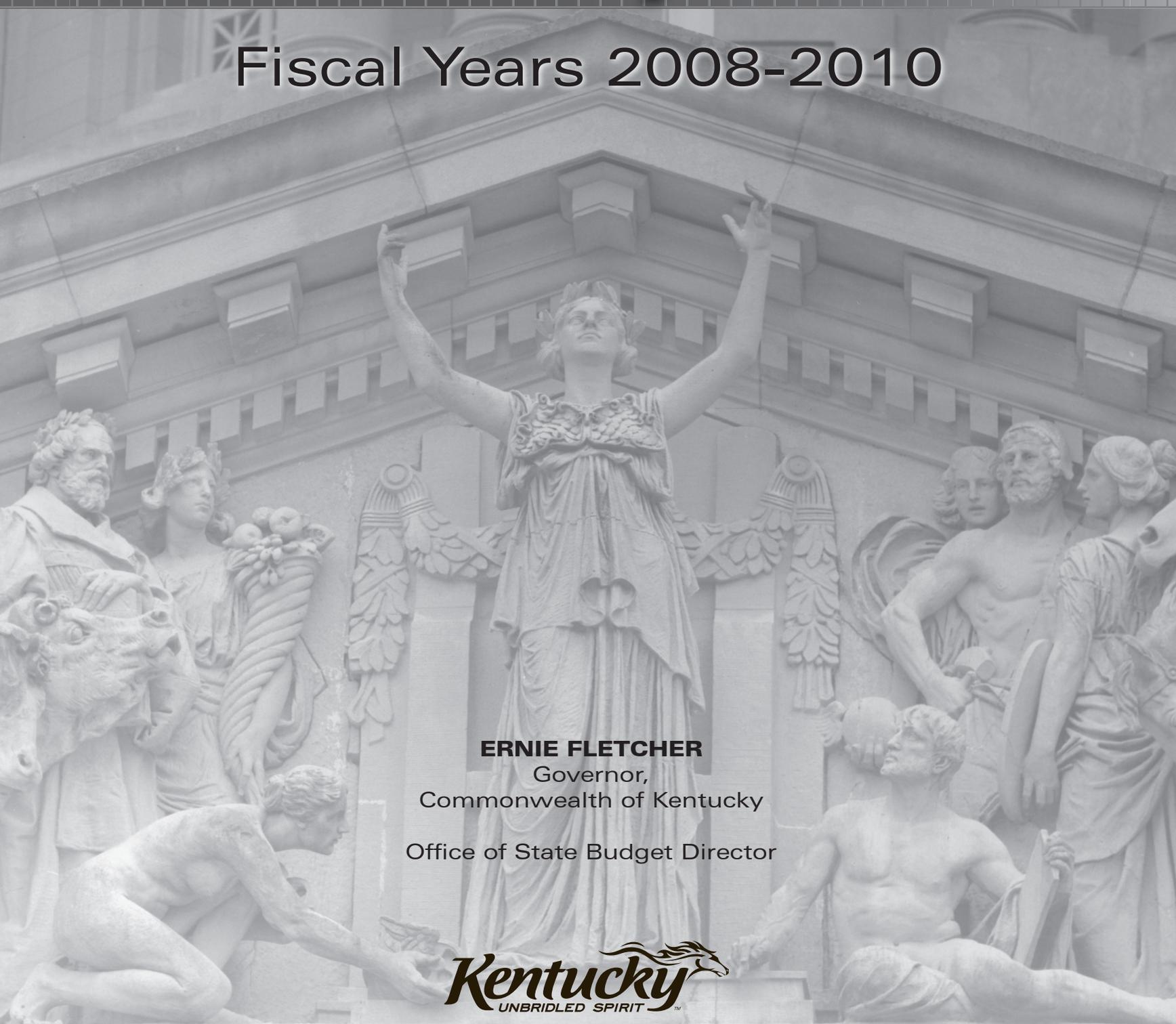


COMMONWEALTH OF KENTUCKY

# Tax Expenditure Analysis

Fiscal Years 2008-2010



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**Kentucky**  
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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 granted in statute. An item is determined to be a tax expenditure if the tax revenue associated with that item is reduced because of a specific statute.

Direct budgetary expenditures are made by distributing funds actually collected by the Commonwealth, while tax expenditures are made by granting preferential tax treatment that allows the targeted recipient to retain 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. Tax expenditures, however, are evaluated and approved only when a statutory preference is enacted. There is no process to review or periodically re-evaluate tax expenditures once they are passed and placed in statute except by this Tax Expenditure Analysis.

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.

Tax expenditures function in different ways to accomplish the intended goals. For example, a sales tax exemption almost always results in some product being sold without the sales tax or transaction tax being assessed and collected. The lack of this collection results in a lower net cost to the purchaser and lower revenues to the Commonwealth. An individual income tax exemption will usually result in lower amounts of tax withheld from employees 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.

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

## Summary of Tax Expenditures for the Major Taxes

- ❖ ***Alcoholic Beverage 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 FY07, alcoholic beverage taxes generated \$102.2 million in Kentucky. Tax expenditures within these tax types are estimated at \$865,000 for FY08.
- ❖ ***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 FY 07, this tax generated \$63.9 million. While there are two tax credits available to financial institutions, to date, no credits have been taken.
- ❖ ***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 FY07, this tax generated \$222.0 million. Tax expenditures for this tax type are estimated at \$24.3 million for FY08.
- ❖ ***Corporation Income Tax*** – Income tax was first assessed in 1936, on 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 FY07, the corporation income tax generated \$988.1 million. Tax expenditures for these taxes are estimated at \$312.7 million for FY08.
- ❖ ***Gasoline Tax*** – First levied in 1920, this tax is assessed on gallons of gasoline sold in Kentucky. The floor of the gasoline rate is 17.1 cents per gallon; if the wholesale price rises above \$1.342, the tax rate will rise. For FY07, this tax generated \$397.6 million. Tax expenditures for this tax are estimated at \$11.6 million for FY08.
- ❖ ***Individual Income Tax*** – First imposed in 1936, this tax has been 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 FY07, this tax generated \$3.0 billion. Tax expenditures for this tax are estimated at \$2.6 billion for FY08.

- ❖ ***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 FY07, this tax generated \$43.6 million. Tax expenditures for this tax are estimated at \$75.0 million for FY08.
- ❖ ***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 \$16.5 million in FY08.
- ❖ ***Limited Liability Entity Tax*** – Enacted during the 2006 Extraordinary Session of the General Assembly, this tax applies to all entities which provide limited liability to their owners and is assessed for the privilege of doing business in Kentucky. This new tax applies to taxable periods beginning on or after January 1, 2007, therefore, limited receipts were realized during FY 07. Tax expenditures for this are estimated to total \$132.4 million in FY08.
- ❖ ***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 tax rate is 17.1 cents per gallon; if the wholesale price rises above \$1.342, the tax rate will also rise. For FY07, this tax generated \$0.2 million; tax expenditures for this tax are estimate at \$3,000 for FY08.
- ❖ ***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, but the 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 FY07, this tax generated \$411.3 million; tax expenditures are estimated at \$92.9 million for FY08.

- ❖ ***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 FY07, these taxes generated \$47.2 million; tax expenditures are estimated at \$6.5 million for FY08.
- ❖ ***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 FY07, property taxes generated \$492.5 million; tax expenditures are estimated at \$307.1 million for FY08.
- ❖ ***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. For FY07, this tax generated \$2.8 billion; tax expenditures are estimated at \$2.3 billion for FY08.
- ❖ ***Special Fuels Tax*** – This tax includes fuels other than gasoline that are used in motor vehicles. The floor of the special fuels rate is 14.1 cents per gallon; if the wholesale price rises above \$1.342, the tax rate will also rise. For FY07, this tax generated \$141.4 million; tax expenditures for this tax are estimated at \$67.7 million for FY08.
- ❖ ***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 thirty cents and is composed of the original excise tax of three cents and a surtax of twenty-seven cents. The other tobacco products tax includes taxes on loose tobacco, cigars, snuff, and other miscellaneous tobacco products. The unit value tax differs depending on the product. All tobacco taxes are paid by the wholesaler. For FY07, tobacco taxes generated \$177.4 million. The tax expenditures associated with these taxes are estimated at \$1.3 million for FY08.
- ❖ ***Earmarked Funds*** – These items are included for informational purposes only. They have a negative impact on the General Fund, but are technically not a tax expenditure since the tax is still collected from the taxpayer. Iden-

tified earmarked funds that are not deposited into the General Fund are estimated at \$40.3 million for FY08.

This is the second edition of the report within which a view of tax expenditures by program has been included. Many of the expenditures could be placed in multiple categories. This depiction considers the primary purpose or use of the expenditure and accordingly places the expenditure within that category. The following list outlines the major program categories, subcategories and an estimated of the amount of potential tax revenue not collected because of the tax expenditures related to the purpose.

### Summary of Tax Expenditures by Program (\$ millions)

	FY 08	FY 09	FY 10
<b>Agriculture</b>	<b>239.479</b>	<b>248.197</b>	<b>258.218</b>
Agricultural Development	207.920	215.636	224.654
Equine Industry Support	31.559	32.561	33.564
<b>Business</b>	<b>1,582.417</b>	<b>1,673.772</b>	<b>1,728.481</b>
Banking Support	7.140	7.580	7.900
Economic Development	105.950	109.050	111.650
Energy Development and Coal Industry Support	376.971	413.846	429.828
Existing Business Support	822.651	859.692	885.622
Job Development	147.635	155.635	161.835
Natural Resources	10.580	10.810	11.010
Transportation Industry Support	111.490	117.159	120.636
<b>Human Resources</b>	<b>3,117.949</b>	<b>3,282.729</b>	<b>3,484.512</b>
Education Support	31.000	32.700	36.200
Family Support	372.300	383.800	396.700
Health Care Support	907.289	989.139	1,075.792
Housing Development	501.300	531.100	563.100
Income Maintenance	689.160	709.490	725.220
Retirement Support	616.900	636.500	687.500
<b>Government</b>	<b>381.740</b>	<b>392.737</b>	<b>408.109</b>
Federal Government Support	10.800	10.900	10.900
Intergovernmental Transfers	12.000	12.600	13.200
Military Support	32.220	33.390	34.650
State and Local Government Support	326.720	335.847	349.359
<b>Social Services</b>	<b>646.184</b>	<b>650.744</b>	<b>676.290</b>
Charitable Organization Support	559.061	584.649	610.114
Community Development	47.891	26.563	26.644
Environmental Conservation and Historic Preservation	39.232	39.532	39.532

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## ***Introduction***

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**What are tax expenditures?** Tax expenditures are provisions such as special exemptions, exclusions, deductions, credits, deferrals, and preferential rates in tax law that result in a loss of tax revenue. House Bill 380 enacted by the 2006 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, often without being routinely reviewed to determine fiscal impacts. As a result, tax expenditures have a tendency to become an increasingly larger part of state government expenditures without explicit approval by succeeding legislatures.

Not all deductions and exemptions allowed under the laws are classified as tax expenditures. Tax expenditures are best described as deviations from the “normal” or “appropriate” tax structure. For example, income tax is normally levied on income, after reducing for the expenses incurred to produce that income. Consequently, most business expenses are not tax expenditures. However, income that is exempted because of special circumstances, such as retirement income, would be considered a tax expenditure. 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.

**Why publish a tax expenditure report?** Tax expenditures are increasingly used to encourage certain kinds of behavior or to provide financial aid to taxpayers in certain circumstances. Major objectives include economic development, equity, fiscal responsibility, and tax reform. The unintended result is an increase in the complexity of the tax laws. Individual taxpayers as well as tax experts have found it difficult to keep informed of these many changes. In many cases, these decisions lead to less similarity between state and federal laws and ultimately

to even more complexity. When such provisions are enacted, the resulting tax loss reduces the revenue available to fund other programs, unless tax rates are raised or new taxes are enacted to compensate for the loss.

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

A tax expenditure analysis can be used to evaluate the cost to state government of the many programs funded through tax expenditures. This analysis identifies, quantifies where possible, and explains many of the Kentucky tax expenditures. When possible, estimates of the costs of the tax expenditures were developed from information contained on taxpayers’ Kentucky tax returns, the most reliable source for data. In many cases, however, other necessary information is not reflected on tax returns or the data is not 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.

