

COMMONWEALTH OF KENTUCKY

# Tax Expenditure Analysis

Fiscal Years 2014-2016



Governor's Office for Economic Analysis

Office of State Budget Director





***Office of State Budget Director***

702 Capitol Avenue, Suite 284

Frankfort, Kentucky 40601

(502) 564-7300

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

**Steven L. Beshear**  
Governor

**Jane C. Driskell**  
State Budget Director

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

April 30, 2014

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

Dear Governor Beshear:

State and federal governments have a responsibility to be accountable to the public for the use of each and every tax dollar. As such, the Office of State Budget Director prepares a biennial tax expenditure report to be delivered to the heads of all three branches of state government. This report has been prepared in odd-numbered years prior to biennial budget sessions since 1995. Enclosed is a detailed report of the tax expenditure items resulting from the current Kentucky Revised Statutes. This report includes tax expenditures for the General Fund and the Road Fund for the current and next two fiscal years (FY14 through FY16). For purposes of this report, the term tax expenditure means: *“an exemption, exclusion, or deduction from the base of a tax, a credit against a tax, a deferral of a tax, or a preferential tax rate.”*

We hope this report will be valuable to you and other policy makers. The Office of State Budget Director will continue to monitor the tax expenditures identified herein and report on their impacts during the coming biennium.

Sincerely,

A handwritten signature in cursive script that reads "Jane C. Driskell".

Jane C. Driskell  
State Budget Director

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## ***Executive Summary***

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The purpose of a Tax Expenditure Analysis is to quantify and catalog specific tax reductions that have been established by statute. An item is determined to be a tax expenditure if the tax revenue associated with that item is reduced because of a specific statute or act of 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 or otherwise receive dollars that would otherwise be paid in taxes to the Commonwealth.

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

Each tax expenditure achieves its intended policy goal through a different channel than a budget expenditure. Rather than a direct appropriation, tax expenditures are direct tax subsidies in the form of a reduced tax liability. For example, sales tax exemptions usually result in an exemption of a type of taxable property or a type of transaction from taxation. A common example of the former is tombstones in Kentucky. Tombstones are exempt from taxation. A common example of the transactional expenditures would be electricity sold for residential use. In general, Kentucky taxes electricity, but not if it is used for residential purposes. Either way, the lack of this collection results in no tax obligation to the purchaser and lower revenues to the Commonwealth. An individual income tax exemption will usually result in lower amounts of tax withheld from employees (or a refund) and a correspondingly lower remittance to the Commonwealth. Corporate tax expenditures usually result in lower direct payments from businesses. Tax expenditures cover these and many more taxes. Whatever the expenditure may be and whatever the tax type involved, tax revenues are directly decreased because of these statutory exemptions.

This report itemizes tax expenditures using multiple displays and assists in a biennial review of the expenditures. The report briefly explains each tax containing tax expenditures and quantifies the 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 the tax expenditures related to that tax.

### Summary of Tax Expenditures for the Major Taxes

- ◆ ***Alcoholic Beverage Taxes*** – Various taxes are assessed on all types of alcoholic beverages. First assessed in 1936, rates vary significantly based on the type of beverage and the percent of alcohol the beverage contains. The tax is paid by the wholesaler or distributor of the product. For FY13, alcoholic beverage taxes generated \$122.0 million in Kentucky. Tax expenditures within these tax types are estimated at \$1.1 million for FY14.
- ◆ ***Bank Franchise Tax*** – Assessed on financial institutions engaging in business in Kentucky, this tax was enacted during the 1996 Regular Session of the General Assembly. For FY13, this tax generated \$99.0 million. Tax expenditures for this tax type are estimated at \$5.1 million for FY14.
- ◆ ***Coal Severance and Processing Tax*** – Assessed on the severance (removal) and processing of coal, this tax was first utilized in 1972. The tax is assessed at the rate of 4.5 percent of the gross value of the coal, with a minimum of fifty cents per ton. The tax is assessed against the entity severing or processing the coal. For FY13, this tax generated \$230.5 million. Tax expenditures for this tax type are estimated at \$2.3 million for FY14.
- ◆ ***Corporation Income Tax*** – This tax was first assessed in 1936 against the net income attributable to Kentucky. Current rates of tax range from 4 percent to 6 percent of net income for tax years beginning on or after January 1, 2007. For FY13, the corporation income tax generated \$400.8 million. Tax expenditures for this tax are estimated at \$275.0 million for FY14.

- ◆ ***Gasoline Tax*** – First levied in 1920, this tax is assessed on gallons of gasoline sold in Kentucky. The floor of the variable gasoline rate is 16.1 cents per gallon; if the wholesale price rises above \$1.786, the variable tax rate will rise. For FY13, this tax generated \$641.8 million. Tax expenditures for this tax are estimated at \$19.2 million for FY14.
- ◆ ***Individual Income Tax*** – First imposed in 1936, this tax has become the most productive revenue source in Kentucky. Beginning in 2005, a restructuring of the graduated rates occurred to apply a rate of 5.8 percent to net income over \$8,000 but less than \$75,000; the top 6 percent rate applies to net income over \$75,000. Additionally, pass-through entities were taxed at the entity level for 2005 and 2006, further reducing individual income tax receipts. For 2007 and the following years, this aspect was reversed and Kentucky once again conforms to the federal pass-through treatment. For FY13, this tax generated \$3.7 billion. Tax expenditures for this tax are estimated at \$3.4 billion for FY14.
- ◆ ***Inheritance and Estate Tax*** – First adopted in 1906, this tax is assessed against the value transferred from the estates of deceased Kentuckians. The tax rate and the amount subject to tax are based on the “class” of the beneficiary. For FY13, the inheritance tax generated \$41.3million, but the estate tax has been all but eliminated due to a federal law that disallowed the deduction for state estate taxes paid. Tax expenditures for this tax are estimated at \$66.4 million for FY14.
- ◆ ***Insurance Premiums Taxes*** - First adopted in 1942, this tax is assessed on the receipts of premiums collected by insurance companies in the Commonwealth. The rate of taxation varies according to type of insurer, with different rates for life insurers, insurers other than life, and captive insurers (licensed insurers owned by a business entity and offering insurance only to their owners). Tax expenditures for these taxes are estimated to total \$1.85 million in FY14.
- ◆ ***Limited Liability Entity Tax*** – Enacted during the 2006 Extraordinary Session of the General Assembly, this tax applies to all entities that provide limited liability to owners and is assessed for the privilege of doing business in Kentucky. The tax applies to taxable periods beginning on or after January 1, 2007. The receipts for FY13 totaled \$246.1 million. Tax expenditures for this are estimated to total \$137.0 million in FY14.

- ◆ ***Liquefied Petroleum Gas Tax*** – Implemented in 1960 as a “companion” to the gasoline tax, this tax is assessed on gallons sold. The floor of the variable tax rate is 16.1 cents per gallon. If the wholesale price rises above \$1.786, the variable tax rate will also rise. For FY13, this tax generated \$14,000. Tax expenditures for this tax are estimate at \$2,000 for FY14.
  
- ◆ ***Motor Vehicle Usage Tax*** – First assessed in 1936, the current tax rate is 6 percent of the retail price of motor vehicles. Many people think of this tax as a “sales” tax since the rates are identical, but the usage tax is assessed for the privilege of using a motor vehicle upon the public highways of the Commonwealth. As such, the proceeds are deposited in the Road Fund. For FY13, this tax generated \$426.8 million. Tax expenditures are estimated at \$60.4 million for FY14.
  
- ◆ ***Natural Resources Severance and Processing Tax*** – First assessed in 1980, taxes are levied against the gross value of all minerals severed or processed in Kentucky, excluding coal and oil. For FY13, these taxes generated \$28.0 million. Tax expenditures are estimated at \$6.4 million for FY14.
  
- ◆ ***Property Taxes*** – Kentucky has levied a property tax since becoming a Commonwealth on June 1, 1792. Property is assessed at its fair market value; rates vary depending upon the type of property. For FY13, property taxes generated \$558.4 million. Tax expenditures are estimated at \$707.3 million for FY14.
  
- ◆ ***Sales and Use Tax*** – The sales and use tax was first levied in its current form in 1960. The tax is collected on retail sales within the state, at a rate of 6 percent of the sales price. The use tax is imposed on the storage, use or other consumption of tangible property. For FY13, this tax generated \$3.0 billion. Tax expenditures are estimated at \$3,105.5 million for FY14.
  
- ◆ ***Special Fuels Tax*** – This tax includes fuels other than gasoline that are used in motor vehicles. The floor of the special fuels variable rate is 16.1 cents per gallon; if the wholesale price rises above \$1.786, the variable tax rate will also rise. For FY13, this tax generated \$196.4 million. Tax expenditures for this tax are estimated at \$74.7 million for FY14.



- ◆ ***Tobacco Taxes*** – The cigarette tax is a tax on each pack of cigarettes and was first assessed in 1936. The per-pack rate currently totals sixty cents and is composed of the original excise tax of three cents, a surtax of fifty-six cents, and a cancer research surtax of one cent. The other tobacco products tax includes taxes on loose tobacco, cigars, dry snuff, and other miscellaneous tobacco products. The unit value tax differs depending on the product. Kentucky also imposed a tax on moist snuff at the rate of nineteen cents per tin. All tobacco taxes are paid by the wholesaler. For FY13, tobacco taxes generated \$260.6 million. The tax expenditures associated with these taxes are estimated at \$1.2 million for FY14.
  
- ◆ ***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 \$55.0 million for FY14.

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## ***Introduction***

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**What are tax expenditures?**

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

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

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

**The  
importance  
of tracking tax  
expenditures**

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

Unlike direct appropriations, which must be continuously reviewed and approved by the General Assembly to remain in effect, state tax expenditures are usually not included in this review process. As a result, programs funded through tax expenditures receive priority funding over all other programs because they are automatically deducted from the revenue projections used to formulate the biennial budget. Tax expenditures are more formally budgeted at the federal level, as a tax expenditure has the same budgetary costs as a direct appropriation. However, this level of analysis is rarely seen at the state level, given the complexity of the analysis and uncertainty created for the tax-paying community. In all probability, many “tax expenditure” programs would not receive the same priority if they had to compete on equal footing during the biennial appropriation process.

A tax expenditure analysis can be used to evaluate the cost to state government of the many programs funded through tax expenditures. This analysis identifies, quantifying when possible, and explains many of the Kentucky tax expenditures. Estimates of the costs of the tax expenditures were developed from information contained on taxpayers’ Kentucky tax returns, the most reliable source for data. In some cases, some information is not reflected on tax returns or the data is not explicitly captured. For

these tax expenditures, alternative sources were used, including Bureau of the Census statistics, federal tax expenditure estimates, Bureau of Labor Statistics data, information from federal tax returns, and other studies.

**Caveats  
and  
interpretations**

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

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

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

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

**How to read  
this report**

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

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

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

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

Readers of this report may want to compare current estimates of tax expenditures in this report with estimates in previous editions of the report. Estimates in the previous edition represent a two-year forecast while the current estimates are based on the most up-to-date information available. Several tax expenditure estimates have materially changed since 2013 due to the availability of more detailed and current data. In many instances, the experience of taxpayer behavior regarding the use of deductions, credits, or other benefits can significantly influence the estimates. This report continues to quantify the exemption of certain services from sales tax even though these exemptions/exclusions

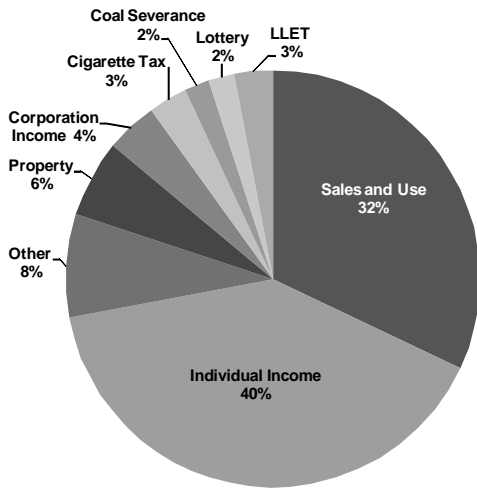
are not considered tax expenditures. A list of specific services and the estimated costs can be found at the end of the Sales and Use Tax section.

Some taxes are allocated to a particular fund or purpose. These items are not listed as tax expenditures. Rather, these allocations are listed under the heading “Earmarked Funds” and can be found at the end of this publication.

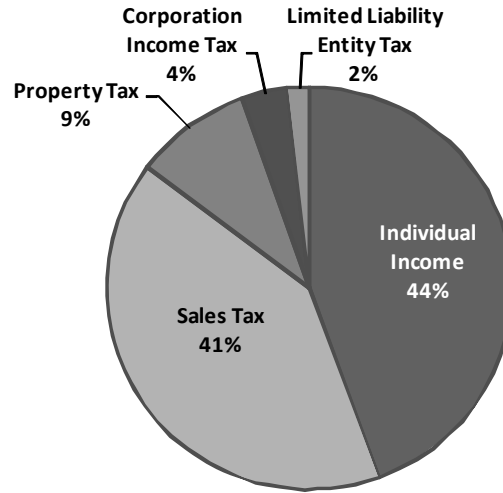
The Office of State Budget Director welcomes your comments and any questions you may have about this report. We wish to extend our deepest appreciation to Tom Miller, Commissioner of the Department of Revenue, and to the many members of his staff who participated in the data collection process of this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

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**Figure 1. General Fund Overview**

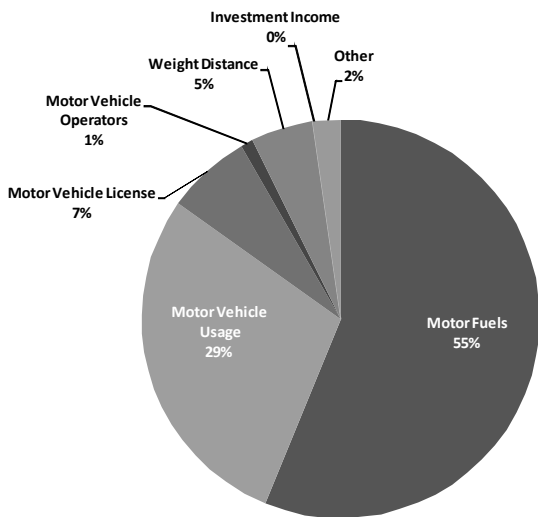


**Actual FY2013 Tax Receipts**

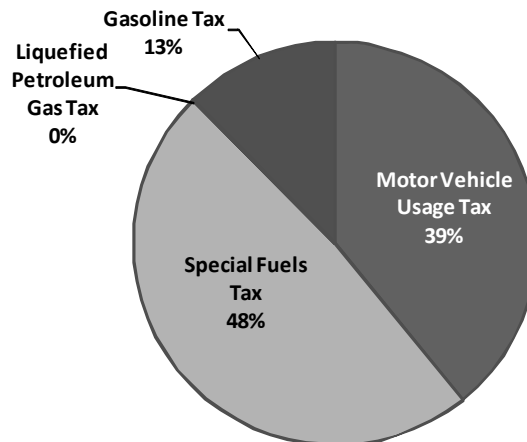


**Estimated FY2014 Tax Expenditures**

**Figure 2. Road Fund Overview**



**Actual FY2013 Tax Receipts**



**Estimated FY2014 Tax Expenditures**



## ***Summary Tables of Tax Expenditures***

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

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

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

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

## Tax Expenditures by Tax Type (\$ millions)

	(\$ millions)		
	FY14	FY15	FY16
<b><u>Total Alcoholic Beverage Taxes Expenditures</u></b>	<b><u>1.100</u></b>	<b><u>1.200</u></b>	<b><u>1.200</u></b>
Allowance for Collecting and Reporting	1.000	1.100	1.100
Low Volume Distilled Spirits Taxed at Reduced Rates	0.043	0.043	0.044
Malt Beverage Excise Tax at Reduced Rate	0.014	0.015	0.016
<b><u>Total Bank Franchise Tax Expenditures</u></b>	<b><u>5.100</u></b>	<b><u>5.200</u></b>	<b><u>5.200</u></b>
Kentucky Historic Preservation Credit	5.000	5.000	5.000
Kentucky Investment Fund Credit	0.100	0.150	0.200
<b><u>Total Coal Severance and Processing Tax Expenditures</u></b>	<b><u>2.300</u></b>	<b><u>2.300</u></b>	<b><u>2.200</u></b>
Coal Purchased for Alternative Energy or Gasification Facility	0.000	0.000	0.000
Coal Used to Burn Solid Waste	0.000	0.000	0.000
Thin Seam Tax Credit	2.300	2.300	2.200
<b><u>Total Corporation Income Tax Expenditures</u></b>	<b><u>275.000</u></b>	<b><u>280.300</u></b>	<b><u>286.200</u></b>
Coal Royalties	Minimal	Minimal	Minimal
Credit Unions	5.700	5.800	5.900
Dividend Income	132.000	134.000	136.000
Homeowner's Associations	0.000	0.000	0.000
Real Estate Investment Trust	9.000	9.500	10.000
Charitable Contributions	9.500	9.700	9.800
Deductibility of Patronage Dividends	13.600	14.000	14.500
Domestic Production Activities	6.500	7.000	7.500
Excess of Percentage over Cost Depletion	3.100	3.700	4.100
Leasehold Interest of Property Contributed as Living Quarters for Homeless	0.000	0.000	0.000
Net Operating Loss Deduction	52.800	51.700	50.800
Biodiesel and Renewable Diesel Tax Credit	0.750	0.700	0.650
Clean Coal Incentive Credit	1.800	1.900	2.000
Coal Conversion Credit	0.008	0.009	0.010
Coal Incentive Credit	4.000	4.100	4.200
Consolidation of the KEDFA Tax Credit Programs	0.078	0.080	0.085
Construction of Research Facilities Credit	0.190	0.195	0.200
Employer GED Credit	0.000	0.000	0.000
Environmental Remediation Tax Credit	0.000	0.000	0.000
Environmental Stewardship Tax Credit	0.000	0.000	0.000
Ethanol and Cellulosic Ethanol Tax Credit	0.186	0.200	0.210
Film Industry Tax Credit	1.500	1.400	1.300
Kentucky Investment Fund Tax Credit	0.054	0.055	0.055
KIDA Economic Development Credit	2.100	2.300	2.500
KIRA Economic Development Credit	4.100	4.200	4.300
KJDA Economic Development Credit	4.900	5.300	5.700
KREDA Economic Development Credit	8.300	9.000	10.000
Kentucky Small Business Investment Credit	0.130	0.132	0.134
Metropolitan College Program Tax Credit	3.000	3.500	4.000
Qualified Farming Operation Credit	0.000	0.000	0.000
Railroad Improvement Tax Credit	0.000	0.000	0.000
Recycling Credit	11.300	11.500	11.900
Skills Training Investment Tax Credit	0.385	0.392	0.394
Unemployment Tax Credit	0.070	0.072	0.074
<b><u>Total Gasoline Tax Expenditures</u></b>	<b><u>19.200</u></b>	<b><u>19.600</u></b>	<b><u>19.500</u></b>
Agricultural Exemption	0.110	0.111	0.112
Aircraft Refund	0.210	0.212	0.215
Bus, Taxicab, and Certain Senior Citizen's Programs Refund	0.650	0.652	0.655
Dealer's Monthly Reporting Allowance	17.500	17.800	17.700
Watercraft Refund	0.775	0.780	0.783

