gross receipts derived from the sale of tangible personal property to a manufacturer or industrial processor. If the property is to be directly used in the manufacturing or the act of industrial processing, then the property is exempt in certain cases -- changing and expanding the Department of Revenue’s longstanding administrative treatment.

As a result of the judgment, tangible personal property that qualifies as an exempt supply but for the “repair, replacement, or spare part” exclusion will still qualify as an exempt supply. If all the other criteria for the exemption are met as provided under KRS 139.470(9), the items being consumed in the manufacturing process are exempt even if performing a maintenance function. Examples include lubricating and compounding oils, grease, machine waste, abrasives, chemicals, solvents, fluxes, anodes, filtering materials, fire brick, catalysts, dyes, refrigerants, explosives, and other like items having a useful life of less than one year that are used directly in the manufacturing or industrial processing process. The Department of Revenue will continue to make determinations as to whether the exemption is applicable on a case-by-case basis based upon this expanded interpretation.

| | |
|----------------|-----------------|
| FY 2024 | \$140.0 million |
| FY 2025 | \$155.0 million |
| FY 2026 | \$145.0 million |

7. Machinery for New and Expanded Industry

Kentucky Revised Statutes 139.480(10)

First effective 1960

Data Source: Kentucky Agency Data

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

FY 2024 \$ 98.5 million

FY 2025 \$100.0 million

FY 2026 \$102.0 million

8. Energy and Energy Producing Fuels

Kentucky Revised Statutes 139.480(3)(c)

First effective 1960

Data Source: Kentucky Taxpayer Data

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. For plant facilities that begin tolling operations after July 1, 2018, the costs of tangible property shall be excluded from the tolling operations' cost of production at a plant facility with tolling operations in place as of July 1, 2018.

FY 2024 \$55.9 million

FY 2025 \$57.0 million

FY 2026 \$58.2 million

9. Coal Used in the Manufacture of Electricity

Kentucky Revised Statutes 139.480(2)

First effective 1960

Data Source: Federal Agency Data

Coal used in the manufacturing of electricity is exempt.

| | |
|----------------|----------------|
| FY 2024 | \$33.2 million |
| FY 2025 | \$31.0 million |
| FY 2026 | \$29.8 million |

10. Admissions to Nonprofit Civic, Governmental, or Other Nonprofit Organizations and Fundraising Event Sales

Kentucky Revised Statutes 139.495 (2) (a) 6.

First effective March 26, 2019

Data Source: Kentucky Agency Estimate

For resident nonprofit, educational, charitable, or religious institutions which have qualified for an exemption from income taxation under Section 501 (c) (3) of the internal revenue code, except as described in KRS 139.497, the sales tax does not apply to:

1. The sale of admissions; or
- 2.a. Fundraising event sales.

b. For the purposes of this category, "fundraising event sales" does not include sales related to the operation of a retail business, including but not limited to thrift stores, bookstores, surplus property auctions, recycle and reuse stores, or any ongoing operations in competition with for-profit retailers.

| | |
|----------------|----------------|
| FY 2024 | \$24.0 million |
| FY 2025 | \$25.0 million |
| FY 2026 | \$25.5 million |

11. Jet Fuel

Kentucky Revised Statutes 144.132 (2)

First effective June 20, 2005

Data Source: Kentucky Taxpayer Data

Any certificated air carrier which is engaged in the air transportation of persons or property for hire shall be entitled to a credit against the Kentucky sales and use tax paid on aircraft fuel, including jet fuel. Certificated air carriers shall pay the first \$1,000,000 in Kentucky sales and use tax due on the purchase of aircraft fuel,

including jet fuel. The sales and use tax credit shall be an amount equal to the Kentucky sales and use tax otherwise applicable to the purchase of aircraft fuel, including jet fuel, purchased by the certificated air carrier during each fiscal year, in excess of one \$1,000,000.

| | |
|----------------|----------------|
| FY 2024 | \$23.4 million |
| FY 2025 | \$24.0 million |
| FY 2026 | \$24.5 million |

12. Interstate Cargo and Passenger Aircraft, Parts and Supplies

Kentucky Revised Statutes 139.480(18)

First effective 1982

Data Source: Kentucky Agency Estimate

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.

| | |
|----------------|----------------|
| FY 2024 | \$16.2 million |
| FY 2025 | \$16.6 million |
| FY 2026 | \$16.9 million |

13. Reimbursement of Seller's Collection Costs

Kentucky Revised Statutes 139.570

First effective 1960, amended July 2013

Data Source: Kentucky Taxpayer Data

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.

| | |
|----------------|----------------|
| FY 2024 | \$14.3 million |
| FY 2025 | \$14.4 million |
| FY 2026 | \$14.6 million |

14. Building Materials, Fixtures, and Supplies for Sewer and Water projects

Kentucky Revised Statutes 139.480(34)

First effective January 1, 2023

Data Source: Kentucky Agency Estimate

A new exemption was created in 2023 for the purchase of building materials, fixtures, or supplies by a construction contractor if those purchases are for use in fulfilling a construction contract for a governmental sewer or water project. To meet the requirements for exemption, the building materials and fixtures must be permanently incorporated into a structure or improvement to real property. In addition, the eligible supplies purchased must be completely consumed in fulfillment of the water or sewer contract.

| | |
|----------------|----------------|
| FY 2024 | \$13.6 million |
| FY 2025 | \$11.2 million |
| FY 2026 | \$10.4 million |

15. Federal Taxes Imposed on Sales of Tangible Personal Property

Kentucky Revised Statutes 139.470(18)

First effective 1960 Kentucky Revised Statutes 139.470(20)

Data Source: Federal Agency Data

Manufacturer's excise and import duties imposed by the United States upon or with respect to retail sales are exempt.

| | |
|----------------|----------------|
| FY 2024 | \$11.4 million |
| FY 2025 | \$11.5 million |
| FY 2026 | \$11.5 million |

16. Locomotives and Rolling Stock

Kentucky Revised Statutes 139.480(1)

First effective 1960

Data Source: Kentucky Agency Estimate

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

| | |
|----------------|----------------|
| FY 2024 | \$10.0 million |
| FY 2025 | \$10.0 million |
| FY 2026 | \$10.0 million |

17. Tombstones and Other Memorial Grave Markers

Kentucky Revised Statutes 139.480(12)

First effective 1976

Data Source: Kentucky Agency Estimate

Tombstones and other memorial grave markers for humans are exempt.

| | |
|----------------|---------------|
| FY 2024 | \$7.8 million |
| FY 2025 | \$7.9 million |
| FY 2026 | \$7.9 million |

18. Semi-Trailers and Trailers

Kentucky Revised Statutes 139.470(20)

First effective 2008

Data Source: Kentucky Agency Estimate

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

| | |
|----------------|---------------|
| FY 2024 | \$7.3 million |
| FY 2025 | \$7.5 million |
| FY 2026 | \$7.6 million |

19. Vessels and Maritime Supplies

Kentucky Revised Statutes 139.483

First effective 1966

Data Source: Kentucky Agency Estimate

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

| | |
|----------------|---------------|
| FY 2024 | \$6.8 million |
| FY 2025 | \$6.8 million |
| FY 2026 | \$6.9 million |

20. Sales by Elementary and Secondary Nonprofit, School-Sponsored Clubs and Organizations

Kentucky Revised Statutes 139.497(1)

First effective 1984

Data Source: Kentucky Agency Estimate

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.

| | |
|----------------|---------------|
| FY 2024 | \$6.5 million |
| FY 2025 | \$6.5 million |
| FY 2026 | \$6.6 million |

21. Occasional Sales

Kentucky Revised Statutes 139.470(3) and 139.010(24)

First effective 1960

Data Source: Kentucky Agency Estimate

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. This tax expenditure is related to the tax expenditure for garage and yard sales, but occasional sales do not have a \$1,000 limit on the transaction value.

| | |
|----------------|---------------|
| FY 2024 | \$6.0 million |
| FY 2025 | \$6.2 million |
| FY 2026 | \$6.4 million |

22. Procurement, Processing, or Distribution of Blood or Human Tissue

Kentucky Revised Statutes 139.125

First effective 1968

Data Source: Kentucky Agency Estimate

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.

| | |
|----------------|---------------|
| FY 2024 | \$5.5 million |
| FY 2025 | \$5.5 million |
| FY 2026 | \$5.5 million |

23. De Minimis Standard for Services

KRS 139.470 (24) (b)

First effective June 27, 2019

Data Source: Kentucky Agency Estimate

For persons that first begin making sales of services included in KRS 139.200(2)(q) to (ax) on or after January 1, 2023, gross receipts less than six thousand dollars (\$6,000) within the first calendar year of operation are exempt. When gross receipts from these services exceed six thousand dollars (\$6,000) in a calendar year: 1. All gross receipts over six thousand dollars (\$6,000) are taxable in that calendar year; and 2. All gross receipts are subject to tax in subsequent calendar years.

| | |
|----------------|---------------|
| FY 2024 | \$5.2 million |
| FY 2025 | \$5.4 million |
| FY 2026 | \$5.7 million |

24. Textbooks

Kentucky Revised Statutes 139.480(16)

First effective 1978

Data Source: Kentucky Agency Estimate

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. The term "course materials" means only those items specifically required of all students for a particular course but shall not include notebooks, paper, pencils, calculators, tape recorders, or similar student aids.

| | |
|----------------|---------------|
| FY 2024 | \$4.8 million |
| FY 2025 | \$4.9 million |
| FY 2026 | \$5.0 million |

25. Kentucky Enterprise Initiative

Kentucky Revised Statutes 154.20-200(6)

First effective March 18, 2005

Data Source: Kentucky Taxpayer Data

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.

| | |
|----------------|---------------|
| FY 2024 | \$4.2 million |
| FY 2025 | \$4.3 million |
| FY 2026 | \$4.5 million |

26. Recycling Machinery and Equipment

Kentucky Revised Statutes 139.480(22)

First effective 1991

Data Source: Kentucky Agency Data

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

| | |
|----------------|---------------|
| FY 2024 | \$4.0 million |
| FY 2025 | \$4.5 million |
| FY 2026 | \$4.5 million |

27. Garage or Yard Sales

Kentucky Revised Statutes 139.496

First effective 1976, revised July 1, 1990

Data Source: Kentucky Agency Estimate

Sales and use tax does not apply to the first \$1,000 of sales of household items made in any calendar year by an individual 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.

| | |
|----------------|---------------|
| FY 2024 | \$3.3 million |
| FY 2025 | \$3.5 million |
| FY 2026 | \$3.6 million |

28. Repair or Replacement Parts for Large Trucks

Kentucky Revised Statutes 139.480(31)(a)

First effective July 12, 2006

Data Source: Kentucky Taxpayer Data

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.

| | |
|----------------|---------------|
| FY 2024 | \$3.1 million |
| FY 2025 | \$3.1 million |
| FY 2026 | \$3.2 million |

29. Lodgings of Thirty Days or More

Kentucky Revised Statutes 139.200(2)(a)

First effective 2009

Data Source: Kentucky Taxpayer Data

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.

| | |
|----------------|---------------|
| FY 2024 | \$2.7 million |
| FY 2025 | \$2.6 million |
| FY 2026 | \$2.6 million |

30. Purchases by Historical Sites

Kentucky Revised Statutes 139.482

First effective 1976

Data Source: Kentucky Agency Estimate

Certain 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.

FY 2024 \$0.9 million

FY 2025 \$0.9 million

FY 2026 \$0.9 million

31. Donated Goods

Kentucky Revised Statutes 139.495(3)

First effective August 1, 2005, Kentucky Revised Statutes 139.495(5)

Data Source: Kentucky Taxpayer Data

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

FY 2024 \$0.8 million

FY 2025 \$0.9 million

FY 2026 \$0.9 million

32. Refund on Building Materials Used for Disaster Recovery

Kentucky Revised Statutes 139.519

First effective April 16, 2012

Data Source: Kentucky Taxpayer Data

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 to the lesser of: 100 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.

| | |
|----------------|---------------|
| FY 2024 | \$0.5 million |
| FY 2025 | \$0.3 million |
| FY 2026 | \$0.2 million |

33. Sales by Nonprofit Higher Educational School-Sponsored Clubs and Organizations

Kentucky Revised Statutes 139.495(2)(a)(4)

First effective 1980

Data Source: Kentucky Agency Estimate

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

| | |
|----------------|---------------|
| FY 2024 | \$0.3 million |
| FY 2025 | \$0.3 million |
| FY 2026 | \$0.3 million |

34. Water Withdrawal Fees Paid to Kentucky River Authority

Kentucky Revised Statutes 139.470(10)

First effective July 1, 2005

Data Source: Kentucky Agency Estimate

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 shall be excluded.

| | |
|----------------|---------------|
| FY 2024 | \$0.3 million |
| FY 2025 | \$0.3 million |
| FY 2026 | \$0.3 million |

35. Rebate on Sales of Admission and Tangible Personal Property at Governmental Facility

Kentucky Revised Statutes 139.533 (2)(a)(c)

First effective July 1, 2010

Data Source: Kentucky Taxpayer Data

A governmental entity may be granted a sales tax rebate of up to 100 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.

| | |
|----------------|---------------|
| FY 2024 | \$0.2 million |
| FY 2025 | \$0.2 million |
| FY 2026 | \$0.2 million |

36. Charter Bus Repair and Replacement Parts

Kentucky Revised Statutes 139.480(31)(b) and (c), effective June 27, 2019

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

Data Source: Kentucky Taxpayer Data

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

| | |
|----------------|---------------|
| FY 2024 | \$0.1 million |
| FY 2025 | \$0.1 million |
| FY 2026 | \$0.1 million |

37. Admissions to Fishing Tournaments and Boat Ramp Fees

Kentucky Revised Statutes 139.010 (1)(b)

First effective June 27, 2019

Data Source: Kentucky Taxpayer Data

Taxable "Admissions" do not include:

1. Any fee paid to enter or participate in a fishing tournament; or
2. Any fee paid for the use of a boat ramp for the purpose of allowing boats to be launched into or hauled out from the water.

| | |
|----------------|---------|
| FY 2024 | Limited |
| FY 2025 | Limited |
| FY 2026 | Limited |

38. Sales to Motion Picture Companies

Kentucky Revised Statutes 139.538

First effective 1986

Data Source: Kentucky Agency Estimate

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

| | |
|----------------|---------|
| FY 2024 | Limited |
| FY 2025 | Limited |
| FY 2026 | Limited |

39. Medicinal Cannabis

Kentucky Revised Statutes 139.480(37)

Effective January 2025

Data Source: Kentucky Agency Estimate, Fiscal Impact from the 2023 Session

Sales of medicinal cannabis are exempt from sales tax when sold, used, stored, or consumed in accordance with KRS Chapter 218B.

| | |
|----------------|----------------|
| FY 2024 | Minimal |
| FY 2025 | \$7.8 million |
| FY 2026 | \$15.5 million |

40. 4-H Sales

Kentucky Revised Statutes 139.497(2)
First effective 1988, revised 1990, revised July 15, 2014
Data Source: Kentucky Agency Estimate

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

| | |
|----------------|---------|
| FY 2024 | Minimal |
| FY 2025 | Minimal |
| FY 2026 | Minimal |

41. Coin-Operating Bulk Vending Machines

Kentucky Revised Statutes 139.470(5)
First effective 1966, revised 1998
Data Source: Kentucky Agency Estimate

Bulk vending machine sales of fifty cents or less are exempt from tax. From 1966 to 1986 the exempt sale was one cent. From 1986 until the 1998 legislative change, the amount exempt was twenty-five cents or less.

| | |
|----------------|---------|
| FY 2024 | Minimal |
| FY 2025 | Minimal |
| FY 2026 | Minimal |

42. Construction Expenses for Alternative Fuel or Gasification Facility

Kentucky Revised Statutes 139.517 and KRS 154.27-070
First effective August 30, 2007
Data Source: Kentucky Taxpayer Data

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.

| | |
|----------------|---------|
| FY 2024 | Minimal |
| FY 2025 | Minimal |
| FY 2026 | Minimal |

43. Construction Expenses for Near-Zero Emission Power Plants

Kentucky Revised Statutes 139.537

First effective June 25, 2009

Data Source: Kentucky Taxpayer Data

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

FY 2024 Minimal

FY 2025 Minimal

FY 2026 Minimal

44. Interstate Business Communication Service

Kentucky Revised Statutes 139.505

First effective June 20, 2005

Data Source: Kentucky Taxpayer Data

Any business whose interstate communications service, subject to the sales tax imposed under KRS Chapter 139 and deducted for federal income tax purposes, exceeds 5 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.

FY 2024 Minimal

FY 2025 Minimal

FY 2026 Minimal

45. Marketing Services

Kentucky Revised Statutes 139.200 and 139.310 (Marketing services were removed from these two spots)

First effective January 1, 2023

Data Source: Kentucky Agency Estimate

Effective 01/01/2023, KRS 139.200 and 139.310 were amended to remove marketing services from the list of enumerated services subject to Kentucky sales and use tax. Therefore, marketing services are no longer subject to tax.

FY 2024 Minimal

FY 2025 Minimal

FY 2026 Minimal

46. New and Replacement Machinery or Equipment for Energy Efficient Projects

Kentucky Revised Statutes 139.518 (3)
First effective August 1, 2008
Data Source: Kentucky Taxpayer Data

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.

FY 2024 Minimal
FY 2025 Minimal
FY 2026 Minimal

47. Pay Phones

Kentucky Revised Statutes 139.200(2)(e)
First effective 2006
Data Source: Kentucky Agency Estimate

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

FY 2024 Minimal
FY 2025 Minimal
FY 2026 Minimal

48. Property Certified as a Fluidized Bed Energy Production Facility

Kentucky Revised Statutes 139.480(19)
First effective 1986
Data Source: Kentucky Taxpayer Data

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

FY 2024 Minimal
FY 2025 Minimal
FY 2026 Minimal

49. Sales of Extended Warranty Services, Small Telephone Utilities and CMRS Providers of Communication Services or Broadband

Kentucky Revised Statutes 139.010 (13) (b)

First effective June 27, 2019

Data Source: Kentucky Agency Estimate

Extended warranty services do not include the sale of a service contract agreement for tangible personal property to be used by a small telephone utility as defined in KRS 278.516 or a Tier III CMRS provider as defined in KRS 65.7621 to deliver communications services or broadband as defined in KRS 278.5461.

| | |
|----------------|---------|
| FY 2024 | Minimal |
| FY 2025 | Minimal |
| FY 2026 | Minimal |

Sales Tax Exemptions for Farmers

Table 3. Subtotal for Farming Tax Expenditures

| | |
|----------------|-----------------|
| FY 2024 | \$344.4 million |
| FY 2025 | \$351.3 million |
| FY 2026 | \$356.5 million |

The following tax expenditures pertain to the farming industry.