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

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

The value of this analysis is not so much for potential revenue estimating purposes, but to give a description of Kentucky’s tax expenditures and their estimated impact in terms of lost General

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

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

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 expenditure.

### **How to Read This Report**

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

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

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

This report continues to quantify the exemption of certain services from sales tax even though these exemptions are not considered a tax expenditure. A list of specific services and the estimated costs can be found on pages 160-162 of this report.

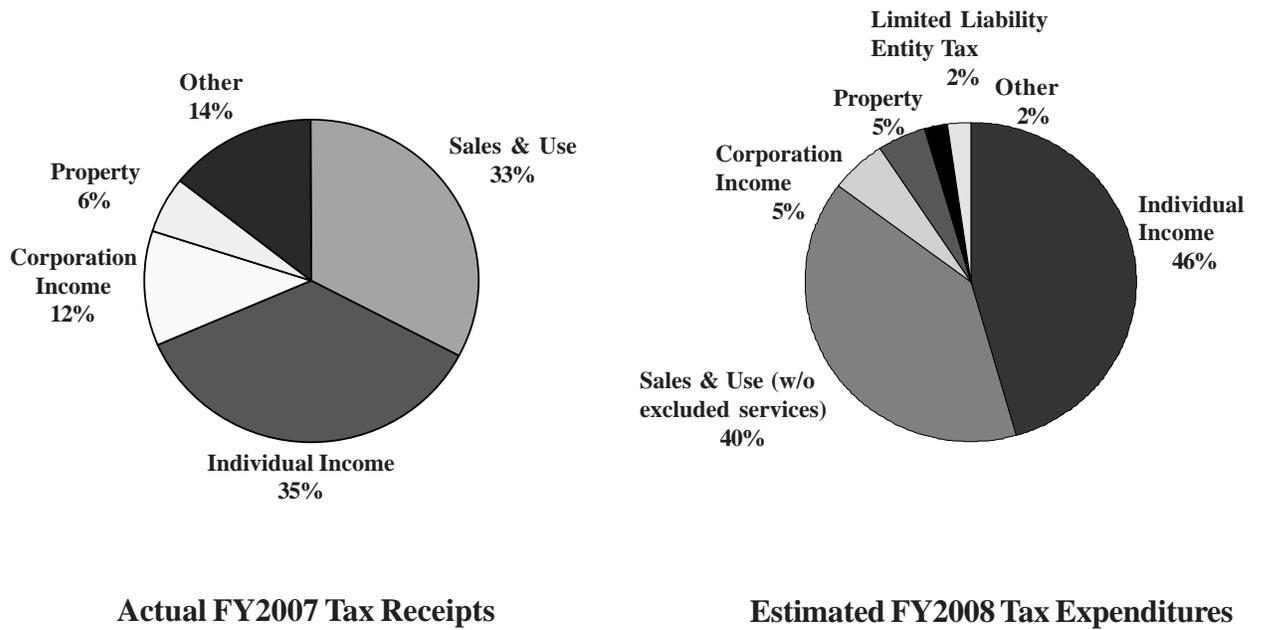
Some taxes are allocated to a particular fund or purpose. These items are not listed as tax expenditures. Rather, these allocations are listed under the heading “Earmarked Funds” and can be found on pages 171-175.

The Office of State Budget Director welcomes your comments and any questions you may have about this report. We wish to extend our appreciation to Marian Davis and John May who were Commissioners for the Department of Revenue during the research stage of this publication, and to the many members from their staff who participated in the data collection process of this project. Without their assistance, this publication would not have been possible:

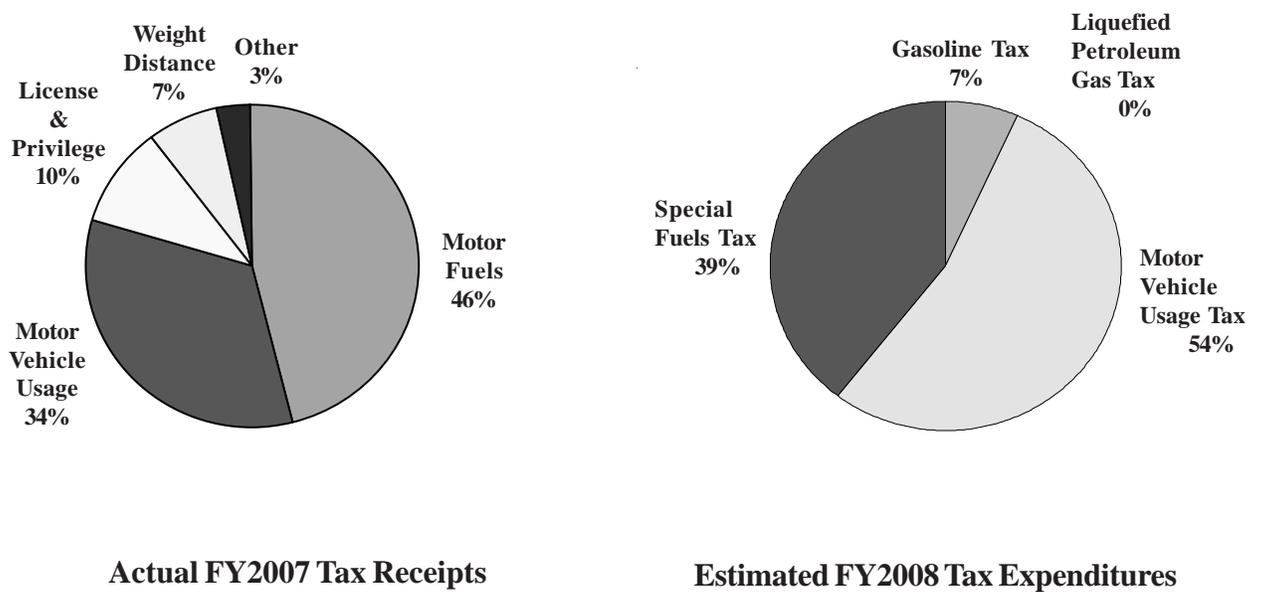
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**Figure 1. General Fund Overview**



**Figure 2. Road Fund Overview**



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## **Kentucky's Tax Expenditure Summit**

The Kentucky General Assembly, as it has for the past dozen years, directed in the biennial budget bill (HB 380, 2006 Regular Session) that the Office of State Budget Director (OSBD) prepare a Tax Expenditure Analysis. Although the reports themselves have evolved over the years, since the inception of these there has never been a systematic review of the report or of the concepts and particular items included in the report.

The concept of tax expenditures has been controversial not only due to various views of government and taxation in general, but also in deciding which items to include and which to leave out. Critics of tax expenditure analysis argue that the term is loaded with implications regarding the government's powers of taxation, and that activities or items not taxed should not be treated as "expenditures". Even supporters of the concept have difficulty agreeing on what constitutes the legitimate tax base.

The OSBD does not claim to be an authority on this despite having prepared these reports for over 10 years. In practice, OSBD has largely followed the lead of the analyst primarily responsible for the report, and as personnel has changed, the views taken toward tax expenditures have varied over the years. As a result, before preparing the current issue of the Tax Expenditure Analysis, it was decided that a review was needed to assure that the principles guiding the preparation of the report would be based upon a wide range of views from within state government as well as input from taxpayers, the business community, and other interested groups.

To conduct the review, OSBD hosted the first conference on tax expenditures prior to undertaking an update of its analysis. The process of the review included these steps:

1. Hold conference with recognized authorities making presentations to help define the concept and share experiences.
2. Assemble knowledgeable participants to review existing Tax Expenditure publications and state laws to determine which items should be included in report.
3. Make decision based on consistent logic and rationale.

The review process was invaluable in helping OSBD update and revise this edition of the Tax Expenditure Analysis. As a result, significant changes were made to the content of the report, leading some items that had heretofore been considered tax expenditures to no longer bear that designation. More surprising, the process identified many tax expenditures that had not been documented in earlier analyses. OSBD is grateful to the individuals acknowledged at the end of this chapter, but of course bears full responsibility for the decision to include or exclude particular provisions of Kentucky's tax code in this edition of the Analysis.

### **The Tax Expenditure Summit**

On September 7, 2006, the Office of State Budget Director held the first-ever Tax Expenditure Summit. The day-long conference included speakers from two separate areas of federal government agencies, a University of Kentucky professor who is an acknowledged authority on the subject of tax expenditure, and a diverse mixture of users of the past publications. Conference participants:

- ◆ Heard how the concept of tax expenditures evolved over time;
- ◆ Learned what other states do in reporting tax expenditures;
- ◆ Took a detailed look at Kentucky's last publication;
- ◆ Decided whether a tax expenditure budget was appropriate for Kentucky; and
- ◆ Joined panelists in offering a critique of Kentucky's last publication.

Bradford L. Cowgill, State Budget Director at that time, welcomed the participants and thanked each participant for joining the OSBD in an effort to refine and improve the next edition — *Tax Expenditure Analysis: Fiscal Years 2008 – 2010*. Mr. Cowgill explained that the goal of the Summit was to get ideas and feedback from people who use the report so that an improved product could be delivered. A summary of presentations following the introduction is presented below.

### **The Tax Expenditure Concept**

David Joulfaian,  
Economist, U.S. Treasury Department

Mr. Joulfaian explained that the U.S. Treasury Department prepared the first list of Federal tax expenditures in 1967. The Congressional Budget Act of 1974 directed the executive branch to prepare a Tax Expenditure Budget annually. More re-

cently, the Government Performance Results Act of 1993 required the annual evaluation of tax expenditures. For federal purposes, the term “tax expenditures” means those revenue losses attributable to provisions of the Federal tax laws which allow a special exclusion, exemption, or deduction from gross income or which provide a special credit, a preferential rate of tax, or a deferral of tax liability. The federal tax expenditure budget estimates do not account for behavioral effects, interaction effects among different provisions, and interaction among taxes.

When deciding how to identify tax expenditures, the first step is to determine a baseline or benchmark. Conceptually, tax expenditures could be viewed from a comprehensive approach or a modified approach. A comprehensive view might include the Haig-Simons principle which includes any net increase in an individual’s power to consume. This approach would expand Kentucky’s definition of the term tax expenditure by including all payments, including transfer payments. The modified approach would exclude the transfer payments and focus on the structural element of the tax system. For federal income tax purposes, these elements include the tax rate schedule, personal exemptions, marital status, accounting methods, and organizational form. Finally, despite the numerous changes throughout the years, the tax expenditure budget has remained a vital document for evaluation purposes. The spotlight will remain on the annual federal document because of the sharp expansion in tax expenditures in recent years.

### **The Need for Reexamination**

Marylynn Sergent

Assistant Director, U.S. Government Accountability Office (GAO)

Ms. Sergent explained that from her perspective in GAO, a tax expenditure is a preferential provision in the tax code. This preferential treatment may substitute for a government spending program in that the government “spends” some of its revenue on subsidies by forgoing the taxation of some items. Over time, tax expenditures may not be efficient, effective, or equitable. Therefore, reexamination is needed. Information about the attributes can help policy makers as they adapt current policies in light of overarching trends and the fiscal outlook. Periodic reviews help to establish whether tax expenditures are relevant to the current needs. A cost-benefit analysis may be required to determine if a tax expenditure has achieved its objective. Additionally, coordinated reviews of tax expenditures with related spending programs could assess the relationships and interaction within the mission areas and identify which strategies are effective. With full information,

policy makers can evaluate the results to reduce program overlap and fragmentation as well as to target scarce resources to the most effective or least costly methods for delivering government support.

The magnitude of federal tax expenditures is huge. Federal income tax expenditures reported by Treasury have doubled in number since 1974. The sum of federal tax expenditure revenue loss has tripled in real terms since that time. Federal tax expenditures exceeded discretionary spending for half of the last decade. Federal tax expenditures span most federal missions but their size varies by budget function. Growth in the total tax expenditures is attributable to federal tax expenditures for individual taxpayers with health care being the top federal tax expenditure in fiscal year 2005, amounting to approximately \$118.4 billion. For the federal government, the nation's current and projected fiscal imbalance serves to reinforce the importance of engaging in an annual review and reassessment. Although revenue loss estimates are substantial, tax expenditure costs are not integrated in the annual federal budget presentation. Presenting tax expenditures alongside outlays would be a useful starting point in highlighting the relative magnitude of total expenditures across mission areas. Therefore, the GAO recommends greater accountability for federal tax expenditures and has published additional resources containing more information on this subject. These publications were included in the conference packet of handouts.