# Tax Expenditures by Tax Type (\$ millions)

	(\$ millions)		
	FY14	FY15	FY16
<b>Total Individual Income Tax Expenditures</b>	<b>3,374.300</b>	<b>3,544.100</b>	<b>3,722.700</b>
Active Duty Military Pay Exemption	18.600	18.600	18.600
Armed Forces Personnel Benefits and Allowances	41.200	38.600	39.100
Assistance for Adopted Foster Children and Foster Care Payments	1.500	1.600	1.700
Basis of Capital Gains on Gifts	9.600	11.500	13.600
Cancellation of Indebtedness	0.200	0.200	0.100
Capital Gains - Eminent Domain	Minimal	Minimal	Minimal
Capital Gain on Property Transferred at Death	73.700	77.500	81.300
Disabled Coal Miners	0.100	0.100	0.100
Employee Stock Ownership Plan Provisions	9.600	11.500	13.600
Employer Contributions for Medical Insurance and Medical Care	579.200	611.200	652.100
Employer-Provided Benefits of Premiums on Group Term Life, Accident and Disability Insurance	6.300	6.300	6.500
Employer-Provided Child Care Exclusion	4.400	4.700	5.000
Employer-Provided Education Assistance	0.000	0.000	0.000
Employer-Provided Meals and Lodging	17.900	18.800	19.400
Exclusion of G.I. Bill Benefits	4.400	4.700	5.000
Federal and Military Retirement Income Received	94.500	98.000	101.400
Financial Institutions Structured as S Corporations	Minimal	Minimal	Minimal
Gain on the Sale of a Personal Residence	124.800	132.800	142.400
Income Averaging for Farmers	0.400	0.400	0.400
Income Earned Abroad by US Citizens	16.700	17.500	18.300
Installment Sales	3.200	3.700	4.200
Interest on Life Insurance Savings	57.200	62.900	67.100
Miscellaneous Fringe Benefits	20.400	21.000	21.500
Passive Loss Rules Exception	39.200	43.700	46.100
Pension Contributions and Earnings from Employer Plans	480.400	529.000	572.500
Precinct Workers	0.100	0.100	0.100
Private Pensions and Individual Retirement Accounts	410.900	425.900	441.000
Public Assistance Benefits	2.100	2.200	2.300
Railroad and Supplemental Railroad Retirement System Benefits	1.400	1.400	1.400
Scholarship and Fellowship Income	9.400	9.800	10.200
Social Security Benefits for Retired Workers, Disabled Workers, Dependents and Survivors	127.900	132.900	137.400
State Employee Pension Benefits and Contributions	69.400	71.900	74.500
Veteran's Pension, Death and Disability Compensation	20.200	21.900	23.700
Worker's Compensation Benefits	31.100	31.500	31.800
Casualty and Theft Losses	1.300	1.400	1.400
Charitable Contributions	107.700	111.600	115.600
Excess of Percentage over Cost Depletion	4.200	4.200	4.200
Health Savings Account Deduction	4.600	4.800	5.100
Home Mortgage Interest	195.800	202.900	210.100
Individual Retirement Account Contributions	52.400	52.700	56.100
Interest on Educational Loans	2.400	2.400	2.500
Interest on US Savings Bonds	2.900	3.000	3.000
Job Expenses & Other Miscellaneous Deductions	40.900	42.400	43.900
Keogh Plan Contributions	7.500	7.800	8.100
Medical Expenses	38.900	40.400	41.800
Net Operating Loss Deduction	52.300	54.200	56.200
Parsonage Allowances	2.200	2.400	2.600
Property Tax on Owner-Occupied Homes	61.500	63.800	66.000
Standard Deduction	132.700	137.500	142.400
State and Local Taxes Other Than Home Property Taxes	38.100	39.500	40.900
U.S. Production Activities	4.200	4.400	4.500
Child and Dependent Care Credit	7.700	7.700	7.700
Credit for Hiring Unemployed	0.000	0.000	0.000

## Tax Expenditures by Tax Type (\$ millions)

	(\$ millions)		
	FY14	FY15	FY16
Expanded Low Income Tax Credit	100.900	104.600	108.300
Historic Preservation Tax Credit	0.400	0.500	0.500
Job Development Credits	53.000	51.800	50.600
Kentucky Energy Efficiency Products Tax Credit	13.000	13.000	7.500
KY Small Business Investment Credit	0.130	0.132	0.134
Personal and Dependent Tax Credits	51.100	52.900	54.800
Postsecondary Education Tuition Credit	19.400	20.100	20.800
Recycling and/or Composting Equipment Credit	0.700	0.700	0.700
<b><u>Total Inheritance and Estate Tax Expenditures</u></b>	<b><u>66.400</u></b>	<b><u>66.500</u></b>	<b><u>67.600</u></b>
Annuities Under Qualified Retirement Plans	Minimal	Minimal	Minimal
Assessment of Land at its Agricultural or Horticultural Value	Minimal	Minimal	Minimal
Benefits Paid to a Beneficiary of Military Personnel Under Certain Retirement Plans	Minimal	Minimal	Minimal
Benefits Paid by the Federal Government Due to Service in Time of War	Minimal	Minimal	Minimal
Certificates of Deposit Exempt from the Contemplation of Death Rule	Minimal	Minimal	Minimal
Class A Beneficiaries	54.000	54.000	55.000
Class B Beneficiaries	Minimal	Minimal	Minimal
Class C Beneficiaries	Minimal	Minimal	Minimal
Discount for Early Payment of Tax	1.100	1.100	1.100
Individual Retirement Accounts	Minimal	Minimal	Minimal
Life Insurance Proceeds	Substantial	Substantial	Substantial
Recurring Tax Credits	Minimal	Minimal	Minimal
Transfers to Educational, Religious, Charitable, or Certain Governmental Organizations	11.300	11.400	11.500
<b><u>Total Insurance Premiums Taxes Expenditures</u></b>	<b><u>1.850</u></b>	<b><u>1.900</u></b>	<b><u>1.950</u></b>
Hospital, Medical, or Dental Service Companies Exempt from Premium Tax	1.850	1.900	1.950
<b><u>Total Limited Liability Entity Tax Expenditures</u></b>	<b><u>137.000</u></b>	<b><u>140.000</u></b>	<b><u>143.900</u></b>
Alcohol Production Facility	Minimal	Minimal	Minimal
Certified Fluidized Bed Energy Production Facility	Minimal	Minimal	Minimal
Cooperatives, Cooperatives and Their Patrons, Homeowners' Assoc., Political Organizations	2.400	2.700	3.100
Costs of Goods Sold, Bulk Delivery Charges, and Indirect Labor	85.600	86.300	88.100
Endow Kentucky Tax Credit	0.450	0.500	0.550
Kentucky Small Business Investment Credit	0.130	0.132	0.134
New Markets Development Program Tax Credit	5.100	5.200	5.300
Open-End Registered Investment Companies	0.002	0.003	0.003
Personal Service Corporations	1.500	1.600	1.700
Publicly Traded Partnerships	0.092	0.097	0.101
Real Estate Investment Trust	0.565	0.572	0.580
Regulated Investment Company	0.027	0.029	0.031
Real Estate Mortgage Investment Conduit	0.009	0.009	0.010
Small Business Relief from the Limited Liability Entity Tax	41.200	42.900	44.300
<b><u>Total Liquefied Petroleum Gas Tax Expenditures</u></b>	<b><u>0.002</u></b>	<b><u>0.002</u></b>	<b><u>0.002</u></b>
Approved Carburetion Systems	0.001	0.001	0.001
Dealer's Monthly Reporting Allowance	0.001	0.001	0.001

# Tax Expenditures by Tax Type (\$ millions)

	(\$ millions)		
	FY14	FY15	FY16
<b><u>Total Motor Vehicle Usage Tax Expenditures</u></b>	<b><u>60.400</u></b>	<b><u>95.600</u></b>	<b><u>97.300</u></b>
Adapted Equipment for Physically Handicapped Persons	0.068	0.069	0.070
Change in Business Structure	0.093	0.094	0.095
Charter Bus Exemption	0.060	0.061	0.061
Commercial Motor Vehicle Exemption	Minimal	Minimal	Minimal
Educational & Charitable Organizations	1.650	1.700	1.800
Immediate Family Member	7.800	7.900	8.000
Insurance Company Transfers	0.110	0.111	0.112
Large Truck Exclusion	12.900	13.200	13.400
Military Exemption	6.100	6.200	6.400
Partnership Interests	Minimal	Minimal	Minimal
Repossessed Exemption	1.500	1.600	1.700
Trade-In Allowance on New or Used Motor Vehicle Purchases	25.900	60.200	60.900
Transfers between a Limited Liability Company and its Members	1.600	1.700	1.800
Transfers between a Subsidiary and a Parent Corporation	0.162	0.165	0.167
Transfers by Will or Court Order	2.500	2.700	2.800
<b><u>Total Natural Resources Severance and Processing Tax Expenditures</u></b>	<b><u>6.400</u></b>	<b><u>6.500</u></b>	<b><u>6.500</u></b>
Ball Clay, Fluorspar, Lead, Zinc, Tar Sands, Barite, and Stone Used for Privately Maintained but Publicly Dedicated Roads	0.300	0.300	0.325
Clay Used in Landfill Construction	Minimal	Minimal	Minimal
Inactive Crude Oil & Natural Gas Wells	0.200	0.200	0.200
Limestone Sold in Interstate Commerce	2.900	3.000	3.000
Limestone Sold or Used for Agricultural Purposes	Minimal	Minimal	Minimal
Limit on Tax from Clay	Minimal	Minimal	Minimal
Transportation Expense	3.000	3.000	3.000
<b><u>Total Property Tax Expenditures</u></b>	<b><u>707.300</u></b>	<b><u>719.600</u></b>	<b><u>729.700</u></b>
	<b><u>Real Property</u></b>		
Agricultural and Horticultural Land Assessment Protection	0.100	0.100	0.100
Agricultural Value of Real Property	46.200	47.500	48.600
Alcohol Production Facilities	0.000	0.000	0.000
Environmental Remediation Property	0.003	0.003	0.003
Homestead Exemption	15.900	16.100	16.200
Intrastate Railroads and Railway Companies	0.024	0.024	0.024
Leasehold Interest in Buildings Financed with Industrial Revenue Bonds	2.500	2.600	2.600
Property of Local Governments in Neighboring States	0.021	0.021	0.021
Real Property Owned by Exempt Entities	47.100	48.000	48.800
State Real Property Tax Yearly Revenue Ceiling	401.200	410.700	418.600
	<b><u>Tangible Property</u></b>		
Agricultural Products	3.800	3.700	3.600
Aircraft	1.700	1.800	1.800
Business Inventories	68.100	68.500	69.100
Carlines	1.000	1.000	1.000
Federally Documented Vessels	0.475	0.475	0.475
Foreign Trade Zone	21.200	21.200	21.200
Historic Vehicles	0.211	0.212	0.213
In-Transit Goods	19.500	19.900	20.300
Intrastate Railroads and Railway Companies	0.175	0.175	0.175
Interstate Trucks, Tractors and Buses	4.000	4.000	4.100
Leasehold Interests	4.200	4.200	4.200
Machinery Used in Farming and Livestock & Domestic Fowl	5.300	5.400	5.400
Manufacturing Machinery; Pollution Control Equipment; and Radio, Television & Telephonic Equipment	64.600	64.000	63.200
Motor Vehicles with a Salvage Title	Minimal	Minimal	Minimal
Property of Local Government in Neighboring States	0.000	0.000	0.000
Personal Property Used in Vending Stands Operated by the Blind	Minimal	Minimal	Minimal

# Tax Expenditures by Tax Type (\$ millions)

	(\$ millions)		
	FY14	FY15	FY16
<b>Total Sales and Use Tax Expenditures</b>			
<b><u>(w/o excluded services)</u></b>	<b><u>3,105.472</u></b>	<b><u>3,186.950</u></b>	<b><u>3,267.562</u></b>
Admissions to and Purchases by Historical Sites	0.505	0.506	0.506
Charter Bus Repair & Replacement Parts	0.042	0.043	0.044
Coal Used in the Manufacture of Electricity	56.500	55.000	54.000
Coin-Operating Bulk Vending Machines	0.015	0.015	0.015
Construction Expenses for Alternative Fuel or Gasification Facility	0.000	0.000	0.000
Construction Expenses for Near Zero Emission Power Plants	0.000	0.000	0.000
County Fair Admissions	0.465	0.470	0.475
Donated Goods	0.000	0.000	0.000
Energy and Energy Producing Fuels	50.500	51.700	52.900
Federal Taxes Imposed on Sales of Tangible Personal Property	8.900	9.000	9.200
Food Items	575.000	592.000	606.000
4-H Sales	Minimal	Minimal	Minimal
Garage or Yard Sales	0.155	0.155	0.155
Interstate Cargo & Passenger Aircraft, Parts & Supplies	0.000	0.000	0.000
Jet Fuel	28.700	29.000	29.500
Kentucky Enterprise Initiative	21.200	22.300	23.600
Labor or Services Used in Property Sold	304.000	311.000	316.000
Locomotives and Rolling Stock	11.200	11.200	11.200
Lodgings of Thirty Days or More	0.275	0.275	0.275
Machinery for New & Expanded Industry	66.200	67.700	68.900
New & Replacement Machinery or Equipment for Energy Efficient Projects	2.000	2.000	2.000
Non-profit Educational, Charitable & Religious Institutions	376.000	385.000	393.000
Occasional Sales	Substantial	Substantial	Substantial
Pay Phones	Minimal	Minimal	Minimal
Pollution Control Facilities	32.300	34.000	35.200
Prescription Medicine, Prosthetic Devices & Physical Aids	430.000	438.800	449.200
Procurement, Processing or Distribution of Blood or Human Tissue	2.500	2.700	2.900
Property Certified as a Fluidized Bed Energy Production Facility	0.000	0.000	0.000
Rate Increase for School Taxes Added to Residential Phone Bills	4.8	4.7	4.5
Recycling Machinery and Equipment	1.600	1.800	1.900
Repair Parts for Large Trucks	1.900	2.000	2.200
Reimbursement of Seller's Collection Costs	11.100	11.300	11.400
Residential Utilities	533.000	558.000	584.000
Sales by Elementary and Secondary Nonprofit, School-Sponsored Clubs and Organizations	5.300	5.500	5.700
Sales by Nonprofit Higher Educational School-Sponsored Clubs and Organizations	0.140	0.140	0.140
Sales to Motion Picture Companies	Minimal	Minimal	Minimal
Semi-Trailers and Trailers	4.500	4.600	4.800
State, Cities, Counties and Special Districts	250.200	250.800	252.000
Textbooks	2.500	2.500	2.500
Tombstones and Other Grave Markers	8.000	8.100	8.200
Tourism Attraction Project Credit/Refund	6.200	6.400	6.600
Vessels and Maritime Supplies	16.200	16.400	16.600
Water Withdrawal Fees Paid to Kentucky River Authority	0.180	0.182	0.184

## Tax Expenditures by Tax Type (\$ millions)

	(\$ millions)		
	FY14	FY15	FY16
<b><u>Subtotal for Farming Tax Expenditures</u></b>	<b><u>298.660</u></b>	<b><u>306.264</u></b>	<b><u>315.968</u></b>
Aquaculture	0.260	0.264	0.268
Equine Water	1.500	1.500	1.500
Farm Chemicals	9.000	9.200	9.400
Farm Machinery, Attachments, and Replacements, On-Farm Grain Storage Facilities, and On-Farm Facilities for Raising Chickens, Livestock, Ratite Birds, Llamas and Alpacas, and Buffalo	60.200	62.000	64.000
Fuel Used for Farm Purposes	18.900	19.600	20.000
Horses Less Than Two Years of Age	10.600	10.900	11.200
Horses Purchased for Breeding	10.800	11.200	11.600
Livestock, Poultry, Ratite Birds, Embryos and Semen, Farm Work Stock and Feed, Seeds and Fertilizers	176.200	180.000	186.000
Twine and Wire	Minimal	Minimal	Minimal
Water Used for Farm Purposes	11.200	11.600	12.000
<b><u>Total for Excluded Services</u></b>	<b><u>1,877.3</u></b>	<b><u>1,907.8</u></b>	<b><u>1,948.5</u></b>
Personal Services	64.000	65.000	66.400
Business Services	291.100	295.800	302.100
Specialized Design Services	6.400	6,500	6.600
Computer System Designs	133.300	135.500	138.400
Scientific Research and Development	9.400	9.600	9.800
Health Services	552.500	561.500	573.500
Legal Services	89.000	90.500	92.400
Education Services	16.600	16.900	17.200
Social Services	94.300	95.800	97.800
Engineering, Accounting, Research Management	233.000	236,800	241,900
Automotive and Miscellaneous Repair Services	116.900	118.800	121.400
Amusement and Recreational Services	31.500	32.000	32.700
Other Services	77.900	79.200	80.900
Advertising	39.600	40.200	41.100
Other Professional Services	121.700	123.700	126.400
<b><u>Total Special Fuels Tax Expenditures</u></b>	<b><u>74.700</u></b>	<b><u>75.500</u></b>	<b><u>76.200</u></b>
Agricultural Use	7.800	8.000	8.300
Bus, Taxicab and Certain Senior Citizen's Programs Refunds	0.655	0.655	0.657
Dealer's Monthly Reporting Allowance	4.000	4.100	4.300
Non-Highway Use	37.700	37.800	37.900
Railroad Companies	23.100	23.500	23.600
Religious, Charitable or Educational Use	0.115	0.113	0.112
Residential Heating	0.860	0.855	0.850
State and Local Government Use	0.438	0.441	0.442
Watercraft	0.052	0.053	0.054
<b><u>Total Tobacco Taxes Expenditures</u></b>	<b><u>1.200</u></b>	<b><u>1.200</u></b>	<b><u>1.200</u></b>
Compensation Allowed Wholesaler	1.200	1.200	1.200