1. 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), (23), (24), (28), (29), (30)

First effective 1960

Data Source: Federal Agency Data

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.

| | |
|----------------|-----------------|
| FY 2024 | \$154.6 million |
| FY 2025 | \$154.6 million |
| FY 2026 | \$154.6 million |

2. 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)

First effective 1968

Data Source: Federal Agency Data

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

Kentucky Revised Statutes 139.480(13), effective 1978

Data Source: Federal Agency Data

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(14)(23)(25)(28) (29) and (30), effective 1990, 1994, and 1996

Data Source: Federal Agency Data

On-farm facilities used exclusively for raising livestock, and poultry, the products of which ordinarily constitute food for human consumption, ratite birds, llamas, alpacas, buffalo, aquatic organisms, 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.

| | |
|----------------|----------------|
| FY 2024 | \$57.1 million |
| FY 2025 | \$58.5 million |
| FY 2026 | \$60.0 million |

3. Farm Chemicals

Effective 1960 by Administration Regulation, codified Kentucky Revised Statutes 139.480(8)(23)(25),(28), (29), and (30)

First effective 1992

Data Source: Federal Agency Data

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.

| | |
|----------------|----------------|
| FY 2024 | \$46.1 million |
| FY 2025 | \$48.5 million |
| FY 2026 | \$49.0 million |

4. Water Used for Farm Purposes

Kentucky Revised Statutes 139.480(27)

First effective 1998

Data Source: Federal Agency Data

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.

| | |
|----------------|----------------|
| FY 2024 | \$18.8 million |
| FY 2025 | \$19.0 million |
| FY 2026 | \$19.2 million |

5. Horses Less Than Two Years of Age

Kentucky Revised Statutes 139.531(2)(d)

First effective 1976

Data Source: Kentucky Agency Estimate

Sales of horses less than two years of age at the time of sale, provided the sale is made to a nonresident of Kentucky, and the horse is transported out of state, either immediately following the sale or immediately following training within the state are exempt.

| | |
|----------------|----------------|
| FY 2024 | \$18.6 million |
| FY 2025 | \$20.7 million |
| FY 2026 | \$22.0 million |

6. Horses Purchased for Breeding

Kentucky Revised Statutes 139.531(2)(a)

First effective 1976

Data Source: Federal Agency Data

The sales and use tax does not apply to horses, interests in horses, or shares in horses, provided the purchase or use is made for breeding purposes only.

| | |
|----------------|----------------|
| FY 2024 | \$18.1 million |
| FY 2025 | \$18.8 million |
| FY 2026 | \$19.4 million |

7. Fuel Used for Farm Purposes

Kentucky Revised Statutes 139.480(15)

First effective 1978

Data Source: Federal Agency Data

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.

| | |
|----------------|----------------|
| FY 2024 | \$16.5 million |
| FY 2025 | \$16.2 million |
| FY 2026 | \$16.7 million |

8. Farm Drugs and Over-the-Counter Drugs used in the Treatment of Livestock

Kentucky Revised Statutes 139.480(33)

First effective 2023

Data Source: Kentucky Agency Estimate

Drugs and over-the counter drugs, as defined in KRS 139.472, that are purchased by a person regularly engaged in the business of farming and used in the treatment of cattle, sheep, goats, swine, poultry, ratite birds, llamas, alpacas, buffalo, aquatic organisms, or cervids.

| | |
|----------------|----------------|
| FY 2024 | \$10.6 million |
| FY 2025 | \$10.9 million |
| FY 2026 | \$11.5 million |

9. Equine Water

Kentucky Revised Statutes 139.470(12)

First effective 1998

Data Source: Federal Agency Data

Gross receipts from the sale of water used in the raising of equine as a business.

| | |
|----------------|---------------|
| FY 2024 | \$2.6 million |
| FY 2025 | \$2.7 million |
| FY 2026 | \$2.7 million |

10. Aquaculture

Kentucky Revised Statutes 139.480(29)

First effective 1998

Data Source: Federal Agency Data

Aquatic organisms, feed, feed additives, chemicals, on-farm facilities, machinery repairs and replacement parts sold directly to a person regularly engaged in the business of producing products of aquaculture for sale and items necessary for the production of aquatic organisms are exempt.

| | |
|----------------|---------------|
| FY 2024 | \$1.0 million |
| FY 2025 | \$1.0 million |
| FY 2026 | \$1.0 million |

11. Twine and Wire

Kentucky Revised Statutes 139.480(26)

First effective 1998

Data Source: Kentucky Agency Estimate

Baling twine and baling wire used for the purpose of baling hay and straw are exempt, including net wrapping for roll-baled hay.

| | |
|----------------|---------------|
| FY 2024 | \$0.4 million |
| FY 2025 | \$0.4 million |
| FY 2026 | \$0.4 million |

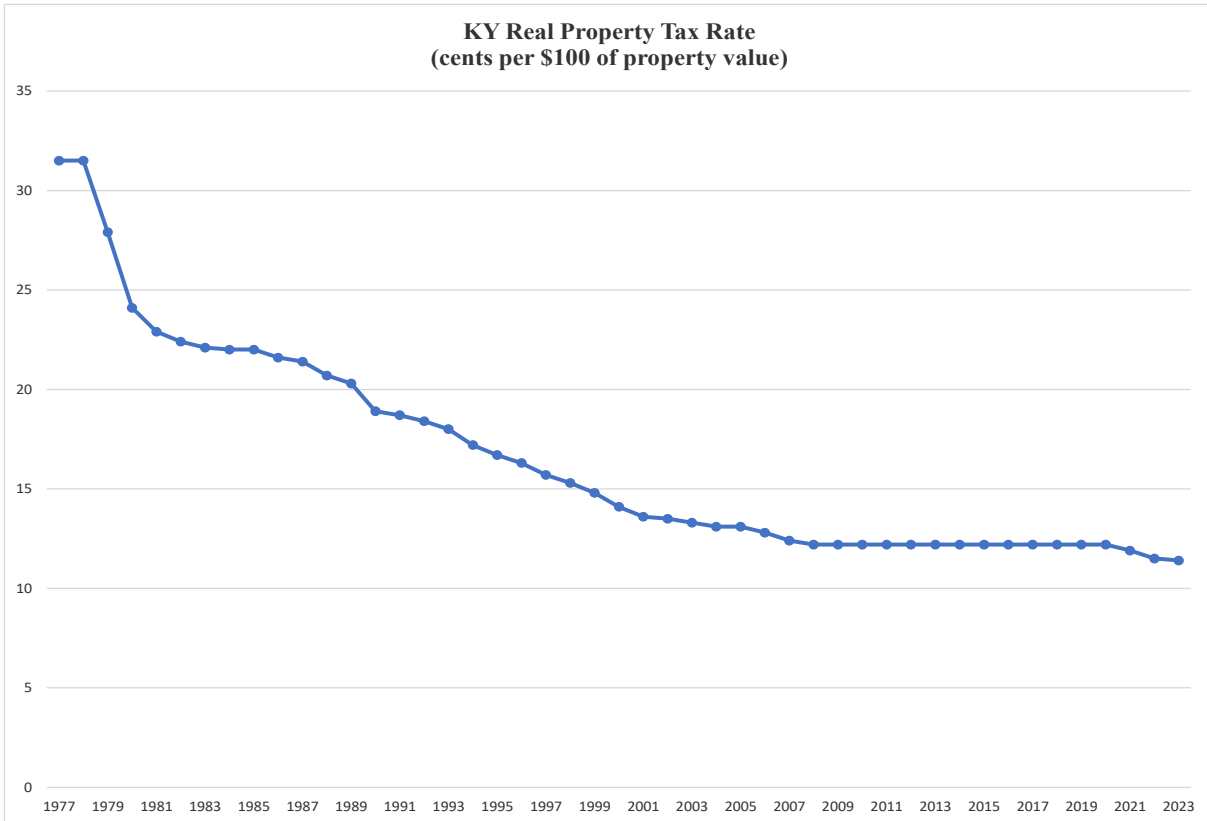
Property Taxes

Current Rate Structure:

The state tax rate for real property may be adjusted annually to comply with the provisions of House Bill 44. For FY24, the rate was set at 11.4 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 forty-five cents of assessed value. The General Assembly has reduced the rates for some classes of tangible and intangible personal property over the years. These reduced rates give rise to many of the expenditures detailed later.

Figure 5



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 2023-2024 exemption is \$46,350 and reflects a \$5,850 increase over the 2021-2022 amount.

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 is listed with the PVA by May 15.

Tax Due:

When the Department of Revenue certifies the assessments and all local tax rates have been set, the county clerk prepares 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.

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, property tax collections 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, limited growth from the tax levied on real property to 4 percent per year. The high rate of inflation was causing property values, and the resulting tax, to rise

dramatically. To compensate for rapidly growing values, the tax rate is adjusted annually to ensure that the growth in tax receipts does not exceed legal limits. This restriction remains in effect at the present time. House Bill 272, passed by the 2005 General Assembly, altered the rate setting mechanism by excluding new property and property subject to tax increment financing when the 4 percent growth limit is calculated.

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.

Legislation enacted in 2005 repealed the intangible property tax.

In 2019, the definition of business inventory was broadened to include “qualified heavy equipment” by a *“heavy equipment rental company”*.

In 2022, prefabricated homes held in inventory by retailers and wholesalers were exempted from property tax. Additionally, the valuation method for motor vehicles was changed from the “rough” or “clean” value to the “average” trade-in value.

In 2023, legislation was enacted which exempted from state and local taxation tangible property valued at 1/10 of a cent per \$100 of assessed value.

In FY23, total property tax collections of \$774.4 million accounted for 5.1 percent of total General Fund revenues. The chart on the following page shows the allocation between real, tangible, and other property tax receipts.

Figure 6. Allocation of Property Tax Receipts for FY23

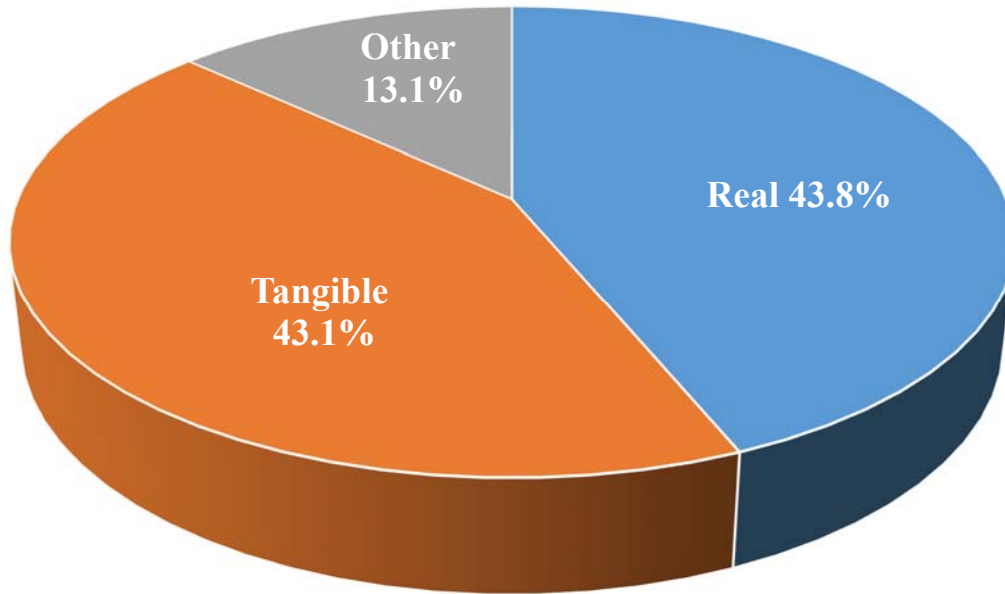


Table 4. Total Property Tax Expenditures

| | |
|----------------|-------------------|
| FY 2024 | \$1,208.1 million |
| FY 2025 | \$1,256.3 million |
| FY 2026 | \$1,310.3 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, improvements, and all rights inherent in real estate.

1. State Real Property Tax Yearly Revenue Ceiling

Kentucky Revised Statutes 132.020(2), effective 1979

Data Source: Kentucky Agency Estimate

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 2023 is 11.4 cents per \$100 of assessed value.

| | |
|----------------|-----------------|
| FY 2024 | \$702.8 million |
| FY 2025 | \$737.9 million |
| FY 2026 | \$774.8 million |

2. Real Property Owned by Exempt Entities

Section 170 of the Kentucky Constitution, effective 1891,

Data Source: Kentucky Taxpayer Data

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.

| | |
|----------------|----------------|
| FY 2024 | \$64.7 million |
| FY 2025 | \$66.6 million |
| FY 2026 | \$68.6 million |

3. Agriculture Value of Real Property

Kentucky Revised Statutes 132.450, effective 1942

Data Source: Kentucky Taxpayer Data

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

| | |
|----------------|----------------|
| FY 2024 | \$56.4 million |
| FY 2025 | \$58.1 million |
| FY 2026 | \$59.8 million |

4. Homestead Exemption

Sections 170 of the Kentucky Constitution, effective 1970 and KRS 132.810, effective 1972

Data Source: Kentucky Taxpayer Data

Taxpayers 65 years of age or older, or totally disabled, are allowed an exemption against the assessed value of a single-unit residence. This exemption is now \$46,350, which reflects a \$5,850 increase over the 2021-2022 amount.

| | |
|----------------|----------------|
| FY 2024 | \$23.5 million |
| FY 2025 | \$24.7 million |
| FY 2026 | \$27.8 million |

5. Leasehold Interests in Buildings Financed with Industrial Revenue Bonds

Kentucky Revised Statutes 132.020(1)(f)(1), effective 1978

Data Source: Kentucky Taxpayer Data

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

| | |
|----------------|---------------|
| FY 2024 | \$5.9 million |
| FY 2025 | \$6.2 million |
| FY 2026 | \$6.5 million |

6. Intrastate Railroads and Railway Companies

Kentucky Revised Statutes 132.020(1)(d), effective 1990

Data Source: Kentucky Taxpayer Data

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

| | |
|----------------|---------------|
| FY 2024 | \$0.3 million |
| FY 2025 | \$0.3 million |
| FY 2026 | \$0.3 million |

7. Agricultural and Horticultural Land Assessment Protection

Kentucky Revised Statutes 132.450(2)(c), effective 1999

Data Source: Kentucky Agency Estimate

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

FY 2024 Minimal

FY 2025 Minimal

FY 2026 Minimal

8. Alcohol Production and Fluidized Bed Energy Production Facilities

Kentucky Revised Statutes 132.020, effective 2023

Data Source: Kentucky Taxpayer Data

Alcohol production and fluidized bed energy production facilities are exempt from state and local taxation. Alcohol production facilities are defined in KRS 247.910 as facilities whose primary purpose is producing ethanol. Fluidized bed energy production facilities are defined in KRS 211.390.

FY 2024 Minimal

FY 2025 Minimal

FY 2026 Minimal

9. Environmental Remediation Property

Kentucky Revised Statutes 132.020(1)(f)(2), effective 2005

Data Source: Kentucky Taxpayer Data

Owners of qualifying voluntary environmental remediation properties pay tax at the rate of one and one-half cents upon each one hundred dollars of value for this property.

FY 2024 Minimal

FY 2025 Minimal

FY 2026 Minimal

10. Property of Local Governments in Neighboring States

– Repealed by 2023 Ky. Acts Ch. 92, § 52

Kentucky Revised Statutes 132.192, effective 2005

Data Source: Kentucky Agency Estimate

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

FY 2024 Minimal

FY 2025 Minimal

FY 2026 Minimal

Tangible Property Tax Expenditures

The normal tangible rate is forty-five cents per \$100 of assessed value

1. Manufacturing Machinery; Pollution Control Equipment; and Radio and Television Equipment

Kentucky Revised Statutes 132.020(1)(c), effective 1977

Data Source: Kentucky Taxpayer Data

Manufacturing machinery, tangible pollution control equipment, and commercial radio and television equipment are all taxed at a reduced rate of fifteen cents per \$100.

FY 2024 \$121.6 million

FY 2025 \$124.0 million

FY 2026 \$127.2 million

2. Business Inventories

Kentucky Revised Statutes 132.020(1)(e), effective 1990

Kentucky Revised Statutes, 132.200(20), effective 2023

Data Source: Kentucky Taxpayer Data

Business inventories are taxed at a reduced rate of five cents per \$100. This category includes (1) machinery and equipment held in a retailer's inventory for sale or lease and originating under a floor plan financing arrangement; (2) motor vehicles whether are held for sale in the inventory of a licensed motor vehicle dealer, or that are in the possession of a licensed motor vehicle dealer; (3) raw materials; (4) in-process materials, which includes distilled spirits and distilled spirits inventory, held

for incorporation in finished goods held for sale in the regular course of business; and (5) qualified heavy equipment, as defined in KRS 131.010(28) through (30). Additionally, prefabricated homes, which include manufactured, mobile and modular homes; which are held in inventory by retailers and wholesalers are exempt from the business inventory tax.

| | |
|----------------|-----------------|
| FY 2024 | \$111.2 million |
| FY 2025 | \$115.0 million |
| FY 2026 | \$119.3 million |

3. In-Transit Goods

Kentucky Revised Statutes 132.097, effective 2000
Data Source: Kentucky Taxpayer Data

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

| | |
|----------------|----------------|
| FY 2024 | \$55.6 million |
| FY 2025 | \$55.4 million |
| FY 2026 | \$54.9 million |

4. Foreign Trade Zone

Kentucky Revised Statutes 132.020, effective 2023
Data Source: Kentucky Taxpayer Data

Property located in an activated foreign trade zone is exempt from state and local taxation.

| | |
|----------------|----------------|
| FY 2024 | \$49.5 million |
| FY 2025 | \$50.2 million |
| FY 2026 | \$51.8 million |

5. Machinery Used in Farming, Livestock, and Domestic Fowl

Kentucky Revised Statutes 132.020, effective 2023

Data Source: Kentucky Taxpayer Data

Machinery used in farming, as well as livestock and domestic fowl, is exempt from state and local taxation.

| | |
|----------------|---------------|
| FY 2024 | \$6.9 million |
| FY 2025 | \$7.4 million |
| FY 2026 | \$7.9 million |

6. Agricultural Products

Kentucky Revised Statutes 132.020(1)(f)(4), effective 1950

Data Source: Kentucky Taxpayer Data

Unmanufactured agricultural products are taxed at a reduced rate of one and one-half cents per \$100 of value.

| | |
|----------------|---------------|
| FY 2024 | \$2.8 million |
| FY 2025 | \$3.0 million |
| FY 2026 | \$3.0 million |

7. Leasehold Interests

Kentucky Revised Statutes 132.020(1)(f)(1), effective 1990

Data Source: Kentucky Taxpayer Data

Leasehold interests privately held in industrial buildings owned and financed by tax-exempt governmental units are taxed at a reduced rate of one and one-half cents per \$100 of value.

| | |
|----------------|---------------|
| FY 2024 | \$2.6 million |
| FY 2025 | \$2.9 million |
| FY 2026 | \$3.6 million |

8. Noncommercial Aircraft

Kentucky Revised Statutes 132.020(1)(f)(5), effective 1999

Data Source: Kentucky Taxpayer Data

Aircraft, not used in the business of transporting persons or property for compensation or hire, are taxed at the reduced state rate of one and one-half cents per \$100.

| | |
|----------------|---------------|
| FY 2024 | \$1.7 million |
| FY 2025 | \$1.9 million |
| FY 2026 | \$2.1 million |

9. Car Lines

Kentucky Revised Statutes 136.120(1)(a)(17), effective 1990

Data Source: Kentucky Taxpayer Data

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, 2022 is 68.94 cents per \$100.

| | |
|----------------|---------------|
| FY 2024 | \$1.5 million |
| FY 2025 | \$1.6 million |
| FY 2026 | \$1.7 million |

10. Federally Documented Vessels

Kentucky Revised Statutes 132.020(1)(f)(6), effective 1999

Data Source: Kentucky Taxpayer Data

Federally documented vessels, not used in the business of transporting persons or property for compensation or hire or any other commercial purposes, are taxed at a reduced rate of one and one-half cents per \$100.

| | |
|----------------|---------------|
| FY 2024 | \$0.5 million |
| FY 2025 | \$0.5 million |
| FY 2026 | \$0.5 million |

11. Historic Vehicles

Kentucky Revised Statutes 132.020(1)(b), effective 1984

Data Source: Kentucky Taxpayer Data

Historic vehicles are taxed at a reduced rate of twenty-five cents per \$100.

| | |
|----------------|---------------|
| FY 2024 | \$0.3 million |
| FY 2025 | \$0.3 million |
| FY 2026 | \$0.2 million |

12. Intrastate Railroads and Railway Companies

Kentucky Revised Statutes 132.020(1)(d), effective 1990

Data Source: Kentucky Taxpayer Data

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

| | |
|----------------|---------------|
| FY 2024 | \$0.3 million |
| FY 2025 | \$0.3 million |
| FY 2026 | \$0.3 million |

13. Micro-Business Personal Property Tax Return Filing

Kentucky Revised Statutes 132.220(2)(b), effective 2020

Data Source: Kentucky Taxpayer Data

Effective January 1, 2020, micro-businesses and those participating in the “gig” economy are not required to file a tangible personal property tax return if the sum of the fair cash value of all tangible property is less than \$1,000.

| | |
|----------------|---------|
| FY 2024 | Minimal |
| FY 2025 | Minimal |
| FY 2026 | Minimal |

14. Motor Vehicles with a Salvage Title

Kentucky Revised Statutes 134.810(6)(c), effective 1999

Data Source: Kentucky Taxpayer Data

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

FY 2024 Minimal

FY 2025 Minimal

FY 2026 Minimal

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

Kentucky Revised Statutes 132.193(1), effective 1998

Data Source: Kentucky Taxpayer Data

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

FY 2024 Minimal

FY 2025 Minimal

FY 2026 Minimal

16. Veteran Service Organizations

Kentucky Revised Statutes 132.212, effective 2021

Data Source: Kentucky Taxpayer Data

Veteran service organizations with over 50 percent of their annual net income expended on behalf of military veterans and other charitable causes are exempt from taxation.

FY 2024 Minimal

FY 2025 Minimal

FY 2026 Minimal

Corporation Income and Limited Liability Entity Taxes

Corporation Income Tax Rates:

For taxable years beginning on or after January 1, 2018, the corporate income tax rate is a flat rate of 5 percent of taxable net income.

For those entities covered by the limited liability entity tax, the tax is the lesser of two computations, based on either Kentucky gross receipts or Kentucky gross profits.

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

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.

Corporations apportion income to Kentucky using a single-factor apportionment fraction based on receipts. Additionally, receipts are now sourced to Kentucky if the taxpayer's market for that sale is in this state. Prior to this change, receipts from the sale of a service and sales other than tangible personal property were sourced based on the greater cost of performance for that sale.

A provider of communications service, cable service, or internet access continues to apportion taxable income to Kentucky using the three-factor formula based on property, payroll, and receipts.

For taxable years beginning on or after January 1, 2021, every corporation doing business in Kentucky shall, for each taxable year, file a combined report if the corporation is a member of a unitary business group; a Federal consolidated return, by making an election to file, for a period of 48 consecutive calendar months, with

all members of the affiliated group that file for federal income tax purposes; or a separate return, if not required to file a combined report.

For taxable years beginning on or after January 1, 2021, financial institutions will be subject to the corporation income tax and the limited liability entity tax.

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

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

For tax years beginning on or after January 1, 2021, the following corporations are specifically exempted from the corporation income tax:

- (a) Insurance companies, including farmers’ or other mutual hail, cyclone, windstorm, or fire insurance companies, insurers, and reciprocal underwriters;
- (b) Corporations or other entities exempt under Section 501 of the IRC;
- (c) Religious, educational, charitable, or like corporations not organized or conducted for pecuniary profit; and
- (d) 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. For tax years beginning on or after January 1, 2019, 25 percent declaration payments are due on the 15th day of the fourth month, sixth month, ninth month, and twelfth month of the tax year.