- ◆ *Government Performance and Accountability: Tax Expenditures Represent a Substantial Federal Commitment and Need to be Reexamined (GAO-05-690, September 23, 2005)*
- ◆ *Understanding the Tax Reform Debate: Background, Criteria, & Questions (GAO-05-1099SP, September 2005)*
- ◆ *Budget Process: Better Transparency, Controls, Triggers, and Default Mechanisms Would Help to Address Our Large and Growing Long-term Fiscal Challenge (GAO-06-761T, May 25, 2006)*

## Prospects for Improvement

Dr. David Wildasin

Professor, Martin School of Public Policy and Administration,  
University of Kentucky

Dr. Wildasin asked whether tax expenditure reporting can be improved. He explained that if we are going to try, there were two issues which must be addressed immediately. The first is a conceptual question: How can we define a norm and then how can we apply it? The second is a practical policy question: Are tax expenditure accounts useful and can they be made more useful? If policymakers want to close their eyes to tax expenditures, who can stop them? The practical impact of a tax expenditure report depends on conceptual clarity. However, the tax expenditure approach is conceptually unclear because it's hard to arrive at a satisfactory definition of what tax expenditures truly are.

To be useful, tax expenditure concepts need to be as clear as possible. Tax expenditures occur when the tax law deviates from the norm in order to promote some government policy. The subject is inevitably controversial because of the lack of consensus about what the tax system ought to be. Who defines the norm? If legislators were to define the norm, tax expenditures would be zero since they write the law and thereby the norm. If economists were to define the norm, should it be the norm presented by noted economists like George Schanz, R. M. Haig, Henry C. Simons, Irving Fisher, or John Maynard Keynes? The answer to this question matters greatly, since tax expenditures under one norm may not be tax expenditures under another norm. A more tentative approach might be to follow existing practice by trying to do it better and attempting to expose those "hidden" expenditures for recurring scrutiny. A tax expenditure budget could potentially be used for budgetary scrutiny; control the size of government; determine the total amount of expenditure for functional categories of the budget; and provide a mechanism for tax-specific reviews. Despite basic conceptual issues, tax expenditure reports are potentially highly useful since some issues warrant special attention at the state and local levels. The following chapters from the book entitled "*Tax Expenditures and Government Policy*" were provided in the conference packet of handouts:

- ◆ "Pathways to Tax Expenditures: A Survey of Conceptual Issues and Controversies," Neil Bruce.

- ◆ “Tax Expenditures: The Personal Standard,” David E. Wildasin.

Dr. Wildasin’s final challenge to the group was to think about how to make the tax expenditure report more relevant for policy making.

### **What Other States (and Countries) Do (or don’t do?)!”**

Jennifer Hays

Analyst, Governor’s Office for Economic Analysis

From internet research of state websites, Ms. Hays located and reviewed twenty-one reports from the states. Most of these reports were prepared by Revenue agencies; however, four states’ reports were completed by either the budget, treasury or finance agency within the state (Kentucky, Oregon, Vermont, and Wisconsin). Of the twenty-one reports, nine introduce their reports as being prepared for either: (1) the governor; (2) the legislature; (3) the citizens; or (4) some combination of these three groups. Fourteen states identify a resolution or legislative enactment which required the production of the report. The reports contain many different purposes for their publication. In addition to the report produced by the United States federal government, the governments of Canada and the Commonwealth of Australia produce a report. Further, the International Monetary Fund produces an annual report for eight additional countries containing a section on tax expenditures for each (Austria, France, Ireland, Spain, Belgium, Germany, Netherlands, and United Kingdom).

Many of the reports have common characteristics. They are generally organized by tax type, contain a short description of the expenditure, usually report two or three years of estimated future expense, cite the statutory reference for each expenditure, and contain charts and graphs. Some unusual features found include distributions of the expenditure among the population, expanded text such as number of returns impacted, a comparison of the actual amount of expenditure in the past and the estimate for future, and summary tables which rank expenditures by cost or explain the purpose or use of the expenditure.

The chart which follows summarizes data presented in these reports.

	Prepared for:	Prepared by:	Statutory Reference:	Purpose:	Link to Budget:
Arizona	The Governor and the Legislature	Dept of Revenue, Office of Economic Research & Analysis	ARS Sec 42-1005	To provide a better understanding of the costs associated with the existing set of tax exemptions, exclusions, deductions and credits.	No
California		California Franchise Tax Board, Economics & Statistical Research Bureau			No
Connecticut		Connecticut General Assembly Office of Fiscal Analysis	Connecticut General Statutes Section 12-7b		No
Hawaii		Department of Taxation		To summarize the tax credits	
Iowa		Iowa Department of Revenue & Finance		Improve government accountability	No
Kansas	The Governor, the Kansas Legislature and the citizens of the state of Kansas	Department of Revenue		To allow for the making of informative analysis and decisions.	No
Kentucky	The Governor, the Legislature and the citizens of the Commonwealth	Office of State Budget Director	The Budget Bill - HB 380 (2006 Regular Session)		No
Maine			5 M.R.S.A 1664	To identify, estimate and forecast the fiscal impact of those provisions of the State tax structure which grant benefits analogous to those provided by direct State spending programs	Appendix to Budget
Massachusetts		Executive Office for Administration and Finance			No
Michigan		Department of Treasury, Office of Revenue and Tax Analysis	Public Act 72 of 1979		Appendix to Budget
Minnesota	Members of the Legislature	Department of Revenue	Section 270.067	To evaluate Minnesota's current state and local tax system and to make future tax policy decisions.	No
Montana		Department of Revenue	House Bill 387 (1987)	To provide information useful to the Governor and the Legislature for developing tax policy	No
Nebraska	Governor and to all members of the Legislature	Department of Revenue	Sections 77-379 through 77-385, R.R.S. 2003	To better determine those sectors of the economy which are receiving indirect subsidies as a result of tax expenditures	No
New York		Department of Taxation and Finance		To describe tax expenditures and provide revenue estimates for them	No
North Carolina		Department of Revenue, Tax Research Division	Sections 105-256 of the General Statutes of North Carolina	To allow legislative review of the impact to the State's economy and government revenues	No

	Prepared for:	Prepared by:	Statutory Reference:	Purpose:	Link to Budget:
North Dakota	Policy makers, students, business leaders, and anyone else interested in learning about North Dakota's tax laws, state comparisons, and how North Dakota ranks when compared to other states	North Dakota Tax Department		An Overview and Comparative Guide to North Dakota Taxes	No
Ohio	The 126th General Assembly	Department of Taxation	Ohio Revised Code Section 107.03 and 5703.48	To lend a better understanding of the current tax system and act as a resource for those making decisions about Ohio's tax policy	Appendix to Budget
Oregon	Citizens of Oregon	Department of Administrative Services and Department of Revenue	1995 Budget Accountability Act	A tool to understand how government supports the achievement of education, social, economic and environmental policies through the use of Oregon's tax structure	No
Vermont		Vermont Tax Department and Joint Fiscal Office	Act 75 of the 2005 General Assembly		No
West Virginia	Legislature	State Tax Department, Research Division	West Virginia Code Sections 11-10-5s	To analyze tax expenditures for most major state taxes. The Tax Commissioner has promulgated rules setting forth a procedure and timetable for the reports in 3-year cycles.	No
Wisconsin	Members of the 2005-2006 Legislature	Department of Administration and Department of Revenue	Section 16.425 of the Wisconsin Statutes	Facilitates a comprehensive review of tax exemption devices and their corresponding fiscal effects.	No
United States			Congressional Budget Act of 1974 (Public Law 93-344)		Appendix to Budget
Australia		Australia Treasury	Charter of Budget Honesty Act of 1998	To allow tax expenditures to receive a similar degree of scrutiny as direct expenditures, allow for a more comprehensive assessment of government activity, and contribute to the design of the tax system, by promoting and assisting public debate on all elements of the tax system.	No
Canada	Her Majesty the Queen	Canada Department of Finance			No

## A Look Inside Kentucky's Tax Expenditure Analysis

Robert Cox

Deputy Executive Director, Governor's Office for Economic Analysis

House Bill 380, as enacted by the 2006 Regular Session of the Kentucky's General Assembly, mandates the publication and defines the term "tax expenditure":

*By October 15, 2007, the Office of State Budget Director shall provide to each branch of government detailed estimates for the General Fund and Road Fund for the current and next two fiscal years of the revenue loss effected by tax expenditures.*

*Tax expenditure means an exemption, exclusion, or deduction from the base of a tax, a credit against the tax, a deferral of a tax, or a preferential tax rate.*

Kentucky's report has been prepared every two years dating back to 1989. Since that time, the report has continued to evolve. The 2005 edition contains a "What's New" tab that explains recent law changes, a "Summary Tables" tab that contains the tax expenditures listed by program area and by tax type, and tax-specific tabs which contain detailed descriptions of each expenditure, including background information on the tax, a description of the tax base, the effective date of each expenditure, and an estimated cost. Mr. Cox then encouraged the participants to think about the following questions.

- ◆ For philosophical consistency, how do you decide what is a tax expenditure? Should you
  - Look at the original statute?
  - Try to determine the intent of the legislature?
  - Examine economic principles of taxation?
  - Look at how other governments treat it?
- ◆ When do the tax and the tax expenditure trade places, i.e., intangible property tax and the tax on bank deposits?
- ◆ If you couldn't tax it even if you wanted to, is it a tax expenditure, i.e., sales to the US Government or judicial decisions?
- ◆ Are earmarked funds tax expenditures?
- ◆ How can we overcome data issues? Some potentially large tax expenditures have not been directly measurable or the quality of the data has been a problem, i.e., net operating loss deductions or agricultural property.

### **Panel Discussion on Tax Expenditures**

John Chilton, Kentucky Society of CPAs

Debra Gabbard, KY Transportation Cabinet

Larry Lynch, Kentucky Consensus Forecasting Group

Tony Sholar, Kentucky Farm Bureau

Mark Treesh, CPA, former Kentucky State Representative and tax administrator

Comments included the following:

- ◆ The Tax Expenditure Report should be used as a shadow budget. It should be included in the Governor's Budget document and address.
- ◆ Tax expenditures are a lot like firemen – you don't think about them until you need them.
- ◆ The publication is used by the legislature, but only looked at on the margin to determine the incremental value of a policy change.
- ◆ The publication could be improved by adding the rationale of the expenditure.
- ◆ The publication could be improved by adding some identifier as to why we have the expenditure, i.e., related to charities, retirement, interstate competition, or because the federal government has the same expenditure, it is popular with the public, and we need it for business.
- ◆ Business tax expenditures are generally available to certain industries – coal, movies, banking.
- ◆ Other areas of interest could include the geographic location of the tax expenditure and a cost/benefit analysis for the expenditure.
- ◆ Does the expenditure merely represent the outsourcing of administrative costs?

Following the afternoon break and networking session, four discussion groups moderated by staff of OSBD were established by tax types. Manoj Shanker led a discussion on Individual Income Tax; Jennifer Hays headed the Business Tax discussion; Gene Zaparanick-Brown guided a discussion on Property Taxes, and Bob Cox conducted the Sales and Excise Tax discussion.

Each group briefly discussed the earlier presentations applicable to its particular tax. However, the primary purpose of this initial meeting of the discussion groups was to ascertain interest in furthering discussions through the interim period. All groups agreed that additional discussion would be insightful. Documentation of the decisions made by the discussion groups follows.