## Tax Expenditures by Tax Type (\$ millions)

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	(\$ millions)		
	FY14	FY15	FY16
<b>Total Earmarked Funds</b>	<b><u>54.452</u></b>	<b><u>56.570</u></b>	<b><u>59.485</u></b>
County Clerk Share for Collection of Nonresident Sales Tax	0.090	0.092	0.095
Equine Breeder Development Funds - Sales Tax			
Kentucky Thoroughbred Breeders Incentive Fund	9.800	9.800	9.900
Kentucky Standardbred Breeders Incentive Fund	1.600	1.600	1.700
Kentucky Horse Breeders Incentive Fund	0.850	0.875	0.900
Equine Drug Research – Pari-mutuel Tax	0.057	0.585	0.600
Equine Industry Program Trust and			
Revolving Fund – Pari-mutuel Tax	0.480	0.490	0.500
Higher Education Equine Trust and			
Revolving Fund – Pari-mutuel Tax	0.400	0.410	0.415
Kentucky Aviation Economic Development Fund – Sales Tax	10.000	10.100	10.100
Kentucky Transportation Center – Motor Fuels Tax	0.190	0.190	0.190
Standardbred Development Fund – Pari-mutuel Tax	0.085	0.085	0.090
Tax Increment Financing – Various Taxes	18.200	19.700	22.300
Thoroughbred Development Fund-Pari-mutuel Tax	6.500	6.600	6.800
Cancer Research Fund - Cigarette Tax	4.000	3.900	3.800
Tobacco Enforcement Program – Cigarette Tax	0.200	0.195	0.190
Tobacco Research Trust Fund – Cigarette Tax	2.000	1.950	1.900



## Tax Expenditures by Program (\$ millions)

		(\$ millions)		
Tax Type		FY14	FY15	FY16
<b><u>Agricultural Development</u></b>		<b><u>339.470</u></b>	<b><u>347.875</u></b>	<b><u>358.180</u></b>
Corporation Income	Qualified Farming Operation Credit	0.000	0.000	0.000
Gasoline Tax	Agricultural Exemption	0.110	0.111	0.112
Individual Income	Income Averaging for Farmers	0.400	0.400	0.400
Inheritance Tax	Assessment of Land at its Agricultural or Horticultural Value	Minimal	Minimal	Minimal
Natural Resources	Limestone Sold or Used for Agricultural Purposes	Minimal	Minimal	Minimal
Real Property Tax	Agricultural and Horticultural Land Assessment Protection	0.100	0.100	0.100
Real Property Tax	Agricultural Value of Real Property	46.200	47.500	48.600
Tangible Property Tax	Machinery Used in Farming and Livestock & Domestic Fowl	5.300	5.400	5.400
Tangible Property Tax	Agricultural Products	3.800	3.700	3.600
Sales Tax	Livestock, Poultry, Ratite Birds, Embryos and Semen, Alpacas, Llamas, Buffalo, Farm Work Stock and Feed, Seeds and Fertilizers	176.200	180.000	186.000
Sales Tax	Farm Machinery, Attachments, and Replacements, On-Farm Grain Storage Facilities, and On-Farm Facilities or Raising Chickens, Livestock, Ratite Birds, Llamas and Alpacas, and Buffalo	60.200	62.000	64.000
Sales Tax	Fuel Used for Farm Purposes	18.900	19.600	20.000
Sales Tax	Water Used for Farm Purposes	11.200	11.600	12.000
Sales Tax	Aquaculture	0.260	0.264	0.268
Sales Tax	Twine and Wire	Minimal	Minimal	Minimal
Sales Tax	Farm Chemicals	9.000	9.200	9.400
Special Fuels	Agricultural Use	7.800	8.000	8.300
<b><u>Banking Support</u></b>		<b><u>16.200</u></b>	<b><u>16.900</u></b>	<b><u>17.600</u></b>
Corporation Income	Credit Unions	5.700	5.800	5.900
Corporation Income	Real Estate Investment Trust	9.000	9.500	10.000
Individual Income	Financial Institutions Structured as S Corporations	Minimal	Minimal	Minimal
Motor Vehicle	Repossessed Exemption	1.500	1.600	1.700
<b><u>Charitable Organization Support</u></b>		<b><u>556.030</u></b>	<b><u>570.383</u></b>	<b><u>583.687</u></b>
Corporation Income	Charitable Contributions	9.500	9.700	9.800
Corporation Income	Leasehold Interest of Property Contributed as Living Quarters for Homeless	0.000	0.000	0.000
Individual Income	Charitable Contributions	107.700	111.600	115.600
Individual Income	Parsonage Allowances	2.200	2.400	2.600
Inheritance Tax	Transfers to Educational, Religious, Charitable, or Certain Governmental Organizations	11.300	11.400	11.500
Inheritance Tax	Class C Beneficiaries	Minimal	Minimal	Minimal
Motor Vehicle	Educational & Charitable Organizations	1.650	1.700	1.800
Real Property Tax	Real Property Owned by Exempt Entities	47.100	48.000	48.800
Sales Tax	Non-profit Educational, Charitable and Religious Institutions	376.000	385.000	393.000
Sales Tax	4-H Sales	Minimal	Minimal	Minimal
Sales Tax	Donated Goods	0.000	0.000	0.000
Sales Tax	County Fair Admissions	0.465	0.470	0.475
Special Fuels	Religious, Charitable or Educational Use	0.115	0.113	0.112
<b><u>Community Development</u></b>		<b><u>30.200</u></b>	<b><u>31.862</u></b>	<b><u>33.725</u></b>
Corporation Income	Homeowner's Associations	0.000	0.000	0.000
Individual Income	Historic Preservation Tax Credit	0.400	0.500	0.500
Individual Income	Capital Gains - Eminent Domain	Minimal	Minimal	Minimal
Limited Liability Entity	Cooperatives, Homeowners' Assoc., Political Organizations	2.400	2.700	3.100
Limited Liability Entity	Real Estate Investment Trust	0.565	0.572	0.580
Limited Liability Entity	Real Estate Mortgage Investment Conduit	0.085	0.090	0.095
Limited Liability Entity	Endow Kentucky Tax Credit	0.450	0.500	0.550
Limited Liability Entity	New Markets Development Program Tax Credit	5.100	5.200	5.300
Sales Tax	Kentucky Enterprise Initiative	21.200	22.300	23.600

# Tax Expenditures by Program (\$millions)

		(\$ millions)		
Tax Type		FY14	FY15	FY16
	<b><u>Earmarked Funds</u></b>	<b><u>55.070</u></b>	<b><u>56.570</u></b>	<b><u>59.485</u></b>
Earmarked Funds	Thoroughbred Development Fund-Pari-mutuel Tax	6.500	6.600	6.800
Earmarked Funds	Equine Industry Program Trust and Revolving Fund – Pari-mutuel Tax	0.480	0.490	0.500
Earmarked Funds	Higher Education Equine Trust and Revolving Fund – Pari-mutuel Tax	0.400	0.410	0.415
Earmarked Funds	Standardbred Development Fund – Pari-mutuel Tax	0.085	0.085	0.090
Earmarked Funds	Tobacco Enforcement Program – Cigarette Tax	0.200	0.195	0.190
Earmarked Funds	Kentucky Transportation Center – Motor Fuels Tax	0.190	0.190	0.190
Earmarked Funds	Tobacco Research Trust Fund – Cigarette Tax	2.000	1.950	1.900
Earmarked Funds	Cancer Research Fund	4.000	3.900	3.800
Earmarked Funds	Equine Drug Research – Pari-mutuel Tax	0.575	0.585	0.600
Earmarked Funds	Kentucky Aviation Economic Development Fund – Sales Tax	10.100	10.100	10.100
Earmarked Funds	Tax Increment Financing – Various Taxes	18.200	19.700	22.300
Earmarked Funds	Kentucky Thoroughbred Breeders Incentive Fund	9.800	9.800	9.900
Earmarked Funds	Kentucky Standardbred Breeders Incentive Fund	1.600	1.600	1.700
Earmarked Funds	Kentucky Horse Breeders Incentive Fund	0.850	0.875	0.900
Earmarked Funds	County Clerk Share for Collection of Nonresident Sales Tax	0.090	0.092	0.100
	<b><u>Economic and Job Development</u></b>	<b><u>167.985</u></b>	<b><u>172.473</u></b>	<b><u>177.186</u></b>
Bank Franchise Tax	Kentucky Investment Fund Tax Credit	0.100	0.150	0.200
Corporation Income	Construction of Research Facilities Credit	0.190	0.195	0.200
Corporation Income	Unemployment Tax Credit	0.070	0.072	0.074
Corporation Income	Domestic Production Activities	6.500	7.000	7.500
Corporation Income	KREDA Economic Development Credit	8.300	9.000	10.000
Corporation Income	KIDA Economic Development Credit	2.100	2.300	2.500
Corporation Income	KIRA Economic Development Credit	4.100	4.200	4.300
Corporation Income	KJDA Economic Development Credit	4.900	5.300	5.700
Corporation Income	Skills Training Investment Tax Credit	0.385	0.392	0.394
Corporation Income	Film Industry Tax Credit	1.500	1.400	1.300
Corporation Income	Consolidation of the KEDFA Economic Development Tax Credit Programs	0.780	0.800	0.850
Corporation Income	Kentucky Small Business Investment Credit	0.130	0.132	0.134
Individual Income	Employee Stock Ownership Plan Provisions	9.600	11.500	13.600
Individual Income	U.S. Production Activities	4.200	4.400	4.500
Individual Income	Employer-Provided Benefits of Premiums on Group Term Life, Accident & Disability Ins.	6.300	6.300	6.500
Individual Income	Employer-Provided Meals and Lodging	17.900	18.800	19.400
Individual Income	Credit for Hiring Unemployed	0.000	0.000	0.000
Individual Income	Miscellaneous Fringe Benefits	20.400	21.000	21.500
Individual Income	Job Development Credit	53.000	51.800	50.600
Individual Income	KY Small Business Investment Credit	0.130	0.132	0.134
Sales Tax	Tourism Attraction Project Credit/Refund	6.200	6.400	6.600
Sales Tax	Sales to Motion Picture Companies	Minimal	Minimal	Minimal
Tangible Property Tax	Foreign Trade Zone	21.200	21.200	21.200
	<b><u>Education Support</u></b>	<b><u>42.140</u></b>	<b><u>43.940</u></b>	<b><u>45.840</u></b>
Corporation Income	Employer GED Credit	0.000	0.000	0.000
Corporation Income	Metropolitan College Program Tax Credit	3.000	3.500	4.000
Individual Income	Employer-provided Education Assistance	0.000	0.000	0.000
Individual Income	Scholarship and Fellowship Income	9.400	9.800	10.200
Individual Income	Interest on Educational Loans	2.400	2.400	2.500
Individual Income	Postsecondary Education Tuition Tax Credit	19.400	20.100	20.800
Sales Tax	Sales by Nonprofit Higher Educational School-Sponsored Clubs and Organizations	0.140	0.140	0.140
Sales Tax	Textbooks	2.500	2.500	2.500
Sales Tax	Sales by Elementary and Secondary Nonprofit, School-Sponsored Clubs and Organizations	5.300	5.500	5.700

# Tax Expenditures by Program (\$millions)

		(\$ millions)		
Tax Type		FY14	FY15	FY16
	<b><u>Energy Development and Coal Industry Support</u></b>	<b><u>711.736</u></b>	<b><u>737.906</u></b>	<b><u>765.171</u></b>
Coal Severance	Thin Seam Tax Credit	2.300	2.300	2.200
Coal Severance	Coal Purchased for Alternative Energy or Gasification Facility	0.000	0.000	0.000
Corporation Income	Coal Royalties	Minimal	Minimal	Minimal
Corporation Income	Ethanol and Cellulosic Ethanol Credit	0.186	0.200	0.210
Corporation Income	Coal Conversion Credit	0.008	0.009	0.010
Corporation Income	Biodiesel and Renewable Diesel Tax Credit	0.750	0.700	0.650
Sales Tax	Property Certified as a Fluidized Bed Energy Production Facility	0.000	0.000	0.000
Sales Tax	Residential Utilities	533.000	558.000	584.000
Limited Liability Entity	Certified Fluidized Bed Energy Production Facility	Minimal	Minimal	Minimal
Limited Liability Entity	Alcohol Production Facility	Minimal	Minimal	Minimal
Limited Liability Entity	Publicly Traded Partnerships	0.092	0.097	0.101
Natural Resources	Inactive Crude Oil & Natural Gas Wells	0.200	0.200	0.200
Real Property Tax	Alcohol Production Facilities	0.000	0.000	0.000
Sales Tax	Energy and Energy Producing Fuels	50.500	51.700	52.900
Sales Tax	Coal Used in the Manufacture of Electricity	56.500	55.000	54.000
Sales Tax	New and Replacement Machinery and Equipment for Energy Efficient Projects	2.000	2.000	2.000
Sales Tax	Machinery for New and Expanded Industry	66.200	67.700	68.900
Sales Tax	Construction Expenses for Alternative Fuel or Gasification Facility	0.000	0.000	0.000
	<b><u>Environmental Conservation and Historical Preservation</u></b>	<b><u>55.620</u></b>	<b><u>57.821</u></b>	<b><u>59.623</u></b>
Bank Franchise Tax	Historic Preservation Tax Credit	5.000	5.000	5.000
Coal Severance	Coal Used to Burn Solid Waste	0.000	0.000	0.000
Corporation Income	Recycling Credit	11.300	11.500	11.900
Corporation Income	Environmental Remediation Tax Credit	0.000	0.000	0.000
Corporation Income	Environmental Stewardship Tax Credit	0.000	0.000	0.000
Corporation Income	Clean Coal Incentive Credit	4.000	4.100	4.200
Individual Income	Recycling and/or Composting Equipment	0.700	0.700	0.700
Liquefied Petroleum	Approved Carburetion Systems	0.001	0.001	0.001
Real Property Tax	Environmental Remediation Property	0.003	0.003	0.003
Sales Tax	Recycling Machinery and Equipment Credit	1.600	1.800	1.900
Sales Tax	Pollution Control Facilities	32.300	34.000	35.200
Sales Tax	Admissions to and Purchases by Historical Sites	0.505	0.505	0.506
Sales Tax	Construction Expenses for Near Zero Emission Power Plants	0.000	0.000	0.000
Tangible Property Tax	Historic Vehicles	0.211	0.212	0.213
	<b><u>Equine Industry Support</u></b>	<b><u>22.900</u></b>	<b><u>23.600</u></b>	<b><u>24.300</u></b>
Sales Tax	Equine Water	1.500	1.500	1.500
Sales Tax	Horses Purchased for Breeding	10.800	11.200	11.600
Sales Tax	Horses Less Than Two Years of Age	10.600	10.900	11.200
	<b><u>Excluded Services</u></b>	<b><u>1,877.300</u></b>	<b><u>1,907.800</u></b>	<b><u>1,948.500</u></b>
Sales Tax	Personal Services	64.000	65.000	66.400
Sales Tax	Business Services	291.100	295.800	302.100
Sales Tax	Specialized Design Services	6.400	6.500	6.600
Sales Tax	Computer System Designs	133.300	135.500	138.400
Sales Tax	Scientific Research and Development	9.400	9.600	9.800
Sales Tax	Advertising	39.600	40.200	41.100
Sales Tax	Other Professional Services	121.700	123.700	126.400
Sales Tax	Health Services	552.500	561.500	573.500
Sales Tax	Legal Services	89.000	90.500	92.400
Sales Tax	Educational Services	16.600	16.900	17.200
Sales Tax	Social Services	94.300	95.800	97.800
Sales Tax	Engineering, Accounting, Research, Management	233.000	236.800	241.900
Sales Tax	Automotive and Miscellaneous Repair Services	116.900	118.800	121.400
Sales Tax	Amusement and Recreational Services	31.500	32.000	32.700
Sales Tax	Other Services	77.900	79.200	80.900