Tax Due:

The tax return and payment of any corporate or limited liability entity tax liability are due on the fifteenth day of the fourth month following the close of the taxable period, April 15th 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.

Background:

The corporation income tax was first levied in 1936. The rate was 4.0 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 7 percent for taxable years beginning on or after January 1, 2005 and prior to January 1, 2007 and 6 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 (LLET) was enacted.

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.

During the 2018 Regular Session of the General Assembly, substantial changes to the Kentucky tax code were enacted. Effective for taxable periods beginning on or after January 1, 2018, the corporate tax rate is a flat tax rate of 5 percent for all corporations. Additionally, Kentucky replaced the three-factor apportionment with a single receipts factor formula. The single factor sales apportionment applies to apportionable income rather than business income. Kentucky also adopted market-based sourcing which requires corporations to assign certain receipts to the apportionment formula based on the destination of the sales. In general, if the market for a corporation's sales is in Kentucky, the receipts must be assigned to Kentucky in the numerator of the sales factor for apportionment.

Finally, a nonrefundable and nontransferable credit for state and local property taxes paid on certain business inventory was created. The credit increases from 25 percent to 100 percent from the 2018 to 2021 tax years. The credit may be applied against the limited liability entity tax, the corporate income tax, and the personal income tax.

A new Decontamination Tax Credit was created in the 2022 Regular Session of the General Assembly. The tax credit is refundable and transferable against the corporate income tax and the LLET for 100 percent of qualifying expenses at a qualifying decontamination property.

Additionally, legislation enacted in 2022 raised the maximum credit available for the Historic Rehabilitation Tax Credit as well as allowing taxpayers to claim the Kentucky Investment Fund Tax Credit (KIFA) in the same tax year that the investment was made.

Corporate income tax receipts for FY23 were \$1,006.3 million and accounted for 6.6 percent of total General Fund tax receipts. Limited liability entity tax receipts for FY23 were \$215.4 million and accounted for 1.4 percent of total General Fund tax receipts.

Table 5. Total Corporation Income and LLET Tax Expenditures

| | Corporate | LLET | Total |
|----------------|------------------|--------------|---------------|
| FY 2024 | 306.0 million | 37.6 million | 343.6 million |
| FY 2025 | 306.0 million | 36.1 million | 342.1 million |
| FY 2026 | 306.0 million | 36.1 million | 342.1 million |

Exemptions

1. Dividend Income

Kentucky Revised Statutes 141.039(1)(b), effective 1969

Data Source: Kentucky Taxpayer Data

Dividend income (domestic and foreign) is excluded from gross income. As part of the Tax Cuts and Jobs Act of 2017, Global Intangible Low-Taxed Income (“GILTI”) provisions were enacted to require a U.S. shareholder of a controlled foreign corporation to include in its gross income GILTI in manner similar to Subpart F income. KRS 141.039(1)(b) excludes dividend income in calculating the gross income for Kentucky income tax purposes. Kentucky treats Subpart F income as dividend income and, therefore, GILTI is considered nontaxable for Kentucky corporate income tax purposes.

This tax expenditure is associated with Kentucky’s conformity with Federal tax law.

| | Corporate |
|----------------|------------------|
| FY 2024 | \$213.0 million |
| FY 2025 | \$213.0 million |
| FY 2026 | \$213.0 million |

2. Alternative Apportionment and Retained Three-Factor Apportionment

Kentucky Revised Statutes 141.121(3), effective 2018

Data Source: Kentucky Agency Estimate

Single sales factor apportionment is not required for certain communications services, cable services, and Internet access providers.

| | Corporate |
|----------------|------------------|
| FY 2024 | \$40.0 million |
| FY 2025 | \$40.0 million |
| FY 2026 | \$40.0 million |

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

Kentucky Revised Statutes 141.0401(1)(e), effective 2007

Data Source: Kentucky Taxpayer Data

When computing the LLET using the gross profits method, Kentucky gross receipts are reduced by the amount of costs of goods sold (COGS) as defined in KRS 141.0401(1)(d) attributable to Kentucky gross receipts. For manufacturing, producing, reselling, retailing, or wholesaling activities, COGS only includes costs directly incurred in the acquiring or producing the tangible product. For any activity other than manufacturing, producing, reselling, retailing, or wholesaling activities, no costs shall be included in a COGS reduction to gross profits.

| | LLET |
|----------------|----------------|
| FY 2024 | \$27.0 million |
| FY 2025 | \$25.0 million |
| FY 2026 | \$25.0 million |

4. Small Business Relief from the Limited Liability Entity Tax

Kentucky Revised Statutes 141.0401(2)(b)(1), effective 2008

Data Source: Kentucky Taxpayer Data

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

| | LLET |
|----------------|---------------|
| FY 2024 | \$5.4 million |
| FY 2025 | \$5.4 million |
| FY 2026 | \$5.4 million |

5. Publicly Traded Partnerships

Kentucky Revised Statutes 141.0401(6)(b)(14), effective 2007

Data Source: Kentucky Agency Data

The LLET 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 their publicly traded partnership affiliate.

This tax expenditure is associated with Kentucky's conformity with Federal tax law.

| | LLET |
|----------------|---------------|
| FY 2024 | \$1.5 million |
| FY 2025 | \$2.0 million |
| FY 2026 | \$2.0 million |

6. Real Estate Investment Trust

Kentucky Revised Statutes 141.0401(6)(b)(9), effective 1998

Data Source: Kentucky Taxpayer Data

The LLET tax does not apply to a real estate investment trust as defined in Section 856 of the Internal Revenue Code. For a corporation that meets the requirements established under Section 856 of the Internal Revenue Code to be a real estate investment trust, means “real estate investment trust taxable income” as defined in Section 857(b)(2) of the Internal Revenue Code, except that a captive real estate investment trust shall not be allowed any deduction for dividends paid, as defined by KRS 141.010(28)(d).

| | LLET |
|----------------|---------------|
| FY 2024 | \$1.2 million |
| FY 2025 | \$1.2 million |
| FY 2026 | \$1.2 million |

7. Personal Service Corporations

Kentucky Revised Statutes 141.0401(6)(b)(12), effective 2007

Data Source: Kentucky Taxpayer Data

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

| | LLET |
|----------------|---------------|
| FY 2024 | \$1.0 million |
| FY 2025 | \$1.0 million |
| FY 2026 | \$1.0 million |

8. Cooperatives, Cooperatives and Their Patrons, Homeowners’ Associations, Political Organizations

Kentucky Revised Statutes 141.0401(6)(b)(13), effective 1998

Data Source: Kentucky Taxpayer Data

LLET taxes do not apply to cooperatives described in Sections 521 and 1381 of the Internal Revenue Code. These include farmers’ agricultural and other cooperatives organized or recognized under KRS Chapter 272, advertising cooperatives, purchasing cooperatives, homeowners associations, including those described in Section 528 of the Internal Revenue Code, political organizations as defined in Section 527 of the Internal Revenue Code, and rural electric and rural telephone cooperatives.

This tax expenditure is associated with Kentucky’s conformity with Federal tax law.

| | LLET |
|----------------|---------------|
| FY 2024 | \$0.6 million |
| FY 2025 | \$0.6 million |
| FY 2026 | \$0.6 million |

9. Limited Liability Entity Tax Exemptions

Kentucky Revised Statutes 141.0401(6)(a), effective 2007

Data Source: Kentucky Taxpayer Data

The LLET shall not apply to the following:

- (a) Financial institutions, except banker’s banks, for tax years prior to January 1, 2021;
- (b) 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, for tax years prior to January 1, 2021;
- (c) Banks for cooperatives, for tax years prior to January 1, 2021;
- (d) Production credit associations, for tax years prior to January 1, 2021;
- (e) Insurance companies, including farmers’ or other mutual hail, cyclone windstorm, or fire insurance companies, insurers and reciprocal underwriters;
- (f) Corporations or other entitles exempt under Section 501 of the Internal Revenue Code;
- (g) Religious, educational, charitable, or like corporations not organized or conducted for pecuniary profit;

- (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 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; and
- (i) Public service corporations subject to tax.

| | LLET |
|----------------|---------------|
| FY 2024 | \$0.5 million |
| FY 2025 | \$0.5 million |
| FY 2026 | \$0.5 million |

10. Alcohol Production Facility

Kentucky Revised Statutes 141.0401(6)(b)(8), effective 2007
 Data Source: Kentucky Taxpayer Data

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

| | LLET |
|----------------|-------------|
| FY 2024 | Minimal |
| FY 2025 | Minimal |
| FY 2026 | Minimal |

11. Certified Fluidized Bed Energy Production Facility

Kentucky Revised Statutes 141.0401(6)(b)(7), effective 2007
 Data Source: Kentucky Taxpayer Data

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

| | LLET |
|----------------|-------------|
| FY 2024 | Minimal |
| FY 2025 | Minimal |
| FY 2026 | Minimal |

12. Coal Royalties

Kentucky Revised Statutes 141.039(1)(d), effective 1962

Data Source: Kentucky Taxpayer Data

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.

| | Corporate |
|----------------|------------------|
| FY 2024 | Minimal |
| FY 2025 | Minimal |
| FY 2026 | Minimal |

13. Open-End Registered Investment Companies

Kentucky Revised Statutes 141.0401(6)(b)(6), effective 2007

Data Source: Kentucky Taxpayer Data

The LLET 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.

| | LLET |
|----------------|-------------|
| FY 2024 | Minimal |
| FY 2025 | Minimal |
| FY 2026 | Minimal |

14. Premiums Paid for Health Insurance

Kentucky Revised Statutes 141.062, effective 2006

Data Source: Kentucky Taxpayer Data

Premiums paid for health insurance shall be treated as an income tax credit for state income tax purposes, and as a credit against the limited liability entity tax imposed by KRS 141.0401, with the ordering of the credits as provided in KRS 141.0205 as follows:

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

Employers maintain participation in the trust for all full-time and part-time employees for a period of four continuous years; and employers pay at least 50 percent of the premium.

| | LLET |
|----------------|-------------|
| FY 2024 | Minimal |
| FY 2025 | Minimal |
| FY 2026 | Minimal |

15. Qualified Farming Operation

Kentucky Revised Statutes 141.412, effective 2006

Data Source: Kentucky Taxpayer Data

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, and against the limited liability entity tax on any Kentucky gross profits or Kentucky gross receipts of the qualified farming operation generated by or arising out of the qualified farming operations' participation in a networking project. The annual credit shall be available for the first five 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 tax years until the credit has been fully used.

| | LLET |
|----------------|-------------|
| FY 2024 | Minimal |
| FY 2025 | Minimal |
| FY 2026 | Minimal |

16. Real Estate Mortgage Investment Conduit

Kentucky Revised Statutes 141.0401(6)(b)(11), effective 2007

Data Source: Kentucky Taxpayer Data

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

This tax expenditure is associated with Kentucky's conformity with Federal tax law.

| | LLET |
|----------------|-------------|
| FY 2024 | Minimal |
| FY 2025 | Minimal |
| FY 2026 | Minimal |

17. Regulated Investment Company

Kentucky Revised Statutes 141.0401(6)(b)(10), effective 2007

Data Source: Kentucky Taxpayer Data

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

This tax expenditure is associated with Kentucky's conformity with Federal tax law.

| | LLET |
|----------------|-------------|
| FY 2024 | Minimal |
| FY 2025 | Minimal |
| FY 2026 | Minimal |

Deductions from Income

1. Net Operating Loss Deduction

Kentucky Revised Statutes 141.011, effective 1980

Kentucky Revised Statutes 141.200 (11), effective 2019

Data Source: Kentucky Agency Estimate

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. For taxable years beginning on or after January 1, 2005, but prior to January 1, 2019, mandatory nexus consolidated return filers shall not deduct an amount that exceeds, in the aggregate, 50 percent of the income realized by the remaining includible corporations that did not realize a net operating loss. For net operating losses generated on or after January 1, 2018, the limitation is 80 percent of the taxable net income as allowed by Section 172 of the Internal Revenue Code.

For taxable years beginning on or after January 1, 2019, the sharing of net operating loss among members of a unitary group is permitted, but when utilizing shared NOL limited to offsetting up to 50 percent of the taxable income. The sharing of tax credits among members of a unitary group is not permitted.

This tax expenditure is associated with Kentucky's conformity with Federal tax law.

| | Corporate |
|----------------|------------------|
| FY 2024 | Substantial |
| FY 2025 | Substantial |
| FY 2026 | Substantial |

2. Corporation Deferred Tax Deduction

Kentucky Revised Statutes 141.039(2)(d)(5), enacted 2019

Data Source: Kentucky Taxpayer Data

A new corporation tax deduction allows publicly traded taxpayers to offset the effects of combined reporting tax changes for financial statement reporting purposes by deducting one-tenth of the determined deduction annually, beginning with the combined group's first taxable year beginning on or after January 1, 2024 for ten years.

| | Corporate |
|----------------|------------------|
| FY 2024 | \$44.8 million |
| FY 2025 | \$44.8 million |
| FY 2026 | \$44.8 million |

3. Charitable Contributions

IRC Sec. 170, effective 1954

Data Source: Kentucky Taxpayer Data

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. This tax expenditure is associated with Kentucky's conformity with Federal tax law.

| | Corporate |
|----------------|------------------|
| FY 2024 | \$6.5 Million |
| FY 2025 | \$6.5 Million |
| FY 2026 | \$6.5 Million |

Tax Credits

1. Construction of Research Facilities Credit

Kentucky Revised Statutes 141.395, effective 2002

Data Source: Kentucky Taxpayer Data

Five percent of the qualified costs of construction of research facilities is allowed as a nonrefundable credit against individual income tax, corporation income tax and limited liability entity tax. Any unused credit may be carried forward ten years.

| | Corporate | LLET | Total |
|----------------|------------------|---------------|---------------|
| FY 2024 | \$0.7 million | \$0.4 million | \$1.1 million |
| FY 2025 | \$0.7 million | \$0.4 million | \$1.1 million |
| FY 2026 | \$0.7 million | \$0.4 million | \$1.1 million |

2. Railroad Expansion or Upgrade to Accommodate Transportation of Fossil Energy Resources or Biomass Resources Tax Credit

Kentucky Revised Statutes 141.386, effective 2009

Data Source: Kentucky Taxpayer Data

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 to expand or upgrade railroad track, including roadbeds, bridges, and related track structures, to accommodate the transport of fossil energy resources or biomass resources. The credit amount approved for a calendar year for all taxpayers under this section shall be limited to \$1 million.

| | Corporate | LLET | Total |
|----------------|------------------|-------------|---------------|
| FY 2024 | \$1.0 million | Minimal | \$1.0 million |
| FY 2025 | \$1.0 million | Minimal | \$1.0 million |
| FY 2026 | \$1.0 million | Minimal | \$1.0 million |

3. Coal Conversion Credit

Kentucky Revised Statutes 141.041, effective 1984

Data Source: Kentucky Taxpayer Data

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 4.5 percent of the purchase price of the coal subject to taxation, 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 applied against the tax imposed by KRS 141.040 or KRS 141.0401.

| | Corporate | LLET | Total |
|----------------|------------------|-------------|--------------|
| FY 2024 | Minimal | Minimal | Minimal |
| FY 2025 | Minimal | Minimal | Minimal |
| FY 2026 | Minimal | Minimal | Minimal |

4. Employer GED Credit

Kentucky Revised Statutes 151B.402, effective 2000

Data Source: Kentucky Taxpayer Data

An employer who assists an individual to complete his or her learning contract 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.

| | Corporate | LLET | Total |
|----------------|------------------|-------------|--------------|
| FY 2024 | Minimal | Minimal | Minimal |
| FY 2025 | Minimal | Minimal | Minimal |
| FY 2026 | Minimal | Minimal | Minimal |

Multi-Tax Incentive Programs

Given the ability for businesses and individuals to take different strategies with regard to the payment of income taxes, many of the tax incentives that have been enacted can be taken against multiple taxes. For instance, many of these tax credits can be used against KRS 141.020 (Individual Income Taxes), KRS 141.040 (Corporation Income Taxes), and KRS 140.0401 (The Limited Liability Entity Tax). This has been especially true since 2006 when the Limited Liability Entity Tax (LLET) was enacted. Payments of the LLET create credits that can be used to offset liabilities of the individual and corporation income taxes. Thus, the Office of State Budget Director decided it would be more concise and helpful to have these tax expenditures aggregated and placed into a chapter where the reader could centrally go to find all of the fiscal impacts associated with tax incentives that apply to multiple taxes.

The main data source for the estimation of these tax expenditure is actual taxpayer data queried by the Department of Revenue. In those instances, OSBD gathered information from each tax type and aggregate them on the tables below.

1. Expensing Capital Purchases (Section 179 Expensing)

Kentucky Revised Statutes 141.0101(16)), effective 2019

Data Source: Kentucky Agency Estimate and Kentucky Taxpayer Data

For property placed in service on or after January 1, 2020, a business may expense a larger portion of the assets placed in service during a taxable year. If the business elects to expense any property under IRC §179, the business must reduce the amount on which depreciation or amortization is calculated. The IRC §179 limit is reduced in any taxable year by the amount by which the cost of IRC § 179 property placed in service during the tax year exceeds \$400,000. The overall impact of this tax expenditure is associated with the timing of receipts from the tax, rather than the amount of tax ultimately remitted.

| | Corporate | Individual | Total |
|----------------|------------------|-------------------|--------------|
| FY 2024 | Substantial | \$17.9 million | Substantial |
| FY 2025 | Substantial | \$17.9 million | Substantial |
| FY 2026 | Substantial | \$17.9 million | Substantial |

2. Limited Liability Entity Tax

Kentucky Revised Statutes 141.0401(2), effective 2006

Data Source: Kentucky Taxpayer Data

For taxable years beginning on or after January 1, 2007, an annual limited liability entity tax (LLET) 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 credit shall be allowed against the tax imposed by KRS 141.020 or 141.040 equal to the amount of LLET taxes paid.

| | Corporate | Individual | Total |
|----------------|------------------|-------------------|-----------------|
| FY 2024 | \$216.1 million | \$30.9 million | \$247.0 million |
| FY 2025 | \$224.7 million | \$30.7 million | \$255.4 million |
| FY 2026 | \$230.4 million | \$31.2 million | \$261.6 million |

3. Kentucky Historic Preservation Tax Credit

Kentucky Revised Statutes 141.382, effective 2009

Data Source: Kentucky Taxpayer Data

The 2005 Kentucky General Assembly created the Kentucky Historic Preservation Credit. The credit applies to tax imposed by KRS 141.020, KRS 141.040, or KRS 141.0401. 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 or transferable if the taxpayer makes an irrevocable election under (2)(b) in KRS 171.397. The maximum credit that may be claimed with regard to owner-occupied residential property is \$120,000. The maximum credit which may be claimed with regard to all other property that is not owner-occupied residential shall be \$10 million. The total amount of credit approved for calendar years before 2010 was \$3.0 million. After calendar year 2010, the annual cap was raised to \$5.0 million. Following the 2021 Regular Session, the certified rehabilitation credit cap is \$100 million annually for applications received on or after April 30, 2022, with 25 percent of the cap awarded to owner-occupied residential property and 75 percent awarded to property other than owner-occupied residential property.

| | Corporate | LLET | Individual | TOTAL |
|----------------|------------------|-------------|-------------------|----------------|
| FY 2024 | \$31.5 million | Minimal | \$20.0 million | \$51.5 million |
| FY 2025 | \$31.5 million | Minimal | \$20.0 million | \$51.5 million |
| FY 2026 | \$31.5 million | Minimal | \$20.0 million | \$51.5 million |

4. Kentucky Business Investment Credit (KBI)

Kentucky Revised Statutes 154.32-020, effective 2009

Data Source: Kentucky Taxpayer Data

Tax incentives are available for the approved company for up to 15 years in enhanced incentive counties or up to 10 years in other counties via:

- Tax Credits up to 100 percent of corporate income or limited liability entity tax liability arising from the project.
- Wage Assessment incentives up to 100 percent of gross wages of each employee in enhanced incentive counties or up to 4 percent (including up to 1 percent required local participation) of gross wages of each employee in other counties. The employee receives credits for the fees against state income taxes and local occupational taxes so there is no impact on the employee. If the local community does not have a local occupational fee, then an alternative form of participation may be required. Local jurisdictions that impose a local occupational license fee may request to waive the local occupational fee requirement if the local jurisdiction offers alternative inducements of similar value satisfactory to KEDFA. 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.

| | Corporate | LLET | Individual | TOTAL |
|----------------|------------------|-------------|-------------------|----------------|
| FY 2024 | \$8.0 million | Minimal | \$31.4 million | \$39.4 million |
| FY 2025 | \$9.0 million | Minimal | \$31.4 million | \$40.4 million |
| FY 2026 | \$10.0 million | Minimal | \$31.4 million | \$41.4 million |

5. Kentucky Jobs Retention Act Tax Credit (KJRA)

Kentucky Revised Statutes 154.25-030 (2)(b)(1), effective 2007

Data Source: Kentucky Taxpayer Data

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 to improve the economic and operational situation of an approved company to allow the approved company to reinvest in its operations and retain a significant number of existing jobs within the Commonwealth. 100 percent of the KJRA tax credit is applied against KRS 141.020 (individual income tax), 141.040 (corporation income tax) and 141.0401 (limited liability entity tax). The balance of unused approved costs from a previously existing economic development tax incentive project may be available to be transferred to KJRA project.

| | Corporate | LLET | Individual | TOTAL |
|----------------|------------------|-------------|-------------------|----------------|
| FY 2024 | \$26.0 million | Minimal | Minimal | \$26.0 million |
| FY 2025 | \$26.0 million | Minimal | Minimal | \$26.0 million |
| FY 2026 | \$26.0 million | Minimal | Minimal | \$26.0 million |

6. Kentucky Entertainment Incentive (KEI) Program

Kentucky Revised Statutes 141.383, effective 2009

Data Source: Kentucky Agency Data

Approved companies may recover up to 30 percent of qualifying expenditures 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 work in an enhanced incentive county. Qualifying expenditures include expenditures made in Kentucky that are directly used in or for a motion picture or entertainment production. Incentives were capped at \$5.0 million for FY11 and \$7.5 million for FY12. The cap was repealed in FY12 but re-imposed in 2018 at a level of \$100 million and then subsequently lowered to \$75 million in 2021 but made refundable again.