## **Results from Discussion Groups**

Following the Kentucky Tax Expenditure Summit, OSBD staff met several times in the next few weeks and distilled information gathered at the Summit in order to develop criteria or principles that would govern the inclusion and classification of tax expenditures. The consensus among staff is that the legal definition of a tax expenditure as listed in HB 380 is useful but not by itself adequate for determining whether a particular feature of Kentucky's tax code creates a tax expenditure. For further guidance to be used in this report and future reports, staff listed eight principles gleaned from material presented at the Summit and in subsequent discussions to identify tax expenditures. These principles are applied to clarify the statutory definition used in HB 380. The eight guiding principles are:

1. A tax expenditure does not include an exemption from tax when the entity must pay under an alternative method of taxation. For instance, exclusion of financial institutions from the corporation income tax is not a tax expenditure since that type of entity is covered by the bank franchise tax.
2. A tax expenditure does not include an exemption for entities, items, or transactions that are commonly and traditionally exempted from payment of taxes.
3. A tax expenditure does not include a credit or exclusion which prevents the taxation of the same base more than once. As an example, a "sale for resale" exemption in the sales tax is not considered a tax expenditure since in the absence of such an exemption an article could be subjected to the tax multiple times as it moves through the production cycle.
4. A tax expenditure is not created when Kentucky has no discretionary ability to tax. This rule generally applies to exemptions listed in the US or Kentucky Constitutions. As an exception, some specific features of property tax are found within the Kentucky Constitution. Applying this principle means, for instance, that reduced valuation of agricultural property for property tax purposes is not a tax expenditure since this is a provision of the Kentucky Constitution.

5. A tax expenditure does not include items defined outside the normal taxable base. As an example, the exclusion of most services from the sales tax is not considered a tax expenditure since the tax is broadly imposed on the sale of “tangible personal property”, a term generally understood to exclude services.
6. A tax expenditure will be listed even if the value of the expenditure is zero. Provisions in the law creating a tax expenditure may not be utilized in a year or for several years, but should be recognized nevertheless since the possibility of utilization exists.
7. When the distribution of data among tax types is not readily available, the tax expenditure will be listed within one section of the publication with notes in other applicable sections. The development of tax increment financing and other economic development incentives may extend to several taxes.
8. A tax expenditure does not include progressive rate structures which apply equally to all taxpayers. This principle holds even if a rate of “zero” is set below a certain threshold, as for the limited liability entity tax.

Using these eight principles for guidance, OSBD organized discussion groups for a one-day meeting on November 30, 2006. These groups included representatives from within OSBD, the Department of Revenue, the Legislative Research Commission and others. (A listing of participants can be found in the acknowledgments on page 30.) The groups focused on four major groupings of taxes: (1) Individual Income Tax; (2) Business Taxes; (3) Property Tax; and (4) Sales and Excise Taxes.

The purpose of each discussion group was to catalogue the tax expenditures related to the specific tax type for the upcoming publication (*Tax Expenditures Analysis: Fiscal Years 2008 – 2010*). The members of each group were asked to prepare for the discussion by reviewing the tax statutes and then bring to the discussion a list of tax expenditure additions or deletions needed. The starting point for the discussion would be the most recent edition of the Tax Expenditure Analysis. The decisions to be made were to add or delete tax expenditure items based on the guiding principles. Each group initially adopted guiding principles before beginning the evaluation and listing process.

The Property Tax discussion group acknowledged that their tax circumstance may be an exception to Principle Number 4 since most of Kentucky's property tax exclusions are constitutionally based, instead of being statutory exemptions.

The two discussion groups related to income tax (individual and business taxes) voiced the need to regroup expenditures so that the reader could more easily find a single expenditure. For past publications, new expenditures were generally added at the end of a section. This process meant that, several years later, the casual reader saw neither rhyme nor reason to the list of tax expenditures. The following charts outline the decisions made by the discussion groups.

### **Individual Income Tax Discussion Group**

<b>Individual Income Tax</b>		
"Agent Orange" settlement income	KRS 141.010 (10) (h)	Include in Report
Exclusion of income for soldiers killed in line of duty	KRS 141.010 (10) (t)	Include in Report
Depreciation	KRS 141.0101	Do not include in Report
Health insurance credit	KRS 141.062	Include in Report
Tax credit for qualified farming operations	KRS 141.410	Include in Report
Artistic charitable contributions deduction for individuals	KRS 141.0201	Include in Report
Deduction of leasehold interest of property contributed as living quarters for homeless persons	KRS 141.0202	Include in Report
Designation of funds to political party	KRS 141.072	Include in Report
Credit for Kentucky Reinvestment Act	KRS 141.415	Include in Report
Credits allowed individuals for tax paid to other states	KRS 141.070	Do not include in Report
Extension of time to pay when deployed	KRS 141.175	Include in Report
Construction of research facilities	KRS 141.395	Include in Report
Employer GED incentive credit	KRS 151B.127	Include in Report
Voluntary environmental remediation	KRS 141.418	Include in Report
Biodiesel	KRS 141.423	Include in Report
Clean coal	KRS 141.428	Include in Report
Various unlisted federal adjustments	Various IRC Sections	Include in Report
Member, Shareholder, or Partner credit	KRS 141.420(3)(a)	Delete from Report

The Individual Income Tax discussion group recommended deleting the last item on the list since it no longer applies following enactment of HB 1 in the 2006 Extraordinary Session.

The group also discussed two items for possible inclusion in the analysis: depreciation and the credit for tax paid to another state. Neither has been included in past Tax Expenditure Analyses, but an argument was made that each might warrant inclusion. The group decided that the deduction for depreciation or depreciation different from the federal deduction should be reported only when Kentucky allows a deduction higher than the federal deduction. Any other difference is merely

a difference in timing. The credit for tax paid to another state was not included since Principle #3 would argue against recognizing as a tax expenditure a feature that merely prevents “double taxation.

**Business Taxes Discussion Group**

**Corporation Income Tax**

Tobacco settlement	KRS 141.010 (12)	Include in Report
Homeowners' association	KRS 141.010 (14)	Include in Report
Health insurance credit	KRS 141.062	Include in Report
Deduction of leasehold interest of property contributed as living quarters for homeless	KRS 141.0202	Include in Report
Credit for qualified farming operation	KRS 141.410	Include in Report
Credit for Kentucky Reinvestment Act	KRS 141.415	Include in Report
Employer GED incentive credit	KRS 151B.127	Include in Report
Exclusion of publicly traded partnerships	KRS141.010 (24)	Delete from Report
Double weighted sales factor	KRS 141.120(8)	Delete from Report
Tax increment financing	KRS Chapter 65	Include in Report
Construction of research facilities	KRS 141.395	Include in Report

**Limited Liability Entity Tax**

Public service corporations	KRS 141.0401 (6) (i)	Do not include in Report
Open-end registered investment companies	KRS 141.0401 (6) (j)	Include in Report
Certified fluidized bed energy production facility	KRS 141.0401 (6) (k)	Include in Report
Alcohol production facility	KRS 141.0401 (6) (l)	Include in Report
Political organizations	KRS 141.0401 (6) (q)	Do not include in Report
Small business exemption	KRS 141.0401 (2) (b)	Do not include in Report
REIT, RIC, REMIC	KRS 141.0401 (6) (m), (n), (o)	Include in Report
Personal service corporations	KRS 141.0401 (6) (p)	Include in Report
Cooperatives	KRS 141.0401 (6) (q)	Include in Report
Publicly traded partnership	KRS 141.0401 (6) (r)	Include in Report
Tax increment financing	KRS Chapter 65	Include in Report

The Business Taxes discussion group used the following justifications for deleting some items:

Exclusion of publicly traded partnerships	No longer applies following the enactment of House Bill 1 (SS 2006)
Enterprise zones	Will be phasing out
Double weighted sales factor	Principle # 5. Is not a tax expenditure – Double weighting is no longer outside the norm of taxation

The exclusion of certain entities not covered by the corporation income tax, that had not been listed as creating a tax expenditure in earlier reports, were considered and decided not to be tax expenditures. Public service corporations, one such entity, is subjected to a public service property tax that is assessed differently from most property taxes, and the form of taxation under which these entities pay was considered more appropriate for regulated entities such as these. Under Principle #1 therefore their exclusion should not be considered a tax expenditure.

Political organizations recognized under Internal Revenue Code 501 are traditionally exempted from taxation, and their exclusion conforms with Principle #2.

The small business exemption allowed to the limited liability entity tax is considered not to be a tax expenditure since the tax is structured with a progressive rate, and the exemption is equivalent to a tax rate of “zero”.

### Property Tax Discussion Group

**Property Taxes**

State real property tax yearly revenue ceiling	KRS 132.020(7)	Delete from Report
Bank deposits	KRS 132.030(1)	Delete from Report
Agricultural land assessment	KRS 132.450(a)	Include in Report
Tax increment financing	KRS Chapter 65	Include in Report
Real and personal property owned by exempt entities	KY Constitution Sec. 170	Do not include in report
Household goods used in the home	KY Constitution Sec. 170	Do not include in report
reassessment	KRS 132.452	Do not include in report
25 domestic fowl	KRS 132.190(1)	Include in report
Personal property in vending stands operated by the blind	KRS 132.193	Include in Report
Fraternal benefit societies	KY Constitution Sec. 170	Do not include in Report
Local government hold harmless - commercial watercraft	KRS 136.181	Do not include in report

The Property Tax discussion group used the following justifications for deleting items:

Yearly revenue ceiling	Does not fit within the definition of a tax expenditure – rate setting mechanism.
Bank deposits	Principle #2. The intangible tax has been abolished

**Sales and Excise Taxes Discussion Group**  
**Sales and Use Tax**

**Sales and Excise Taxes**

Vendor compensation	KRS 139.750	Include in Report
Lodging of 30 days or more	KRS 139.200 (2 )(a)	Include in Report
Rate increase for school taxes added to residential telephone bills	KRS 139.470 (9)	Include in Report
Federal taxes imposed on sales of TPP	KRS 139.470 (20)	Include in Report
Raw materials and industrial supplies		Delete from Report
Lease or rental of films by commercial theaters	KRS 139.484	Delete from Report
Non-returnable and returnable containers	KRS 139.470 (2)	Delete from Report
Catalog and newspaper inserts shipped outside of KY	KRS 139.470 (13)	Delete from Report
Internet Tax Nondiscrimination Act		Delete from Report
Bad debts	KRS 139.350	Do not include in Report
Water fee paid to KY River Authority	KRS 139.470 (12)	Include in Report
Tobacco buydown	KRS 139.470 (17)	Do not include in Report
Food donated by retail food establishment to a charity	KRS 139.470 (33)	Do not include in Report
Switch access	KRS 139.195 (7)	Include in Report
Pay phones	KRS 139.195 (8)	Include in Report
Use tax credit for sales tax pd to another state	KRS 139.510	Do not include in Report
Coal-based zero emission power plant	KRS 139.537	Include in Report
County clerk fee for collection of use tax on TPP purchased out of state	KRS 139.778 (4)	Include in Report
Tax increment financing	KRS Chapter 65	Include in Report

The sales tax discussion group used the following justification for deleting items:

Raw materials and industrial supplies	Principle #3. The exemption results from the principle of a sale for resale and is not a tax expenditure
Lease or rental of films	Principle #3. The exemption results from the principle of a sale for resale and is not a tax expenditure
Non-returnable and returnable containers	Principle #3
Catalog and newspaper inserts	Principle #4. No discretion to tax
Internet Tax Nondiscrimination Act	Principle #4. No discretion to tax

Certain items exempted from taxation were considered and found not to constitute tax expenditures under any sales or excise tax. The bad debt exemption from the sales tax results from the principle as returned merchandise and is not normally taxed, so under Principle #2 would not be included as a tax expenditure. The tobacco buydown results from the principle as a discount and is not a tax expenditure. Usually this takes the form of a rebate from the manufacturer of tobacco products and the retailer for products purchased by the retailer. A recent law declaring food donated to a charity by a retail establishment to be tax exempt is not

a tax expenditure. The statutory change did not create an exemption. It already existed within the definition of food. Switch access fees paid by telecommunications companies who lease the lines of other providers are not considered a tax expenditure under the principle of a sale for resale. Use tax credit for tax paid to another state prevents the item from being taxed twice and according to Principle #3 is not a tax expenditure.