# Tax Expenditures by Program (\$millions)

Tax Type		(\$ millions)		
		FY14	FY15	FY16
	<b>Existing Business Support</b>	<b>922.063</b>	<b>936.575</b>	<b>950.480</b>
Alcoholic Beverage	Reduced Rate for "Low Volume" Spirits	0.043	0.043	0.044
Alcoholic Beverage	Malt Beverage Excise Tax at Reduced Rate	0.014	0.015	0.016
Alcoholic Beverage	Allowance for Collecting and Reporting	1.000	1.100	1.100
Corporation Income	Net Operating Loss Deduction	52.800	51.700	50.800
Corporation Income	Kentucky Investment Fund Tax Credit	0.054	0.055	0.550
Corporation Income	Dividend Income	132.000	134.000	136.000
Corporation Income	Deductibility of Patronage Dividends	13.600	14.000	14.500
Gasoline Tax	Dealer's Monthly Reporting Allowance	17.500	17.800	17.700
Individual Income	Net Operating Loss Deduction	52.300	54.200	56.200
Individual Income	Installment Sales	3.200	3.700	4.200
Limited Liability Entity	Costs of Goods Sold, Bulk Delivery Charges, and Indirect Labor	85.600	86.300	88.100
Limited Liability Entity	Open-End Registered Investment Companies	0.002	0.003	0.003
Limited Liability Entity	Personal Service Corporations	1.500	1.600	1.700
Limited Liability Entity	Regulated Investment Company	0.027	0.029	0.031
Limited Liability Entity	Small Business Relief from the Limited Liability Entity Tax	41.200	42.900	44.300
Limited Liability Entity	KY Small Business Investment Credit	0.130	0.132	0.134
Liquefied Petroleum	Dealer's Monthly Reporting Allowance	0.013	0.013	0.013
Motor Vehicle	Change in Business Structure	0.093	0.094	0.095
Motor Vehicle	Transfers between a Limited Liability Company and its Members	1.600	1.700	1.800
Motor Vehicle	Transfers between a Subsidiary and a Parent Corporation	0.162	0.165	0.167
Motor Vehicle	Partnership Interests	Minimal	Minimal	Minimal
Motor Vehicle	Insurance Company Transfers	0.110	0.111	0.112
Sales Tax	Labor or Services Used in Property Sold	304.000	311.000	316.000
Sales Tax	Coin-Operating Bulk Vending Machines	0.015	0.015	0.015
Sales Tax	Occasional Sales	Substantial	Substantial	Substantial
Sales Tax	Pay Phones	Minimal	Minimal	Minimal
Sales Tax	Federal Taxes Imposed on Sales of Tangible Personal Property	8.900	9.000	9.200
Sales Tax	Reimbursement of Seller's Collection Costs	11.100	11.400	11.700
Special Fuels	Dealer's Monthly Reporting Allowance	4.000	4.100	4.300
Special Fuels	Non-Highway Use	37.700	37.800	37.900
Tangible Property Tax	Mfg. Machinery; Pollution Control Equip .and Radio, Television & Telephonic Equip.	64.600	64.000	63.200
Tangible Property Tax	In-Transit Goods	19.500	19.900	20.300
Tangible Property Tax	Business Inventories	68.100	68.500	69.100
Tangible Property Tax	Motor Vehicles with a Salvage Title	Minimal	Minimal	Minimal
Tobacco Tax	Compensation Allowed Wholesaler	1.200	1.200	1.200
	<b>Family Support</b>	<b>297.200</b>	<b>311.200</b>	<b>324.900</b>
Individual Income	Assistance for Adopted Foster Children and Foster Care Payments	1.500	1.600	1.700
Individual Income	Employer-provided Child Care Exclusions	4.400	4.700	5.000
Individual Income	Personal and Dependent Tax Credits	51.100	52.900	54.800
Individual Income	Interest on Life Insurance Savings	57.200	62.900	67.100
Individual Income	Child and Dependent Care Credit	7.700	7.700	7.700
Individual Income	Active Duty Military Pay Exemption	18.600	18.600	18.600
Individual Income	Basis of Capital Gains on Gifts	9.600	11.500	13.600
Individual Income	Capital Gain on Property Transferred at Death	73.700	77.500	81.300
Inheritance Tax	Class A Beneficiaries	54.000	54.000	55.000
Inheritance Tax	Class B Beneficiaries	Minimal	Minimal	Minimal
Inheritance Tax	Life Insurance Proceeds	Substantial	Substantial	Substantial
Inheritance Tax	Certificates of Deposit Exempt from the Contemplation of Death Rule	Minimal	Minimal	Minimal
Inheritance Tax	Recurring Tax Credits	Minimal	Minimal	Minimal
Inheritance Tax	Discount for Early Payment of Tax	1.100	1.100	1.100
Motor Vehicle	Immediate Family Member	7.800	7.900	8.000
Motor Vehicle	Transfers by Will or Court Order	2.500	2.700	2.800
Sales Tax	Tombstones and Other Grave Markers	8.000	8.100	8.200

# Tax Expenditures by Program (\$millions)

		(\$ millions)		
Tax Type		FY14	FY15	FY16
	<b><u>Federal Government Support</u></b>	<b><u>2.900</u></b>	<b><u>3.000</u></b>	<b><u>3.000</u></b>
Individual Income	Interest on U.S. Savings Bonds	2.900	3.000	3.000
	<b><u>Health Care Support</u></b>	<b><u>1,057.118</u></b>	<b><u>1,124.169</u></b>	<b><u>1,153.120</u></b>
Individual Income	Employer Contributions for Medical Insurance and Medical Care	579.200	611.200	652.100
Individual Income	Health Savings Account Deduction	4.600	4.800	5.100
Individual Income	Deductibility of Medical Expenses	38.900	40.400	41.800
Insurance Premiums	Hospital, Medical, or Dental Service Companies	1.850	1.900	1.950
Motor Vehicle	Adapted Equipment for Physically Handicapped Persons	0.068	0.069	0.070
Sales Tax	Prescription Medicine, Prosthetic Devices and Physical Aids	430.000	438.800	449.200
Sales Tax	Procurement, Processing or Distribution of Blood or Human Tissue	2.500	27.000	2.900
	<b><u>Housing Development</u></b>	<b><u>437.475</u></b>	<b><u>459.575</u></b>	<b><u>481.075</u></b>
Individual Income	Passive Loss Rules Exception	39.200	43.700	46.100
Individual Income	Home Mortgage Interest	195.800	202.900	210.100
Individual Income	Property Tax on Owner-Occupied Homes	61.500	63.800	66.000
Individual Income	Gain on the Sale of a Personal Residence	124.800	132.800	142.400
Real Property Tax	Homestead Exemption	15.900	16.100	16.200
Sales Tax	Lodgings of Thirty Days or More	0.275	0.275	0.275
	<b><u>Income Maintenance</u></b>	<b><u>1,312.415</u></b>	<b><u>1,383.810</u></b>	<b><u>1,416.805</u></b>
Individual Income	Cancellation of Indebtedness	0.200	0.200	0.100
Individual Income	Job Expenses and Other Miscellaneous Deductions	40.900	42.400	43.900
Individual Income	Standard Deduction	132.700	137.500	142.400
Individual Income	Worker's Compensation Benefits	31.100	31.500	31.800
Individual Income	Public Assistance Benefits	2.100	2.200	2.300
Individual Income	Expanded Low Income Tax Credit	100.900	104.600	108.300
Individual Income	Casualty and Theft Losses	1.300	1.400	1.400
Individual Income	Disabled Coal Miners	0.100	0.100	0.100
Motor Vehicle	Trade-In Allowance on Used and New Vehicle Purchases	25.900	60.200	60.900
Real Property Tax	State Real Property Tax Yearly Revenue Ceiling	401.200	410.700	418.600
Sales Tax	Food Items	575.000	592.000	606.000
Sales Tax	Garage or Yard Sales	0.155	0.155	0.155
Special Fuels	Residential Heating	0.860	0.855	0.850
	<b><u>Intergovernmental Transfers</u></b>	<b><u>16.700</u></b>	<b><u>17.500</u></b>	<b><u>18.300</u></b>
Individual Income	Income Earned Abroad by US Citizens	16.700	17.500	18.300
	<b><u>Military Support</u></b>	<b><u>90.500</u></b>	<b><u>90.000</u></b>	<b><u>92.800</u></b>
Individual Income	Armed Forces Personnel Benefits and Allowances	41.200	38.600	39.100
Individual Income	Exclusion of GI Bill Benefits	4.400	4.700	5.000
Individual Income	Veteran's Pension, Death and Disability Compensation	20.200	21.900	23.700
Individual Income	Active Duty Military Pay Exemption	18.600	18.600	18.600
Inheritance Tax	Benefits Paid to a Beneficiary of Military Personnel Under Certain Retirement Plans	Minimal	Minimal	Minimal
Inheritance Tax	Benefits Paid by the Federal Government Due to Service in Time of War	Minimal	Minimal	Minimal
Motor Vehicle	Military Exemption	6.100	6.200	6.400
	<b><u>Natural Resources</u></b>	<b><u>19.330</u></b>	<b><u>20.030</u></b>	<b><u>20.455</u></b>
Corporation Tax	Excess of Percentage over Cost Depletion	3.100	3.700	4.100
Individual Income	KY Energy Efficiency Products Tax Credit	13.000	13.000	13.000
Natural Resources	Transportation Expense	0.300	0.300	0.325
Natural Resources	Limestone Sold in Interstate Commerce	2.900	3.000	3.000
Natural Resources	Ball Clay, Fluorspar, Lead, Zinc, Tar Sands, Barite, and Stone Used for Privately Maintained but Publicly Dedicated Roads	0.030	0.030	0.030

# Tax Expenditures by Program (\$millions)

		(\$ millions)		
Tax Type		FY14	FY15	FY16
Natural Resources	Limit on Tax from Clay	Minimal	Minimal	Minimal
Natural Resources	Clay Used in Landfill Construction	Minimal	Minimal	Minimal
<b>Retirement Support</b>		<b>1,296.800</b>	<b>1,372.300</b>	<b>1,448.500</b>
Individual Income	Pension Contributions and Earnings from Employer Plans	480.400	529.000	572.500
Individual Income	Social Security Benefits for Retired Workers, Disabled Workers, and Dependents and Survivors	127.900	132.900	137.400
Individual Income	Individual Retirement Account Contributions	52.400	52.700	56.100
Individual Income	Private Pensions and Individual Retirement Accounts	410.900	425.900	441.000
Individual Income	Keogh Plan Contributions	7.500	7.800	8.100
Individual Income	Federal and Military Retirement Income Received	94.500	98.000	101.400
Individual Income	Railroad and Supplemental Railroad Retirement System Benefits	1.400	1.400	1.400
Individual Income	State Employee Pension Benefits and Contributions	69.400	71.900	74.500
Individual Income	Individual Retirement Accounts	52.400	52.700	56.100
Inheritance Income	Annuities Under Qualified Retirement Plans	Minimal	Minimal	Minimal
Inheritance Income	Individual Retirement Account	Minimal	Minimal	Minimal
<b>State and Local Government Support</b>		<b>300.539</b>	<b>302.544</b>	<b>304.947</b>
Individual Income	Deductibility of State and Local Taxes Other Than Home Property Taxes	38.100	39.500	40.900
Individual Income	Precinct Workers	0.100	0.100	0.100
Real Property Tax	Leasehold Interest in Buildings Financed with Industrial Revenue Bonds	2.500	2.600	2.600
Real Property Tax	Property of Local Governments in Neighboring States	0.021	0.021	0.021
Sales Tax	Rate Increase for School Taxes added to Residential Telephone Bills	4.800	4.700	4.500
Sales Tax	State, Cities, Counties and Special Districts	250.200	250.800	252.000
Sales Tax	Water Withdrawal Fees Paid to Kentucky River Authority	0.180	0.182	0.184
Special Fuels	State and Local Government Use	0.438	0.441	0.442
Tangible Property Tax	Leasehold Interest	4.200	4.200	4.200
Tangible Property Tax	Personal Property in Vending Stands Operated by the Blind	Minimal	Minimal	Minimal
Tangible Property Tax	Property of Local Governments in Neighboring States	0.000	0.000	0.000
<b>Transportation Industry Support</b>		<b>108.318</b>	<b>109.830</b>	<b>111.343</b>
Corporation Tax	Railroad Improvement Tax Credit	0.000	0.000	0.000
Gasoline Tax	Aircraft Refund	0.210	0.212	0.215
Gasoline Tax	Watercraft Refund	0.775	0.780	0.783
Gasoline Tax	Bus, Taxicab, and Certain Senior Citizen's Program Refund	0.650	0.652	0.655
Motor Vehicle	Commercial Motor Vehicle Exemption	Minimal	Minimal	Minimal
Motor Vehicle	Large Truck Exclusion	12.900	13.200	13.400
Motor Vehicle	Charter Bus Exemption	0.060	0.061	0.061
Real Property Tax	Intrastate Railroads and Railway Companies	0.024	0.024	0.024
Sales Tax	Semi-Trailers and Trailers	4.500	4.600	4.800
Sales Tax	Vessels and Maritime Supplies	16.200	16.400	16.600
Sales Tax	Interstate Cargo and Passenger Aircraft, Parts and Supplies	0.000	0.000	0.000
Sales Tax	Locomotives and Rolling Stock	11.200	11.200	11.200
Sales Tax	Jet Fuel	28.700	29.000	29.500
Sales Tax	Repair Parts for Large Trucks	1.900	2.000	2.200
Sales Tax	Charter Bus Repair & Replacement Parts	0.042	0.043	0.044
Special Fuels	Railroad Companies	23.100	23.500	23.600
Special Fuels	Bus, Taxicab and Certain Senior Citizen's Programs Refunds	0.655	0.655	0.657
Special Fuels	Watercraft	0.052	0.053	0.054
Tangible Property Tax	Intrastate Railroads and Railway Companies	0.175	0.175	0.175
Tangible Property Tax	Interstate Trucks, Tractors, Semi-Trailers and Buses	4.000	4.000	4.100
Tangible Property Tax	Federally Documented Vessels	0.475	0.475	0.475
Tangible Property Tax	Carlines	1.000	1.000	1.000
Tangible Property Tax	Aircraft	1.700	1.800	1.800

# Alcoholic Beverage Taxes

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## Background

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

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

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

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

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

## Current Rate Structure

Total alcoholic beverage taxes were \$122.0 million in FY13, which represents 1.3 percent of total General Fund revenue.

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





## Tax Expenditures

### 1. Allowance for Collecting and Reporting

*Kentucky Revised Statute 243.886, effective 1982*

As compensation, each wholesaler required to pay and report the wholesale sales tax is permitted to deduct on each report one percent (1%) of the tax due.

FY 2014	FY 2015	FY 2016
\$1.0 million	\$1.1 million	\$1.1 million

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

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

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

FY 2014	FY 2015	FY 2016
\$43,000	\$43,430	\$43,865

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

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

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

FY 2014	FY 2015	FY 2016
\$14,000	\$15,000	\$16,000

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# Bank Franchise Tax

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## Background

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

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

## Current Rate Structure

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

## Tax Base

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

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

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

**Table 2. Total Bank Franchise Tax Expenditures**

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$5.1 million	\$5.2 million	\$5.2 million

**Tax Expenditures**

**1. Kentucky Historic Preservation Credit**

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

*Kentucky Revised Statute 171.396, effective June 26, 2009*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$5.0 million	\$5.0 million	\$5.0 million

## 2. Kentucky Investment Fund Credit

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$100,000	\$150,000	\$200,000

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

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# Coal Severance and Processing Tax

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

During FY13, the coal tax produced \$230.5 million, which accounted for 3.0 percent of total General Fund receipts.

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

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

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

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

**Table 3. Total Coal Severance and Processing Tax Expenditures**

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$2.3 million	\$2.3 million	\$2.2 million

**Tax Expenditures**

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

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

*Kentucky Revised Statute 143.024, effective July 15, 2010*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
-0-	-0-	-0-

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

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
-0-	-0-	-0-



### 3. Thin Seam Tax Credit

*Kentucky Revised Statute 143.021, effective July 14, 2000*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$2.3 million	\$2.3 million	\$2.2 million

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# Corporation Income Tax

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## Background

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

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

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

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

Corporate income tax receipts for FY13 were \$400.8 million and accounted for 4.3 percent of total General Fund tax receipts.

**Table 4. Corporation Income Tax Rates**

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

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

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

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

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

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

- ◆ Being organized under the laws of this state;
- ◆ Having a commercial domicile in this state;
- ◆ Owning or leasing property in this state;
- ◆ Having one or more individuals performing services in this state;
- ◆ Deriving income from or attributable to sources within this state, including deriving income directly or indirectly from a trust doing business in this state; or

- ◆ Directing activities at Kentucky customers for the purpose of selling them goods or services.

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

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

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

**Tax Due**

The tax return and payment of any remaining tax liability are due on the fifteenth day of the fourth month following the close of the taxable period, April 15 for calendar-year corporations.

Extensions of time within which to file the return are available. To avoid penalty, the entire amount of tax due must be paid by the original due date of the return.

**Table 5. Total Corporation Income Tax Expenditures**

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$275.0 million	\$280.3 million	\$286.2 million

**Exemptions**

**1. Coal Royalties**

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
Minimal	Minimal	Minimal

**2. Credit Unions**

*Kentucky Revised Statute Renumbered 286.6-115 effective 1984*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$5.7 million	\$5.8 million	\$5.9 million

### 3. Dividend Income

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$132.0 million	\$134.0 million	\$136.0 million

### 4. Homeowners' Associations

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
-0-	-0-	-0-

### 5. Real Estate Investment Trust

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$9.0 million	\$9.5 million	\$10.0 million

## Deductions from Income

### 6. Charitable Contributions

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$9.5 million	\$9.7 million	\$9.8 million

**7. Deductibility of Patronage Dividends**

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$13.6 million	\$14.0 million	\$14.5 million

**8. Domestic Production Activities**

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$6.5 million	\$7.0 million	\$7.5 million

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

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$3.1 million	\$3.7 million	\$4.1 million

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

*Kentucky Revised Statute 141.0202, effective 1990*

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



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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
-0-	-0-	-0-

## 11. Net Operating Loss Deduction

*Kentucky Revised Statute 141.011, effective 1980*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$52.8 million	\$51.7 million	\$50.8 million

## Tax Credits

### 12. Biodiesel and Renewable Diesel Tax Credit

*Kentucky Revised Statute 141.423, effective 2005*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$750,000	\$700,000	\$650,000

### 13. Clean Coal Incentive Credit

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

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$1.8 million	\$1.9 million	\$2.0 million

**14. Coal Conversion Credit**

*Kentucky Revised Statutes 141.041, effective 1984*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$750	\$900	\$1,000

**15. Coal Incentive Credit**

*Kentucky Revised Statute 141.0405, effective 2000*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$4.0 million	\$4.1 million	\$4.2 million

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

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

The Incentives for a New Kentucky (INK) bill streamlines and modernizes Kentucky's business incentive programs including the consolidation of four long-standing programs, Kentucky Rural Economic Development Act, Kentucky Industrial Development Act, Kentucky Jobs Development Act, and Kentucky Economic Opportunity Zone Act, into a single, more flexible tax incentive program called the Kentucky Business Investment (KBI) program.

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$7,800	\$8,000	\$8,500

## 17. Construction of Research Facilities Credit

*Kentucky Revised Statute 141.395, effective July 15, 2002*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$190,000	\$195,000	\$200,000

**18. Employer GED Credit**

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

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

FY 2014	FY 2015	FY 2016
-0-	-0-	-0-

**19. Environmental Remediation Tax Credit**

*Kentucky Revised Statute 141.418, effective 2005*

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

FY 2014	FY 2015	FY 2016
-0-	-0-	-0-

**20. Environmental Stewardship Tax Credit**

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

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

FY 2014	FY 2015	FY 2016
-0-	-0-	-0-

## 21. Ethanol and Cellulosic Ethanol Tax Credit

*Kentucky Revised Statute 141.422-425, effective 2009*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$186,000	\$200,000	\$210,000

## 22. Film Industry Tax Credit

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$1.5 million	\$1.4 million	\$1.3 million

## 23. Kentucky Investment Fund Tax Credit

*Kentucky Revised Statute 154.20-258, effective June 28, 2006*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$54,000	\$54,500	\$55,000

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

*Kentucky Revised Statute 141.400, effective 1992, Repealed 2009*

A 100 percent credit is allowed against the income of an approved company generated by or arising out of the economic development project. The credit can be carried forward for up to ten years, but cannot exceed, in any fiscal year, the authorized cumulative approved costs paid in the three-year period commencing with the date of final approval of the economic development project. In 2009, the General Assembly consolidated all economic credits into one program. No new applications are being accepted. Kentucky continues to pay out credits that were approved before the repealed date of the statute. Effective July 12, 2012, KRS 154.26-010 was amended to allow a supplemental project during the term of a previously approved Kentucky Industrial Revitalization Act Project. A supplemental project eligible company means an approved company that has received approved costs of at least \$50 million on an existing approved Kentucky Industrial Revitalization Act Project and employs a minimum of 750 employees at the site of the KIRA.