Beginning January 1, 2022, to qualify for the film industry tax credit, all applicants shall begin production within 6 months of filing an application with the Kentucky Economic Development Finance Authority and complete production within 2 years of the production start date. Prior to this date, film industry tax credits were approved

and administered by the Kentucky Film Office and the Kentucky Film Commission which operated in the Tourism, Arts, and Heritage Cabinet.

Beginning with calendar year 2024, \$25 million of the \$75 million total tax credit limit shall be held until July 1 of each calendar year pending applications from approved companies with a continuous film production. On the first day of July, any unused balance allocated for continuous film productions shall be made available for all approved companies.

The following chart details the history for the film industry tax credit, detailing when the credit was refundable or nonrefundable and how the total tax credit cap has been modified over time.

| Year Enacted | Refundability | Description | Tax Credit Cap |
|---------------------|--|---|--|
| 2009 SS | Refundable only if the refund is issued on or after July 1, 2010 | Tax incentive agreements executed prior to January 1, 2015, the original sunset date for the tax credit | Caps in Budget FY 2011-\$5 M FY 2012-\$7.5 M |
| 2014 RS | | The sunset date of 1/1/15 was removed | |
| 2018 RS | Nonrefundable Nontransferable | Applications approved on or after April 27, 2018, but before January 1, 2022 | \$100 M for each calendar year |
| 2021 RS | Refundable | Applications approved on or after January 1, 2022 | \$75 M |

| | Corporate | LLET | Individual | TOTAL |
|----------------|------------------|----------------|-------------------|----------------|
| FY 2024 | Minimal | \$11.0 million | \$11.6 million | \$22.6 million |
| FY 2025 | Minimal | \$11.0 million | \$11.6 million | \$22.6 million |
| FY 2026 | Minimal | \$11.0 million | \$11.6 million | \$22.6 million |

7. Inventory Tax Credit

Kentucky Revised Statutes 141.408, effective 2018

Data Source: Kentucky Taxpayer Data

The inventory tax credit is a nonrefundable and nontransferable credit for the amount of timely paid tangible property tax on business inventories. The amount of the tax credit equals the property tax payments made to both local governments and the state. The credit may be taken against the tax imposed by KRS 141.020 (individual income tax), KRS 141.040 (corporation income tax), and KRS 141.0401 (limited liability entity tax). Unused credit amounts cannot be carried forward to later tax years. (Note: the bourbon distillers are now allowed to utilize the unused credits from past year per HB 5 2023 Regular Session)

The non-refundable and nontransferable credit to each taxpayer paying the ad valorem tax on inventory on a timely basis was phased in as follows:

1. 25 percent of the ad valorem taxes timely paid for taxable years beginning on or after January 1, 2018, and before January 1, 2019;
2. 50 percent of the ad valorem taxes timely paid for taxable years beginning on or after January 1, 2019, and before January 1, 2020;
3. 75 percent of the ad valorem taxes timely paid for taxable years beginning on or after January 1, 2020, and before January 1, 2021; and
4. 100 percent of the ad valorem taxes timely paid, for taxable years beginning on or after January 1, 2021.

| | Corporate | LLET | Individual | TOTAL |
|----------------|------------------|---------------|-------------------|----------------|
| FY 2024 | \$1.3 million | \$3.8 million | \$9.4 million | \$14.5 million |
| FY 2025 | \$3.5 million | \$6.5 million | \$9.3 million | \$19.3 million |
| FY 2026 | \$3.5 million | \$6.5 million | \$9.5 million | \$19.1 million |

8. Biodiesel Tax Credit

Kentucky Revised Statutes 141.423, effective 2007

Data Source: Kentucky Taxpayer Data

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 annual biodiesel, renewable diesel, and renewable chemical production tax credit cap for calendar years beginning on or after January 1, 2021, is \$10.0 million. The amounts shown below are equal to the tax credit cap for each year. The nonrefundable tax credit may be applied against the taxes imposed by KRS 141.020, 141.040 and 141.0401. Any unused credit may not be carried forward to subsequent tax years.

| | Corporate | LLET | Individual | TOTAL |
|----------------|------------------|---------------|-------------------|----------------|
| FY 2024 | \$0.3 million | \$9.7 million | Minimal | \$10.0 million |
| FY 2025 | \$0.3 million | \$9.7 million | Minimal | \$10.0 million |
| FY 2026 | \$0.3 million | \$9.7 million | Minimal | \$10.0 million |

9. New Markets Development Program Tax Credit

Kentucky Revised Statutes 141.434, effective 2010

Data Source: Kentucky Taxpayer Data

This credit was created to encourage taxpayer investment in low-income communities via a nonrefundable credit against the taxes imposed by KRS 141.020, 141.040, 141.0401, 136.320, 136.330, 136.340, 136.350, 136.370, 136.390, or 304.3-270. The maximum amount of tax credit is capped at \$10 million in each fiscal year. The amount of the credit shall be equal to 39 percent of the purchase price of the qualified equity investment made by the person or entity claiming the credit. The qualified community development entity must invest at least 85 percent of the funds received via a qualified equity investment in qualified active low-income community businesses located in the Commonwealth of Kentucky within 24 months after the issuance of the investment for years prior to 2014. For years beginning in 2014 the qualified community development entity must invest 100 percent of the funds received via a qualified equity investment in qualified active low-income community businesses located in the Commonwealth of Kentucky within 12 months after the issuance of the investment.

| | Corporate | LLET | Individual | Ins. Premium | TOTAL |
|----------------|------------------|-------------|-------------------|---------------------|----------------|
| FY 2024 | \$10.0 million | Minimal | Minimal | Minimal | \$10.0 million |
| FY 2025 | \$10.0 million | Minimal | Minimal | Minimal | \$10.0 million |
| FY 2026 | \$10.0 million | Minimal | Minimal | Minimal | \$10.0 million |

10. Kentucky Rural Economic Development Act Credit (KREDA)

Kentucky Revised Statutes 154.22-050(8)(a), effective 1988

Data Source: Kentucky Taxpayer Data

A 100 percent credit is allowed against the income tax and the limited liability entity tax of an approved company imposed 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 for KREDA are being accepted, preliminary or final approval in accordance with KRS154.22 on or before June 26, 2009, determine the credit allowed. Kentucky continues to pay out credits that were previously approved.

| | Corporate | LLET | Individual | TOTAL |
|----------------|------------------|-------------|-------------------|---------------|
| FY 2024 | \$6.0 million | Minimal | \$3.6 million | \$9.6 million |
| FY 2025 | \$6.0 million | Minimal | \$3.6 million | \$9.6 million |
| FY 2026 | \$6.0 million | Minimal | \$3.6 million | \$9.6 million |

11. Ethanol Tax Credit

Kentucky Revised Statutes 141.4242, effective 2007

Data Source: Kentucky Taxpayer Data

A producer of ethanol is allowed a credit equal to \$1 per gallon, capped at a total of \$5 million in credits authorized per year for all producers. For taxable years beginning after December 31, 2017, the non-refundable credit shall be applied both to the income tax imposed under KRS 141.020 or 141.040 and to the limited liability entity tax imposed under KRS 141.0401. The ethanol tax credit provided shall not be carried forward to a return for any other period. Unused portions of the annual cellulosic ethanol tax credit cap maybe transferred to the ethanol tax credit program on an annual basis.

| | Corporate | LLET | Individual | TOTAL |
|----------------|------------------|-------------|-------------------|---------------|
| FY 2024 | Minimal | Minimal | \$8.0 million | \$8.0 million |
| FY 2025 | Minimal | Minimal | \$7.9 million | \$7.9 million |
| FY 2026 | Minimal | Minimal | \$8.1 million | \$8.1 million |

12. Decontamination Property Credit

Kentucky Revised Statutes 141.419, effective 2022

Data Source: Kentucky Taxpayer Data

A taxpayer may take a refundable credit for making a qualifying expenditure at a qualifying decontamination property to encourage investment and decontamination or remediation of qualifying decontamination property. The credit is equal to the qualifying expenditures. This credit cannot be taken in combination with credits under KRS 141.418.

| | Corporate | LLET | Individual | TOTAL |
|----------------|------------------|-------------|-------------------|---------------|
| FY 2024 | \$0.8 million | Minimal | \$7.0 million | \$7.8 million |
| FY 2025 | \$1.8 million | Minimal | \$6.9 million | \$8.7 million |
| FY 2026 | \$1.8 million | Minimal | \$7.1 million | \$8.9 million |

13. Kentucky Reinvestment Act Credit (KRA)

Kentucky Revised Statutes 154.34-120, effective 2009

Data Source: Kentucky Taxpayer Data

For taxable years beginning after December 31, 2009, an approved company may be eligible for a nonrefundable credit of up to 100 percent of the Kentucky income tax imposed under KRS 141.020 or 141.040 and 141.0401. The tax incentive remains in place until the authorized incentive amount is realized (up to 20 percent of the incentive per year) or for the term of the reinvestment agreement (up to 10 years), whichever occurs first. Unused credits that have been authorized for the project may be carried forward for the term of the reinvestment agreement, however, unused credits expire at the maturity of the agreement.

| | Corporate | LLET | Individual | TOTAL |
|----------------|------------------|-------------|-------------------|---------------|
| FY 2024 | \$2.1 million | Minimal | \$5.4 million | \$7.5 million |
| FY 2025 | \$2.1 million | Minimal | \$5.4 million | \$7.5 million |
| FY 2026 | \$2.1 million | Minimal | \$5.4 million | \$7.5 million |

14. Endow Kentucky

Kentucky Revised Statutes 141.438, effective 2010

Data Source: Kentucky Taxpayer Data

For taxable years beginning on or after January 1, 2011, the Endow Kentucky tax credit shall be equal to 20 percent of the value of the endowment gift provided by the taxpayer, not to exceed \$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 taxpayer 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 5 years.

The total amount of tax credit that may be awarded under this section shall be limited to: (a) \$500,000 in each fiscal year beginning on or before July 1, 2015; and (b) \$1.0 million in each fiscal year beginning on or after July 1, 2016.

| | Corporate | LLET | Individual | TOTAL |
|----------------|------------------|---------------|-------------------|---------------|
| FY 2024 | \$1.0 million | \$1.0 million | \$0.9 million | \$2.9 million |
| FY 2025 | \$1.0 million | \$1.0 million | \$0.9 million | \$2.9 million |
| FY 2026 | \$1.0 million | \$1.0 million | \$0.9 million | \$2.9 million |

15. Recycling and/or Composting Equipment Credit

Kentucky Revised Statutes 141.390, effective 1991
 Data Source: Kentucky Taxpayer Data

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 against KRS 141.020 or 141.040 and 141.0401. This credit can be taken until the amount of credit awarded has been completely utilized.

The credit shall be limited to a period of ten years commencing with the approval of the recycling credit application. The recycling credit was updated by HB 354 of the 2019 Regular Session of the General Assembly. For major recycling projects investing more than \$500 million, 25 percent of the cost of the installed cost of the recycling or composting equipment may be deducted over thirty years against up to 75 percent of the tax liability.

| | Corporate | LLET | Individual | TOTAL |
|----------------|------------------|-------------|-------------------|---------------|
| FY 2024 | \$1.5 million | Minimal | \$1.2 million | \$2.7 million |
| FY 2025 | \$1.5 million | Minimal | \$1.2 million | \$2.7 million |
| FY 2026 | \$1.5 million | Minimal | \$1.2 million | \$2.7 million |

16. Metropolitan College Program Tax Credit

Kentucky Revised Statutes 141.381, effective 2009
 Data Source: Kentucky Taxpayer Data

To be eligible for the tax credit provided by this section, a qualified taxpayer must be a partner in Metropolitan College. A qualified taxpayer is allowed a nonrefundable credit against the tax imposed by KRS 141.020 or 141.040, and KRS 141.0401. Parties to the Metropolitan College Consortium Agreement may qualify for a 50 percent tax credit of the actual costs incurred by the qualified taxpayer for tuition paid to an educational institution 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.

| | Corporate | LLET | Individual | TOTAL |
|----------------|------------------|-------------|-------------------|---------------|
| FY 2024 | \$2.5 million | Minimal | Minimal | \$2.5 million |
| FY 2025 | \$2.5 million | Minimal | Minimal | \$2.5 million |
| FY 2026 | \$2.5 million | Minimal | Minimal | \$2.5 million |

17. Kentucky Industrial Revitalization Act Credit (KIRA)

Kentucky Revised Statutes 141.403 and 154.26-090, effective 1992

Data Source: Kentucky Taxpayer Data

Tax incentives are available for the approved company for up to 10 years via:

- Tax Credits up to 100 percent of corporate income or limited liability entity tax liability arising from the project.
- Wage Assessment incentives up to 5 percent (including up to 1 percent required local participation) of gross wages of each employee. The employee receives credits for the fees against state income taxes and local occupational taxes.

The tax incentives remain in place until the authorized incentive amount is realized or for the term of the tax incentive agreement, whichever occurs first. Unused credits that have been authorized for the project may be carried forward for the term of the tax incentive agreement; however, unused credits expire at the maturity of the agreement.

| | Corporate | LLET | Individual | TOTAL |
|----------------|------------------|-------------|-------------------|---------------|
| FY 2024 | \$0.9 million | Minimal | \$0.7 million | \$1.6 million |
| FY 2025 | \$0.9 million | Minimal | \$0.7 million | \$1.6 million |
| FY 2026 | \$0.9 million | Minimal | \$0.7 million | \$1.6 million |

18. Construction of Research Facilities

Kentucky Revised Statutes 141.395, effective 2002

Data Source: Kentucky Taxpayer Data

A 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 10 years. The credit allowed shall equal 5 percent of the qualified costs of construction of research facilities.

| | Corporate | LLET | Individual | TOTAL |
|----------------|------------------|---------------|-------------------|---------------|
| FY 2024 | \$0.7 million | \$0.4 million | Minimal | \$1.1 million |
| FY 2025 | \$0.7 million | \$0.4 million | Minimal | \$1.1 million |
| FY 2026 | \$0.7 million | \$0.4 million | Minimal | \$1.1 million |

19. Cryptocurrency Incentives

Kentucky Revised Statute 154.27-080, effective 2021

Kentucky Revised Statute 139.516(2), effective 2021

Data Source: Kentucky Agency Estimate, Fiscal Impact from the 2021 Session

The cryptocurrency incentives include a sales tax incentive that exempts all electricity sold or purchased on or after the effective date of application and before July 1, 2030. Also included are all of the incentives offered under the previously named Energy Independence Act, now called the “Incentives for Energy-related Business Act.” These incentives from the Incentives for Energy-Related Business Act include:

- (a) An advance disbursement of post-construction incentives for which an approved company has been approved, the maximum amount of which is based upon the estimated labor component of the total capital investment of the eligible project, and the utilization of Kentucky residents during the construction period as set forth in KRS 154.27-090;
- (b) Sales and use tax incentives of up to 100 percent of the taxes paid on purchases of tangible personal property made to construct, retrofit, or upgrade the cryptocurrency mining equipment at a facility, as set forth in KRS 139.517 and 154.27-070;
- (c) Up to 80 percent of the severance taxes paid on the purchase or severance of: 1. Coal that is subject to the tax imposed under KRS 143.020 and that is specifically used by a cryptocurrency mining project as feedstock for an eligible project, as set forth in KRS 143.024 and 154.27-060;
- (d) Up to 100 percent of the Kentucky income tax imposed under KRS 141.040 or 141.020, and the limited liability entity tax imposed under KRS 141.0401 on the income, Kentucky gross profits, or Kentucky gross receipts of the approved company generated by or arising from the eligible project; and
- (e) Authorization for the approved company to impose a wage assessment of up to 4 percent of the gross wages of each employee subject to the Kentucky income tax.

The maximum recovery from all incentives shall not exceed 50 percent of the capital investment in the eligible project.

| | Corporate | LLET | Individual | Sales | TOTAL |
|----------------|------------------|-------------|-------------------|--------------|---------------|
| FY 2024 | Limited | Limited | \$1.0 million | Minimal | \$1.0 million |
| FY 2025 | Limited | Limited | \$1.0 million | Minimal | \$1.0 million |
| FY 2026 | Limited | Limited | \$1.0 million | Minimal | \$1.0 million |

20. Railroad Maintenance and Improvement Tax Credit

Kentucky Revised Statutes 141.385, effective 2009

Data Source: Kentucky Taxpayer Data

For taxable years beginning after December 31, 2009, an eligible taxpayer shall be entitled to a nonrefundable credit against the taxes imposed by KRS 141.020 or 141.040, and 141.0401 in an amount equal to 50 percent of the qualified expenditures paid or incurred by the taxpayer during the taxable year. 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.

| | Corporate | LLET | Individual | TOTAL |
|----------------|------------------|-------------|-------------------|---------------|
| FY 2024 | \$1.0 million | Minimal | Minimal | \$1.0 million |
| FY 2025 | \$1.0 million | Minimal | Minimal | \$1.0 million |
| FY 2026 | \$1.0 million | Minimal | Minimal | \$1.0 million |

21. Skills Training Investment Credit

Kentucky Revised Statutes 154.12-2086, effective 1998

Data Source: Kentucky Taxpayer Data

An amount equal to 50 percent of the approved cost incurred by the approved company's skills training program is allowed against the taxes imposed by KRS 141.020 or 141.040, and KRS 141.0401, to an approved company. The credit amount shall not exceed \$500 per employee and, shall not exceed \$100,000 for each approved company every two years. The Bluegrass State Skills Corporation shall only approve one application every two years for each qualified company.

| | Corporate | LLET | Individual | TOTAL |
|----------------|------------------|-------------|-------------------|---------------|
| FY 2024 | \$0.9 million | Minimal | \$0.1 million | \$1.0 million |
| FY 2025 | \$0.9 million | Minimal | \$0.1 million | \$1.0 million |
| FY 2026 | \$0.9 million | Minimal | \$0.1 million | \$1.0 million |

22. Kentucky Small Business Tax Credit (KSBTC) / Selling Farmers Tax Credit

Kentucky Revised Statutes 141.384, 154.60-020, effective 2009

Kentucky Revised Statutes 141.3841, effective 2020

Data Source: Kentucky Taxpayer Data

A small business under the provisions of 154.60-020 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 is capped at \$3 million. The maximum amount of credit for each small business for each year cannot exceed \$25,000. Unused credits may be carried forward for up to five years. In the 2019 Regular Session of the General Assembly, the program eligibility requirements were expanded to assist farmers selling active agricultural land and assets to beginning farmers.

A tax credit equal to 5 percent of the selling price of qualifying agricultural assets is available for selling farmers. There is a \$25,000 cap for each taxable year for each farmer. And a \$100,000 lifetime cap for each farmer. The Selling Farmers tax credit and the Small Business tax credit are together capped at \$3 million.

| | Corporate | LLET | Individual | TOTAL |
|----------------|------------------|-------------|-------------------|---------------|
| FY 2024 | Minimal | Minimal | \$0.9 million | \$0.9 million |
| FY 2025 | Minimal | Minimal | \$0.9 million | \$0.9 million |
| FY 2026 | Minimal | Minimal | \$0.9 million | \$0.9 million |

23. Distilled Spirits Credit

Kentucky Revised Statutes 141.389, effective 2014

Data Source: Kentucky Taxpayer Data

There shall be allowed a nonrefundable and nontransferable credit to each taxpayer paying the distilled spirits ad valorem tax on a timely basis as follows:

1. For taxable years beginning on or after January 1, 2015, and before December 31, 2015, the credit shall be equal to 20 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 40 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 60 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 80 percent of the tax;
5. For taxable years beginning on or after January 1, 2019, the credit shall be equal to 100 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).

| | Corporate | LLET | Individual | TOTAL |
|----------------|------------------|-------------|-------------------|---------------|
| FY 2024 | \$0.8 million | Minimal | Minimal | \$0.8 million |
| FY 2025 | \$0.8 million | Minimal | Minimal | \$0.8 million |
| FY 2026 | \$0.8 million | Minimal | Minimal | \$0.8 million |

24. Kentucky Industrial Development Act Credit (KIDA)

Kentucky Revised Statutes 141.400, effective 1992

Kentucky Revised Statutes 154.28-090, effective 1992

Data Source: Kentucky Taxpayer Data

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 from the activation date, 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.

| | Corporate | LLET | Individual | TOTAL |
|----------------|------------------|-------------|-------------------|---------------|
| FY 2024 | \$0.2 million | Minimal | \$0.3 million | \$0.5 million |
| FY 2025 | \$0.2 million | Minimal | \$0.3 million | \$0.5 million |
| FY 2026 | \$0.2 million | Minimal | \$0.3 million | \$0.5 million |

25. Kentucky Jobs Development Act Credit (KJDA)

Kentucky Revised Statutes 154.24-110, effective 1992

Kentucky Revised Statutes 154.24-130, effective 1992

Data Source: Kentucky Taxpayer Data

A 100 percent of the tax 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 annual rental payments connected to the project.