## Sales and Excise Taxes Discussion Group

### Excise Taxes

<b>Alcoholic Beverage Taxes</b>	<b>Comment</b>
US Government Exemption	Delete from Report
<b>Cigarette Taxes</b>	<b>Comment</b>
Compensation allowed Wholesaler - Cigarette Surtax	Delete from Report
US Government Exemption	Delete from Report
<b>Gasoline &amp; Special Fuels Taxes</b>	<b>Comment</b>
US Government Exemption	Delete from Report
<b>Motor Vehicle Usage Tax</b>	<b>Comment</b>
US Government Exemption	Delete from Report
US Government Exemption	No discretion to tax
Compensation – Cigarette Surtax	The provision has expired
Enterprise Zone Exemption	Modification is needed since the zones will soon be expiring

Readers of this report will note the changes in the appropriate sections. OSBD is grateful for the assistance provided by all the participants in the review of tax expenditures. However, OSBD is responsible for the content of the report, and any questions concerning individual tax expenditure items, the justification for inclusion or exclusion, or the estimated cost of the tax expenditure should be directed to this office.

The Office of State Budget Director wishes to acknowledge and thank the following individuals who participated in the discussion groups. Their insight and information were helpful in determining whether a particular feature constituted a tax expenditure.

Tim Bennett  
Jimmie Greenwell  
Jim Livers  
Jim Oliver  
John Scott  
Ainsley Snyder  
Elyse Weigel

Michael Grammer  
Ricky Haven  
Perry Nutt  
Charlotte Quarles  
Tony Sholar  
Pam Thomas

## ***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 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)

	FY08	FY09	FY10
<b>Total Alcoholic Beverage Taxes Expenditures</b>	<b>0.865</b>	<b>0.865</b>	<b>0.865</b>
Allowance for Collecting and Reporting	0.825	0.825	0.825
Reduced Rate for "Low Volume" Spirits	0.040	0.040	0.040
<b>Total Bank Franchise Tax Expenditures</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>
Kentucky Historic Preservation Credit	0.000	0.000	0.000
Kentucky Investment Fund Credit	0.000	0.000	0.000
<b>Total Coal Severance and Processing Tax Expenditures</b>	<b>24.300</b>	<b>24.700</b>	<b>24.800</b>
Coal Used to Burn Solid Waste	0.000	0.000	0.000
Thin Seam Tax Credit	0.600	0.600	0.600
Transportation Expense	23.700	24.100	24.200
Coal Purchased for Alternative Energy or Gasification Facility	0.000	0.000	0.000
<b>Total Corporation Income and License Taxes Expenditures</b>	<b>312.684</b>	<b>333.636</b>	<b>345.734</b>
Coal Royalties	minimal	minimal	minimal
Credit Unions	4.900	5.200	5.500
Dividend Income	180.300	185.700	191.300
Homeowner's Associations	0.048	0.050	0.052
Real Estate Investment Trust	substantial	substantial	substantial
Tobacco Settlement	minimal	minimal	minimal
Charitable Contributions	10.700	11.000	11.300
Excess of Percentage over Cost Depletion	3.900	3.900	3.900
Leasehold Interest of Property Contributed as Living Quarters for Homeless	0.000	0.000	0.000
Net Operating Loss Deduction	43.700	44.300	43.500
Deductibility of Patronage Dividends	15.400	14.500	14.200
Biodiesel and Renewable Diesel Tax Credit	1.500	5.000	10.000
Clean Coal Incentive Credit	0.000	0.000	0.000
Coal Conversion Credit	0.000	0.000	0.000
Coal Incentive Tax Credit	0.001	0.001	0.097
Construction of Research Facilities Credit	2.200	2.800	3.500
Employer GED Credit	0.000	0.000	0.000
Enterprise Zone Credit	0.050	0.000	0.000
Environmental Remediation Tax Credit	1.000	1.000	1.000
Environmental Stewardship Tax Credit	5.000	5.000	5.000
Kentucky Investment Fund Tax Credit	0.050	0.050	0.050
Kentucky Reinvestment Act Credit	minimal	minimal	minimal
KEOZ Economic Development Credit	0.000	0.000	0.000
KIDA Economic Development Credit	7.900	8.100	8.300
KIRA Economic Development Credit	7.000	7.200	7.400
KJDA Economic Development Credit	9.900	10.200	10.500
KREDA Economic Development Credit	15.000	15.500	16.000
Qualified Farming Operation Credit	0.000	0.000	0.000
Recycling Credit	4.000	4.000	4.000
Skills Training Investment Tax Credit	0.120	0.120	0.120
Unemployment Tax Credit	0.015	0.015	0.015
Ethanol and Cellulosic Ethanol Tax Credit	0.000	10.000	10.000
<b>Total Gasoline Tax Expenditures</b>	<b>11.558</b>	<b>12.481</b>	<b>12.933</b>
Agricultural Exemption	0.050	0.053	0.055
Aircraft Refund	0.478	0.519	0.536
Bus, Taxicab, and Certain Senior Citizen's Programs Refund	0.473	0.513	0.530
Dealer's Monthly Reporting Allowance	10.100	10.900	11.300
Watercraft Refund	0.457	0.496	0.512
<b>Total Individual Income Tax Expenditures</b>	<b>2,630.210</b>	<b>2,792.640</b>	<b>2,996.930</b>
Armed Forces Personnel Benefits and Allowances	11.400	11.800	12.300
Assistance for Adopted Foster Children and Foster Care Payments	2.800	3.000	3.200
Cancellation of Indebtedness	0.470	0.370	0.270
Capital Gains - Eminent Domain	minimal	minimal	minimal
Disabled Coal Miners	1.000	1.100	1.100
Employee Stock Ownership Plan Provisions	1.200	1.300	1.300

	FY08	FY09	FY10
Employer Contributions for Medical Insurance and Medical Care	538.400	603.600	674.000
Employer-provided Benefits of Premiums on Group Term Life, Accident and Disability Insurance	8.700	8.900	9.100
Employer-provided Child Care Exclusions	3.400	3.600	3.700
Employer-provided Education Assistance	2.200	2.300	2.400
Employer-provided Meals and Lodging	3.200	3.300	3.500
Federal and Military Retirement Income Received	55.000	57.600	60.500
Financial Institutions Structured as S Corporations	minimal	minimal	minimal
Gain on the Sale of a Personal Residence	127.700	134.100	140.800
Exclusion of G.I. Bill Benefits	0.920	0.990	1.050
Income Earned Abroad by US Citizens	12.000	12.600	13.200
Interest on Life Insurance Savings	65.400	74.700	83.000
Miscellaneous Fringe Benefits	12.300	13.100	13.900
Passive Loss Rules Exception	24.700	25.600	26.200
Pension Contributions and Earnings from Employer Plans	159.200	157.800	152.300
Precinct Workers	0.100	0.100	0.100
Public Assistance Benefits	1.600	1.700	1.700
Private Pensions and Individual Retirement Accounts	144.400	151.000	159.500
Railroad and Supplemental Railroad Retirement System Benefits	1.300	1.300	1.200
Scholarship and Fellowship Income	6.400	6.700	7.100
Social Security Benefits for Retired Workers, Disabled Workers, and Dependents and Survivors	147.200	149.100	176.700
State Employee Pension Benefits and Contributions	54.200	60.200	71.400
Tobacco Settlement Income	6.000	6.000	6.000
Veteran's Pension, Death and Disability Compensation	13.400	13.800	14.400
Worker's Compensation Benefits	19.200	19.500	19.700
Casualty and Theft Losses	0.990	1.020	1.050
Charitable Contributions	176.700	190.700	204.300
Excess of Percentage over Cost Depletion	0.330	0.360	0.360
Health Savings Account Deduction	6.500	8.500	9.300
Home Mortgage Interest	293.800	316.200	340.100
Individual Retirement Account Contributions	21.800	23.400	26.700
Interest on Educational Loans	2.700	2.700	2.800
Job Expenses and Other Miscellaneous Deductions	32.400	34.500	37.000
Keogh Plan Contributions	32.800	35.000	38.100
Medical Expenses	16.200	19.100	22.500
Net Operating Loss Deduction	substantial	substantial	substantial
Parsonage Allowances	1.800	1.900	2.000
Property Tax on Owner-Occupied Homes	41.500	41.400	41.300
Standard Deduction	101.700	103.700	105.800
State and Local Taxes Other than Home Property Taxes	91.600	91.300	93.800
U.S. Production Activities	8.000	8.200	10.900
Basis of Capital Gains on Gifts	2.500	2.600	4.200
Capital Gains at Death	117.900	120.700	124.700
Income Averaging for Farmers	3.100	3.100	3.300
Installment Sales	3.000	3.100	3.100
Interest on U.S. Savings Bonds	4.400	4.500	4.500
Personal and Dependent Tax Credits	87.000	88.000	89.000
Child and Dependent Care Credit	7.600	7.700	7.800
Credit for Hiring Unemployed	minimal	minimal	minimal
Expanded Low Income Tax Credit	64.600	65.900	67.200
Historic Preservation Tax Credit	3.000	3.000	3.000
Job Development Credit	74.300	79.700	80.800
Postsecondary Education Tuition Credit	9.000	10.000	12.500
Recycling and/or Composting Equipment Credit	1.200	1.200	1.200
<b>Total Inheritance and Estate Tax Expenditures</b>	<b>75.000</b>	<b>71.300</b>	<b>67.700</b>
Class A Beneficiaries	60.900	57.900	55.000
Transfers to Educational, Religious, Charitable, or Certain Governmental Organizations	12.900	12.300	11.700
Discount for Early Payment of Tax	1.200	1.100	1.000
Class B Beneficiaries	minimal	minimal	minimal
Class C Beneficiaries	minimal	minimal	minimal

	FY08	FY09	FY10
Life Insurance Proceeds	substantial	substantial	substantial
Assessment of Land at its Agricultural or Horticultural Value	minimal	minimal	minimal
Certificates of Deposit Exempt from the Contemplation of Death Rule	minimal	minimal	minimal
Annuities Under Qualified Retirement Plans	minimal	minimal	minimal
Individual Retirement Accounts	minimal	minimal	minimal
Recurring Tax Credits	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
<b>Total Insurance Premiums Taxes Expenditures</b>	<b>16.526</b>	<b>18.174</b>	<b>19.825</b>
Health Insurance For State Employees	15.060	16.665	18.270
Hospital, Medical, or Dental Service Companies Exempt from Premium Tax	1.466	1.509	1.555
<b>Total Limited Liability Entity Tax Expenditures</b>	<b>132.389</b>	<b>136.484</b>	<b>140.649</b>
Alcohol Production Facility	0.158	0.166	0.181
Certified Fluidized Bed Energy Production Facility	0.000	0.000	0.000
Cooperatives, Homeowners' Assoc., Political Organizations	1.120	1.200	1.250
Costs of Good Sold, Bulk Delivery Charges, and Indirect Labor	129.400	133.300	137.300
Open-End Registered Investment Companies	0.001	0.001	0.001
Personal Service Corporations	0.175	0.175	0.175
Publicly Traded Partnerships	1.112	1.179	1.250
Real Estate Investment Trust	0.255	0.295	0.324
Regulated Investment Company	0.150	0.150	0.150
Real Estate Mortgage Investment Conduit	0.018	0.018	0.018
<b>Total Liquefied Petroleum Gas Tax Expenditures</b>	<b>0.003</b>	<b>0.003</b>	<b>0.003</b>
Approved Carburetion Systems	0.001	0.001	0.001
Dealer's Monthly Reporting Allowance	0.002	0.002	0.002
<b>Total Motor Vehicle Usage Tax Expenditures</b>	<b>92.913</b>	<b>95.998</b>	<b>98.052</b>
Adapted Equipment for Physically Handicapped Persons	0.063	0.065	0.067
Change in Business Structure	0.260	0.270	0.270
Charter Bus Exemption	0.052	0.054	0.056
Commercial Motor Vehicle Exemption	minimal	minimal	minimal
Educational & Charitable Organizations	1.300	1.300	1.300
Enterprise Zone Exemption	0.100	0.000	0.000
Enterprise Zone Exemption - U Drive-It Tax	0.900	0.000	0.000
Immediate Family Member	16.900	17.600	18.000
Insurance Company Transfers	0.104	0.108	0.111
Large Truck Exclusion	27.000	28.300	28.900
Military Exemption	6.500	6.800	6.900
Partnership Interests	0.104	0.108	0.111
Repossessed Exemption	0.940	0.980	1.000
Trade-In Allowance on Used Vehicles	35.000	36.600	37.400
Transfers between a Limited Liability Company and its Members	0.630	0.650	0.670
Transfers between a Subsidiary and a Parent Corporation	0.160	0.163	0.167
Transfers by Will or Court Order	2.900	3.000	3.100
<b>Total Natural Resources Severance and Processing Tax Expenditures</b>	<b>6.450</b>	<b>6.650</b>	<b>6.850</b>
Ball Clay, Fluorspar, Lead, Zinc, Tar Sands, Barite, and Stone Used for Privately Maintained but Publicly Dedicated Roads	0.250	0.250	0.250
Clay Used in Landfill Construction	0.000	0.000	0.000
Inactive Crude Oil & Natural Gas Wells	0.100	0.100	0.100
Limestone Sold in Interstate Commerce	3.100	3.200	3.300
Limestone Sold or Used for Agricultural Purposes	minimal	minimal	minimal
Limit on Tax from Clay	minimal	minimal	minimal
Transportation Expense	3.000	3.100	3.200
<b>Total Property Tax Expenditures</b>	<b>307.118</b>	<b>318.418</b>	<b>331.318</b>
<b>Real Property</b>			
Agricultural and Horticultural Land Assessment Protection	0.100	0.100	0.100