FY 2014	FY 2015	FY 2016
\$2.1 million	\$2.3 million	\$2.5 million

**25. (KIRA) Economic Development Credit  
Kentucky Industrial Revitalization Agreement**

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

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

FY 2014	FY 2015	FY 2016
\$4.1 million	\$4.2 million	\$4.3 million

**26. (KJDA) Economic Development Credit  
Kentucky Jobs Development Act**

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$4.9 million	\$5.3 million	\$5.7 million

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

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$8.3 million	\$9.0 million	\$10.0 million

**28. Kentucky Small Business Investment Credit**

*Kentucky Revised Statute 141.384 effective June 4, 2010 (Amended)*

KRS 141.384 was amended to allow the credit to apply to taxable years beginning after December 31, 2010. A small business may be eligible for a nonrefundable credit of up to 100 percent of the Kentucky income tax imposed pursuant to KRS 141.020 or 141.040 and the limited liability entity tax imposed pursuant to KRS 141.0401. The maximum amount of credits that may be committed in each fiscal year by the Kentucky Economic Development Finance Authority shall be capped at \$3 million. The maximum amount of credit for each small business for each year shall not exceed \$25,000. Unused credits may be carried forward for up to five years.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$130,000	\$132,000	\$134,000

**29. Metropolitan College Program Tax Credit**

*Kentucky Revised Statute 141.381, effective June 26, 2009*

Parties to the Metropolitan College Consortium Agreement may qualify for a 50 percent tax credit for tuition and other educational expenses paid on behalf of a student participating in the metropolitan college. The credit shall expire on April 15, 2017 unless extended by the General Assembly.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$3.0 million	\$3.5 million	\$4.0 million



### 30. Qualified Farming Operation Credit

*Kentucky Revised Statute 141.414, effective June 2006*

*Kentucky Revised Statute 141.412*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
-0-	-0-	-0-

### 31. Railroad Improvement Tax Credit

*Kentucky Revised Statute 141.385, effective June 26, 2009*

Class II and Class III railroads, as defined by the Federal Surface Transportation Board, may receive credit against costs incurred for railroad maintenance and improvement and for railroad expansion or upgrades to accommodate the transport of fossil energy or biomass resources. A 50 percent credit is allowed

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
-0-	-0-	-0-

### 32. Recycling Credit

*Kentucky Revised Statute 141.390, effective 1991*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$11.3 million	\$11.5 million	\$11.9 million

### 33. Skills Training Investment Tax Credit

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$385,000	\$392,000	\$394,000

### 34. Unemployment Tax Credit

*Kentucky Revised Statute 141.065, effective 1982*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$70,000	\$72,000	\$73,500

# Gasoline Tax

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## Background

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

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

For FY13, gasoline tax collections totaled \$641.8 million. This accounted for 39.4 percent of total Road Fund tax receipts. The total motor fuel taxes are one of the fastest growing taxes. The motor fuel share of the total Road Fund is on the rise due to the statutory calculation.

## Current Rate Structure

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

The AWP is calculated on a quarterly basis by the Department of Revenue and is weighted by grade and formulation. The AWP is

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

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

**Tax Base**

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

**Tax Due**

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

**Table 6. Total Gasoline Tax Expenditures**

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$19.2 million	\$19.6 million	\$19.5 million

## Tax Expenditures

### 1. Agricultural Exemption

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

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

FY 2014	FY 2015	FY 2016
\$110,000	\$111,000	\$112,000

### 2. Aircraft Refund

*Kentucky Revised Statute 138.341, effective 1942, Revised 2005*

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

FY 2014	FY 2015	FY 2016
\$210,000	\$212,000	\$215,000

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

*Kentucky Revised Statute 138.446, effective 1978, Revised 2005*

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

FY 2014	FY 2015	FY 2016
\$650,000	\$652,000	\$655,000

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

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$17.5 million	\$17.8 million	\$17.7 million

#### 5. Watercraft Refund

*Kentucky Revised Statute 138.445, effective 1960, Revised 2005*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$775,000	\$780,000	\$783,000

# ***Individual Income Tax***

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## **Background**

The individual income tax was first imposed in Kentucky in 1936. From 1943 to 1960, it was the most productive General Fund revenue source. From 1960 through 1986, it was second only to the sales and use tax. In 1987, it again became the most productive revenue source and continues so today. In FY88 the individual income tax became Kentucky's first billion-dollar tax. Collections from the tax totaled \$3.7 billion in FY13, an increase of 6.0 percent over the prior year. This amount accounted for 39.0 percent of total General Fund receipts for the year.

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

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

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

Kentucky income tax law provides for tax rates, credits, a standard deduction, interest and penalties, withholding procedures, and certain other items, independent of federal law. 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.

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

**Table 7. Individual Income Tax Rates**

**Current  
Rate  
Structure**

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

**Tax Base**

The individual income tax is levied on taxable income. Taxable income is computed by reducing gross income by trade or business expenses and the standard deduction (\$2,290 for tax year 2012, \$2,360 for tax year 2013 and \$2,400 for tax year 2014) or at the option of the taxpayer by itemized deduction. Gross income is defined as gross income under the 2013 Internal Revenue Code with certain adjustments.

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



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

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

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

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

FY 2014	FY 2015	FY 2016
\$3,374.3 million	\$3,544.1 million	\$3,722.7 million

### Tax Expenditures - Exclusions from Income

#### 1. Active Duty Military Pay Exemption

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

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

FY 2014	FY 2015	FY 2016
\$18.6 million	\$18.6 million	\$18.6 million

## 2. Armed Forces Personnel Benefits and Allowances

*Internal Revenue Code Section 112, effective 1996*

*Internal Revenue Code Section 134, effective 1986*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$41.2 million	\$38.6 million	\$39.1 million

## 3. Assistance for Adopted Foster Children and Foster Care Payments

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$1.5 million	\$1.6 million	\$1.7 million

## 4. Basis of Capital Gains on Gifts

*Internal Revenue Code Section 1015, effective 1959*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$9.6 million	\$11.5 million	\$13.6 million

## 5. Cancellation of Indebtedness

*Internal Revenue Code Section 108, effective 1980*

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

FY 2014	FY 2015	FY 2016
\$0.2 million	\$0.2 million	\$0.1 million

## 6. Capital Gains - Eminent Domain

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

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

FY 2014	FY 2015	FY 2016
Minimal	Minimal	Minimal

## 7. Capital Gain on Property Transferred at Death

*Internal Revenue Code Section 1014, effective 1954*

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

FY 2014	FY 2015	FY 2016
\$73.7 million	\$77.5 million	\$81.3 million

**8. Disabled Coal Miners**

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

Although it is income to the recipient, disability payments to former coal miners out of the Black Lung Trust Fund are not subject to the income tax.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$0.1 million	\$0.1 million	\$0.1 million

**9. Employee Stock Ownership Plan Provisions**

*Internal Revenue Code Section 421, effective 1981, Amended 2004*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$9.6 million	\$11.5 million	\$13.6 million

**10. Employer Contributions for Medical Insurance and Medical Care**

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$579.2 million	\$611.2 million	\$652.1 million

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

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

Employer payment of employee group term life insurance premiums for coverage up to \$50,000 per employee is excluded from an employee's gross income even though the employer's cost for the benefit is a deductible business expense. Employer contributions for premiums on accidental injury and accidental death insurance are not included in income by the employee and are deductible by the employer.

FY 2014	FY 2015	FY 2016
\$6.3 million	\$6.3 million	\$6.5 million

## 12. Employer-Provided Child Care Exclusion

*Internal Revenue Code Section 129, effective 1981*

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

FY 2014	FY 2015	FY 2016
\$4.4 million	\$4.7 million	\$5.0 million

## 13. Employer-Provided Educational Assistance

*Internal Revenue Code Section 127, effective 1986*

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

FY 2014	FY 2015	FY 2016
-0-	-0-	-0-

**14. Employer-Provided Meals and Lodging**

*Internal Revenue Code Section 119, effective 1998*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$17.9 million	\$18.8 million	\$19.4 million

**15. Exclusion of GI Bill Benefits**

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$4.4 million	\$4.7 million	\$5.0 million

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

*Kentucky Revised Statute 141.021, effective 1995*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$94.5 million	\$98.0 million	\$101.4 million

## 17. Financial Institutions Structured as S Corporations

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
Minimal	Minimal	Minimal

## 18. Gain on the Sale of a Personal Residence

*Internal Revenue Code Section 121, effective 2008*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$124.8 million	\$132.8 million	\$142.4 million

## 19. Income Averaging for Farmers

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$0.4 million	\$0.4 million	\$0.4 million

## 20. Income Earned Abroad by U.S. Citizens

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

U.S. citizens who lived abroad, worked in the private sector, and satisfied a foreign residency requirement may exclude up to \$80,000 in foreign earned income from U.S. taxes. In addition, if these taxpayers receive an allowance for foreign housing from their employers, they may also exclude the value of that allowance. Federal

civilian employees and Peace Corps members who work outside the continental United States are allowed to exclude from U.S. taxable income allowances they receive to compensate them for the relatively high costs associated with living overseas. The allowances supplement wage income and cover expenses like rent, education, and the cost of travel to and from the United States.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$16.7 million	\$17.5 million	\$18.3 million

## 21. Installment Sales

*Internal Revenue Code Section 453, effective 2004*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$3.2 million	\$3.7 million	\$4.2 million

## 22. Interest on Life Insurance Savings

*Internal Revenue Code Section 101(a), effective 2006*

Favorable tax treatment is provided for investment income within qualified life insurance and annuity contracts. Investment income earned on qualified life insurance contracts held until death is permanently exempt from income tax. Investment income distributed prior to the death of the insured is tax-deferred, if not tax-exempt. Investment income earned on annuities is treated less favorably



than income earned on life insurance contracts, but it benefits from tax deferral without annual contribution or income limits generally applicable to other tax-favored retirement income plans.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$57.2 million	\$62.9 million	\$67.1 million

### **23. Miscellaneous Fringe Benefits**

*Internal Revenue Code Section 132, effective 2009*

Any fringe benefit that qualifies as a no-additional-cost service, qualified employee discount, working condition fringe, de minimis fringe, qualified transportation fringe, qualified moving expense reimbursement, qualified retirement planning services, or qualified military base realignment and closure fringe is excluded from income.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$20.4 million	\$21.0 million	\$21.5 million

### **24. Passive Loss Rules Exception**

*Internal Revenue Code Section 469, effective 1993*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$39.2 million	\$43.7 million	\$46.1 million

## 25. Pension Contributions and Earnings from Employer Plans

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$480.4 million	\$529.0 million	\$572.5 million

## 26. Precinct Workers

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$0.1 million	\$0.1 million	\$0.1 million

## 27. Private Pensions and Individual Retirement Accounts

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

*Kentucky Revised Statute 141.0105, effective 1995 Repealed effective January 1, 2006*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$410.9 million	\$425.9 million	\$441.0 million

## 28. Public Assistance Benefits

*Internal Revenue Code Section 42, effective 1999*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$2.1 million	\$2.2 million	\$2.3 million

## 29. Railroad and Supplemental Railroad Retirement System Benefits

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$1.4 million	\$1.4 million	\$1.4 million

## 30. Scholarship and Fellowship Income

*Internal Revenue Code Section 117, effective 2001*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$9.4 million	\$9.8 million	\$10.2 million

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

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

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

FY 2014	FY 2015	FY 2016
\$127.9 million	\$132.9 million	\$137.4 million

### 32. State Employee Pension Benefits and Contributions

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

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

FY 2014	FY 2015	FY 2016
\$69.4 million	\$71.9 million	\$74.5 million

### 33. Veteran's Pension, Death and Disability Compensation

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

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

FY 2014	FY 2015	FY 2016
\$20.2 million	\$21.9 million	\$23.7 million

**34. Worker's Compensation Benefits**

*Internal Revenue Code Section 104(a), effective 2002*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$31.1 million	\$31.5 million	\$31.8 million

## Tax Expenditures - Deductions

### 35. Casualty and Theft Losses

*Internal Revenue Code Section 165, effective 2008*

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

FY 2014	FY 2015	FY 2016
\$1.3 million	\$1.4 million	\$1.4 million

### 36. Charitable Contributions

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

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

FY 2014	FY 2015	FY 2016
\$107.7 million	\$111.6 million	\$115.6 million

### 37. Excess of Percentage over Cost Depletion

*Internal Revenue Code Section 613, effective 2005*

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

FY 2014	FY 2015	FY 2016
\$4.2 million	\$4.2 million	\$4.2 million

### 38. Health Savings Account Deduction

*Internal Revenue Code Section 223, effective January 1, 2006*

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

FY 2014	FY 2015	FY 2016
\$4.6 million	\$4.8 million	\$5.1 million

### 39. Home Mortgage Interest

*Internal Revenue Code Section 163(a), effective 2009*

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

FY 2014	FY 2015	FY 2016
\$195.8 million	\$202.9 million	\$210.1 million

### 40. Individual Retirement Account Contributions

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

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

FY 2014	FY 2015	FY 2016
\$52.4 million	\$52.7 million	\$56.1 million

### 41. Interest on Educational Loans

*Internal Revenue Code Section 221 effective 2005*

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

FY 2014	FY 2015	FY 2016
\$2.4 million	\$2.4 million	\$2.5 million

### 42. Interest on U.S. Savings Bonds

*Internal Revenue Code Section 149, effective 1959*

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

FY 2014	FY 2015	FY 2016
\$2.9 million	\$3.0 million	\$3.0 million

### 43. Job Expenses and Other Miscellaneous Deductions

*Internal Revenue Code Section 62, effective 2008*

*Internal Revenue Code Section 67, effective 2000*

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

FY 2014	FY 2015	FY 2016
\$40.9 million	\$42.4 million	\$43.9 million

### 44. Keogh Plan Contributions

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

A self-employed individual may make deductible contributions to his or her own retirement (Keogh) plan equal to 25 percent of his or her income, up to an indexed



maximum amount of income. Total plan contributions are limited to 25 percent of a firm's total wages. The tax on the investment income earned by Keogh plans is deferred until withdrawn.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$7.5 million	\$7.8 million	\$8.1 million

#### **45. Medical Expenses**

*Internal Revenue Code Section 213, effective 1990*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$38.9 million	\$40.4 million	\$41.8 million

#### **46. Net Operating Loss Deduction**

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$52.3 million	\$54.2 million	\$56.2 million

#### **47. Parsonage Allowances**

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$2.2 million	\$2.4 million	\$2.6 million

#### 48. Property Tax on Owner-Occupied Homes

*Internal Revenue Code Section 164, effective 2009*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$61.5 million	\$63.8 million	\$66.0 million

#### 49. Standard Deduction

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$132.7 million	\$137.5 million	\$142.4 million

#### 50. State and Local Taxes Other Than Home Property Taxes

*Internal Revenue Code Section 164(a), effective 2009*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$38.1 million	\$39.5 million	\$40.9 million

## 51. U.S. Production Activities

*Internal Revenue Code Section 199(a)(2), effective 2008  
House Bill 2, Special Session 2010*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$4.2 million	\$4.4 million	\$4.5 million

### Tax Expenditures - Credits

## 52. Child and Dependent Care Credit

*Kentucky Revised Statute 141.067, effective 1990*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$7.7 million	\$7.7 million	\$7.7 million

## 53. Credit for Hiring Unemployed

*Kentucky Revised Statute 141.065, effective 2009*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
-0-	-0-	-0-

**54. Expanded Low Income Tax Credit**

*Kentucky Revised Statute 141.066, effective 2005*

Kentucky residents are allowed a low income tax credit based on modified adjusted gross income (MGI) 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 2012 federal poverty level for a family of one (1) is \$11,070; for a family size of two (2) is \$15,130; for a family size of three (3) is \$19,090; and for a family size of four (4) or more (for Kentucky purposes) is \$23,050.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$100.9 million	\$104.6 million	\$108.3 million

**55. Historic Preservation Tax Credit**

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$0.4 million	\$0.5 million	\$0.5 million

## 56. Job Development Credits

*KRS 154.22-070(3) effective 2002, KRS 154.24-110(3) effective 2006, KRS 154.26-100(2) effective 2006, KRS 154.27-080(2) effective 2010, KRS 154.28-110(2) effective 2002.*

Job development credits occur when a company is approved for a development project and that company is allowed to assess a fee on the hired qualified employees. This fee is collected by the employer by keeping part of their normal withholding that would have gone to the state for individual income tax purposes. That employee is then entitled to claim an individual income tax credit equal to the assessment fee. For the first three of these five credits (Kentucky Rural Development Act, Kentucky Jobs Development Act, and Kentucky Industrial Revitalization Act), if the local government in which the project is located has a local occupation license fee which is less than one percent, then the assessment fee is four percent plus the full occupational license fee. The Incentives for Energy Independence Act provides for a flat four percent credit against the assessment fee. The Kentucky Industrial Development Act provides for a flat three percent credit against the assessment fee.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$53.0 million	\$51.8 million	\$50.6 million

## 57. Kentucky Energy Efficiency Products Tax Credit

*Kentucky Revised Statute 141.436, effective*

The energy efficient products credit remains effective for taxable years beginning after December 31, 2008 and before January 1, 2016. Unused amounts are limited to a one-year carry forward period.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$13.0 million	\$13.0 million	\$7.5 million

### 58. Kentucky Small Business Investment Credit

*Kentucky Revised Statute 141.384 effective June 4, 2010 (Amended)*

KRS 141.384 was amended to allow the credit to apply to taxable years beginning after December 31, 2010. A small business may be eligible for a nonrefundable credit of up to 100 percent of the Kentucky income tax imposed pursuant to KRS 41.020 or 141.040 and the limited liability entity tax imposed pursuant to KRS 141.0401. The maximum amount of credits that may be committed in each fiscal year by the Kentucky Economic Development Finance Authority shall be capped at \$3 million. The maximum amount of credit for each small business for each year shall not exceed \$25,000. Unused credits may be carried forward for up to five years.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$130,000	\$132,000	\$134,000

### 59. Personal and Dependent Tax Credits

*Kentucky Revised Statute 141.020(3), effective June 25, 2013 (Amended)*

Tax credits, when applicable, shall be deducted to arrive at the annual tax rate as follows: \$10 unmarried individual; \$20 married filing joint return; \$10 for each dependent; additional \$40 for 65 years old or older; additional \$40 if taxpayer is blind; and, an additional \$20 for members of the Kentucky National Guard.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$51.1 million	\$52.9 million	\$54.8 million

**60. Postsecondary Education Tuition Credit***Kentucky Revised Statute 141.069, effective 2005**Internal Revenue Code Section 25A effective 2009*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$19.4 million	\$20.1 million	\$20.8 million

**61. Recycling and/or Composting Equipment Credit***Kentucky Revised Statute 141.390, effective 2006*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$0.7 million	\$0.7 million	\$0.7 million

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## ***Inheritance & Estate Tax***

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### **Background**

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

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

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

The 2001 Federal Economic Growth and Tax Relief Reconciliation Act (EGTRRA) increased the exemption from federal estate tax allowed to an estate. From \$1.0 million in 2002, the exemption increased to \$3.5 million in 2009, with a complete repeal of the tax in 2010. Additionally, the highest rate dropped to 50 percent in 2002 and decreased to 45 percent by 2007 before the repeal of the tax in 2010.