In 2009, the General Assembly consolidated all economic credits into one program. No new applications for KJDA are being accepted. Kentucky continues to pay out credits that were previously approved.

| | Corporate | LLET | Individual | TOTAL |
|----------------|------------------|-------------|-------------------|---------------|
| FY 2024 | \$0.2 million | Minimal | Minimal | \$0.2 million |
| FY 2025 | \$0.2 million | Minimal | Minimal | \$0.2 million |
| FY 2026 | \$0.2 million | Minimal | Minimal | \$0.2 million |

26. Hiring the Unemployed Credit

Kentucky Revised Statutes 141.065, effective 1982

Data Source: Kentucky Taxpayer Data

Any taxpayer hiring persons who have been unemployed for 60 days and who remain employed for 180 consecutive 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.

| | Corporate | LLET | Individual | TOTAL |
|----------------|------------------|-------------|-------------------|---------------|
| FY 2024 | Minimal | Minimal | \$0.1 million | \$0.1 million |
| FY 2025 | Minimal | Minimal | \$0.1 million | \$0.1 million |
| FY 2026 | Minimal | Minimal | \$0.1 million | \$0.1 million |

27. Cellulosic Ethanol Credit

Kentucky Revised Statutes 141.4244, effective 2007

Kentucky Revised Statutes 141.4248, effective 2007

Data Source: Kentucky Taxpayer Data

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 of \$5 million. Unused portions of the annual cellulosic ethanol tax credit cap may be transferred to the other ethanol-based tax credit program (KRS 141.4242) on an annual basis.

| | Corporate | LLET | Individual | TOTAL |
|----------------|------------------|-------------|-------------------|--------------|
| FY 2024 | Minimal | Minimal | Minimal | Minimal |
| FY 2025 | Minimal | Minimal | Minimal | Minimal |
| FY 2026 | Minimal | Minimal | Minimal | Minimal |

28. Clean Coal Incentive Credit

Kentucky Revised Statutes 141.428, effective 2005

Data Source: Kentucky Taxpayer Data

A credit is available at a rate of \$2 per ton of qualifying coal purchased and used to generate power by an electricity generation facility investing more than \$150 million that is located in Kentucky 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 may be taken against the taxes imposed by KRS 141.020 or 141.040, and 141.0401. 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.

| | Corporate | LLET | Individual | TOTAL |
|----------------|------------------|-------------|-------------------|--------------|
| FY 2024 | Minimal | Minimal | Minimal | Minimal |
| FY 2025 | Minimal | Minimal | Minimal | Minimal |
| FY 2026 | Minimal | Minimal | Minimal | Minimal |

29. Education Opportunity Account (EOA) Program Tax Credit

Kentucky Revised Statutes 141.522, effective 2021

Data Source: Kentucky Agency Estimate

Contributions to an EOA, administered by a nonprofit, account-granting organization, and used to pay for tuition, fee expenses, and various other education-related expenses for public and nonpublic schools in the Commonwealth are eligible for an income tax credit, for taxable years beginning on or after January 1, 2021, but before January 1, 2026. The tax credit is nonrefundable and nontransferable. The total annual tax credit cap is limited to \$25.0 million and awarded on a first-come, first-served basis within each fiscal year. The amount of credit awarded per taxpayer per taxable year shall be no more than the lesser of 95 percent of the total contributions made to an AGO or \$1 million. If a taxpayer pledges a contribution for multiple taxable years, then the amount of credit awarded per taxpayer increases from 95 percent to 97 percent HB 563.

| | Corporate | LLET | Individual | TOTAL |
|----------------|------------------|-------------|-------------------|--------------|
| FY 2024 | Minimal | Minimal | Minimal | Minimal |
| FY 2025 | Minimal | Minimal | Minimal | Minimal |
| FY 2026 | Minimal | Minimal | Minimal | Minimal |

30. Kentucky Investment Fund Act Credit (KIFA)

Kentucky Revised Statutes 154.20-258, effective 2002

Data Source: Kentucky Taxpayer Data

For investments approved before January 1, 2023, an investor making a cash contribution to a qualified investment fund is allowed a credit equal to 40 percent of the ownership share of all qualified investments made by its fund. For investments approved after January 1, 2023, the tax credit shall not exceed 25 percent. 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 also 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 million for all investors and all taxable years.

| | Corporate | LLET | Individual | TOTAL |
|----------------|------------------|-------------|-------------------|--------------|
| FY 2024 | Minimal | Minimal | Minimal | Minimal |
| FY 2025 | Minimal | Minimal | Minimal | Minimal |
| FY 2026 | Minimal | Minimal | Minimal | Minimal |

31. Renewable Chemical Production Credit

Kentucky Revised Statutes 141.4231, 246.700(8), effective as 2021

Data Source: Kentucky Taxpayer Data

For tax years beginning on or after Jan 1, 2021, and ending on or before Dec 31, 2024, a non-refundable and non-transferable credit is allowed for taxpayers that produce renewable chemicals. The tax credit is capped at \$10 million annually and is shared with the biodiesel and renewable diesel production tax credits. There is a carryforward of up to three years for any unused credit.

| | Corporate | LLET | Individual | TOTAL |
|----------------|------------------|-------------|-------------------|--------------|
| FY 2024 | Minimal | Minimal | Minimal | Minimal |
| FY 2025 | Minimal | Minimal | Minimal | Minimal |
| FY 2026 | Minimal | Minimal | Minimal | Minimal |

32. Voluntary Environmental Remediation Credit

Kentucky Revised Statutes 141.418, effective 2005

Data Source: Kentucky Taxpayer Data

There shall be allowed a nonrefundable 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 nonrefundable 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, pollutants, contaminants, petroleum, or petroleum products on the property consistent with a corrective action plan approved by the Energy and Environment Cabinet. The maximum total credit for each taxpayer shall not exceed \$150,000. The amount of the allowable credit for any taxable year shall be 25 percent of the maximum credit approved. The credit may be carried forward for a maximum of 10 successive taxable years.

| | Corporate | LLET | Individual | TOTAL |
|----------------|------------------|-------------|-------------------|--------------|
| FY 2024 | Minimal | Minimal | Minimal | Minimal |
| FY 2025 | Minimal | Minimal | Minimal | Minimal |
| FY 2026 | Minimal | Minimal | Minimal | Minimal |

Motor Vehicle Usage Tax

Current Rate Structure:

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

Tax Base:

The retail price is defined as the total consideration given, reduced by the trade-in value of a motor vehicle presented by the buyer. The total consideration paid must be disclosed in a notarized affidavit signed by both buyer and seller. If an affidavit is not submitted, 90 percent of the Manufacturer's Suggested Retail Price (MSRP), 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.

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 for the privilege of using a motor vehicle on the public highways of Kentucky and levied on the vehicle's retail price.

Tax Due:

The tax is paid to the county clerk when the vehicle is titled or registered for the first time in the state or upon the transfer of a previously registered vehicle.

Background:

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

Since 1936, the tax has been 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.

In 2009, a temporary trade-in allowance on new car purchases was introduced. For the period September 1, 2009 to August 31 2010, the purchase price of a new car was reduced by the value of the trade-in vehicle. The trade-in credit was available for one year or until a cap of \$25 million was reached. In 2013, the General Assembly modified the temporary allowance for new vehicle trade-in credit, making the credit permanent for sales on or after July 1, 2014. Prior to 2009, there was a trade-in credit on used car purchases but not for new car transactions.

During FY23, motor vehicle usage tax collections were \$660.3 million, an increase of \$31.2 million from the previous year. These receipts constituted 37.7 percent of total Road Fund tax receipts.

Table 6. Total Motor Vehicle Usage Tax Expenditures

| | |
|----------------|-----------------|
| FY 2024 | \$192.9 million |
| FY 2025 | \$189.0 million |
| FY 2026 | \$190.2 million |

Tax Expenditures

1. Trade-In Allowance on New and Used Motor Vehicle Purchases

Kentucky Revised Statutes 138.4603, effective 2015

Data Source: Kentucky Taxpayer Data

The retail price of a motor vehicle is reduced by the amount of total consideration given by the trade-in allowance of any motor vehicle traded in by the buyer.

| | |
|----------------|-----------------|
| FY 2024 | \$145.0 million |
| FY 2025 | \$140.0 million |
| FY 2026 | \$140.0 million |

2. Large Truck Exclusion

Kentucky Revised Statutes 138.470(16), effective 2003

Data Source: Kentucky Taxpayer Data

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

| | |
|----------------|----------------|
| FY 2024 | \$25.0 million |
| FY 2025 | \$26.0 million |
| FY 2026 | \$27.0 million |

3. Sales to the United States, Commonwealth of Kentucky or any of its Political Subdivisions

Kentucky Revised Statutes 138.470(1), effective 1942

Data Source: Kentucky Taxpayer Data

Sales to the United States, Commonwealth of Kentucky or any of its political subdivisions are exempt from the motor vehicle usage tax.

| | |
|----------------|----------------|
| FY 2024 | \$12.0 million |
| FY 2025 | \$12.1 million |
| FY 2026 | \$12.2 million |

4. Immediate Family Member

Kentucky Revised Statutes 138.470(6), effective 1976

Data Source: Kentucky Taxpayer Data

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

| | |
|----------------|---------------|
| FY 2024 | \$4.0 million |
| FY 2025 | \$4.0 million |
| FY 2026 | \$4.0 million |

5. Military Exemption

Kentucky Revised Statutes 138.470(4), effective 1968

Data Source: Kentucky Taxpayer Data

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.

| | |
|----------------|---------------|
| FY 2024 | \$4.0 million |
| FY 2025 | \$4.0 million |
| FY 2026 | \$4.0 million |

6. Educational and Charitable Organizations

Kentucky Revised Statutes 138.470(2), effective 2006

Data Source: Kentucky Taxpayer Data

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

| | |
|----------------|---------------|
| FY 2024 | \$1.4 million |
| FY 2025 | \$1.4 million |
| FY 2026 | \$1.5 million |

7. Transfers by Will or Court Order

Kentucky Revised Statutes 138.470(9), effective 1970

Data Source: Kentucky Taxpayer Data

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.

| | |
|----------------|---------------|
| FY 2024 | \$0.9 million |
| FY 2025 | \$0.9 million |
| FY 2026 | \$0.9 million |

8. Repossessed Exemption

Kentucky Revised Statutes 138.470(13), effective 1972

Data Source: Kentucky Taxpayer Data

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

| | |
|----------------|---------------|
| FY 2024 | \$0.2 million |
| FY 2025 | \$0.2 million |
| FY 2026 | \$0.2 million |

9. Transfers Between a Limited Liability Company and its Members

Kentucky Revised Statutes 138.470(11), effective 1998

Data Source: Kentucky Taxpayer Data

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

| | |
|----------------|---------------|
| FY 2024 | \$0.2 million |
| FY 2025 | \$0.2 million |
| FY 2026 | \$0.2 million |

10. Rentals or Leases to the United States, Commonwealth of Kentucky or any of its Political Subdivisions

Kentucky Revised Statutes 138.470(1)(b), effective 2021

Data Source: Agency Estimate

Gross rental or lease charges are exempt from the motor vehicle usage tax for the lease or rental of motor vehicles to the United States, Commonwealth of Kentucky or any of its political subdivisions.

| | |
|----------------|---------------|
| FY 2024 | \$0.1 million |
| FY 2025 | \$0.1 million |
| FY 2026 | \$0.1 million |

11. Transfers Between a Subsidiary and a Parent Corporation *Kentucky Revised*

Statutes 138.470(10), effective 1970

Data Source: Kentucky Taxpayer Data

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

FY 2024 \$0.1 million

FY 2025 \$0.1 million

FY 2026 \$0.1 million

12. Change in Business Structure

Kentucky Revised Statutes 138.470(8), effective 1980

Data Source: Kentucky Agency Estimate

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 months from the time that the business is incorporated, organized, or dissolved are exempt.

FY 2024 Limited

FY 2025 Limited

FY 2026 Limited

13. Adaptive Equipment for Physically Handicapped Persons

Kentucky Revised Statutes 138.4603(1)(b), effective 1992 and amended 2006

Data Source: Kentucky Taxpayer Data

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

FY 2024 Minimal

FY 2025 Minimal

FY 2026 Minimal

14. Charter Bus Exemption

Kentucky Revised Statutes 138.470(15), effective 2005

Data Source: Kentucky Agency Estimate

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.

| | |
|----------------|---------|
| FY 2024 | Minimal |
| FY 2025 | Minimal |
| FY 2026 | Minimal |

15. Commercial Motor Vehicle Exemption

Kentucky Revised Statutes 138.470(5), effective 1968

Data Source: Kentucky Taxpayer Data

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

| | |
|----------------|---------|
| FY 2024 | Minimal |
| FY 2025 | Minimal |
| FY 2026 | Minimal |

16. Insurance Company Transfers

Kentucky Revised Statutes 138.470(14), effective 1976

Data Source: Kentucky Taxpayer Data

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

| | |
|----------------|---------|
| FY 2024 | Minimal |
| FY 2025 | Minimal |
| FY 2026 | Minimal |

17. Partnership Interests

Kentucky Revised Statutes 138.470(12), effective 1970

Data Source: Kentucky Taxpayer Data

The motor vehicle usage tax is not applied to the value of a transferred interest in a vehicle when a partner in a motor vehicle transfers his or her ownership to another partner.

| | |
|----------------|---------|
| FY 2024 | Minimal |
| FY 2025 | Minimal |
| FY 2026 | Minimal |

Earmarked Funds

Earmarked funds are dedicated taxes or user fees, from which the proceeds must be spent on the legislatively authorized programs. Although not considered a tax expenditure, earmarked funds are included in the Tax Expenditure Analysis to account for the impact the dedicated funds have on the General Fund and the Road Fund Revenue.

Table 7. Total Earmarked Funds

| | |
|----------------|-----------------|
| FY 2024 | \$149.0 million |
| FY 2025 | \$163.1 million |
| FY 2026 | \$169.0 million |

1. Kentucky Thoroughbred Development Fund

Kentucky Revised Statutes 138.510 (1)(d)(1)(b) and 138.510 (2)(d)(1)(a), effective 1990
Data Source: Kentucky Taxpayer Data

An amount equal to 0.75 percent of all money wagered on live races and historical horse races at the track for Thoroughbred racing shall be deposited in the Thoroughbred development fund established in KRS 230.400 until \$45.0 million has been deposited during a fiscal year, at which point the amount deposited in the fund shall decrease to 0.4 percent of all money wagered on live and historical horse races at the track for Thoroughbred racing for the remainder of the fiscal year to promote, enhance, improve, and encourage the further and continued development of the Thoroughbred breeding industry in Kentucky.

| | |
|----------------|----------------|
| FY 2024 | \$50.4 million |
| FY 2025 | \$52.0 million |
| FY 2026 | \$54.0 million |

2. Kentucky Aviation Economic Development Fund - Sales Tax

Kentucky Revised Statutes 183.525, effective 2000

Data Source: Kentucky Taxpayer Data

All receipts from sales and use tax collected on aviation jet fuel is dedicated to the development fund. Moneys deposited finance the development, rehabilitation, and maintenance of publicly owned or operated aviation facilities and other aviation programs within the Commonwealth that will benefit publicly owned or operated aviation facilities.

| | |
|----------------|----------------|
| FY 2024 | \$22.5 million |
| FY 2025 | \$24.0 million |
| FY 2026 | \$25.0 million |

3. Equine Breeders Incentive Funds - Sales Tax

Kentucky Revised Statutes 230.800, 230.802, and 230.804, effective 2005

Data Source: Kentucky Taxpayer Data

All receipts collected under KRS 139.531(1)(a) from the sales and use tax on the fees paid for breeding a stallion to a mare in Kentucky are dedicated to the breeders incentive funds on a percentage basis. The Kentucky Horse Racing Commission administers the funds and incentivizes breeders of horses bred and foaled in Kentucky, as well as provides incentive for breeders or owners of Kentucky-bred Standardbred horses.

Eighty percent of all receipts collected are dedicated to the Kentucky Thoroughbred Breeders Incentive Fund.

| | |
|----------------|----------------|
| FY 2024 | \$14.8 million |
| FY 2025 | \$15.3 million |
| FY 2026 | \$15.7 million |

Thirteen percent of all receipts collected are dedicated to the Kentucky Standardbred Breeders Incentive Fund.

| | |
|----------------|---------------|
| FY 2024 | \$2.4 million |
| FY 2025 | \$2.5 million |
| FY 2026 | \$2.6 million |

Seven percent of all receipts collected are dedicated to the Kentucky Horse Breeders Incentive Fund.

| | |
|----------------|---------------|
| FY 2024 | \$1.3 million |
| FY 2025 | \$1.4 million |
| FY 2026 | \$1.4 million |

4. Sports Wagering Administration Fund - Excise Tax

Kentucky Revised Statutes 230.817, effective June 29, 2023

Data Source: Kentucky Taxpayer Data, Fiscal Impact from the 2023 Session

Moneys deposited in the fund include the fees paid by licensees and the new excise tax imposed. Moneys are to be used for administrative expenses relating to or associated with the purposes of sports wagering which shall be disbursed by the Finance and Administration Cabinet upon the warrant of the Public Protection Cabinet, with 2.5 percent of the moneys transferred to the Kentucky Problem Gambling Assistance account. The remaining moneys are to be deposited in the Kentucky Permanent Pension Fund.

| | |
|----------------|----------------|
| FY 2024 | \$16.9 million |
| FY 2025 | \$26.7 million |
| FY 2026 | \$28.0 million |

5. Kentucky Standardbred Development Fund

Kentucky Revised Statutes 138.510 (1)(d)(2)(a)(b) and 138.510 (2)(d)(1)(b), effective 1990

Data Source: Kentucky Taxpayer Data

An amount equal to 1.0 percent of all money wagered on live races and historical horse races at the track for harness racing shall be deposited in the Kentucky standardbred development fund until a total of \$20.0 million has been deposited during a fiscal year from this subparagraph, at which point the amount deposited shall decrease to 0.4 percent of all money wagered for the remainder of the fiscal year. The Kentucky Horse Racing Commission shall use this fund, established by KRS 230.770 to promote races and provide purses for Kentucky-bred Standardbred horses.

| | |
|----------------|----------------|
| FY 2024 | \$16.1 million |
| FY 2025 | \$16.6 million |
| FY 2026 | \$17.2 million |

6. Kentucky Quarter Horse, Paint Horse, Appaloosa, and Arabian Development Fund - Pari-Mutuel Tax

Kentucky Revised Statutes 138.510(1)(d)(3) and 138.510(2)(d)(1)(c), effective 1990

Data Source: Kentucky Taxpayer Data

One percent of all money wagered on live races and historical horse races at the track for quarter horse, paint horse, Appaloosa, and Arabian horse racing shall be deposited in the Kentucky quarter horse, paint horse, Appaloosa, and Arabian development fund established by KRS 230.445 to promote races and provide purses for races for horses bred and foaled in the Commonwealth.

| | |
|----------------|---------------|
| FY 2024 | \$6.0 million |
| FY 2025 | \$6.0 million |
| FY 2026 | \$6.5 million |

7. TVA Payments in lieu of Taxes

Kentucky Revised Statute 96.895(5)(a)(b), effective 2021

Data Source: Kentucky Taxpayer Data

For fiscal years beginning on or after July 1, 2020, a portion of the total fiscal year payment received by the Commonwealth from the Tennessee Valley Authority (TVA) that is allocated to the general fund shall be transferred from the general fund to the Regional Development Agency Assistance Program Fund. The portion shall be equal to \$6.0 million and disbursed equally amongst each fund-eligible county.

| | |
|----------------|---------------|
| FY 2024 | \$6.0 million |
| FY 2025 | \$6.0 million |
| FY 2026 | \$6.0 million |

8. Resident Advanced Deposit Wagering

Kentucky Revised Statutes 138.530(3)(e)(2)(a), effective 2014

Data Source: Kentucky Taxpayer Data

Eighty-five percent of the revenues received from all amounts wagered by Kentucky residents through advanced deposit wagering licensees, imposed by KRS 138.513 is allocated equally between the recognized host track and the association that conducted the race.

| | |
|----------------|---------------|
| FY 2024 | \$4.8 million |
| FY 2025 | \$5.0 million |
| FY 2026 | \$5.1 million |

9. Cancer Research Fund - Cigarette Tax

Kentucky Revised Statute 138.140(1)(c), effective 2005

Data Source: Kentucky Taxpayer Data

A surtax on the sale of cigarettes at a proportionate rate of one cent on each twenty cigarettes sold is dedicated to the cancer research institutions matching fund, created in KRS 164.043. The surtax is in addition to the tax levied on the sale of cigarettes within the state at a proportionate rate of three cents and one dollar and six cents on each twenty cigarettes.

| | |
|----------------|---------------|
| FY 2024 | \$2.7 million |
| FY 2025 | \$2.6 million |
| FY 2026 | \$2.6 million |

10. Equine Industry Program Trust and Revolving Fund - Pari-Mutuel Tax

Kentucky Revised Statutes 138.510(1)(4)(a)(b)(c)(d) and 138.510(2)(d)(2), effective 2022

Data Source: Kentucky Taxpayer Data

An amount equal to 0.2 percent of the total amount wagered on live races and historical horse races at the track is earmarked to support the Equine Industry Programs at the University of Louisville, the University of Kentucky, and Bluegrass Community and Technical College. Any amount remaining from historical horse races is earmarked for the Kentucky Thoroughbred and Kentucky Standardbred breeders' incentive funds. The amount derived from money wagered on historical horse races in any fiscal year shall not exceed \$2.0 million.