	FY08	FY09	FY10
Agricultural Value of Real Property	31.100	32.700	35.100
Alcohol Production Facilities	0.000	0.000	0.000
Environmental Remediation Property	0.002	0.002	0.002
Homestead Exemption	13.600	13.800	14.700
Intrastate Railroads and Railway Companies	0.022	0.022	0.022
Leasehold Interest in Buildings Financed with Industrial Revenue Bonds	2.900	2.100	2.200
Property of Local Governments in Neighboring States	0.020	0.020	0.020
Real Property Owned by Exempt Entities	38.500	40.700	42.900
<b>Tangible Property</b>			
Agricultural Products	0.310	0.310	0.310
Aircraft	1.400	1.400	1.400
Business Inventories	71.500	75.000	78.800
Carlines	4.300	4.300	4.300
Federally Documented Vessels	0.460	0.460	0.460
Foreign Trade Zone	33.000	33.000	33.000
Historic Vehicles	0.129	0.129	0.129
In-Transit Goods	16.500	17.400	17.400
Intrastate Railroads and Railway Companies	0.175	0.175	0.175
Interstate Trucks, Tractors and Buses	3.600	3.900	3.900
Leasehold Interests	3.900	3.900	3.900
Machinery Used in Farming and Livestock & Domestic Fowl	22.500	22.500	22.500
Manufacturing Machinery; Pollution Control Equipment; and Radio, Television & Telephonic Equipment	63.100	66.500	70.000
Motor Vehicles with a Salvage Title	minimal	minimal	minimal
Property of Local Government in Neighboring States	0.000	0.000	0.000
Personal Property Used in Vending Stands Operated by the Blind	minimal	minimal	minimal
<b>Total Sales and Use Tax Expenditures (w/o excluded services)</b>	<b>2,288.722</b>	<b>2,362.097</b>	<b>2,432.876</b>
Food Items	430.000	442.900	451.800
Non-profit Educational, Charitable and Religious Institutions	316.100	325.600	335.400
Labor or Services Used in Property Sold	226.700	233.500	240.500
Residential Utilities	254.600	259.600	260.200
Prescription Medicine, Prosthetic Devices and Physical Aids	322.300	332.000	341.900
Machinery for New and Expanded Industry and Certain Industrial Machinery	63.300	64.800	65.700
Coal Used in the Manufacture of Electricity	70.200	71.200	70.700
Energy and Energy Producing Fuels	25.000	26.300	27.500
Retailers' Compensation for Collecting and Remitting the Tax	21.200	30.400	31.800
Enterprise Zones	0.400	0.000	0.000
State, Cities, Counties and Special Districts	222.000	232.000	242.700
Textbooks	3.500	3.800	4.200
Recycling Machinery and Equipment	1.300	1.300	1.300
Pollution Control Facilities	23.600	23.900	23.900
Tombstones and Other Grave Markers	3.800	3.900	4.000
Lodgings of Thirty Days or More	substantial	substantial	substantial
Garage or Yard Sales	2.000	2.000	2.000
Semi-Trailers and Trailers	minimal	minimal	minimal
Vessels and Maritime Supplies	3.400	3.400	3.400
Sales by Elementary and Secondary Nonprofit, School-Sponsored Clubs and Organizations	5.900	5.900	5.900
Interstate Cargo and Passenger Aircraft, Parts and Supplies	9.600	9.600	9.600
Sales by Nonprofit Higher Educational School-Sponsored Clubs and Organizations	1.300	1.300	1.300
Sales to Motion Picture Companies	minimal	minimal	minimal
Admissions to and Purchases by Historical Sites	substantial	substantial	substantial
Credit Unions	1.300	1.400	1.400
Coin-Operating Bulk Vending Machines	minimal	minimal	minimal
Occasional Sales	substantial	substantial	substantial
Locomotives and Rolling Stock	substantial	substantial	substantial
Procurement, Processing or Distribution of Blood or Human Tissue	7.300	7.700	8.200
Rate Increase for School Taxes added to Residential Telephone Bills	5.800	6.000	6.200
Federal Taxes Imposed on Sales of Tangible Personal Property	6.400	6.400	6.400
Sales to Common Carriers Under a Bill of Lading	0.000	0.000	0.000
Tourism Attraction Project Credit/Refund	7.400	8.400	9.400

	FY08	FY09	FY10
Alcohol Production Facilities	0.000	0.000	0.000
Property Certified as a Fluidized Bed Energy Production Facility	0.000	0.000	0.000
4-H Sales	minimal	minimal	minimal
Jet Fuel	36.000	38.000	40.000
Repair Parts for Large Trucks	1.700	1.800	1.800
Donated Goods	0.350	0.400	0.450
Kentucky Enterprise Initiative	45.000	25.000	25.000
Charter Bus Repair & Replacement Parts	0.100	0.110	0.120
County Fair Admissions	0.270	0.270	0.270
Water Withdrawal Fees Paid to Kentucky River Authority	0.083	0.083	0.083
Interstate Business Communications Services	minimal	minimal	minimal
Pay Phones	0.200	0.200	0.200
Construction Expenses for Near Zero Emission Power Plants	0.000	0.000	0.000
New and Replacement Machinery or Equipment for Energy Efficient Projects	0.000	3.700	3.700
Construction Expenses for Alternative Fuel or Gasification Facility	0.000	11.900	21.300
<b>Subtotal for Farming Tax Expenditures</b>	<b>170.619</b>	<b>177.334</b>	<b>184.553</b>
Livestock, Poultry, Ratite Birds, Embryos and Semen, Alpacas, Llamas, Buffalo, Farm Work Stock and Feed, Seeds and Fertilizers	71.600	74.600	77.700
Horses Purchased for Breeding	12.500	12.900	13.300
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	53.800	56.000	58.400
Fuel Used for Farm Purposes	7.900	8.200	8.600
Water Used for Farm Purposes	0.059	0.061	0.064
Equine Water	0.059	0.061	0.064
Aquaculture	0.166	0.176	0.187
Twine and Wire	0.035	0.036	0.038
Horses Less Than Two Years of Age	19.000	19.600	20.200
Farm Chemicals	5.500	5.700	6.000
<b>Total for Excluded Services</b>	<b>1,636.800</b>	<b>1,759.400</b>	<b>1,888.700</b>
Personal services	61.500	64.700	68.200
Total business services	273.900	297.000	322.600
Specialized design services	6.700	7.200	7.800
Computer system designs	69.000	74.800	81.200
Scientific R&D	7.800	8.500	9.200
Advertising	33.900	36.700	39.900
Other professional services	35.100	38.000	41.300
Health services	776.300	832.300	888.400
Legal services	100.600	109.100	118.500
Education services	19.600	21.000	22.400
Social services	8.500	9.000	9.400
Engineering, accounting, research, management	212.400	230.400	250.200
Automotive and miscellaneous repair services	106.000	111.600	117.600
Amusement and recreational services	3.000	3.300	3.500
Other services	6.000	6.300	6.700
<b>Total Special Fuels Tax Expenditures</b>	<b>67.731</b>	<b>73.433</b>	<b>75.775</b>
Agricultural Use	5.700	6.100	6.300
Bus, Taxicab and Certain Senior Citizen's Programs Refunds	0.428	0.465	0.480
Dealer's Monthly Reporting Allowance	3.600	3.900	4.000
Non-Highway Use	34.200	37.200	38.400
Railroad Companies	21.800	23.600	24.400
Religious, Charitable or Educational Use	0.441	0.479	0.494
Residential Heating	1.200	1.300	1.300
State and Local Government Use	0.317	0.344	0.356
Watercraft	0.045	0.045	0.045
<b>Total Tobacco Taxes Expenditures</b>	<b>1.300</b>	<b>1.300</b>	<b>1.300</b>
Compensation Allowed Wholesaler	1.300	1.300	1.300
<b>Total Earmarked Funds</b>	<b>40.270</b>	<b>70.475</b>	<b>72.419</b>
Thoroughbred Development Fund-Pari-mutuel Tax	6.800	6.800	6.800

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	FY08	FY09	FY10
Equine Industry Program Trust and Revolving Fund – Pari-mutuel Tax	0.490	0.490	0.490
Higher Education Equine Trust and Revolving Fund – Pari-mutuel Tax	0.460	0.460	0.460
Standardbred Development Fund – Pari-mutuel Tax	0.180	0.180	0.180
Tobacco Enforcement Program – Tobacco Tax	0.590	0.590	0.590
Kentucky Transportation Center – Motor Fuels Tax	0.190	0.190	0.190
Tobacco Research Trust Fund – Cigarette Tax	2.700	2.700	2.700
Equine Drug Research – Pari-mutuel Tax	0.450	0.450	0.450
Kentucky Aviation Economic Development Fund – Sales Tax	5.600	5.700	5.800
Tax Increment Financing – Various Taxes	3.310	32.815	33.959
Kentucky Thoroughbred Breeders Incentive Fund	15.600	16.000	16.500
Kentucky Standardbred Breeders Incentive Fund	2.500	2.600	2.700
Kentucky Horse Breeders Incentive Fund	1.400	1.500	1.600
County Clerk Share for Collection of Nonresident Sales Tax	0.100	0.150	0.150