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

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

Before the provisions of the 2010 Tax Relief Act was set to expire on December 31, 2012, President Obama signed into law on January 2, 2013 the American Taxpayer Relief Act of 2012. It permanently provides for a maximum federal estate tax rate of 40 percent with an annually inflation-adjusted \$5,000,000 exclusion for estates of decedents dying after December 31, 2012. The exclusion amount adjusted for inflation is \$5,250,000 for 2013.

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. The Tax Relief Act of 2013 extended a number of provisions affecting qualified conservation easements, qualified family-owned business interests (QFOBIs), the installment payment of estate tax for closely-held businesses for purposes of the estate tax, and repeal of the five percent surtax on estates larger than \$10,000,000.

During FY13, the inheritance tax produced \$41.3 million in General Fund revenues. This was a 0.0 percent increase from the prior year and accounted for 0.1 percent of total General Fund tax receipts.

**Tax Base**

The tax base for the inheritance tax is the fair cash value of a Kentucky domiciled decedent's property. For decedents domiciled outside Kentucky, the base is the fair cash value of real property located in Kentucky, tangible personal property that has acquired a situs in Kentucky and is not taxed elsewhere, and intangible personal property with a business situs in Kentucky.

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

**Taxable Unit**

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

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

**Current  
Rate  
Structure**

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

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

**Tax Due**

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$66.4 million	\$66.5 million	\$67.6 million

### **Tax Expenditures**

#### **1. Annuities Under Qualified Retirement Plans**

*Kentucky Revised Statute 140.063, effective 1982*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
Minimal	Minimal	Minimal

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

*Kentucky Revised Statute 140.300,140.310-140.360, effective 1990*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
Minimal	Minimal	Minimal

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

*Kentucky Revised Statute 140.015(2), effective 1980*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
Minimal	Minimal	Minimal

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

*Kentucky Revised Statute 140.015, effective 1980*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
Minimal	Minimal	Minimal

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

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
Minimal	Minimal	Minimal

**6. Class A Beneficiaries**

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

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

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

FY 2014	FY 2015	FY 2016
\$54.0 million	\$54.0 million	\$55.0 million

**7. Class B Beneficiaries**

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

*Kentucky Revised Statute 140.070(2), effective 1995*

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

FY 2014	FY 2015	FY 2016
Minimal	Minimal	Minimal

**8. Class C Beneficiaries**

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

*Kentucky Revised Statute 140.070(3), effective 1995*

Class C beneficiaries are granted a \$500 exemption.

FY 2014	FY 2015	FY 2016
Minimal	Minimal	Minimal

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

*Kentucky Revised Statute 140.210(1), effective 2005*

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

FY 2014	FY 2015	FY 2016
\$1.1 million	\$1.1 million	\$1.1 million

## 10. Individual Retirement Accounts

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

*IRC 408(a)(b), effective 2008*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
Minimal	Minimal	Minimal

## 11. Life Insurance Proceeds

*Kentucky Revised Statute 140.030(2), effective 1974*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
Substantial	Substantial	Substantial

## 12. Recurring Tax Credits

*Kentucky Revised Statute 140.095, effective 1948*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
Minimal	Minimal	Minimal



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

*Kentucky Revised Statute 140.060, effective 1954*

Transfers to these types of organizations are exempt.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$11.3 million	\$11.4 million	\$11.5 million

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# Insurance Premiums Tax

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## Background

Insurance premiums taxes include several taxes levied on the receipts of insurance premiums collected by insurers in the Commonwealth. All life insurance companies, all stock and mutual insurance companies other than life, and captive insurers except fraternal assessment life insurance companies doing business in Kentucky must pay a tax on the gross premiums collected from policyholders. The rate of tax varies by type of insurance company. Life insurance companies are assessed at a rate of \$1.50 per \$100 of premium receipts. Stock and mutual insurance companies other than life are assessed \$2 per \$100 of receipts. Lastly, all stock insurers other than life, every mutual insurance company, and Lloyd's insurer must pay 0.75 percent of premiums paid for fire insurance and for that portion allocable to fire insurance included in other coverage. A captive insurer (defined as an insurance company owned by one or more business entities that are licensed insurance producers and that only insure risks on policies placed through their owners) must pay a minimum of \$5,000 and/or a tax calculated on a sliding scale as a percentage of receipts.

## Current Rate Structure

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

Life insurance companies .....	\$1.50 per \$100 of premium receipts
Stock insurance companies other than life .....	\$2.00 per \$100 of premium receipts
Mutual insurance companies other than life	2% of premiums or other receipts

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

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

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

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

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

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$1.85 million	\$1.90 million	\$1.95 million

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

*Kentucky Revised Statute 136.330, effective June 2005*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$1.85 million	\$1.90 million	\$1.95 million

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## ***Limited Liability Entity Tax***

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### **Background**

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

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

### **Current Rate Structure**

When computing the tax using the gross receipts method, the tax rate is .095 cents per \$100 of gross receipts. When computing the tax using the gross profits method, the tax rate is 0.75 cents per \$100 of gross profits. If gross receipts or gross profits are less than \$3.0 million, the minimum tax of \$175 is due. For taxpayers with gross receipts between \$3.0 million and \$6.0 million, a partial exemption is given.

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

### **Tax Due**

Limited liability entity tax receipts for FY13 were \$246.1 million and accounted for 2.6 percent of total General Fund tax receipts.

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

**Table 11. Total Limited Liability Entity Tax Expenditures**

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$137.0 million	\$140.0 million	\$143.9 million

**Tax Expenditures**

**1. Alcohol Production Facility**

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
Minimal	Minimal	Minimal

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

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
Minimal	Minimal	Minimal

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

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

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

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



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

FY 2014	FY 2015	FY 2016
\$2.4 million	\$2.7 million	\$3.1 million

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

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

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

FY 2014	FY 2015	FY 2016
\$85.6 million	\$86.3 million	\$88.1 million

#### 5. Endow Kentucky Tax Credit

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

*Kentucky Revised Statute 141.438, June 4, 2010*

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

FY 2014	FY 2015	FY 2016
\$450,000	\$500,000	\$550,000

## 6. Kentucky Small Business Investment Credit

*Kentucky Revised Statute 141.384 effective June 4, 2010 (Amended)*

KRS 141.384 was amended to allow the credit to apply to taxable years beginning after December 31, 2010. A small business may be eligible for a nonrefundable credit of up to 100 percent of the Kentucky income tax imposed pursuant to KRS 141.020 or 141.040 and the limited liability entity tax imposed pursuant to KRS 141.0401. The maximum amount of credits that may be committed in each fiscal year by the Kentucky Economic Development Finance Authority shall be capped at \$3 million. The maximum amount of credit for each small business for each year shall not exceed \$25,000. Unused credits may be carried forward for up to five years.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$130,000	\$132,000	\$134,000

## 7. New Markets Development Program Tax Credit

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$5.1 million	\$5.2 million	\$5.3 million

## 8. Open-end Registered Investment Companies

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

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

FY 2014	FY 2015	FY 2016
\$2,000	\$2,500	\$3,000

## 9. Personal Service Corporations

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

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

FY 2014	FY 2015	FY 2016
\$1.5 million	\$1.6 million	\$1.7 million

## 10. Publicly Traded Partnerships

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

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

FY 2014	FY 2015	FY 2016
\$92,000	\$97,000	\$101,000

### 11. Real Estate Investment Trust

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$565,000	\$572,000	\$580,000

### 12. Regulated Investment Company

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$27,000	\$29,000	\$31,000

### 13. Real Estate Mortgage Investment Conduit

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$8,500	\$9,000	\$9,500

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

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$41.2 million	\$42.9 million	\$44.3 million

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# ***Liquefied Petroleum Gas Tax***

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## **Background**

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

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

The tax is imposed for the privilege of using the highways of the state. Consequently, the tax proceeds are deposited in the Road Fund. For FY13, the liquefied petroleum gas collections were \$125.6 thousand which accounts for 0.008 percent of total Road Fund tax receipts.

## **Current Rate Structure**

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

## **Tax Base**

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

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

Unlike the gasoline tax, the tax is applicable to liquefied petroleum gas when use is determined. If the fuel is used to propel motor vehicles on the public highways, the tax applies, but if used for non-highway purposes, the fuel is not subject to tax. The dealer is allowed a deduction to cover unaccountable losses, bad debts, and handling and reporting the tax.

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

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

**Table 12. Total Liquefied Petroleum Gas Tax Expenditures**

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$2,000	\$2,100	\$2,300

**Tax Expenditures**

**1. Approved Carburetion Systems**

*Kentucky Revised Statute 234.321(1), effective 2010*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$700	\$800	\$1,000



## 2. Dealer's Monthly Reporting Allowance

*Kentucky Revised Statute 234.320(1), effective 2005*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$1,300	\$1,300	\$1,300

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## ***Motor Vehicle Usage Tax***

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### **Background**

**M**otor vehicles were originally taxed under the three percent gross receipts tax that was repealed in 1936. After the repeal of that tax, a special three percent tax on motor vehicles was enacted. Effective April 1, 1968, the rate was increased to five percent. Effective July 1, 1990, the rate was increased to six percent.

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

During FY13, motor vehicle usage tax collections were \$426.8 million, an increase of 2.4 percent from the previous year. These receipts constituted 28.6 percent of total Road Fund tax receipts.

### **Current Rate Structure**

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

### **Tax Base**

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

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

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

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

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

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

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

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

**Table 13. Total Motor Vehicle Usage Tax Expenditures**

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$60.4 million	\$95.6 million	\$97.3 million

## Tax Expenditures

### 1. Adapted Equipment for Physically Handicapped Persons

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

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

FY 2014	FY 2015	FY 2016
\$68,000	\$69,000	\$70,000

### 2. Change in Business Structure

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

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

FY 2014	FY 2015	FY 2016
\$93,000	\$94,000	\$95,000

### 3. Charter Bus Exemption

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

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

FY 2014	FY 2015	FY 2016
\$60,000	\$60,500	\$61,000

#### 4. Commercial Motor Vehicle Exemption

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
Minimal	Minimal	Minimal

#### 5. Educational and Charitable Organizations

*Kentucky Revised Statute 138.470(2), effective 2006*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$1.65 million	\$1.7 million	\$1.8 million

#### 6. Immediate Family Member

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$7.8 million	\$7.9 million	\$8.0 million

## 7. Insurance Company Transfers

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$110,000	\$111,000	\$112,000

## 8. Large Truck Exclusion

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$12.9 million	\$13.2 million	\$13.4 million

## 9. Military Exemption

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$6.1 million	\$6.2 million	\$6.4 million

## 10. Partnership Interests

*Kentucky Revised Statute 138.470(12), effective 1970*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
Minimal	Minimal	Minimal

## 11. Repossessed Exemption

*Kentucky Revised Statute 138.470(13), effective 1972*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$1.5 million	\$1.6 million	\$1.7 million

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

*Kentucky Revised Statute 138.4602, effective 2009*

*Kentucky Revised Statute 138.4603, revised in 2013 (new and used motor vehicle purchases)*

The retail price shall be determined by reducing the amount of total consideration given by the trade-in allowance of any motor vehicle traded in by the buyer.

Beginning for sales on or after June 1, 2014, a trade-in allowance is also provided for purchases of new motor vehicles.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$25.9 million	\$60.2 million	\$60.9 million



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

*Kentucky Revised Statute 138.470(11), effective 1998*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$1.6 million	\$1.7 million	\$1.8 million

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

*Kentucky Revised Statute 138.470(10), effective 1970*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$162,000	\$165,000	\$167,000

### 15. Transfers by Will or Court Order

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$2.5 million	\$2.7 million	\$2.8 million

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# Natural Resources Severance & Processing Tax

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## Background

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

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

KRS 42.450(2) and 42.470(2) require that one-half of the taxes collected on the sale of minerals, other than coal, be distributed among the mineral producing counties. In FY13 the total taxes of \$28.0 million represented 0.3 percent of total General Fund tax receipts.

## Current Rate Structure

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

## Tax Base

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

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

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

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

**Table 14. Total Natural Resources Severance and Processing Tax Expenditures**

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$6.4 million	\$6.5 million	\$6.5 million

**Tax Expenditures**

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

*Kentucky Revised Statute 143A.030, effective 2002*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$300,000	\$300,000	\$325,000

**2. Clay Used in Landfill Construction**

*Kentucky Revised Statute 143A.037, effective 1991*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
Minimal	Minimal	Minimal

### 3. Inactive Crude Oil and Natural Gas Wells

*Kentucky Revised Statute 143A.033, effective 1998*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$200,000	\$200,000	\$200,000

### 4. Limestone Sold in Interstate Commerce

*Kentucky Revised Statute 143A.035, effective 1984*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$2.9 million	\$3.0 million	\$3.0 million

### 5. Limestone Sold or Used for Agricultural Purposes

*Kentucky Revised Statute 143A.030, effective 1984*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
Minimal	Minimal	Minimal

## 6. Limit on Tax from Clay

*Kentucky Revised Statute 143A.037, effective 1991*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
Minimal	Minimal	Minimal

## 7. Transportation Expense

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

Expenses incurred in transporting minerals are excluded from gross value.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$3.0 million	\$3.0 million	\$3.0 million

# Property Taxes

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## Background

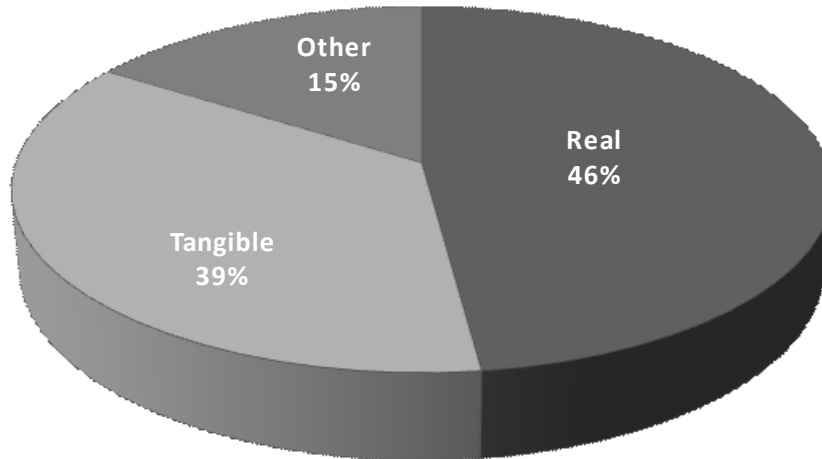
Kentucky has had a tax on property since becoming a state on June 1, 1792. The original method of taxation began with a set levy for each item of tangible property owned in the state. It was not until 1814 that the standard for establishing the tax liability was changed to the ad valorem, or fair value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

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

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

In FY13 total property tax collections of \$558.4 million accounted for 6.0 percent of total General Fund revenues. The chart on the following page shows the allocation between real, tangible, and other property tax receipts.

**Figure 3. Allocation of Property Tax Receipts for FY13**



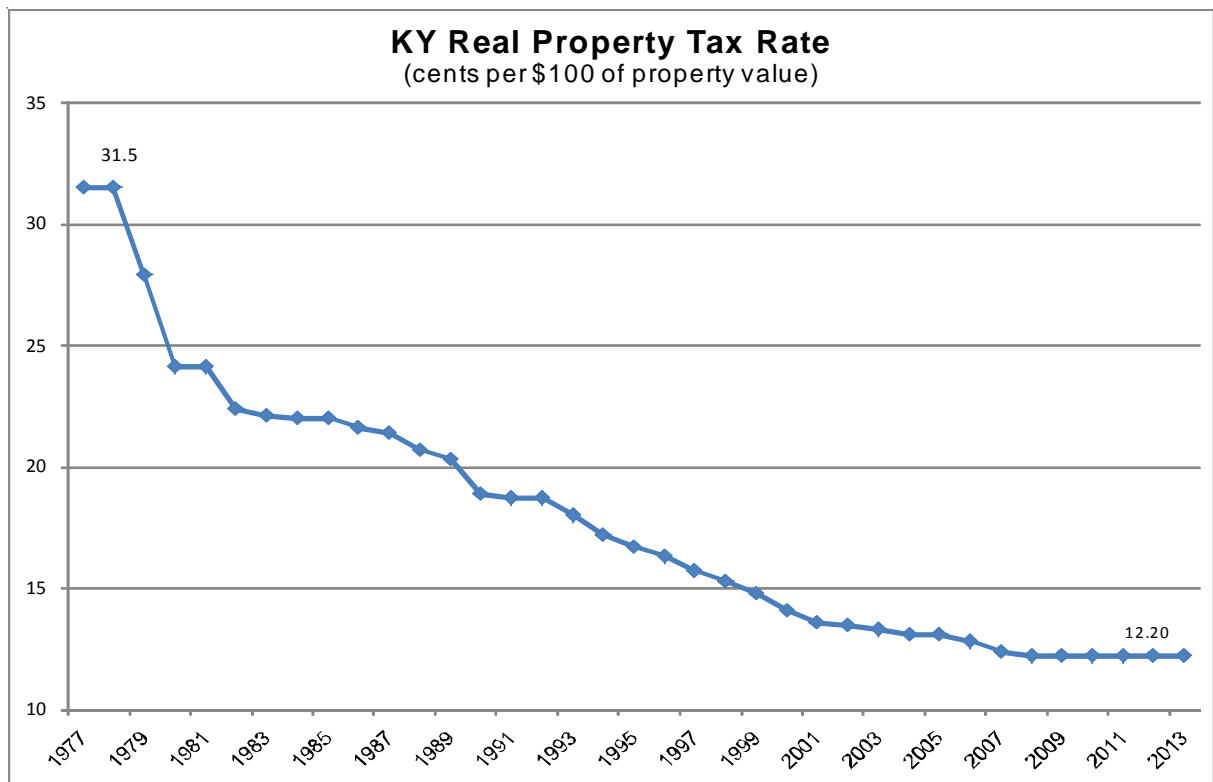
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**Current  
Rate  
Structure**

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



Figure 4

**Tax Base**

The property tax is levied on the fair cash value of all real, tangible, or intangible property unless a specific exemption exists in the Kentucky Constitution or in the case of personal property, has been granted by the General Assembly. Taxpayers who are 65 years of age or older or are classified as totally disabled qualify for a Homestead Exemption. This exemption, applied against the assessed value of a qualifying single-unit residential property, is adjusted every two years in accordance with the cost of living index. The 2013-2014 exemption reflects a \$2,000 increase over the 2011-2012 exemption of \$34,000.