An amount equal to 0.025 percent of the amount wagered on all tracks conducting telephone account wagering, participating as receiving tracks in intertrack wagering and receiving tracks displaying simulcasts are earmarked to support the Equine Industry Program at the University of Louisville.

| | |
|----------------|---------------|
| FY 2024 | \$2.0 million |
| FY 2025 | \$2.0 million |
| FY 2026 | \$2.0 million |

11. Tobacco Research Trust Fund - Cigarette Tax

Kentucky Revised Statutes 248.540, effective 1970

Data Source: Kentucky Taxpayer Data

The tax revenues received from the additional one-half cent tax levied by Chapter 255 of the Acts of 1970 are dedicated to the tobacco research-trust fund. The funds are used to finance research projects and programs authorized under the provisions of KRS 248.510 to 248.570.

| | |
|----------------|---------------|
| FY 2024 | \$1.3 million |
| FY 2025 | \$1.2 million |
| FY 2026 | \$1.1 million |

12. Malt Beverage Educational Fund – Beer Wholesale and Excise Tax

Kentucky Revised Statutes 211.285, effective 1998

Data Source: Kentucky Taxpayer Data

One percent of the wholesale tax collected from distributors of malt beverages and microbreweries under KRS 243.884, and 1.0 percent of the excise tax collected from the sale and distribution of malt beverages under KRS 243.720 are dedicated to the malt beverage educational fund. In partnership with the Malt Beverage Educational Corporation, moneys are matched to fund educational materials aiming to deter or eliminate underage drinking.

| | |
|----------------|---------------|
| FY 2024 | \$0.8 million |
| FY 2025 | \$0.8 million |
| FY 2026 | \$0.8 million |

13. Equine Drug Research - Pari-Mutuel Tax

Kentucky Revised Statutes 138.510(1)(d)(6), effective 1982

Data Source: Kentucky Taxpayer Data

An amount equal to 0.1 percent of the total amount wagered on live races and historical horse races is earmarked for the commission to support equine drug testing as provided in KRS 230.265(3). The amount derived from money wagered on historical horse races in any fiscal year shall not exceed \$320,000.

| | |
|----------------|---------------|
| FY 2024 | \$0.5 million |
| FY 2025 | \$0.5 million |
| FY 2026 | \$0.5 million |

14. Higher Education Equine Trust and Revolving Fund - Pari-Mutuel Tax

Kentucky Revised Statutes 138.510(1)(d)(5)(a), effective 1992

Data Source: Kentucky Taxpayer Data

An amount equal to 0.1 percent of the total amount wagered on live races and historical horse races at the track is dedicated to fund construction, expansion, or renovation of facilities or the purchase of equipment for equine programs at state universities. The amount derived from money wagered on historical horse races in any fiscal year shall not exceed \$320,000.

| | |
|----------------|---------------|
| FY 2024 | \$0.5 million |
| FY 2025 | \$0.5 million |
| FY 2026 | \$0.5 million |

15. County Clerk Share for Collection - Sales Tax

Kentucky Revised Statutes 139.778(4), effective 2007

Data Source: Kentucky Agency Estimate

County clerks retain a fee of 3 percent to compensate for services provided in the collection of sales and use tax on tangible personal property purchased out of state for titling or initial registration. The remaining tax balance is remitted to the Department of Revenue as provided in KRS 138.464.

| | |
|----------------|---------|
| FY 2024 | Limited |
| FY 2025 | Limited |
| FY 2026 | Limited |

16. Department of Energy Development and Independence – Ad Valorem Tax

Kentucky Revised Statutes 132.020(5), effective 1994

Data Source: Kentucky Taxpayer Data

An annual amount of \$400,000 of state property tax revenue is credited to the Office of Energy Policy for the purpose of public education regarding coal-related issues.

| | |
|----------------|---------|
| FY 2024 | Limited |
| FY 2025 | Limited |
| FY 2026 | Limited |

17. Kentucky Heritage Land Conservation Fund – Ad Valorem Tax

Kentucky Revised Statutes 132.020(2) and (5), effective 1994

Data Source: Kentucky Taxpayer Data

All real property tax derived from unmined coal property is devoted to the Kentucky Heritage Land Conservation Fund, with exception to \$400,000 that is paid annually to the State Treasury and credited to the Office of Energy Policy for the purpose of public education of coal-related issues. The calculated real property tax rate is established through provisions of subsection (2) and (5) of KRS 132.020.

| | |
|----------------|---------|
| FY 2024 | Limited |
| FY 2025 | Limited |
| FY 2026 | Limited |

18. Kentucky Transportation Center - Motor Fuels Tax

Kentucky Revised Statutes 177.320(4), effective 1986

Data Source: Kentucky Taxpayer Data

An amount equal to 0.1 percent of all revenues arising from the imposition of taxes on gasoline and special fuels provided by KRS 138.220(1) and (2), 138.660 and liquefied petroleum gas provided by KRS 234.320 are dedicated to the Kentucky Transportation Center to finance construction, reconstruction, and maintenance of secondary and rural roads. The amount deposited to the center in any fiscal year shall not exceed \$190,000.

| | |
|----------------|---------|
| FY 2024 | Limited |
| FY 2025 | Limited |
| FY 2026 | Limited |

19. Tobacco Enforcement Program - Cigarette Tax

Kentucky Revised Statutes 438.335 effective 1996

Data Source: Kentucky Taxpayer Data

One-twentieth of one cent of the three-cent per pack revenue collected from state excise tax on the sale of cigarettes as imposed by KRS 138.140 is earmarked for the Department of Agriculture to offset the cost of enforcement aimed to prevent the sale of tobacco products to minors.

| | |
|----------------|---------|
| FY 2024 | Limited |
| FY 2025 | Limited |
| FY 2026 | Limited |

Gasoline, Liquefied Petroleum, and Special Fuels Tax

Current Rate Structure:

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

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

A weighted average wholesale price of gasoline is calculated on a quarterly basis by the Department of Revenue based on grade and formulation of the motor fuel. The AWP is calculated in the first month of each fiscal quarter (July, October, January, and April) and the average quarterly AWP sets the variable portion of the tax rate for the following year. The AWP cannot increase by more than 10 percent over the AWP in effect at the close of the previous fiscal year and is limited to a decline of 10 percent.

The current AWP floor is \$2.177 per gallon of gasoline, liquefied petroleum, and special fuels. Therefore, the variable portion of the gasoline, liquefied petroleum, and special fuels tax cannot be less than 19.6 cents per gallon. Adding the fixed components of the tax brings the minimum gasoline tax to twenty-six cents per gallon of gasoline and liquefied petroleum and twenty-three cents per gallon of special fuels.

Tax Base:

The gasoline and special fuels tax becomes a per gallon liability of the dealer when the fuel 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. 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.

Unlike the gasoline and special fuels 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 gasoline, liquefied petroleum, and special fuels tax is a “per gallon” basis.

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.

Background:

For Kentucky taxation purposes, gasoline means all liquid fuels ordinarily, practically, or commercially used in internal combustion engines meeting the requirements for gasoline fuel established by the American Society for Testing and Material. 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. 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.

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. A tax on special fuels was first enacted in 1952, and the tax on liquefied petroleum gas was first levied in 1960.

In 1980, because the price of gasoline had increased so rapidly and was projected to continue to increase, the legislature changed the tax base to the average wholesale price per gallon and the rate to 9 percent of the average wholesale price per gallon. As designed, if the price of gasoline increased, the tax increased proportionally. At the same time, a minimum wholesale price of \$1.00 per gallon was established, thus

creating a “floor”, or minimum tax, of nine cents per gallon. The base for the special fuels and liquefied petroleum taxes were also adjusted accordingly.

In 1982, the minimum wholesale price was increased to \$1.11 per gallon, increasing the “floor” to ten cents per gallon. In 1986, the “supplemental highway user tax” was enacted and applied to all three fuel taxes at the rate of five cents per gallon. This raised the minimum tax to fifteen cents per gallon.

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.

Over the years, the minimum wholesale price has been changed several times by the Kentucky Legislature. 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.

In 2015, the way in which the variable portion of the gasoline tax is calculated was changed. The quarterly tax rate adjustment method was replaced with an annual rate. For FY16, the AWP was set as 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.

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

For FY23, motor fuels tax collections totaled \$798.3 million which accounted for 45.5 percent of total Road Fund tax receipts. Of the total motor fuels taxes, gasoline tax receipts were \$590.7 million and represent 74 percent of total motor fuels collections. Special fuels receipts were \$206.7 million and made up the remaining 26 percent of motor fuels revenue. Liquefied petroleum receipts were less than \$100,000 and accounted for only a small fraction of the total motor fuels revenues.

Table 8. Total Gasoline, Liquefied Petroleum, and Special Fuels Tax Expenditures

| | Gasoline | Liquefied Petroleum | Special Fuels | Total |
|----------------|-----------------|----------------------------|----------------------|----------------|
| FY 2024 | \$14.3 million | Minimal | \$48.0 million | \$62.3 million |
| FY 2025 | \$14.8 million | Minimal | \$48.2 million | \$63.0 million |
| FY 2026 | \$15.3 million | Minimal | \$48.4 million | \$63.7 million |

Tax Expenditures

1. Railroad Companies

Kentucky Revised Statutes 138.240(2)(f), effective 1988
 Data Source: Kentucky Taxpayer Data

Special fuels delivered to railroad companies principally engaged in the business of transporting property for others as a common carrier or in the conveyance of persons are exempt.

| | Special Fuels |
|----------------|----------------------|
| FY 2024 | \$18.0 million |
| FY 2025 | \$18.0 million |
| FY 2026 | \$18.0 million |

2. Dealer’s Monthly Reporting Allowance

Kentucky Revised Statutes 138.270(1)(b), effective 1942,
Kentucky Revised Statutes 234.320(1), effective 1960
 Data Source: Kentucky Taxpayer Data

An allowance of 2.25 percent of the net tax due is allowed a dealer of gasoline or special fuels and 1 percent for a dealer of liquefied petroleum 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.

| | Gasoline | Liquefied Petroleum | Special Fuels | Total |
|----------------|-----------------|----------------------------|----------------------|----------------|
| FY 2024 | \$13.0 million | Minimal | \$4.5 million | \$17.5 million |
| FY 2025 | \$13.5 million | Minimal | \$4.5 million | \$18.0 million |
| FY 2026 | \$14.0 million | Minimal | \$4.5 million | \$18.5 million |

3. Non-Highway Use

Kentucky Revised Statutes 138.344(1), effective 1946
Data Source: Kentucky Taxpayer Data

Special fuels used exclusively for non-highway use by qualified purchasers are exempt sales.

| | Special Fuels |
|----------------|----------------------|
| FY 2024 | \$17.2 million |
| FY 2025 | \$17.3 million |
| FY 2026 | \$17.4 million |

4. Agricultural Exemption

Kentucky Revised Statutes 138.344(1), effective 1946,
Kentucky Revised Statutes 138.358(2), effective 1988
Data Source: Kentucky Taxpayer Data

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

| | Gasoline | Special Fuels | Total |
|----------------|-----------------|----------------------|---------------|
| FY 2024 | \$0.1 million | \$7.1 million | \$7.2 million |
| FY 2025 | \$0.1 million | \$7.2 million | \$7.3 million |
| FY 2026 | \$0.1 million | \$7.3 million | \$7.4 million |

5. Bus, Taxicab and Certain Senior Citizens' Programs Refund

Kentucky Revised Statutes 138.446, effective 1960,
Data Source: Kentucky Taxpayer Data

Seven-ninths of the tax paid is refunded if the gasoline is used in regularly scheduled operations of city and suburban buses or taxicabs. Senior citizen transportation programs that utilize Title III funds of the Older Americans Act are also entitled to the refund.

| | Gasoline | Special Fuels | Total |
|----------------|-----------------|----------------------|---------------|
| FY 2024 | \$0.4 million | \$0.4 million | \$0.8 million |
| FY 2025 | \$0.4 million | \$0.4 million | \$0.8 million |
| FY 2026 | \$0.4 million | \$0.4 million | \$0.8 million |

6. Watercraft Refund

Kentucky Revised Statutes 138.445, effective 1960

Data Source: Kentucky Taxpayer Data

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

| | Gasoline | Special Fuels | Total |
|----------------|-----------------|----------------------|---------------|
| FY 2024 | \$0.7 million | Limited | \$0.7 million |
| FY 2025 | \$0.7 million | Limited | \$0.7 million |
| FY 2026 | \$0.7 million | Limited | \$0.7 million |

7. State and Local Government Use

Kentucky Revised Statutes 138.358(3), effective 1988

Data Source: Kentucky Taxpayer Data

An exemption is allowed for sales to qualifying state and local government agencies.

| | Special Fuels |
|----------------|----------------------|
| FY 2024 | \$0.5 million |
| FY 2025 | \$0.5 million |
| FY 2026 | \$0.5 million |

8. Residential Heating

Kentucky Revised Statutes 138.358(1), effective 1988

Data Source: Kentucky Taxpayer Data

An exemption is allowed for special fuels used exclusively for heating personal residences.

| | Special Fuels |
|----------------|----------------------|
| FY 2024 | \$0.3 million |
| FY 2025 | \$0.3 million |
| FY 2026 | \$0.3 million |

9. Aircraft Refund

Kentucky Revised Statutes 138.341(1), effective 1942,
Data Source: Kentucky Taxpayer Data

100 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.

Gasoline

| | |
|----------------|---------------|
| FY 2024 | \$0.1 million |
| FY 2025 | \$0.1 million |
| FY 2026 | \$0.1 million |

10. Religious, Charitable or Educational Use

Kentucky Revised Statutes 138.358(3), effective 1988
Data Source: Kentucky Taxpayer Data

An exemption is allowed for sales to qualifying non-profit religious, charitable, or educational organizations.

Special Fuels

| | |
|----------------|---------|
| FY 2024 | Limited |
| FY 2025 | Limited |
| FY 2026 | Limited |

11. Approved Carburetion Systems

Kentucky Revised Statutes 234.321, effective 1972
Data Source: Kentucky Taxpayer Data

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

Liquefied Petroleum

| | |
|----------------|---------|
| FY 2024 | Minimal |
| FY 2025 | Minimal |
| FY 2026 | Minimal |

Inheritance & Estate Tax

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.

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 25 percent each year until complete on June 30, 1998.

The 2001 Federal Economic Growth and Tax Relief Reconciliation Act (EGTRRA) increased the exemption from federal estate tax allowed to an estate. From \$1.0 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 \$5.0 million 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 \$5.0 million for 2011 and was adjusted for inflation to \$5.12 million 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 \$5.0 million exclusion for estates of decedents dying after December 31, 2012.

The Tax Cut and Jobs Act (TCJA) was signed into law by President Trump on December 22, 2017. The tax reform legislation raised the estate tax exemption to \$11.18 million for estates of decedents dying after December 31, 2017, and is adjusted annually for inflation. If congress does not make this exemption permanent by the end of 2025, the exemption amounts will revert to previous levels, adjusted for inflation. The estate exemption for 2022 was \$12.06 million. The estate exemption for 2023 is \$12.92 million. The estate exemption amount is adjusted for inflation each year.

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 FY23, the inheritance tax produced \$71.8 million in General Fund revenues. This was a decline of 11.6 percent from the prior year and accounted for less than one percent of total General Fund tax receipts.

Table 9. Total Inheritance and Estate Tax Expenditures

| | |
|----------------|----------------|
| FY 2024 | \$75.0 million |
| FY 2025 | \$76.0 million |
| FY 2026 | \$77.0 million |

Tax Expenditures

1. Class A Beneficiaries

Kentucky Revised Statutes 140.080(1)(b)(c), effective 2005

Data Source: Kentucky Agency Data

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

| | |
|----------------|----------------|
| FY 2024 | \$75.0 million |
| FY 2025 | \$76.0 million |
| FY 2026 | \$77.0 million |

2. Annuities Under Qualified Retirement Plans

Kentucky Revised Statutes 140.063(1)(2), effective 1982

Data Source: Kentucky Agency Estimate

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

FY 2024 Minimal

FY 2025 Minimal

FY 2026 Minimal

3. Assessment of Land at its Agricultural or Horticultural Value

Kentucky Revised Statutes 140.310, effective 1978,

Kentucky Revised Statutes 140.360, effective 1978

Data Source: Kentucky Agency Estimate

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 2024 Minimal

FY 2025 Minimal

FY 2026 Minimal

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

Kentucky Revised Statutes 140.015(2), effective 1980

Data Source: Kentucky Agency Estimate

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

FY 2024 Minimal

FY 2025 Minimal

FY 2026 Minimal

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

Kentucky Revised Statutes 140.015(1), effective 1980
Data Source: Kentucky Agency Estimate

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 2024 | Minimal |
| FY 2025 | Minimal |
| FY 2026 | Minimal |

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

Kentucky Revised Statutes 140.020(3), effective 1982 and 140.050, effective 1942
Data Source: Kentucky Agency Estimate

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

| | |
|----------------|---------|
| FY 2024 | Minimal |
| FY 2025 | Minimal |
| FY 2026 | Minimal |

7. Class B Beneficiaries

Kentucky Revised Statutes 140.080(1)(d), effective 2005
Kentucky Revised Statutes 140.070(2), effective 1995
Data Source: Kentucky Agency Estimate

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

| | |
|----------------|---------|
| FY 2024 | Minimal |
| FY 2025 | Minimal |
| FY 2026 | Minimal |

8. Class C Beneficiaries

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

Kentucky Revised Statutes 140.070(3), effective 1995

Data Source: Kentucky Agency Estimate

Class C beneficiaries are granted a \$500 exemption.

| | |
|----------------|---------|
| FY 2024 | Minimal |
| FY 2025 | Minimal |
| FY 2026 | Minimal |

Coal Severance & Natural Resources Severance Taxes

Coal Severance Tax

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

The tax is levied on the gross value of coal. Gross value is the amount received 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. The tax return and payment is due on the twentieth day of the month following the close of the taxable period.

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 FY23, the coal severance tax produced \$96.6 million in tax revenue, which accounted for less than one percent of total General Fund receipts.

Natural Resources Severance Taxes

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 twelve cents per ton (*KRS 143A.037*). The tax on limestone used in manufacture of cement shall be limited to fourteen cents per ton of limestone mined in Kentucky (*KRS 143A.036*). 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.

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. 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. 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.

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 FY23, the natural gas severance tax, the minerals severance tax, and oil production tax revenues totaled \$147.0 million, which represents 9.7 percent of total General Fund tax receipts.

Table 10. Total Coal Severance and Natural Resources Severance Tax Expenditures

| | |
|----------------|----------------|
| FY 2024 | \$18.5 million |
| FY 2025 | \$15.1 million |
| FY 2026 | \$14.5 million |

Tax Expenditures

1. Coal Transportation Expense

Kentucky Revised Statutes 143.010(6)(h), 2013

Data Source: Kentucky Agency Estimate

Transportation expense incurred in transporting coal shall not be considered as gross income from the property and are therefore not taxable.

| | |
|----------------|---------------|
| FY 2024 | \$6.9 million |
| FY 2025 | \$4.9 million |
| FY 2026 | \$4.2 million |

2. Natural Resource Transportation Expense

Kentucky Revised Statutes 143A.010 (5)(h), effective 2013

Data Source: Kentucky Agency Estimate

Expenses incurred in transporting minerals are excluded from gross value and are therefore not taxable.

| | |
|----------------|---------------|
| FY 2024 | \$5.0 million |
| FY 2025 | \$4.9 million |
| FY 2026 | \$5.0 million |

3. Limestone Sold in Interstate Commerce

Kentucky Revised Statutes 143A.035, effective 1984

Data Source: Kentucky Agency Estimate

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

| | |
|----------------|---------------|
| FY 2024 | \$3.0 million |
| FY 2025 | \$3.0 million |
| FY 2026 | \$3.0 million |

4. Thin Seam Coal Tax Credit

Kentucky Revised Statutes 143.021, effective 2000

Data Source: Kentucky Taxpayer Data

A nonrefundable 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.

| | |
|----------------|---------------|
| FY 2024 | \$2.3 million |
| FY 2025 | \$2.3 million |
| FY 2026 | \$2.3 million |

5. Exported Coal Refund

Kentucky Revised Statutes 143.022, effective 2022

Data Source: Kentucky Agency Estimate

Taxpayers who have paid their coal severance tax may apply for a refund on coal which is transported directly to a market outside of North America. This tax credit sunsets on July 1, 2024.

| | |
|----------------|---------------|
| FY 2024 | \$1.3 million |
| FY 2025 | Minimal |
| FY 2026 | Minimal |

6. Inactive Crude Oil and Natural Gas Wells

Kentucky Revised Statutes 143A.033, effective 2010

Data Source: Kentucky Agency Estimate

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

| | |
|----------------|---------|
| FY 2024 | Limited |
| FY 2025 | Limited |
| FY 2026 | Limited |

7. Clay Used in Landfill Construction

Kentucky Revised Statutes 143A.037, effective 1991

Data Source: Kentucky Taxpayer Data

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, which is twelve cents per ton.