# Tax Expenditures by Program (\$ millions)

Tax Type		FY08	FY09	FY10
<b>Agricultural Development</b>		<b>207.920</b>	<b>215.636</b>	<b>224.654</b>
Gasoline Tax	Agricultural Exemption	0.050	0.053	0.055
Corporation Income	Qualified Farming Operation Credit	0.000	0.000	0.000
Individual Income	Tobacco Settlement	6.000	6.000	6.000
Corporation Income	Tobacco Settlement	minimal	minimal	minimal
Individual Income	Income Averaging for Farmers	3.100	3.100	3.300
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	31.100	32.700	35.100
Tangible Property Tax	Machinery Used in Farming and Livestock & Domestic Fowl	22.500	22.500	22.500
Tangible Property Tax	Agricultural Products	0.310	0.310	0.310
Sales Tax	Livestock, Poultry, Ratite Birds, Embryos and Semen, Alpacas, Llamas, Buffalo, Farm Work Stock and Feed, Seeds and Fertilizers	71.600	74.600	77.700
Sales Tax	Farm Machinery, Attachments, and Replacements, On-Farm Grain Storage Facilities, and On-Farm Facilities for Raising Chickens, Livestock, Ratite Birds, Llamas and Alpacas, and Buffalo	53.800	56.000	58.400
Sales Tax	Fuel Used for Farm Purposes	7.900	8.200	8.600
Sales Tax	Water Used for Farm Purposes	0.059	0.061	0.064
Sales Tax	Aquaculture	0.166	0.176	0.187
Sales Tax	Twine and Wire	0.035	0.036	0.038
Sales Tax	Farm Chemicals	5.500	5.700	6.000
Special Fuels	Agricultural Use	5.700	6.100	6.300
<b>Banking Support</b>		<b>7.140</b>	<b>7.580</b>	<b>7.900</b>
Corporation Income	Credit Unions	4.900	5.200	5.500
Corporation Income	Real Estate Investment Trust	substantial	substantial	substantial
Individual Income	Financial Institutions Structured as S Corporations	minimal	minimal	minimal
Motor Vehicle	Repossessed Exemption	0.940	0.980	1.000
Sales Tax	Credit Unions	1.300	1.400	1.400
<b>Charitable Organization Support</b>		<b>559.061</b>	<b>584.649</b>	<b>610.114</b>
Corporation Income	Charitable Contributions	10.700	11.000	11.300
Corporation Income	Leasehold Interest of Property Contributed as Living Quarters for Homeless	0.000	0.000	0.000
Individual Income	Charitable Contributions	176.700	190.700	204.300
Individual Income	Parsonage Allowances	1.800	1.900	2.000
Inheritance Tax	Transfers to Educational, Religious, Charitable, or Certain Governmental Organizations	12.900	12.300	11.700
Inheritance Tax	Class C Beneficiaries	minimal	minimal	minimal
Motor Vehicle	Educational & Charitable Organizations	1.300	1.300	1.300
Real Property Tax	Real Property Owned by Exempt Entities	38.500	40.700	42.900
Sales Tax	Non-profit Educational, Charitable and Religious Institutions	316.100	325.600	335.400
Sales Tax	4-H Sales	minimal	minimal	minimal
Sales Tax	Donated Goods	0.350	0.400	0.450
Sales Tax	County Fair Admissions	0.270	0.270	0.270
Special Fuels	Religious, Charitable or Educational Use	0.441	0.479	0.494
<b>Community Development</b>		<b>47.891</b>	<b>26.563</b>	<b>26.644</b>
Corporation Income	Enterprise Zone Credit	0.050	0.000	0.000
Corporation Income	KEOZ Economic Development Credit	0.000	0.000	0.000
Corporation Income	Homeowner's Associations	0.048	0.050	0.052
Individual Income	Capital Gains - Eminent Domain	minimal	minimal	minimal
Limited Liability Entity	Cooperatives, Homeowners' Assoc., Political Organizations	1.120	1.200	1.250
Limited Liability Entity	Real Estate Investment Trust	0.255	0.295	0.324
Limited Liability Entity	Real Estate Mortgage Investment Conduit	0.018	0.018	0.018
Motor Vehicle	Enterprise Zone Exemption	0.100	0.000	0.000
Motor Vehicle	Enterprise Zone Exemption - U Drive-It Tax	0.900	0.000	0.000
Sales Tax	Enterprise Zones	0.400	0.000	0.000
Sales Tax	Kentucky Enterprise Initiative	45.000	25.000	25.000
<b>Earmarked Funds</b>		<b>40.270</b>	<b>70.475</b>	<b>72.419</b>
Earmarked Funds	Thoroughbred Development Fund-Pari-mutuel Tax	6.800	6.800	6.800
Earmarked Funds	Equine Industry Program Trust and Revolving Fund – Pari-mutuel Tax	0.490	0.490	0.490
Earmarked Funds	Higher Education Equine Trust and Revolving Fund – Pari-mutuel Tax	0.460	0.460	0.460
Earmarked Funds	Standardbred Development Fund – Pari-mutuel Tax	0.180	0.180	0.180
Earmarked Funds	Tobacco Enforcement Program – Tobacco Tax	0.590	0.590	0.590
Earmarked Funds	Kentucky Transportation Center – Motor Fuels Tax	0.190	0.190	0.190
Earmarked Funds	Tobacco Research Trust Fund – Cigarette Tax	2.700	2.700	2.700
Earmarked Funds	Equine Drug Research – Pari-mutuel Tax	0.450	0.450	0.450

Tax Type		FY08	FY09	FY10
Earmarked Funds	Kentucky Aviation Economic Development Fund – Sales Tax	5.600	5.700	5.800
Earmarked Funds	Tax Increment Financing – Various Taxes	3.310	32.815	33.959
Earmarked Funds	Kentucky Thoroughbred Breeders Incentive Fund	15.600	16.000	16.500
Earmarked Funds	Kentucky Standardbred Breeders Incentive Fund	2.500	2.600	2.700
Earmarked Funds	Kentucky Horse Breeders Incentive Fund	1.400	1.500	1.600
Earmarked Funds	County Clerk Share for Collection of Nonresident Sales Tax	0.100	0.150	0.150
<b>Economic Development</b>		<b>105.950</b>	<b>109.050</b>	<b>111.650</b>
Corporation Income	Kentucky Investment Fund Tax Credit	0.050	0.050	0.050
Corporation Income	Construction of Research Facilities Credit	2.200	2.800	3.500
Tangible Property Tax	Foreign Trade Zone	33.000	33.000	33.000
Sales Tax	Tourism Attraction Project Credit/Refund	7.400	8.400	9.400
Sales Tax	Interstate Business Communications Services	minimal	minimal	minimal
Sales Tax	Machinery for New and Expanded Industry and Certain Industrial Machinery	63.300	64.800	65.700
Sales Tax	Sales to Motion Picture Companies	minimal	minimal	minimal
<b>Education Support</b>		<b>31.000</b>	<b>32.700</b>	<b>36.200</b>
Corporation Income	Employer GED Credit	0.000	0.000	0.000
Individual Income	Employer-provided Education Assistance	2.200	2.300	2.400
Individual Income	Exclusion of Scholarship and Fellowship Income	6.400	6.700	7.100
Individual Income	Interest on Educational Loans	2.700	2.700	2.800
Individual Income	Postsecondary Education Tuition Tax Credit	9.000	10.000	12.500
Sales Tax	Sales by Nonprofit Higher Educational School-Sponsored Clubs and Organizations	1.300	1.300	1.300
Sales Tax	Textbooks	3.500	3.800	4.200
Sales Tax	Sales by Elementary and Secondary Nonprofit, School-Sponsored Clubs and Organizations	5.900	5.900	5.900
<b>Energy Development and Coal Industry Support</b>		<b>376.971</b>	<b>413.846</b>	<b>429.828</b>
Corporation Income	Biodiesel and Renewable Diesel Tax Credit	1.500	5.000	10.000
Natural Resources	Inactive Crude Oil & Natural Gas Wells	0.100	0.100	0.100
Real Property Tax	Alcohol Production Facilities	0.000	0.000	0.000
Sales Tax	Energy and Energy Producing Fuels	25.000	26.300	27.500
Sales Tax	Alcohol Production Facilities	0.000	0.000	0.000
Sales Tax	Property Certified as a Fluidized Bed Energy Production Facility	0.000	0.000	0.000
Sales Tax	Residential Utilities	254.600	259.600	260.200
Coal Severance	Transportation Expense	23.700	24.100	24.200
Coal Severance	Thin Seam Tax Credit	0.600	0.600	0.600
Corporation Income	Coal Royalties	minimal	minimal	minimal
Corporation Income	Coal Conversion Credit	0.000	0.000	0.000
Corporation Income	Coal Incentive Tax Credit	0.001	0.001	0.097
Corporation Income	Ethanol and Cellulosic Ethanol Credit	0.000	10.000	10.000
Limited Liability Entity	Certified Fluidized Bed Energy Production Facility	0.000	0.000	0.000
Limited Liability Entity	Alcohol Production Facility	0.158	0.166	0.181
Limited Liability Entity	Publicly Traded Partnerships	1.112	1.179	1.250
Sales Tax	Coal Used in the Manufacture of Electricity	70.200	71.200	70.700
Sales Tax	New and Replacement Machinery and Equipment for Energy Efficient Projects	0.000	3.700	3.700
Sales Tax	Construction Expenses for Alternative Fuel or Gasification Facility	0.000	11.900	21.300
<b>Environmental Conservation and Historical Preservation</b>		<b>39.232</b>	<b>39.532</b>	<b>39.532</b>
Coal Severance	Coal Used to Burn Solid Waste	0.000	0.000	0.000
Corporation Income	Recycling Credit	4.000	4.000	4.000
Corporation Income	Environmental Remediation Tax Credit	1.000	1.000	1.000
Corporation Income	Environmental Stewardship Tax Credit	5.000	5.000	5.000
Corporation Income	Clean Coal Incentive Credit	0.000	0.000	0.000
Individual Income	Recycling and/or Composting Equipment	1.200	1.200	1.200
Liquefied Petroleum	Approved Carburetion Systems	0.001	0.001	0.001
Real Property Tax	Environmental Remediation Property	0.002	0.002	0.002
Sales Tax	Recycling Machinery and Equipment	1.300	1.300	1.300
Sales Tax	Pollution Control Facilities	23.600	23.900	23.900
Sales Tax	Admissions to and Purchases by Historical Sites	substantial	substantial	substantial
Sales Tax	Construction Expenses for Near Zero Emission Power Plants	0.000	0.000	0.000
Individual Income	Historic Preservation Tax Credit	3.000	3.000	3.000
Tangible Property Tax	Historic Vehicles	0.129	0.129	0.129
<b>Equine Industry Support</b>		<b>31.559</b>	<b>32.561</b>	<b>33.564</b>
Sales Tax	Horses Purchased for Breeding	12.500	12.900	13.300
Sales Tax	Equine Water	0.059	0.061	0.064
Sales Tax	Horses Less Than Two Years of Age	19.000	19.600	20.200

Tax Type		FY08	FY09	FY10
<b>Excluded Services</b>		<b>1,636.800</b>	<b>1,759.400</b>	<b>1,888.700</b>
Sales Tax	Personal services	61.500	64.700	68.200
Sales Tax	Business services	273.900	297.000	322.600
Sales Tax	Health services	776.300	832.300	888.400
Sales Tax	Legal services	100.600	109.100	118.500
Sales Tax	Education services	19.600	21.000	22.400
Sales Tax	Social services	8.500	9.000	9.400
Sales Tax	Engineering, accounting, research, management	212.400	230.400	250.200
Sales Tax	Automotive and miscellaneous repair services	106.000	111.600	117.600
Sales Tax	Amusement and recreational services	3.000	3.300	3.500
Sales Tax	Other services	6.000	6.300	6.700
Sales Tax	Advertising	33.900	36.700	39.900
Sales Tax	Other Professional Services	35.100	38.000	41.300
<b>Existing Business Support</b>		<b>822.651</b>	<b>859.692</b>	<b>885.622</b>
Alcoholic Beverage	Reduced Rate for "Low Volume" Spirits	0.040	0.040	0.040
Corporation Income	Net Operating Loss Deduction	43.700	44.300	43.500
Corporation Income	Dividend Income	180.300	185.700	191.300
Corporation Income	Deductibility of Patronage Dividends	15.400	14.500	14.200
Individual Income	Net Operating Loss Deduction	substantial	substantial	substantial
Individual Income	Installment Sales	3.000	3.100	3.100
Limited Liability Entity	Costs of Good Sold, Bulk Delivery Charges, and Indirect Labor	129.400	133.300	137.300
Limited Liability Entity	Open-End Registered Investment Companies	0.001	0.001	0.001
Limited Liability Entity	Personal Service Corporations	0.175	0.175	0.175
Limited Liability Entity	Regulated Investment Company	0.150	0.150	0.150
Motor Vehicle	Change in Business Structure	0.260	0.270	0.270
Motor Vehicle	Transfers between a Limited Liability Company and its Members	0.630	0.650	0.670
Motor Vehicle	Transfers between a Subsidiary and a Parent Corporation	0.160	0.163	0.167
Motor Vehicle	Partnership Interests	0.104	0.108	0.111
Motor Vehicle	Insurance Company Transfers	0.104	0.108	0.111
Tangible Property Tax	Business Inventories	71.500	75.000	78.800
Tangible Property Tax	In-Transit Goods	16.500	17.400	17.400
Tangible Property Tax	Motor Vehicles with a Salvage Title	minimal	minimal	minimal
Sales Tax	Labor or Services Used in Property Sold	226.700	233.500	240.500
Sales Tax	Coin-Operating Bulk Vending Machines	minimal	minimal	minimal
Alcoholic Beverage	Allowance for Collecting and Reporting	0.825	0.825	0.825
Tobacco Tax	Compensation Allowed Wholesaler	1.300	1.300	1.300
Gasoline Tax	Dealer's Monthly Reporting Allowance	10.100	10.900	11.300
Sales Tax	Occasional Sales	substantial	substantial	substantial
Sales Tax	Pay Phones	0.200	0.200	0.200
Liquefied Petroleum	Dealer's Monthly Reporting Allowance	0.002	0.002	0.002
Sales Tax	Retailers' Compensation for Collecting and Remitting the Tax	21.200	30.400	31.800
Tangible Property Tax	Manufacturing Machinery; Pollution Control Equipment; and Radio, Television & Telephonic Equipment	63.100	66.500	70.000
Special Fuels	Dealer's Monthly Reporting Allowance	3.600	3.900	4.000
Special Fuels	Non-Highway Use	34.200	37.200	38.400
<b>Family Support</b>		<b>372.300</b>	<b>383.800</b>	<b>396.700</b>
Individual Income	Assistance for Adopted Foster Children and Foster Care Payments	2.800	3.000	3.200
Individual Income	Employer-provided Child Care Exclusions	3.400	3.600	3.700
Individual Income	Personal and Dependent Tax Credits	87.000	88.000	89.000
Individual Income	Interest on Life Insurance Savings	65.400	74.700	83.000
Individual Income	Capital Gains at Death	117.900	120.700	124.700
Individual Income	Child and Dependent Care Expenses	7.600	7.700	7.800
Inheritance Tax	Class A Beneficiaries	60.900	57.900	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	1.200	1.100	1.000
Individual Income	Basis of Capital Gains on Gifts	2.500	2.600	4.200
Motor Vehicle	Immediate Family Member	16.900	17.600	18.000
Motor Vehicle	Transfers by Will or Court Order	2.900	3.000	3.100
Sales Tax	Tombstones and Other Grave Markers	3.800	3.900	4.000
<b>Federal Government Support</b>		<b>10.800</b>	<b>10.900</b>	<b>10.900</b>
Sales Tax	Federal Taxes Imposed on Sales of Tangible Personal Property	6.400	6.400	6.400
Individual Income	Interest on U.S. Savings Bonds	4.400	4.500	4.500