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

**Tax Due**

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

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

**Table 15. Total Property Tax Expenditures**

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$707.3 million	\$719.6 million	\$729.7 million

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

**Real Property Tax Expenditures**

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

**1. Agricultural and Horticultural Land Assessment Protection**

*Kentucky Revised Statute 132.450, effective 1999*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$100,000	\$100,000	\$100,000

## 2. Agriculture Value of Real Property

*Kentucky Revised Statute 132.450, effective 1942*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$46.2 million	\$47.5 million	\$48.6 million

## 3. Alcohol Production Facilities

*Kentucky Revised Statute 132.020(1)(L), effective 1980*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
-0-	-0-	-0-

## 4. Environmental Remediation Property

*Kentucky Revised Statute 132.020(1)(c), effective 2005*

The owner of all qualifying voluntary environmental remediation property pays tax at the rate of one and one-half cents (\$0.015) upon each one hundred dollars of value for this property.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$3,000	\$3,000	\$3,000

**5. Homestead Exemption**

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

A taxpayer 65 years of age or older or totally disabled is allowed an exemption against the assessed value of a single-unit residence. This exemption is now \$36,000 which reflects a \$2,000 increase over the 2011-2012 exemption of \$34,000.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$15.9 million	\$16.1 million	\$16.2 million

**6. Intrastate Railroads and Railway Companies**

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

Railroads or railway companies operating solely within the Commonwealth, are taxed at a reduced rate of 10 cents (\$0.10) per \$100 on their operating real property.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$24,000	\$24,000	\$24,000

**7. Leasehold Interests in Buildings Financed with Industrial Revenue Bonds**

*Kentucky Revised Statute 132.020(2)(c), effective 1978*

Leasehold interests privately held in industrial buildings owned and financed by tax-exempt governmental units are taxed at a reduced rate of \$0.015 cents per \$100 of value. Note: This is the real estate portion only.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$2.5 million	\$2.6 million	\$2.6 million

## 8. Property of Local Governments in Neighboring States

*Kentucky Revised Statute 132.192, effective 2005*

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

FY 2014	FY 2015	FY 2016
\$21,000	\$21,000	\$21,000

## 9. Real Property Owned by Exempt Entities

*Section 170 of the Kentucky Constitution, effective 1891*

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

FY 2014	FY 2015	FY 2016
\$47.1 million	\$48.0 million	\$48.8 million

## 10. State Real Property Tax Yearly Revenue Ceiling

*Kentucky Revised Statute 132.020(2), effective 1979*

Prior to the passage of House Bill 44 in 1979, the real property tax rate was 31.5 cents per \$100 of assessed value. The adjusted tax rate for 2012 is 12.2 cents per \$100 of assessed value.

FY 2014	FY 2015	FY 2016
\$401.2 million	\$410.7 million	\$418.6 million

**Tangible Property Tax Expenditures**

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

**11. Agricultural Products**

*Kentucky Revised Statute 132.020(1)(a), effective 1950*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$3.8 million	\$3.7 million	\$3.6 million

**12. Aircraft**

*Kentucky Revised Statute 132.020(1)(p), effective 1999*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$1.7 million	\$1.8 million	\$1.8 million

**13. Business Inventories**

*Kentucky Revised Statute 132.020(1)(n), effective 1990*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$68.1 million	\$68.5 million	\$69.1 million

**14. Carlines***Kentucky Revised Statute 136.120(1), effective 1990*

Any company, other than a railroad company, which owns, uses, furnishes, leases, rents, or operates to, from, through, in, or across this state or any part thereof, any kind of railroad car is taxed at a reduced rate. The rate is computed annually. The current rate in effect is 22.82 cents per \$100.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$1.0 million	\$1.0 million	\$1.0 million

**15. Federally Documented Vessels***Kentucky Revised Statute 132.020(1)(q), effective 1999*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$475,000	\$475,000	\$475,000

**16. Foreign Trade Zone***Kentucky Revised Statute 132.020(1)(h), effective 1982*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$21.2 million	\$21.2 million	\$21.2 million

**17. Historic Vehicles***Kentucky Revised Statute 132.020(1)(m), effective 1984*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$211,000	\$212,000	\$213,000

### 18. In-Transit Goods

*Kentucky Revised Statute 132.097, effective 1999*

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

FY 2014	FY 2015	FY 2016
\$19.5 million	\$19.9 million	\$20.3 million

### 19. Intrastate Railroads and Railway Companies

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

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

FY 2014	FY 2015	FY 2016
\$175,000	\$175,000	\$175,000

### 20. Interstate Trucks, Tractors and Buses

*Kentucky Revised Statute 132.760, effective 1990*

*Kentucky Revised Statute 136.188, effective 2007*

Commercial vehicles that have routes or systems partly within this state and partly within another state or states are taxed at a reduced rate. This rate is computed annually. The rate in effect January 1, 2012 was 22.82 cents per \$100.

FY 2014	FY 2015	FY 2016
\$4.0 million	\$4.0 million	\$4.1 million



## 21. Leasehold Interests

*Kentucky Revised Statute 132.020(1)(b), effective 1990*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$4.2 million	\$4.2 million	\$4.2 million

## 22. Machinery Used in Farming and Livestock and Domestic Fowl

*Kentucky Revised Statute 132.020(1)(f), effective 1917*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$5.3 million	\$5.4 million	\$5.4 million

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

*Kentucky Revised Statute 132.020(1)(i),(1)(j),(1)(k) respectively, effective 1977, revised 1998*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$64.6 million	\$64.0 million	\$63.2 million

**24. Motor Vehicles With a Salvage Title**

*Kentucky Revised Statute 134.810, effective 1999*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
Minimal	Minimal	Minimal

**25. Property of Local Governments in Neighboring States**

*Kentucky Revised Statute 132.192, effective 2005*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
-0-	-0-	-0-

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

*Kentucky Revised Statute 132.193(1), effective 1998*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
Minimal	Minimal	Minimal

## **Sales and Use Tax**

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

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

From its inception in 1960 until 1986, the sales and use tax was the most productive tax in the General Fund. In 1986, it was surpassed by the individual income tax and continues to be the second most productive today. Receipts for FY13 totaled \$3,021.8 million. This tax represented 34.0 percent of total General Fund revenues in FY13.

**Current Rate Structure**      Sales and use taxes are imposed at the rate of six percent of gross receipts or purchase price.

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

The tax base for the use tax is the purchase price of tangible personal property purchased for storage, use, or other consumption in Kentucky. The use tax is a "back stop" for sales tax and generally applies to property purchased outside the state for storage, use, or consumption within the state. The purchaser's liability for the use tax is not extinguished until the tax has been paid to

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

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

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

**Table 16. Total Sales And Use Tax Expenditures**

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$3,105.472	\$3,186.950	\$3,267.562

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

### **Tax Expenditures**

#### **1. Admissions to and Purchases by Historical Sites**

*Kentucky Revised Statute 139.482, effective 1976*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$505,000	\$505,500	\$506,000

#### **2. Charter Bus Repair and Replacement Parts**

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$42,000	\$43,000	\$44,000

**3. Coal Used in the Manufacture of Electricity**

*Kentucky Revised Statute 139.480(2), effective 1960*

Coal used in the manufacturing of electricity is exempt.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$56.5 million	\$55.0 million	\$54.0 million

**4. Coin-Operating Bulk Vending Machines**

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$150,000	\$150,000	\$150,000

**5. Construction Expenses for Alternative Fuel or Gasification Facility**

*Kentucky Revised Statute 154.27, effective January 1, 2008*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
-0-	-0-	-0-

## 6. Construction Expenses for Near-Zero Emission Power Plants

*Kentucky Revised Statute 139.537, effective January 1, 2007*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
-0-	-0-	-0-

## 7. County Fair Admissions

*Kentucky Revised Statute 139.470, effective June 2005*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$465,000	\$470,000	\$475,000

## 8. Donated Goods

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
-0-	-0-	-0-

## 9. Energy and Energy Producing Fuels

*Kentucky Revised Statute 139.480(3), effective 1960*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$50.5 million	\$51.7 million	\$52.9 million

**10. Federal Taxes Imposed on Sales of Tangible Personal Property**

*Kentucky Revised Statute 139.470(20), effective 1960*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$8.9 million	\$9.0 million	\$9.2 million

**11. Food Items**

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$575.0 million	\$592.0 million	\$606.0 million

**12. 4-H Sales**

*Kentucky Revised Statute 139.497(2), effective 1998, revised July 13,1990*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
Minimal	Minimal	Minimal



### 13. Garage or Yard Sales

*Kentucky Revised Statute 139.496(1), effective 1976, revised July 1, 1990*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$155,000	\$155,000	\$155,000

### 14. Interstate Cargo and Passenger Aircraft, Parts and Supplies

*Kentucky Revised Statute 139.480(19) effective 1982*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
-0-	-0-	-0-

### 15. Jet Fuel

*Kentucky Revised Statute 144.132, effective July 1, 2000*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$28.7 million	\$29.0 million	\$29.5 million

## 16. Kentucky Enterprise Initiative

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

*Kentucky Revised Statute 154.20-200(6), effective 2006*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$21.2 million	\$22.3 million	\$23.6 million

## 17. Labor or Services Used in Property Sold

*Kentucky Revised Statute 139.010(12)(c)(4) effective 2009*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$304.0 million	\$311.0 million	\$316.0 million

## 18. Locomotives and Rolling Stock

*Kentucky Revised Statute 139.480(1), effective 1960*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$11.2 million	\$11.2 million	\$11.2 million

## 19. Lodgings of Thirty Days or More

*Kentucky Revised Statute 139.200(2)(a), effective 2009*

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

FY 2014	FY 2015	FY 2016
\$275,000	\$275,000	\$275,000

## 20. Machinery for New and Expanded Industry

*Kentucky Revised Statute 139.480 (10), effective 1960*

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

FY 2014	FY 2015	FY 2016
\$66.2 million	\$67.7 million	\$68.9 million

## 21. New and Replacement Machinery or Equipment for Energy Efficient Projects

*Kentucky Revised Statute 139.518, effective January 1, 2008*

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

FY 2014	FY 2015	FY 2016
\$2.0 million	\$2.0 million	\$2.0 million

## 22. Non-Profit Educational, Qualified Non-Profit Organizations, Charitable and Religious Institutions, Historical Sites

*Kentucky Revised Statute 139.495, effective 1976*

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

FY 2014	FY 2015	FY 2016
\$376.0 million	\$385.0 million	\$393.0 million

## 23. Occasional Sales

*Kentucky Revised Statute 139.470(4), effective 1960*

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

FY 2014	FY 2015	FY 2016
Substantial	Substantial	Substantial

## 24. Pay Phones

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

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

FY 2014	FY 2015	FY 2016
Minimal	Minimal	Minimal

## 25. Pollution Control Facilities

*Kentucky Revised Statute 139.480(12), effective 1974*

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

FY 2014	FY 2015	FY 2016
\$32.3 million	\$34.0 million	\$35.2 million

## 26. Prescription Medicine, Prosthetic Devices and Physical Aids

*Kentucky Revised Statute 139.472, effective 1971*

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

FY 2014	FY 2015	FY 2016
\$430.0 million	\$438.8 million	\$449.2 million

## 27. Procurement, Processing, or Distribution of Blood or Human Tissue

*Kentucky Revised Statute 139.125, effective 1968*

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

FY 2014	FY 2015	FY 2016
\$2.5 million	\$2.7 million	\$2.9 million

## 28. Property Certified as a Fluidized Bed Energy Production Facility

*Kentucky Revised Statute 139.480(20), effective 1986*

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

FY 2014	FY 2015	FY 2016
-0-	-0-	-0-

## 29. Rate Increase for School Taxes Added to Residential Telephone Bills

*Kentucky Revised Statute 139.470(9), effective 1979*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$4.8 million	\$4.7 million	\$4.5 million

### **30. Recycling Machinery and Equipment**

*Kentucky Revised Statute 139.480(23), effective 1991*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$1.6 million	\$1.8 million	\$1.9 million

### **31. Repair Parts for Large Trucks**

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$1.9 million	\$2.0 million	\$2.2 million

### **32. Reimbursement of Seller's Collection Costs**

*Kentucky Revised Statute 139.570, effective 1960*

*Amended July 2013*

As reimbursement for the cost of collecting and remitting tax, the taxpayer shall deduct 1.75 percent of the first \$1,000 of tax due and 1.5 percent of the tax due in excess of \$1,000 if the amount due is not delinquent at the time of payment. The total reimbursement allowed for each seller in any reporting period shall not exceed \$50.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$11.1 million	\$11.3 million	\$11.4 million

### 33. Residential Utilities

*Kentucky Revised Statute 139.470(8), effective 1979*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$533.0 million	\$558.0 million	\$584.0 million

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

*Kentucky Revised Statute 139.497, effective 1984*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$5.3 million	\$5.5 million	\$5.7 million

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

*Kentucky Revised Statute 139.495(4), effective 1980*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$140,000	\$140,000	\$140,000

**36. Sales to Motion Picture Companies**

*Kentucky Revised Statute 139.538, effective 1986*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
Minimal	Minimal	Minimal

**37. Semi-Trailers and Trailers**

*Kentucky Revised Statute 139.470(22), effective 2008*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$4.5 million	\$4.6 million	\$4.8 million

**38. State, Cities, Counties and Special Districts**

*Kentucky Revised Statute 139.470(7), effective 1960 and 1976*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$250.2 million	\$250.8 million	\$252.0 million



**39. Textbooks**

*Kentucky Revised Statute 139.480(17), effective 1978*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$2.5 million	\$2.5 million	\$2.5 million

**40. Tombstones and Other Grave Markers**

*Kentucky Revised Statute 139.480(13), effective 1976*

Tombstones and other grave markers are exempt.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$8.0 million	\$8.1 million	\$8.2 million

**41. Tourism Attraction Project Credit/Refund**

*Kentucky Revised Statute 139.536, effective 1996*

*Kentucky Revised Statute 148.851, effective 1996*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$6.2 million	\$6.4 million	\$6.6 million

**42. Vessels and Maritime Supplies**

*Kentucky Revised Statute 139.483, effective 1966*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$16.2 million	\$16.4 million	\$16.6 million

### **43. Water Withdrawal Fees Paid to Kentucky River Authority**

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

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$180,000	\$182,000	\$184,000

### **Sales Tax Exemptions for Farmers**

**Table 17. Subtotal for Farming Tax Expenditures**

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$298.7 million	\$306.3 million	\$316.0 million

The following tax expenditures pertain to the farming industry.

### **44. Aquaculture**

*Kentucky Revised Statute 139.480(30), effective 1998*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$260,000	\$264,000	\$268,000

**45. Equine Water***Kentucky Revised Statute 139.470(14), effective 1998*

Water used in the equine-raising business is exempt.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$1.5 million	\$1.5 million	\$1.5 million

**46. Farm Chemicals***Kentucky Revised Statute 139.480(8),(24) and (26), effective 1992, revised 1994, 1996*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$9.0 million	\$9.2 million	\$9.4 million

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

*Kentucky Revised Statute 139.480(11), effective 1968*

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

*Kentucky Revised Statute 139.480(14), effective 1978*

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

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

On-farm facilities used exclusively for raising chickens and livestock, ratite birds, and llamas and alpacas, the products of which ordinarily constitute food for human consumption, including equipment, machinery, attachments, repair and replacement parts, and any materials incorporated into the construction, renovation, or repair of the facility are exempt.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$60.2 million	\$62.0 million	\$64.0 million

**48. Fuel Used for Farm Purposes**

*Kentucky Revised Statute 139.480(16), effective 1978, revised 1998*

Gasoline, special fuels, and liquefied petroleum gas used to operate or propel stationary engines or tractors for agricultural purposes are exempt.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$18.9 million	\$19.6 million	\$20.0 million

**49. Horses Less Than Two Years of Age***Kentucky Revised Statute 139.531(2)(d), effective 1976*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$10.6 million	\$10.9 million	\$11.2 million

**50. Horses Purchased for Breeding***Kentucky Revised Statute 139.531(2)(a), effective 1976*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$10.8 million	\$11.2 million	\$11.6 million

**51. Livestock, Poultry, Ratite Birds, Embryos and Semen, Farm Work Stock and Feed, Seeds and Fertilizers***Kentucky Revised Statute 139.480(4),(5),(6),(7),(9),(25), effective 1960, 1994, 1996 and 2006*

Livestock that ordinarily constitutes food for human consumption, provided the sales are made for breeding or dairy purposes and by or to a person regularly engaged in the business of farming; poultry for use in breeding or egg production; embryos and semen used in the reproduction of livestock; and farm work stock for use in farming operations are exempt from the tax. Seeds, feed, and fertilizer, the products of which ordinarily constitute food for human consumption or which are to be sold in the regular courses of business are exempt.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$176.2 million	\$180.0 million	\$186.0 million

## 52. Twine and Wire

*Kentucky Revised Statute 139.480(27), effective 1998*

Baling twine and baling wire used for the purpose of baling hay and straw are exempt.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
Minimal	Minimal	Minimal

## 53. Water Used for Farm Purposes

*Kentucky Revised Statute 139.480(28), effective 1998*

Water sold to persons regularly engaged in the business of farming and used in the production of crops, milk for sale, or raising and feeding livestock, poultry, ratites, llamas, alpacas, buffalo or aquatic organisms is exempt.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$11.2 million	\$11.6 million	\$12.0 million

## Exclusion of Services

*Kentucky Revised Statute 139.100 and 139.160, effective 1960*

**Table 18. Total for Excluded Services**

FY 2014	FY 2015	FY 2016
\$1,877.3 million	\$1,907.8 million	\$1,948.5 million

Services are excluded from the sales and use tax by the definition of “retail sale” or “sale at retail” as a sale of tangible personal property.