FY 2024 Minimal

FY 2025 Minimal

FY 2026 Minimal

8. Coal Purchased for Alternative Energy or Gasification Facility

Kentucky Revised Statutes 154.27-060, effective 2010

Kentucky Revised Statutes 143.024, effective 2010

Data Source: Kentucky Agency Data

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 80 percent of the severance taxes paid on the purchase or severance of coal that is specifically used as feedstock for the facility.

FY 2024 Minimal

FY 2025 Minimal

FY 2026 Minimal

9. Coal Used to Burn Solid Waste

Kentucky Revised Statutes 143.023, effective 1991

Data Source: Kentucky Taxpayer Data

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

FY 2024 Minimal

FY 2025 Minimal

FY 2026 Minimal

10. Fluorspar, Lead, Zinc, and Barite, Used for Privately Maintained but Publicly Dedicated Roads

Kentucky Revised Statutes 143A.030, effective 2002

Data Source: Kentucky Taxpayer Data

The severing or processing of these minerals for privately maintained roads is exempt from the tax.

FY 2024 Minimal

FY 2025 Minimal

FY 2026 Minimal

11. Limestone Sold or Used for Agricultural Purposes

Kentucky Revised Statutes 143A.030, effective 2002

Data Source: Kentucky Agency Estimate

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.

FY 2024 Minimal

FY 2025 Minimal

FY 2026 Minimal

Alcoholic Beverage Taxes

Current Rate Structure:

Total alcoholic beverage taxes were \$192.0 million in FY23, which represents 1.3 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 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 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 or microbrewer selling in this state. The wholesale sales tax is based on gross receipts derived at the wholesale level.

Wholesalers of distilled spirits and wine, distributors of malt beverages, and direct shippers licensees, shall pay and report the wholesale sales tax and excise tax on or before the 20th 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 by microbreweries, distillers, or direct shipper licensees to consumers in Kentucky.

Effective for tax periods beginning April 1, 2021 forward, direct shippers of alcohol will file and remit the excise tax and wholesale sales tax to the Department of Revenue (DOR) by the 20th of each month following the reporting period. Monthly

reports are due even if there are no direct shipments to report that month. In addition, direct shippers will file one or both of the detailed reports of direct shipments to Kentucky consumers, depending on alcohol type whether distilled spirits/wine or malt beverages. These forms are due by the 20th of the month following the end of each quarter.

Effective January 1, 2022, Kentucky distillers, rectifiers, and bottlers will file and remit the excise tax and wholesale sales tax to the Department of Revenue (DOR) by the 20th of each month following the month of the transactions and report all product sold at retail. Quantities shall not exceed an aggregate of four and one-half liters per purchaser per day for sales prior to January 1, 2021, and in quantities not to exceed an aggregate of nine liters per purchaser per day on and after January 1, 2021. (*KRS 243.0305(3)(b), (8) and (9)*).

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*).

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 6 percent or less of the total volume of contents of such containers.

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

In 1982, a wholesale sales tax was imposed at the rate of 9 percent of the gross receipts derived from “sales at wholesale” or “wholesale sales of distilled spirits, wine, and beer”. The 2005 General Assembly raised the wholesale sales tax to 11 percent. In 2014, the General Assembly voted to lower the wholesale sales tax by .25 percent each year beginning July 1, 2015 until June 1, 2018. Effective June 1, 2018 the wholesale sale tax for wine and beer wholesalers is 10 percent. The wholesale rate on distilled spirits remains at 11 percent.

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

Effective April 13, 2018, KY licensed distilleries, small farm wineries and wineries were permitted to ship alcoholic beverages directly to Kentucky consumers with certain limitations for wine size and distilled spirits size. Distillers, small farm wineries, and wineries are responsible for the KY excise and wholesale sales tax due. Effective July 14, 2018 microbreweries making wholesale sales were required to file and remit the KY excise tax and wholesale sales tax.

Table 11. Total Alcoholic Beverage Tax Expenditures

| | |
|----------------|----------------|
| FY 2024 | \$12.0 million |
| FY 2025 | \$12.3 million |
| FY 2026 | \$12.5 million |

Tax Expenditures

1. Wholesale Sales Tax Imposed Rate on Beer

Kentucky Revised Statutes 243.884 (1)(c)(2)(d), effective 2015

Data Source: Kentucky Agency Data

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; 10 percent for wholesale sales or sales at wholesale made on or after March 12, 2021.

| | |
|----------------|---------------|
| FY 2024 | \$7.0 million |
| FY 2025 | \$7.1 million |
| FY 2026 | \$7.2 million |

2. Wholesale Sales Tax Imposed Rate on Wine

Kentucky Revised Statutes 243.884 (1)(c)(2)(d), effective 2015

Data Source: Kentucky Agency Data

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 ; 10 percent for wholesale sales or sales at wholesale made on or after March 12, 2021.

| | |
|----------------|---------------|
| FY 2024 | \$2.2 million |
| FY 2025 | \$2.2 million |
| FY 2026 | \$2.2 million |

3. Allowance for Collecting and Reporting

Kentucky Revised Statutes 243.886, effective 1982

Data Source: Kentucky Agency Data

As compensation, each wholesaler required to pay and report the wholesale sales tax, other than a microbrewery, shall deduct on each report 1 percent of the tax due, provided the amount due is not delinquent at the time of payment. A microbrewery that reports and pays the wholesale sales tax levied by KRS 243.884 in accordance with KRS 243.157 shall not be entitled to deduct 1 percent of the tax due.

| | |
|----------------|---------------|
| FY 2024 | \$1.7 million |
| FY 2025 | \$1.8 million |
| FY 2026 | \$1.9 million |

4. Low Volume Distilled Spirits Taxed at Reduced Rate

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

Data Source: Kentucky Agency Data

Distilled spirits in containers where the distilled spirits represent 6 percent or less of the total volume of the contents of such containers are taxed for purposes of the distilled spirits excise tax at the reduced rate of twenty-five cents per gallon.

| | |
|----------------|---------------|
| FY 2024 | \$0.8 million |
| FY 2025 | \$0.9 million |
| FY 2026 | \$0.9 million |

5. Small Farm Winery Exemption

Kentucky Revised Statutes 243.884(3), effective 2016

Data Source: Kentucky Agency Data

Gross receipts from sales at wholesale or wholesale does not include sales from the first fifty thousand (50,000) gallons of wine produced by a small farm winery in a calendar year made by the small farm winery or a wholesaler of that wine produced by the small farm winery.

| | |
|----------------|---------------|
| FY 2024 | \$0.3 million |
| FY 2025 | \$0.3 million |
| FY 2026 | \$0.3 million |

6. Malt Beverage Excise Tax at Reduced Rate

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

Data Source: Kentucky Agency Data

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

| | |
|----------------|---------|
| FY 2024 | Limited |
| FY 2025 | Limited |
| FY 2026 | Limited |

Insurance Premiums Tax

Current Rate Structure:

The first insurance premiums taxes were enacted in 1892 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 percent 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 percent 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 (*KRS 136.360*).
 - Retaliatory tax and fees on insurers (*KRS 304.3-270 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 \$20.0 million
 - 0.3% on the next \$20.0 million
 - 0.2% on the next \$20.0 million
 - 0.075% on each dollar thereafter
- Reinsurance premiums (*KRS 304.49-220(2)*):
- 0.225% on the first \$20.0 million
 - 0.150% on the next \$20.0 million
 - 0.050% on the next \$20.0 million
 - 0.025% on each dollar thereafter

Tax Base:

The minimum tax payment remitted by a captive insurer 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 \$196.0 million in FY23.

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.

Table 12. Total Insurance Premiums Tax Expenditures

| | |
|----------------|---------------|
| FY 2024 | \$7.2 million |
| FY 2025 | \$7.2 million |
| FY 2026 | \$7.2 million |

1. Life and Health Guaranty Fund Assessment Credit

Kentucky Revised Statutes 304.42-130(1), effective 1978

Data Source: Kentucky Taxpayer Data

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, under KRS 136.320(3) and (4), 136.330, 136.340, or 136.350, whichever may be applicable, against the assessment to the extent of 20 percent of the amount of the assessment for each of the five calendar years following the year in which the assessment was paid.

| | |
|----------------|---------------|
| FY 2024 | \$5.0 million |
| FY 2025 | \$5.0 million |
| FY 2026 | \$5.0 million |

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

Kentucky Revised Statutes 136.395, effective 1972

Data Source: Kentucky Agency Data

No tax shall be imposed upon or measured by the premiums paid to or received by a hospital service corporation, a medical service plan corporation, a dental service plan corporation, or a domestic mutual insurer against the risk or cost of medical and/or surgical care organized under KRS 304.24-010 to 304.24-440 and 304.32-010 to 304.32-270.

| | |
|----------------|---------------|
| FY 2024 | \$2.2 million |
| FY 2025 | \$2.2 million |
| FY 2026 | \$2.2 million |

Tobacco Taxes

Current Tax Rate:

The tax rate on cigarettes, including both the cigarette excise tax and the cigarette surtaxes, is \$1.10 (60) cents per package of twenty cigarettes. The other tobacco products are taxed at 15 percent of wholesale gross receipts. The tax on snuff and moist chewing tobacco is nineteen cents per each single unit purchased. Similar rates apply for larger volumes of moist chewing tobacco.

- Forty 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.
- Sixty-five 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 sixty-five cents plus nineteen 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.

House Bill (HB) 351 was enacted in 2019 and established a tax on vapor products. Effective August 1, 2020, the vapor products tax rate on closed vaping systems is \$1.50 per cartridge and the rate on open vaping systems is 15 percent of the actual price at which the distributor sells the product (i.e., wholesale sales tax). Taxable items include both nicotine and non-nicotine products.

House Bill (HB) 659 was enacted in 2022 and amended KRS 138.146 to increase the compensation rate for licensed wholesalers for the purchase of cigarette tax stamps to one and one-half cents per pack of 20 cigarettes equal to \$450 on a roll of 30,000 stamps, effective August 1, 2022.

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 affixed 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 .01364 percent discount against the cigarette 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 nineteen cents per each 1.5 ounces or portion thereof by net weight. Moist chewing tobacco is also taxed at nineteen cents per each single unit. For Vaping products, the tax base is a “cartridge” for closed vaping systems and the actual wholesale value for open vaping systems.

Tax Due:

The wholesaler pays the cigarette 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 and excise tax payment is due by the twentieth day of the succeeding month within which the transaction occurred.

For FY23, tobacco tax collections deposited to the General Fund were \$341.2 million and represented 2.25 percent of total General Fund tax revenues. The aforementioned total for FY23 includes the portion of the excise tax that goes to the General Fund, the cigarette surtax, the floor stocks tax, and the taxes on all other tobacco products (including moist snuff, chewing tobacco, and other tobacco products).

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 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 nine and one-half 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 another 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 thirty 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.

In 2018, the General Assembly added an additional fifty cents to the cigarette surtax. The tax on “other tobacco products” was not changed at that time. In 2019 the General Assembly added a tax on “vapor” products, or so-called “e-cigarettes”. Effective August 1, 2020, the vapor products tax rate on closed vaping systems is \$1.50 per cartridge and the rate on open vaping systems is 15 percent of the actual price at which the distributor sells the product (i.e., wholesale sales tax). Taxable items include both nicotine and non-nicotine products.

Table 13. Total Tobacco Tax Expenditures

| | |
|----------------|---------------|
| FY 2024 | \$3.9 million |
| FY 2025 | \$3.6 million |
| FY 2026 | \$3.3 million |

Tax Expenditures

1. Compensation Allowed Wholesaler

Kentucky Revised Statues 138.146(4)(a), effective 1982

Data Source: Kentucky Taxpayer Data

For affixing the tax evidence to each package of cigarettes, the cigarette wholesaler is allowed an amount of tax evidence equal to a proportionate rate of one-half cents on each twenty cigarettes.

| | |
|----------------|---------------|
| FY 2024 | \$3.9 million |
| FY 2025 | \$3.6 million |
| FY 2026 | \$3.3 million |

Pari-Mutuel Wagering Taxes

Tax Base:

The Department of Revenue administers the horse racing taxes imposed on all tracks conducting pari-mutuel wagering under the jurisdiction of the Kentucky Horse Racing Commission on live racing, telephone account wagering, inter-track wagering, simulcasts and interstate wagering.

Effective August 1, 2022, the pari-mutuel excise tax for live wagering, simulcast wagering, and advanced deposit wagers (ADW) is set at 1.5 percent due to the passage of HB 607 in the 2022 Regular Session.

Instant racing is taxed at 1.5 percent of the amount wagered on historical horse races.

Before August 1, 2022, wagers placed on live races, the base is the live handle and the rate is the two-tiered system of 3.5 percent for large tracks with an average daily handle of \$1.2 million or more and 1.5 percent for track with an average daily handle of less than \$1.2 million.

Beginning August 1, 2022, the excise tax imposed on all tracks conducting pari-mutuel wagering on live racing is set at 1.5 percent of all money wagered on live races at the track during the fiscal year (*KRS 138.510 (1)(a)&(b)*).

Before August 1, 2022, wagers at Receiving Tracks or Telephone Account Wagers or Whole Card Simulcast shall be 3 percent of all money wagered if total anticipated annual live racing handle is more than \$250,000.

Beginning August 1, 2022, all money wagered at Receiving Tracks or Telephone Account Wagers or Whole Card Simulcast shall be 1.5 percent of all money wagered if total anticipated annual live racing handle is more than \$250,000 (*KRS 138.510 (2)(a) & (b)*).

Effective July 14, 2022, the admissions tax imposed under KRS 138.480 – 138.490 is repealed. Before July 14, 2022, racetracks were required to collect from each person entering the racetrack on paid or free admissions for all race meetings except county fairs conducting harness racing. (Excluded: employees of the racetrack,

owners or trainers of horses, jockeys, or their employees). The rate of the admissions tax was fifteen cents for each admission (*KRS 138.480-138.490*).

Beginning August 1, 2014, but before August 1, 2022, an excise tax of 0.5 percent was set on all advance deposit wagering amounts wagered through the licensee by Kentucky residents. Beginning August 1, 2022, an excise tax of 1.5 percent is set on all advance deposit account wagering licensees licensed under KRS 138.675 (*KRS 138.513 (1)(a)&(b)*).

Racetracks conducting live horse races must report and pay a license tax for each day of racing based on the average daily handle of the preceding race year (*KRS 137.170-137.190*).

| <u>Average Daily Live Handle</u> | <u>License Tax</u> |
|---|---------------------------|
| \$0 - \$25,000 | \$ 0 |
| \$25,001 - \$250,000 | \$ 175 |
| \$250,001 - \$450,000 | \$ 500 |
| \$450,001 - \$700,000 | \$ 1,000 |
| \$700,001 - \$800,000 | \$ 1,500 |
| \$800,001 - \$900,000 | \$ 2,000 |
| \$900,001 and above | \$ 2,500 |

See Comment

Background:

Pari-mutuel wagering taxes were adopted in 1948 and have been modified several times to arrive at the current statutory language (*KRS 138.510*).

In 1948, all pari-mutuel races were taxed identically with an excise tax equal to 3 percent of the total amount of all money deposited in the pari-mutuel pool. None of the wagering handle went to any association or corporation that operates a running or trotting horse racetrack.

In 1954, the statute started differentiating the rate of the pari-mutuel taxes depending on the amount wagered at each track. The pari-mutuel excise tax was raised to 4 percent of the first \$18 million wagered during the year and 6 percent of all wagered amounts in excess of that amount.

In the seventies, the pari-mutuel excise tax increased again to four and three-fourths percent of the amount wagered. Later a new section of KRS chapter 230 was created and a trust and revolving fund for the Kentucky Harness Racing Commission was designated as the Kentucky Standardbred development fund and then as the Kentucky thoroughbred development fund.

In 1988, the pari-mutuel taxes started including all money used to place telephone account wagers tracks.

Starting in 1990, the rate on the amount wagered was adjusted to 3.5 percent if the average daily handle was equal to or greater than \$1.2 million. If the daily average handled was less than \$1.2 million, the rate was reduced to 1.5 percent.

Effective January 1, 2001, a one day international horse racing events that distributes in excess of a total of \$10 million in purses was exempt from the pari-mutuel wagering tax on live racing conducted that day at the race track. That exemption remained in effect for any succeeding one day international horse racing event as long as the event returned within three years of the previously held event. Later, the amounts wagered at the track on live races conducted at the track during the expanded two day international horse racing event was not included in calculating the daily average live handle for the period starting 2015 through the end of 2017.

In 2003, licensed quarter horse racetracks were allowed to receive simulcasts and conduct interstate wagering on certain quarter horse races.

The issue of Advanced Deposit Wagering (ADW) firms was addressed during the 2009 Regular Session of the General Assembly. The prior years had seen significant growth in wagers made through ADW firms, which allow a patron to wager through a pre-funded account by telephone or through an internet enabled device. House Bill 472, which defined ADW firms, gave the Kentucky Horse Racing Authority jurisdiction over ADW firms and required a \$10,000 license fee. During the 2011 Regular Session, HB 387 was passed which required additional reporting requirements on the amount of ADW wagers placed on Kentucky races and the amounts wagered by Kentucky residents through ADW firms. Beginning August 1, 2014, an excise tax was imposed on all advance deposit account wagering licensees licensed under KRS 230.260 at a rate of 0.5 percent of all amounts wagered through the licensee by Kentucky residents.

In 2010, the Kentucky Horse Race Commission (KHRC) determined that historical racing (or instant racing) was a permissible form of pari-mutuel wagering. The promulgated regulations require the machines to be located at the tracks or track-owned facilities. Previously run races rather than the outcome of a live horse race determine outcomes on this type of pari-mutuel wagering.

Table 14. Total Pari-Mutuel Wagering Tax Expenditures

| | |
|----------------|---------------|
| FY 2024 | Minimal |
| FY 2025 | Minimal |
| FY 2026 | \$0.9 million |

Tax Expenditures

1. International Horse Racing Event

Kentucky Revised Statutes 138.510(3), effective 2000
 Data Source: Kentucky Agency Estimate

The excise tax shall not apply to money wagered at the track on live races conducted at the track during the two day international horse racing event that distributes in excess of a total of \$20 million in purses and awards. The amounts wagered at the track on live races conducted at the track during the two day international horse event shall not be included in calculating the daily average live handle.

| | |
|----------------|---------------|
| FY 2024 | Minimal |
| FY 2025 | Minimal |
| FY 2026 | \$0.9 million |

2. Live Harness Racing at a County Fair

Kentucky Revised Statutes 138.510(1)(e), effective 1942
 Data Source: Kentucky Agency Estimate

The excise tax imposed on all tracks conducting pari-mutuel wagering on live racing at a set rate of 1.5 percent of all money wagered on live races at the track during the fiscal year shall not apply to pari-mutuel wagering on live harness racing at a county fair.

| | |
|----------------|---------|
| FY 2024 | Minimal |
| FY 2025 | Minimal |
| FY 2026 | Minimal |

3. Noncontiguous Track Facility

Kentucky Revised Statutes 138.510(2)(c), effective 2000

Data Source: Kentucky Agency Estimate

A noncontiguous track facility approved by the commission on or after January 1, 1999, shall be exempt from the tax imposed if the facility is established and operated by a licensed track that has a total annual handle on live racing of \$250,000 or less.

FY 2024 Minimal

FY 2025 Minimal

FY 2026 Minimal

Tourism Development Act and Tax Increment Financing

Recent acts of the Kentucky General Assembly have significantly broadened the state's arsenal of financing mechanisms for economic development and tourism. 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 quantifying tax expenditures, 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 withholding component of the individual income tax from the project footprint, the sales and use tax, and state real property taxes. The pledge of these aforementioned revenue sources for most TIF projects is limited by the amount of public infrastructure created by the new development.

For TIF projects approved prior to January 1, 2023, any state tax revenue received by the Commonwealth from individual income tax shall be computed using modified new revenues for income tax. The purpose of the modifier is to ensure that the state revenues related to individual income tax remain whole as the individual income tax rate is reduced over time. The modifier is the result of dividing five percent by the individual income tax rate for the calendar year in which the new revenues for income tax are being computed.

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 twenty five percent of the certified approved cost of construction, as certified by the Tourism Arts, and Heritage Cabinet. 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.