<b>Tax Type</b>		<b>FY08</b>	<b>FY09</b>	<b>FY10</b>
<b>Health Care Support</b>		<b>907.289</b>	<b>989.139</b>	<b>1,075.792</b>
Motor Vehicle	Adapted Equipment for Physically Handicapped Persons	0.063	0.065	0.067
Sales Tax	Prescription Medicine, Prosthetic Devices and Physical Aids	322.300	332.000	341.900
Sales Tax	Procurement, Processing or Distribution of Blood or Human Tissue	7.300	7.700	8.200
Individual Income	Exclusion of Employer Contributions for Medical Insurance Premiums and Care	538.400	603.600	674.000
Individual Income	Health Savings Accounts	6.500	8.500	9.300
Individual Income	Deductibility of Medical Expenses	16.200	19.100	22.500
Insurance Premiums	Health Insurance For State Employees	15.060	16.665	18.270
Insurance Premiums	Hospital, Medical, or Dental Service Companies	1.466	1.509	1.555
<b>Housing Development</b>		<b>501.300</b>	<b>531.100</b>	<b>563.100</b>
Individual Income	Passive Loss Rules Exception	24.700	25.600	26.200
Individual Income	Deductibility of Home Mortgage Interest	293.800	316.200	340.100
Individual Income	Deductibility of Property Tax on Owner-Occupied Homes	41.500	41.400	41.300
Individual Income	Gain on the Sale of a Personal Residence	127.700	134.100	140.800
Real Property Tax	Homestead Exemption	13.600	13.800	14.700
Sales Tax	Lodgings of Thirty Days or More	substantial	substantial	substantial
<b>Income Maintenance</b>		<b>689.160</b>	<b>709.490</b>	<b>725.220</b>
Individual Income	Cancellation of Indebtedness	0.470	0.370	0.270
Individual Income	Job Expenses and Other Miscellaneous Deductions	32.400	34.500	37.000
Individual Income	Standard Deduction	101.700	103.700	105.800
Individual Income	Exclusion of Worker's Compensation Benefits	19.200	19.500	19.700
Individual Income	Exclusion of Public Assistance Benefits	1.600	1.700	1.700
Individual Income	Expanded Low Income Tax Credit	64.600	65.900	67.200
Individual Income	Deductibility of Casualty and Theft Losses	0.990	1.020	1.050
Motor Vehicle	Trade-In Allowance on Used Vehicles	35.000	36.600	37.400
Sales Tax	Food Items	430.000	442.900	451.800
Sales Tax	Garage or Yard Sales	2.000	2.000	2.000
Special Fuels	Residential Heating	1.200	1.300	1.300
<b>Intergovernmental Transfers</b>		<b>12.000</b>	<b>12.600</b>	<b>13.200</b>
Individual Income	Exclusion of Income Earned Abroad by US Citizens	12.000	12.600	13.200
<b>Job Development</b>		<b>147.635</b>	<b>155.635</b>	<b>161.835</b>
Corporation Income	Unemployment Tax Credit	0.015	0.015	0.015
Corporation Income	KREDA Economic Development Credit	15.000	15.500	16.000
Corporation Income	KIDA Economic Development Credit	7.900	8.100	8.300
Corporation Income	KIRA Economic Development Credit	7.000	7.200	7.400
Corporation Income	KJDA Economic Development Credit	9.900	10.200	10.500
Corporation Income	Skills Training Investment Tax Credit	0.120	0.120	0.120
Individual Income	Employee Stock Ownership Plan Provisions	1.200	1.300	1.300
Individual Income	U.S. Production Activities	8.000	8.200	10.900
Individual Income	Exclusion of Employee Benefits Premiums on Group Term Life Insurance, Accident and Disability Insurance	8.700	8.900	9.100
Individual Income	Exclusion of Employee Meals and Lodging on Employer Premises	3.200	3.300	3.500
Individual Income	Credit for Hiring Unemployed	minimal	minimal	minimal
Individual Income	Exclusion of Miscellaneous Fringe Benefits	12.300	13.100	13.900
Individual Income	Job Development Credit	74.300	79.700	80.800
<b>Military Support</b>		<b>32.220</b>	<b>33.390</b>	<b>34.650</b>
Individual Income	Armed Forces Personnel Benefits and Allowances	11.400	11.800	12.300
Individual Income	Exclusion of GI Bill Benefits	0.920	0.990	1.050
Individual Income	Exclusion of Veteran's Disability Benefits	13.400	13.800	14.400
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	6.500	6.800	6.900
<b>Natural Resource</b>		<b>10.580</b>	<b>10.810</b>	<b>11.010</b>
Individual Income	Deductibility of Excess of Percentage Over Cost Depletion	0.330	0.360	0.360
Natural Resources	Transportation Expense	3.000	3.100	3.200
Natural Resources	Limestone Sold in Interstate Commerce	3.100	3.200	3.300
Natural Resources	Ball Clay, Fluorspar, Lead, Zinc, Tar Sands, Barite, and Stone Used for Privately Maintained but Publicly Dedicated Roads	0.250	0.250	0.250
Natural Resources	Limit on Tax from Clay	minimal	minimal	minimal
Corporation Income	Excess of Percentage over Cost Depletion	3.900	3.900	3.900

Tax Type		FY08	FY09	FY10
Natural Resources	Clay Used in Landfill Construction	0.000	0.000	0.000
<b>Retirement Support</b>		<b>616.900</b>	<b>636.500</b>	<b>687.500</b>
Individual Income	Net Exclusion of Pension Contributions and Earnings	159.200	157.800	152.300
Individual Income	Exclusion of Social Security Benefits: OASI for Retirees			
	Disability Insurance Survivors' Benefits	147.200	149.100	176.700
Individual Income	Deductibility of Individual Retirement Account Contributions	21.800	23.400	26.700
Individual Income	Deductibility of Keogh Plan Contributions	32.800	35.000	38.100
Individual Income	Exclusion of Federal and Military Retirement Income Received	55.000	57.600	60.500
Individual Income	Exclusion of Railroad and Supplemental Railroad Retirement System Benefits	1.300	1.300	1.200
Individual Income	Exclusion of State Employee Pension Benefits and Contributions	54.200	60.200	71.400
Individual Income	Exclusion of Private Pensions and Individual Retirement Accounts	144.400	151.000	159.500
Individual Income	Exclusion of Special Benefits for Disabled Coal Miners	1.000	1.100	1.100
Inheritance Tax	Annuities Under Qualified Retirement Plans	minimal	minimal	minimal
Inheritance Tax	Individual Retirement Accounts	minimal	minimal	minimal
<b>State and Local Government Support</b>		<b>326.720</b>	<b>335.847</b>	<b>349.359</b>
Individual Income	Deductibility of State and Local Taxes Other Than Home			
	Property Taxes	91.600	91.300	93.800
Individual Income	Precinct Workers	0.100	0.100	0.100
Individual Income	Capital Gains - Eminent Domain	minimal	minimal	minimal
Real Property Tax	Leasehold Interest in Buildings Financed with Industrial Revenue Bonds	2.900	2.100	2.200
Real Property Tax	Property of Local Governments in Neighboring States	0.020	0.020	0.020
Tangible Property Tax	Leasehold Interests	3.900	3.900	3.900
Tangible Property Tax	Property of Local Government in Neighboring States	0.000	0.000	0.000
Sales Tax	State, Cities, Counties and Special Districts	222.000	232.000	242.700
Sales Tax	Rate Increase for School Taxes added to Residential Telephone Bills	5.800	6.000	6.200
Sales Tax	Water Withdrawal Fees Paid to Kentucky River Authority	0.083	0.083	0.083
	Personal Property in Vending Stands Operated by the Blind	minimal	minimal	minimal
Special Fuels	State and Local Government Use	0.317	0.344	0.356
<b>Transportation Industry Support</b>		<b>111.490</b>	<b>117.159</b>	<b>120.636</b>
Gasoline Tax	Aircraft Refund	0.478	0.519	0.536
Gasoline Tax	Watercraft Refund	0.457	0.496	0.512
Gasoline Tax	Bus, Taxicab, and Certain Senior Citizen's Program Refund	0.473	0.513	0.530
Motor Vehicle	Commercial Motor Vehicle Exemption	minimal	minimal	minimal
Motor Vehicle	Large Truck Exclusion	27.000	28.300	28.900
Motor Vehicle	Charter Bus Exemption	0.052	0.054	0.056
Real Property Tax	Intrastate Railroads and Railway Companies	0.022	0.022	0.022
Tangible Property Tax	Intrastate Railroads and Railway Companies	0.175	0.175	0.175
Tangible Property Tax	Interstate Trucks, Tractors, Semi-Trailers and Buses	3.600	3.900	3.900
Tangible Property Tax	Carlines	4.300	4.300	4.300
Tangible Property Tax	Aircraft	1.400	1.400	1.400
Tangible Property Tax	Federally Documented Vessels	0.460	0.460	0.460
Sales Tax	Sales to Common Carriers Under a Bill of Lading	0.000	0.000	0.000
Sales Tax	Semi-Trailers and Trailers	minimal	minimal	minimal
Sales Tax	Vessels and Maritime Supplies	3.400	3.400	3.400
Sales Tax	Interstate Cargo and Passenger Aircraft, Parts and Supplies	9.600	9.600	9.600
Sales Tax	Locomotives and Rolling Stock	substantial	substantial	substantial
Sales Tax	Jet Fuel	36.000	38.000	40.000
Sales Tax	Repair Parts for Large Trucks	1.700	1.800	1.800
Sales Tax	Charter Bus Repair & Replacement Parts	0.100	0.110	0.120
Special Fuels	Railroad Companies	21.800	23.600	24.400
Special Fuels	Bus, Taxicab and Certain Senior Citizen's Programs Refunds	0.428	0.465	0.480
Special Fuels	Watercraft	0.045	0.045	0.045