(a) Personal Services

FY2014 .....	\$64.0 million
FY2015 .....	\$65.0 million
FY2016 .....	\$66.4 million

(b) Business Services

FY2014 .....	\$291.1 million
FY2015 .....	\$295.8 million
FY2016 .....	\$302.1 million

(c) Specialized Design Services

FY2014 .....	\$6.4 million
FY2015 .....	\$6.5 million
FY2016 .....	\$6.6 million

(d) Computer System Designs

FY2014 .....	\$133.3 million
FY2015 .....	\$135.5 million
FY2016 .....	\$138.4 million

(e) Scientific Research and Development

FY2014 .....	\$9.4 million
FY2015 .....	\$9.6 million
FY2016 .....	\$9.8 million

f) Advertising

FY2014 .....	\$39.6 million
FY2015 .....	\$40.2 million
FY2016 .....	\$41.1 million

(g) Other Professional Services (includes professional, scientific, technical, information, rental and leasing services)

FY2014 .....	\$121.7 million
FY2015 .....	\$123.7 million
FY2016 .....	\$126.4 million

(h) Health Services

FY2014 .....	\$552.5 million
FY2015 .....	\$561.5 million
FY2016 .....	\$573.5 million

(i) Legal Services

FY2014 .....	\$89.0 million
FY2015 .....	\$90.5 million
FY2016 .....	\$92.4 million

(j) Educational Services

FY2014 .....	\$16.6 million
FY2015 .....	\$16.9 million
FY2016 .....	\$17.2 million



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- (k) Social Services (includes individual, family, community food, housing, emergency, vocational rehabilitation and child daycare services)
- FY2014 ..... \$94.3 million  
FY2015 ..... \$95.8 million  
FY2016 ..... \$97.8 million
- (l) Engineering, Accounting, Research, Management
- FY2014 ..... \$233.0 million  
FY2015 ..... \$236.8 million  
FY2016 ..... \$241.9 million
- (m) Automotive and Miscellaneous Repair Services
- FY2014 ..... \$116.9 million  
FY2015 ..... \$118.8 million  
FY2016 ..... \$121.4 million
- (n) Amusement and Recreational Services  
(Some recreational services such as commercial sports and museum services events are not included in this estimate.)
- FY2014 ..... \$31.5 million  
FY2015 ..... \$32.0 million  
FY2016 ..... \$32.7 million
- (o) Other Services (includes remediation, other waste management, religious, grantmaking, civic, and professional services)
- FY2014 ..... \$77.9 million  
FY2015 ..... \$79.2 million  
FY2016 ..... \$80.9 million

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## ***Special Fuels Tax***

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### **Background**

The term “special fuels” is defined to include all combustible gases and liquids capable of being used in motor vehicles, except gasoline, as defined in KRS 138.210, and liquefied petroleum gas, as defined in KRS 234.100. A tax on special fuels was first enacted in 1952. When the base was changed for gasoline in 1980 to the average wholesale price, the special fuels tax base was changed accordingly. This change provided that the special fuels rate would be a function of the wholesale price of gasoline, and as the price of gasoline rose, the rate on special fuels would rise proportionately. The “supplemental highway user tax” became effective July 1, 1986.

In 1988, the General Assembly made a major change in the special fuels law. The law now requires that the tax be levied on the dealer at the point of receipt of the fuels (as is the case for gasoline) instead of the point of sale by the dealer. Generally, special fuels used for off-highway purposes are subject to a refund of the tax, provided proper applications are filed and other procedures are followed.

The tax is imposed for the privilege of using the highways of the Commonwealth, therefore the receipts are deposited in the Road Fund. For FY13, the special fuels tax collections were \$249.9 million, which was 16.8 percent of total Road Fund tax receipts.

### **Current Tax Structure**

The special fuels tax rate has a variable component and two fixed parts. The variable portion of the tax is nine percent of the average wholesale price (AWP) of gasoline. The fixed parts are the supplemental highway user tax which is assessed at 2 cents per gallon and the petroleum storage tank environmental assurance fee is assessed at 1.4 cents per gallon.

### **Tax Base**

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

The current AWP floor is \$1.786 per gallon. The variable portion of the gasoline tax cannot be less than 16.1 cents per gallon. Adding the fixed components of the tax brings the minimum gasoline tax to 19.5 cents per gallon.

The tax becomes a liability of the dealer if the special fuel is received or enters the dealer’s storage facility. The dealer is allowed a deduction of 2.25 percent to cover evaporation, shrinkage, unaccountable losses, collection costs, bad debts, and handling and reporting the tax.

**Taxable Unit** The unit for levying the special fuels tax is a “per gallon” basis.

**Tax Due** Returns and payments of the tax are due monthly. The tax must be remitted to the Department of Revenue on or before the twenty-fifth day of the month.

**Table 19. Total Special Fuels Tax Expenditures**

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$74.7 million	\$75.5 million	\$76.2 million

**Tax Expenditures**

**1. Agricultural Use**

*Kentucky Revised Statute 138.358(2), effective 1988*

A credit is allowed for special fuels used for non-highway agricultural purposes.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$7.8 million	\$8.0 million	\$8.3 million

## 2. Bus, Taxicab and Certain Senior Citizen's Programs Refunds

*Kentucky Revised Statute 138.446(1), effective 1978*

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

FY 2014	FY 2015	FY 2016
\$655,000	\$655,000	\$657,000

## 3. Dealer's Monthly Reporting Allowance

*Kentucky Revised Statute 138.270(1)(b), effective 1958*

An allowance of 2.25 percent of the net tax due is allowed a dealer on a timely filed and paid monthly return. This allowance is given to offset the costs of evaporation, shrinkage, unaccountable losses, collection costs, bad debts, and handling and reporting the tax.

FY 2014	FY 2015	FY 2016
\$4.0 million	\$4.1 million	\$4.3 million

## 4. Non-Highway Use

*Kentucky Revised Statute 138.344(1), effective 1988, revised 2006*

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

FY 2014	FY 2015	FY 2016
\$37.7 million	\$37.8 million	\$37.9 million

## 5. Railroad Companies

*Kentucky Revised Statute 138.240(2)(f), effective 1988*

Railroad companies principally engaged in the business of transporting property for others as a common carrier or in the conveyance of persons are exempt.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$23.1 million	\$23.5 million	\$23.6 million

## 6. Religious, Charitable or Educational Use

*Kentucky Revised Statute 138.358(3), effective 1988*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$115,000	\$113,000	\$112,000

## 7. Residential Heating

*Kentucky Revised Statute 138.358(1), effective 1988*

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

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$860,000	\$855,000	\$850,000

## 8. State and Local Government Use

*Kentucky Revised Statute 138.358(3), effective 1988*

An exemption is allowed for sales to qualifying state and local government agencies for non-highway use.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$438,000	\$441,000	\$442,000

## 9. Watercraft

*Kentucky Revised Statute 138.445, effective 1960*

One hundred percent of the tax paid on special fuels to operate or propel watercraft is refunded to qualified boat dock operators.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$52,000	\$53,000	\$54,000

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### **Background**

**K**entucky was the twentieth state to enact a tax on cigarettes, which became effective in 1936. The original cigarette excise tax rate was one cent per ten cents of the sales price. Over time, the “two-cents-per-package” tax gradually became a three-cent levy as more and more retailers began to charge above twenty cents per pack of cigarettes.

On July 1, 1960, a proportionate rate of two and one-half cents on each twenty cigarettes sold within the Commonwealth was assessed.

The 1970 General Assembly created the Tobacco Research Trust Fund. The legislation increased the cigarette excise tax by one-half cent per pack, to three cents per pack. The revenue generated by this tax increase was earmarked for the Tobacco Research Trust Fund.

In 1982, the General Assembly provided for a cigarette enforcement fee, in an amount calculated annually by the Department of Revenue, to recover applicable costs of enforcing the fair trade law and administering the cigarette tax law. The present rate is one-tenth of one cent per package of twenty cigarettes.

In 1994, the General Assembly enacted the Teen Tobacco Education Fund and provided that one-twentieth of one cent (\$0.0005) of the three-cent-per-pack revenue be used to offset the cost of the education efforts.

In 2000, the General Assembly enacted the Teen Tobacco Enforcement Fund and provided that one-twentieth of one cent of the three-cent-per-pack revenue be deposited in a trust and agency account to offset the costs of enforcement.

In 2005, the General Assembly enacted a cigarette surtax of a proportionate rate of twenty-six cents on each twenty cigarettes. An additional one-cent was enacted and dedicated to the Cancer Research Matching Fund. The two additional surtaxes brought Kentucky’s total tax on a pack of twenty cigarettes to thirty cents.

Additionally, a 7.5 percent gross receipts tax was imposed on other tobacco products and a tax on snuff was imposed at 9.5 cents per unit.

In 2006, the General Assembly clarified the taxation of other tobacco products by making a distinction between moist snuff and dry snuff. Dry snuff was taxed at 7.5 percent as an other tobacco product (OTP). Moist snuff is taxed as snuff. Additionally, a new wholesale cigarette paper excise tax was created. The tax is twenty-five cents per package of 32 sheets of paper.

In 2009, HB 144 added an additional 30 cents for the cigarette surtax and doubled the rates on both other tobacco products and snuff.

**Current  
Tax  
Rate**

Starting on April 1, 2009, the tax rate, including both the cigarette excise tax and the cigarette surtax, is sixty (60) cents per package of twenty cigarettes. The other tobacco products tax is 15.0 percent of gross receipts. The tax on snuff is 19 cents per unit.

For FY13, tobacco tax collections deposited to the General Fund were \$260.6 million and represented 2.8 percent of total General Fund tax revenues.

**Tax Base**

Both the cigarette excise tax and the cigarette surtax are paid through the purchase of stamps or meter units from the Department of Revenue. These stamps must be placed on each package of cigarettes as evidence that the tax has been paid. For affixing the tax evidence, the wholesaler is generally allowed the equivalent of a 9.09 percent discount against only the cigarette excise tax when the evidence is purchased.

The tax base for other tobacco products is the wholesale sales price. The tax base for moist snuff is an excise unit: a tin of snuff not to exceed 1.5 ounces.

**Tax Due** The wholesaler pays the tax at the time the tax stamps or meter units are purchased from the Department of Revenue. A monthly report is required by the twentieth of each month reflecting purchases and trafficking of cigarettes for the preceding month. A monthly report of other tobacco products and snuff is also due by the twentieth day of the succeeding month within which the transaction occurred.

**Table 20. Total Tobacco Tax Expenditures**

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$1.2 million	\$1.2 million	\$1.2 million

### **Tax Expenditures**

#### **1. Compensation Allowed Wholesaler**

*Kentucky Revised Statute 138.146, effective 1982*

For affixing the tax evidence to each package of cigarettes, the cigarette wholesaler is allowed an amount of tax evidence equal to thirty cents for each three dollars of tax evidence purchased. This converts to a 9.09 percent discount on the purchase of tax evidence on the cigarette excise tax. The compensation afforded to cigarette stampers is limited to the excise tax and does not apply to the cigarette surtaxes.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$1.2 million	\$1.2 million	\$1.2 million

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## **EARMARKED FUNDS**

**E**armarked funds are reserved to be spent only on a particular program. The taxpayer is still liable for the tax, and the state is still collecting these revenues. The fact that the revenues are earmarked for special purposes does not qualify them as tax expenditures.

Earmarked funds are included for informational purposes in this report because they do have an impact on the amount of usable funds collected by the General Fund and the Road Fund.

**Table 21. Total Earmarked Funds**

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$55.0 million	\$56.6 million	\$59.5 million

### **Earmarked Funds**

#### **1. County Clerk Share for Collection of Sales Tax on Nonresident Sales**

*Kentucky Revised Statute 139.778, effective January 1, 2007*

In return for collecting sales and use taxes due on tangible personal property purchased out of state at the time of registration or titling, county clerks may retain three percent of the tax collected.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$90,000	\$92,000	\$95,000

#### **2. Equine Breeder Development Funds - Sales Tax**

*Kentucky Revised Statute 230.800, 230.802 and 230.804, effective June 1, 2005*

Sales tax receipts from stud fees for breeding of horses in this state are earmarked for use in creating breeder incentives. The sales tax is deposited into special funds for future disbursement by the Kentucky Horse Racing Commission. Eighty percent of the receipts are dedicated to the “Kentucky Thorough-

bred Breeders Incentive Fund”; 13 percent to the “Kentucky Standardbred Breeders Incentive Fund”; and 7 percent to the “Kentucky Horse Breeders Incentive Fund.”

**Kentucky Thoroughbred Breeders Incentive Fund**

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$9.8 million	\$9.8 million	\$9.9 million

**Kentucky Standardbred Breeders Incentive Fund**

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$1.6 million	\$1.6 million	\$1.7 million

**Kentucky Horse Breeders Incentive Fund**

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$850,000	\$875,000	\$900,000

**3. Equine Drug Research - Pari-Mutuel Tax**

*Kentucky Revised Statute 138.510(1)(c)(5) effective 1982*

An amount equal to 0.1 percent of the total amount wagered in Kentucky is deducted from the pari-mutuel tax to be used in financing drug research and testing.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$575,000	\$585,000	\$600,000

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

*Kentucky Revised Statute 138.510(1)(c)(5), effective 1990*

One-fifth of one percent (0.2%) of the total amount wagered on live racing in Kentucky and .05 percent of the total amount wagered on intertrack wagering are deducted from the pari-mutuel tax and deposited in this fund. The fund is used for the equine industry program at the University of Louisville.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$480,000	\$490,000	\$500,000

### **5. Higher Education Equine Trust and Revolving Fund - Pari-Mutuel Tax**

*Kentucky Revised Statute 138.510(1)(c)(5), effective 1992*

One-tenth of one percent (0.1%) of the total amount wagered in Kentucky is deducted from the pari-mutuel tax to be deposited in this fund. The fund is used for construction, expansion or renovation of facilities or the purchase of equipment for equine programs at state universities.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$400,000	\$410,000	\$415,000

### **6. Kentucky Aviation Economic Development Fund - Sales Tax**

*Kentucky Revised Statute 183.525, effective July 1, 2000*

All sales and use tax collected on the sale of aircraft fuel is deposited in this fund.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$10.0 million	\$10.1 million	\$10.1 million

### **7. Kentucky Transportation Center - Motor Fuels Tax**

*Kentucky Revised Statute 177.320(4), effective 1986*

The Kentucky Transportation Center receives 0.1 percent of all revenues arising from the imposition of taxes on gasoline, special fuels and liquefied petroleum gas. The receipts are limited to \$190,000 in any fiscal year.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$190,000	\$190,000	\$190,000

**8. Standardbred Development Fund - Pari-Mutuel Tax**

*Kentucky Revised Statute 138.510(1)(c)(2) effective 1990*

One percent of all pari-mutuel wagering at harness host tracks under the jurisdiction of the Kentucky Horse Racing Commission, and two percent of wagering at tracks engaged in intertrack wagering and/or telephone account wagering, are deducted from the tax and deposited in this fund.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$85,000	\$85,000	\$90,000

**9. Tax Increment Financing - Various Taxes**

*Kentucky Revised Statute 65.490, effective July 14, 2000 and  
 Kentucky Revised Statute 65.680-65.699, effective June 21, 2001  
 Kentucky Revised Statute 154-030.010, effective June 26, 2009*

Since 2001, tax increment financing (TIF) project grant agreements have been approved for projects eligible under the various TIF statutes. KRS 64.490 was the initial pilot language for TIF projects involving state participation in cities of the first class. KRS 65.680-65.699 amended the pilot language to create a variety of new TIF options, with state participation scaled to the site and impact of the project. New TIF applicants are required to apply pursuant to KRS 154.030-010 et. al. As of December 2013, twenty one (21) TIF projects have been approved to recover tax increments. Effective June 24, 2013, HB 260, amended by KRS 154.30-050 to provide that the Kentucky Economic Development Finance Authority may approve a reduction in the required minimum capital investment to an amount not less than \$150 million, subject to a corresponding adjustment of the maximum incremental revenue available.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$18.2 million	\$19.7 million	\$22.3 million



## 10. Thoroughbred Development Fund - Pari-Mutuel Tax

*Kentucky Revised Statute 138.510(l)(c)(1), effective 1990*

Three-quarters of one percent (0.75%) of all pari-mutuel wagering at thoroughbred horse tracks under the jurisdiction of the Kentucky Horse Racing Commission, and two percent (2%) of wagering at receiving tracks in intertrack wagering as well as telephone account wagering, is deducted from the pari-mutuel tax and deposited in this fund.

FY 2014	FY 2015	FY 2016
\$6.5 million	\$6.6 million	\$6.8 million

## 11. Cancer Research Fund - Cigarette Tax

*Kentucky Revised Statute 138.140(3), effective June 2005*

Effective June 1, 2005, an additional one-cent surtax is paid on top of the three-cent excise tax and the 56-cent cigarette surtax. This one-cent surtax is directly deposited into a cancer research institution matching fund that was created in KRS 164.043 during the 2005 Regular Session of the General Assembly. For packages other than 20 packs of cigarettes, the one-cent surtax is pro-rated.

FY 2014	FY 2015	FY 2016
\$4.0 million	\$3.9 million	\$3.8 million

## 12. Tobacco Enforcement Program - Cigarette Tax

*Kentucky Revised Statute 438.335 and 438.337, effective 1996*

One-twentieth of one cent of the three-cent per pack state excise tax on cigarettes is earmarked for the Department of Agriculture to enforce the laws aimed at the prevention of sales of tobacco products to minors.

FY 2014	FY 2015	FY 2016
\$200,000	\$195,000	\$190,000

### 13. Tobacco Research Trust Fund - Cigarette Tax

*Kentucky Revised Statute 248.540, effective 1970*

The tax revenues received from the additional one-half cent (\$0.005) tax levied by Chapter 255 of the Acts of 1970 shall be credited to a Tobacco Research Trust Fund. This calculation does not apply to the 57-cent surtax on cigarettes.

<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>
\$2.0 million	\$1.95 million	\$1.90 million