Table 15. Total Tourism Development Act and Tax Increment Financing

| | |
|----------------|----------------|
| FY 2024 | \$46.8 million |
| FY 2025 | \$51.5 million |
| FY 2026 | \$56.7 million |

TOURISM DEVELOPMENT ACT PROJECTS

| Project | Location | Final Approval | Estimated Project Cost | Maximum Potential Refund | Positive Fiscal Impact | Positive Economic Impact |
|--|-----------------|-----------------------|---|---------------------------------|-------------------------------|---------------------------------|
| Newport Aquarium | Newport | June 19, 1997 | \$31,665,969 | \$7,916,492 | \$27,100,000 | \$299,000,000 |
| Kentucky Speedway | Sparta | August 27, 1998 | \$96,187,655 | \$24,047,000 | \$13,400,000 | \$172,300,000 |
| Newport on the Levee, LLC | Newport | October 29, 1998 | \$188,604,285 | \$47,151,071 | \$45,776,000 | \$1,600,000,000 |
| Glassworks, LLC | Louisville | May 25, 2000 | \$3,900,000 | \$975,000 | \$1,300,000 | \$40,000,000 |
| Owsley Brown Frazier Historical Arms Museum Foundation | Louisville | September 25, 2001 | \$16,573,000 | \$787,537 | \$1,114,400 | \$1,610,500 |
| Musselman Hotels, LLC | Louisville | January 7, 2002 | \$17,910,000 | \$4,477,500 | \$1,800,000 | \$51,200,000 |
| Heaven Hill Visitor's Center | Bardstown | July 23, 2002 | \$2,850,000 | \$712,500 | \$65,900 | \$7,000,000 |
| Al J. Schneider Company (Galt House) | Louisville | November 7, 2002 | \$47,467,350 | \$11,866,838 | \$35,890,000 | \$286,100,000 |
| 4th Street Live! | Louisville | November 7, 2002 | \$61,680,000 | \$11,455,123 | \$6,464,877 | \$319,000,000 |
| 21C, LLC | Louisville | April 22, 2003 | \$21,150,000 | \$3,000,000 | \$765,000 | \$63,416,000 |
| Hofbrauhaus of Newport | Newport | September 23, 2003 | \$4,167,455 | \$916,353 | \$1,183,647 | \$19,000,000 |
| Green River Lodge | Campbellsville | | Project did not move forward | | | |
| Thoroughbred Square | Versailles | | Project did not move forward | | | |
| Kentucky Horse Park Resort | Lexington | May 2, 2006 | Final Approval was rescinded since lease was not signed | | | |
| Kentucky Horse Park Resort (2) | Lexington | September 11, 2007 | Construction did not take place | | | |
| Edgewater Sports, LLC | Taylorsville | November 2, 2007 | Construction did not take place | | | |
| PKY I, LLC (Hyatt Regency Lexington) | Lexington | November 2, 2007 | \$16,425,000 | \$3,901,423 | \$1,283,000 | \$6,700,000 |
| Newport on the Levee, LLC (Hotel) | Newport | February 8, 2008 | Construction did not take place | | | |
| Al J. Schneider Company (Executive West) | Louisville | February 8, 2008 | \$23,776,825 | \$5,994,202 | \$2,259,000 | \$203,500,000 |
| Jim Beam Brands Company | Clermont | November 19, 2008 | \$14,931,000 | \$3,732,750 | \$2,762,235 | \$74,000,000 |
| Kentucky Raceway, Inc. (Kentucky Speedway) | Sparta | December 20, 2010 | \$82,000,000 | \$20,500,000 | \$47,425,000 | \$386,200,000 |
| Ark Encounter, LLC | Williamstown | May 19, 2011 | Application withdrawn and amended application submitted | | | |
| Bryant Downtown Hotel, LLC | Owensboro | November 22, 2011 | \$20,500,000 | \$4,000,000 | \$397,000 | \$69,855,000 |
| Rare Breed Distilling, LLC | Lawrenceburg | April 5, 2012 | \$4,000,000 | \$1,000,000 | \$5,251,000 | \$80,743,000 |
| Oak Grove Village at Fort Campbell, Inc. | Oak Grove | | Application withdrawn | | | |

| | | | | | | |
|------------------------------------|---------------|--------------------|--------------|---------------------------------|--------------|---------------|
| Bluegrass Boardwalk, Inc. | Louisville | June 13, 2012 | | Construction did not take place | | |
| 21c Lexington, LLC | Lexington | December 17, 2012 | \$42,000,000 | \$9,500,000 | \$10,600,000 | \$133,000,000 |
| Riverfront Hotel Associates, LP | Owensboro | February 13, 2013 | \$14,610,000 | \$3,535,000 | \$4,242,000 | \$81,625,500 |
| Kentucky Kingdom, LLLP | Louisville | April 13, 2013 | \$40,000,000 | \$10,000,000 | \$18,700,000 | \$419,500,000 |
| Brown-Forman Corporation | Versailles | October 24, 2013 | \$1,630,000 | \$407,500 | \$886,000 | \$15,600,000 |
| Muselman Hotels, LLC (2) | Newport | April 9, 2014 | \$33,065,000 | \$8,900,000 | \$809,100 | \$122,000,000 |
| Buffalo Trace Distillery, Inc. | Frankfort | April 9, 2014 | \$2,870,000 | \$717,500 | \$358,000 | \$10,400,000 |
| Maker's Mark Distillery, Inc. | Loretto | June 26, 2014 | \$2,025,000 | \$500,000 | \$1,546,000 | \$26,000,000 |
| Paducah Convention Hotel, LLC | Paducah | June 26, 2014 | \$18,500,000 | \$4,537,500 | \$5,088,000 | \$116,000,000 |
| Somerset Center Hotel, LP | Somerset | December 10, 2014 | \$11,523,750 | \$2,550,000 | \$330,000 | \$25,000,000 |
| Ark Encounter, LLC (2) | Williamstown | April 25, 2016 | \$73,000,000 | \$18,000,000 | \$22,400,000 | \$720,000,000 |
| 638 Madison, LLC | Covington | April 8, 2015 | \$20,304,500 | \$5,076,125 | \$2,830,000 | \$111,000,000 |
| Jim Beam Brands Co. | Louisville | April 8, 2015 | \$5,214,900 | \$1,000,000 | \$180,000 | \$11,346,000 |
| Peristyle, LLC | Millville | April 8, 2015 | \$6,794,500 | \$1,698,625 | \$1,165,000 | \$36,973,000 |
| Kentucky Kingdom, LLLP (Phase 2) | Louisville | May 22, 2015 | \$15,000,000 | \$3,750,000 | \$7,460,000 | \$128,400,000 |
| Maker's Mark Distillery, LLC (2) | Loretto | September 9, 2015 | \$4,000,000 | \$1,000,000 | \$234,000 | \$13,061,000 |
| Paducah Riverfront Hotel, LP | Paducah | September 9, 2015 | \$18,029,000 | \$4,507,250 | \$5,592,750 | \$123,000,000 |
| Paristown Preservation Trust, LLC | Louisville | March 4, 2016 | \$33,860,000 | \$6,400,000 | \$7,430,000 | \$71,580,000 |
| Rabbit Hole Distilling, LLC | Louisville | March 4, 2016 | \$14,239,500 | \$2,200,000 | \$2,663,000 | \$23,400,000 |
| Prizer Point Marina & Resort, LLC | Cadiz | April 25, 2016 | \$5,398,000 | \$1,619,400 | \$2,278,000 | \$39,919,000 |
| New Riff Distilling, LLC | Newport | September 14, 2016 | \$18,050,000 | \$1,500,000 | \$6,617,000 | \$81,303,000 |
| 6 Mile | Pleasureville | December 6, 2016 | \$10,100,000 | \$1,800,000 | \$600,000 | \$30,000,000 |
| Mammoth Camping Resort, LLC | Cave City | September 14, 2016 | \$9,000,000 | \$2,250,000 | \$3,526,000 | \$43,184,000 |
| Hopkinsville Investment Partners | Hopkinsville | December 13, 2017 | \$8,288,000 | \$2,072,000 | \$1,036,000 | \$56,000,000 |
| Diageo Americas, Inc. | Shelbyville | December 13, 2017 | \$9,250,336 | \$2,312,584 | \$2,004,000 | \$52,909,000 |
| R.M. Haney Distilling Company, LLC | Paducah | | | Application withdrawn | | |
| Jim Beam Brands, Co. | Clermont | August 8, 2018 | \$45,000,000 | \$11,250,000 | \$4,593,000 | \$115,774,000 |
| Schneider Hotels LLC | Louisville | September 12, 2018 | \$80,000,000 | \$20,000,000 | \$11,100,000 | \$579,000,000 |

| | | | | | | |
|---|--------------------------|--------------------|--|--------------|--------------|---------------|
| Heaven Hill Distilleries, Inc. | Bardstown | December 12, 2018 | \$17,500,000 | \$4,375,000 | \$2,597,000 | \$98,000,000 |
| SACHI, LLC | Louisville | | Project did not move forward | | | |
| MB Roland Distillery, Inc. | Pembroke | May 19, 2021 | \$5,725,000 | \$710,000 | \$1,797,000 | \$33,951,000 |
| Maker's Mark Distillery, Inc. | Loretto | August 21, 2019 | Application withdrawn and amended application submitted | | | |
| Kentucky Downs, LLC | Franklin | July 17, 2019 | \$17,000,000 | \$4,250,000 | \$6,849,000 | \$184,000,000 |
| Main & Wilson, LLC | Morehead | February 19, 2020 | \$26,817,306 | \$6,704,327 | \$4,400,000 | \$73,800,000 |
| Churchill Downs Racetrack, LLC | Louisville | November 20, 2019 | Construction did not take place | | | |
| 614 Madison YMCA LLC | Covington | December 18, 2019 | \$22,598,250 | \$5,649,563 | \$5,660,000 | \$61,417,000 |
| NOTL Property Owner LLC | Newport | February 19, 2020 | \$122,835,350 | \$30,708,837 | \$30,708,837 | \$672,705,000 |
| Rick and Still, LLC | Versailles | June 17, 2020 | \$6,325,000 | \$1,501,250 | \$3,200,000 | \$29,428,000 |
| Louisville Distilling Company | Louisville | April 15, 2020 | Project ineligible since located in Louisville Arena TIF | | | |
| American Freedom Distillery, LLC | Somerset | | Application withdrawn and amended application submitted | | | |
| Lair's Lair, LLC | Mt. Vernon | | Project did not move forward | | | |
| Pratishta, LLC | Park City | November 18, 2020 | \$5,049,715 | \$1,262,429 | \$1,514,915 | \$15,200,000 |
| Old Samuels Distilling Company, LLC | Coxs Creek | | Project did not move forward | | | |
| Astana, LLC | Lexington | November 18, 2020 | \$32,193,684 | \$7,200,000 | \$6,140,000 | \$82,000,000 |
| Log Still Distilling, LLC | New Haven | March 17, 2021 | \$24,028,550 | \$6,007,000 | \$9,800,000 | \$202,000,000 |
| 900 Baxter, LLLC | Louisville | May 19, 2021 | \$14,035,000 | \$3,508,750 | \$2,896,000 | \$51,000,000 |
| The Broadway Building, LLC | Frankfort | May 19, 2021 | \$9,725,000 | \$2,431,250 | \$990,000 | \$15,000,000 |
| 418 E Stephen Foster, LLC | Bardstown | May 19, 2021 | \$5,926,000 | \$1,481,500 | \$980,000 | \$17,000,000 |
| KD Hospitality, LLC | Franklin | August 18, 2021 | \$25,000,000 | \$6,250,000 | \$4,050,000 | \$73,000,000 |
| Horse Soldier Farms, LLC | Somerset | September 15, 2021 | \$103,910,388 | \$31,173,116 | \$25,822,000 | \$450,000,000 |
| ECL Corbin, LLC | Corbin / Williamsburg | October 18, 2021 | \$90,000,000 | \$27,000,000 | \$17,000,000 | \$292,000,000 |
| Maker's Mark Distillery, LLC | Loretto | February 16, 2022 | \$22,330,000 | \$5,582,500 | \$3,866,000 | \$101,000,000 |
| The Appalachian Wildlife Foundation, Inc. | Miracle | January 4, 2023 | \$60,520,000 | \$18,156,000 | \$25,331,000 | \$516,182,000 |

| | | | | | | |
|-------------------------------------|---------------|-----------------|--------------|--------------|--------------|---------------|
| The Trail Hotel, LLC | Bardstown | August 17, 2022 | \$22,710,000 | \$5,677,500 | \$4,461,000 | \$63,000,000 |
| Augusta Distillery LLC | Augusta | January 4, 2023 | \$36,478,770 | \$9,119,693 | \$6,136,000 | \$115,125,000 |
| Louisville Pickleball, LLC | Louisville | May 17, 2023 | \$13,923,324 | \$3,480,831 | \$3,502,000 | \$74,715,000 |
| Sav Hospitality, LLC | Franklin | June 21, 2023 | \$33,827,017 | \$8,456,754 | \$5,248,000 | \$102,201,000 |
| 100 Public Square, LLC | Elizabethtown | March 15, 2023 | \$8,180,000 | \$2,045,000 | \$1,545,000 | \$22,307,000 |
| LSC Facilities Holding Company, LLC | Lexington | June 21, 2023 | \$25,416,878 | \$6,354,220 | \$4,856,000 | \$92,400,000 |
| Revolutionary Racing Kentucky, LLC | Ashland | August 16, 2023 | \$82,325,000 | \$20,581,250 | \$10,831,000 | \$192,036,000 |
| Schneider Fairgrounds, LLC | Louisville | June 21, 2023 | \$25,000,000 | \$12,500,000 | \$6,833,000 | \$145,765,000 |
| Genesis 128 Development, LLC | Williamstown | Pending | \$15,577,890 | \$3,894,473 | \$2,540,000 | \$54,550,000 |
| Pennyroyal Barrel Co., LLC | Columbia | Pending | \$2,870,000 | \$717,500 | | |
| TKC Distilling Co | Versailles | Pending | \$8,800,000 | \$2,200,000 | | |
| TKC Hospitality Group LLC | Versailles | Pending | \$24,500,000 | \$6,125,000 | | |
| RD1 Spirits, LLC | Lexington | Pending | \$4,791,588 | \$1,197,897 | | |

| | | | |
|-----------------|---------------|---------------|------------------|
| \$2,111,460,735 | \$525,818,911 | \$518,058,661 | \$10,695,381,000 |
|-----------------|---------------|---------------|------------------|

TAX INCREMENT FINANCING PROJECTS

| Project | Type of TIF | Location | Final Approval | Estimated Project Costs | Eligible Incentive Amount |
|--|--------------------------|-----------|----------------|-------------------------|---------------------------|
| Downtown Marriott | Project Specific | Jefferson | 7/11/2002 | \$ 100,000,000 | \$ 32,486,781 |
| Churchill Downs | Project Specific | Jefferson | 7/12/2002 | \$ 127,000,000 | \$ 25,000,000 |
| Renaissance Zone | Pilot Program | Jefferson | 12/8/2003 | | |
| Louisville Arena | Pilot Program | Jefferson | 12/19/2006 | \$ 435,000,000 | \$ 250,000,000 |
| WKU Gateway | Signature | Warren | 10/19/2007 | \$ 531,125,818 | \$ 285,533,316 |
| Museum Plaza | Signature | Jefferson | 10/30/2007 | \$ 490,000,000 | \$ 340,687,618 |
| Ovation | Signature | Campbell | 11/28/2007 | \$ 762,670,066 | \$ 311,426,623 |
| Nucleus | Signature | Jefferson | 11/30/2007 | \$ 1,090,951,981 | \$ 601,620,351 |
| Center City/Omni | Signature | Jefferson | 12/27/2007 | \$ 706,000,000 | \$ 204,000,000 |
| Phoenix Park/CentrePointe/City Center | Signature | Fayette | 9/24/2009 | \$ 455,294,792 | \$ 48,833,000 |
| Distillery District | Mixed-use blighted Urban | Fayette | 10/29/2009 | \$ 190,871,069 | \$ 45,804,000 |
| Manhattan Harbour | Real Property | Campbell | 12/10/2009 | \$ 473,148,299 | \$ 8,000,000 |
| ShowProp Lexington | Mixed Use | Fayette | 9/30/2010 | \$ 17,500,000 | \$ 17,500,000 |
| The Red Mile Project | Mixed-use blighted Urban | Fayette | 8/25/2011 | \$ 186,891,071 | \$ 13,786,000 |
| The UofL Research Park/Belknap | Signature | Jefferson | 6/28/2012 | \$ 1,113,303,500 | \$ 709,414,000 |
| 21c Museum Hotel | Real Property | Fayette | 12/31/2012 | \$ 36,556,250 | \$ 500,000 |
| Oak Grove Village at Fort Campbell | Mixed use near Military | Ohio | 2/28/2013 | \$ 199,000,000 | \$ 54,000,000 |
| The Summit | Mixed Use | Fayette | 9/25/2014 | \$ 155,000,000 | \$ 24,109,000 |
| Turfland Town Center Mixed Use | Real Property | Fayette | 10/30/2014 | \$ 38,600,000 | \$ 793,600 |
| ShelbyHurst Research and Technology Park | Signature | Jefferson | 12/11/2014 | \$ 831,517,378 | \$ 253,938,000 |

| Project | Type of TIF | Location | Final Approval | Estimated Project Costs | Eligible Incentive Amount |
|---|--------------------------|-----------------|-----------------------|--------------------------------|----------------------------------|
| Hotel NuLu | Mixed-use blighted Urban | Jefferson | 6/25/2015 | \$ 72,998,230 | \$ 4,312,000 |
| Gateway Commons | Mixed-use blighted Urban | Daviess | 10/27/2016 | \$ 198,857,200 | \$ 20,571,000 |
| Downtown Owensboro Riverfront | Mixed-use blighted Urban | Daviess | 12/8/2016 | \$ 153,898,990 | \$ 24,500,000 |
| Midland Ave Redevelopment Project | Mixed-use blighted Urban | Fayette | 1/26/2017 | \$ 167,269,239 | \$ 4,000,000 |
| Butchertown Stadium District | Mixed-use blighted Urban | Jefferson | 5/31/2018 | \$ 193,100,000 | \$ 21,700,000 |
| Fort Mitchell Gateway | Mixed-use blighted Urban | Kenton | 6/28/2018 | \$ 134,900,440 | \$ 13,674,000 |
| Coldstream Research Campus Project | Mixed-use blighted Urban | Fayette | 5/30/2019 | \$ 199,025,029 | \$ 4,634,000 |
| Lexington Center Project | Signature | Fayette | 10/31/2019 | \$ 679,283,821 | \$ 41,000,000 |
| Fountains at Palomar | Real Property | Fayette | 10/31/2019 | \$ 46,877,436 | \$ 634,000 |
| Northern Kentucky University Campus Gateway | Mixed-use blighted Urban | Campbell | 12/12/2019 | \$ 112,672,500 | \$ 14,216,000 |
| Ashland Plaza Redevelopment Project | Mixed Use | Boyd | 1/30/2020 | \$ 43,450,000 | \$ 6,800,000 |
| Paducah Downtown Riverfront Redevelopment Project | Mixed Use | McCracken | 3/25/2021 | \$ 156,344,483 | \$ 21,400,000 |
| World Peace Hospitality Mixed-Use Redevelopment Project | Mixed-use blighted Urban | Campbell | 10/28/2021 | \$ 45,595,751 | \$ 4,000,000 |
| Logistics Air Park Development Project (LAP 2) | Real Property | Jefferson | 12/9/2021 | \$ 48,862,998 | \$ 800,000 |
| Shelby Street Redevelopment Project | Real Property | Jefferson | 3/31/2022 | \$ 114,725,000 | \$ 1,000,000 |
| Covington Central Riverfront | Signature | Kenton | 5/26/2022 | \$ 394,377,667 | \$ 45,500,000 |
| Radcliff Mixed-Use Redevelopment Project at Fort Knox | Mixed-use blighted Urban | Hardin | 8/25/2022 | \$ 94,824,969 | \$ 12,000,000 |
| | | | | \$ 10,797,493,977 | \$ 3,468,173,289 |

West End Opportunity Partnership

Kentucky Revised Statutes 65.029, effective 2021

Data Source: Kentucky Agency Estimate

House Bill 321, passed in the 2021 regular session, creates a new economic development area that is very similar to a TIF program. The West End Opportunity Partnership aims to foster transformational change in the West End of Louisville by encouraging investment in the established development area through the implementation of state and local Tax Increment Financing or TIF incentives. Eighty percent of incremental revenues from the development area are pledged for twenty years by the consolidated local government and the Commonwealth. Local tax revenues include real property ad valorem taxes and occupational license taxes. State tax revenues include state real property ad valorem taxes, individual income tax required to be withheld by an employer, and sales taxes.

A new refundable income tax credit is created for residential property owners within the development area who maintain the property as their principal residence. Heirs to that property within the development area as of January 1, 2021 are also eligible. The income tax credit is equal to the amount in which the timely paid property tax on the residential property in any taxable year exceeds the amount of property tax assessed on that residential property on January 1, 2021.

The following bullet points are unique characteristics of the West End Opportunity Partnership incentives:

- HB 321 does not provide a specific year for the base year “old revenues” calculation.
- The bill allows for increments to be calculated after the required \$20 million in private investment threshold is reached. The investment threshold is provided in another bill that passed in the 2021 Regular Session, HB 556.
- The base year can be the calendar year prior to the year in which the \$20 million threshold is reached. In theory, this could be 2021.
- If 2021 is the base year for “old revenues”, then increments could be requested for calendar year 2022 and applied for in 2023.