GASOLINE TAX

Background

In 1920, Kentucky levied a tax at the rate of 1 cent per gallon of gasoline. It was the fifth state to implement such a tax. In 1980, because the price of gasoline had increased so rapidly and was projected to continue to increase, the legislature changed the tax base to the average wholesale price per gallon and the rate to 9 percent of the average wholesale price per gallon. As designed, if the price of gasoline increased, the tax increased proportionally. At the same time, a minimum wholesale price of $1.00 per gallon was established, thus creating a "floor", or minimum tax, of 9 cents per gallon. In 1982, the minimum wholesale price was increased to $1.11 per gallon, increasing the "floor" to 10 cents per gallon. In 1986, the "supplemental highway user tax", at the rate of 5 cents per gallon, was enacted. This raised the minimum tax to 15 cents per gallon.

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

For FY03, gasoline tax collections totaled $333.9 million. This accounted for 29.7 percent of total Road Fund tax receipts.

Current Rate Structure

The tax rate is 9 percent of the average wholesale price per gallon. A supplemental highway user tax is also levied. The rate for the supplemental tax is variable, based on changes in wholesale prices, and has a ceiling of 5 cents per gallon.

Tax Base

The tax is levied on the average wholesale price per gallon with a minimum wholesale price of $1.11 per gallon. The tax becomes a liability of the dealer when the gasoline is received or enters the dealer's storage facility. In reporting and paying the tax, the dealer is allowed a deduction to cover evaporation, shrinkage, unaccountable losses, collection costs, bad debts, and handling and reporting the tax. An exemption is allowed for sales to the federal government, transfers to other licensed dealers, and for amounts exported out of state or lost through accountable losses. Refunds or exemptions are allowed for amounts used in agriculture, aircraft, motorboats, city and suburban buses and taxicabs, senior citizen transportation programs, and nonprofit buses.

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

Tax Expenditures Enacted during Fiscal Years 2002 – 2003

The following change was enacted by the 2002 General Assembly, and became effective July 15, 2002:

Agricultural Exemption from Gasoline Tax – Approved agricultural users are permitted to purchase gasoline tax-free at the time of purchase. Previously the statute required payment of the tax, and applying for a refund at year end. *HB 43*

Table 6. Total Gasoline Tax Expenditures

Fiscal Year	Tax Expenditures
2004	$9.0 million
2005	$9.0 million
2006	$9.2 million

Tax Expenditures

1. Dealer's Monthly Reporting Allowance

Kentucky Revised Statute 138.270(1)(b), effective 1936

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

FY2004 ....$7.5 million
FY2005 ....$7.5 million
FY2006 ....$7.6 million

2. U.S. Government Exemption

Kentucky Revised Statute 138.240(2), effective 1956

Gasoline sold to the U.S. Government is exempt.

FY2004 .... $100,000
FY2005 .... $100,000
FY2006 .... $100,000

3. Agricultural Exemption

Kentucky Revised Statute 138.344(1), effective 1946, revised 2002

The gasoline is sold tax free if the gasoline is used exclusively in tractors or stationary engines for agricultural purposes.

FY2004 ....$150,000
FY2005 ....$150,000
FY2006 ....$160,000

4. Aircraft Refund

Kentucky Revised Statute 138.341, effective 1942

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

FY2004 ....$215,000
FY2005 ....$225,000
FY2006 ....$230,000

5. Watercraft Refund

Kentucky Revised Statue 138.445, effective 1960

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

FY2004 ....$750,000
FY2005 ....$760,000
FY2006 ....$770,000

6. Bus, Taxicab and Certain Senior Citizen's Programs Refunds

Kentucky Revised Statute 138.446, effective 1978

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

FY2004 .... $300,000
FY2005 .... $305,000
FY2006 .... $310,000

Background

The individual income tax was first imposed in Kentucky in 1936. From 1943 to 1960, it was the most productive General Fund revenue source. From 1960 through 1986, it was second only to the sales and use tax. In 1987, it again became the most productive revenue source and continues so today. In FY88 the individual income tax became Kentucky's first billion-dollar tax. Collections from the tax totaled $2,746 million in FY03, a growth of 1.6 percent over the prior year.

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

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

As a legal and revenue precaution, Kentucky does not automatically adopt changes in the federal code, except for changes in accounting provisions and methods. Any adoption of changes made in the federal code require ratification by the General Assembly. Many times the impacts of adopting changes in the federal code on Kentucky taxpayers and General Fund receipts can only be made after extensive studies of the changes. Kentucky's method of adoption helps prevent unanticipated and undesirable results from occurring.

Kentucky income tax law provides for essential tax rates, credits, a standard deduction, interest and penalties, withholding procedures, and certain other items, independent of the federal law. It encourages husbands and wives to file separately on a combined return because usually a tax savings is involved. The individual income tax return is filed by individuals, including sole proprietors, shareholders in an S corporation, partners in a partnership, and individual members of a limited liability company.

Current Rate Structure

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

Table 7. Individual Income Tax Rates

Taxable Income			Rate
First	-	$3,000	2%
$3,001	-	$4,000	3
$4,001	-	$5,000	4
$5,001	-	$8,000	5
Over	-	$8,000	6

A low income credit is allowed based on Kentucky adjusted gross income. For purposes of the credit, adjusted gross income is computed on a joint rather than an individual basis. The credit is computed as a percentage of tax liability as follows:

Table 8. Low Income Tax Credit

Adjusted Gross Income			Credit Amount
$5,000	-	Or Less	100%
$5,001	-	$10,000	50
$10,001	-	$15,000	25
$15,001	-	$20,000	15
$20,001	-	$25,000	5
Over	-	$25,000	0

Tax Base

The individual income tax is levied on taxable income. Taxable income is computed by reducing gross income by trade or business expenses, and the standard deduction ($1,800 for 2002) or, at the option of the taxpayer, itemized deductions. Gross income is defined as gross income under the 2001 federal Internal Revenue Code with certain adjustments.

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

Taxable Unit

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

Tax Due

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

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

Tax Expenditures Enacted During Fiscal Years 2002 – 2003

The following tax expenditures were enacted by the 2002 General Assembly.

Adoption of the Internal Revenue Code - The Kentucky income tax reference to the IRC was updated to December 31, 2001, for tax years beginning on or after January 1, 2002. Tax expenditures that are affected by this update are listed separately below.

Table 9. Total Individual Income Tax Expenditures

Fiscal Year	Tax Expenditures
2004	$2,091.2 million
2005	$2,189.6 million
2006	$2,291.4 million

Tax Expenditures

1. Net Exclusion of Pension Contributions and Earnings

Internal Revenue Code Section 401 and 414, effective 1983

An employer or self-employed taxpayer can deduct contributions made to retirement plans for employee or self. Plans include pensions, profit sharing, or stock bonus plans.

FY2004 .... $265.3 million
FY2005 .... $273.1 million
FY2006 .... $281.3 million

2. Personal and Dependent Tax Credits

Kentucky Revised Statute 141.020(3), effective 1961

A credit against tax of $20 is allowed for taxpayers and dependents, plus $40 if age 65 or older or blind, and $20 if a member of the Kentucky National Guard.

FY2004 .... $75.9 million
FY2005 .... $77.3 million
FY2006 .... $78.7 million

3. Standard Deduction

Kentucky Revised Statutes 141.081, effective 1946, various amendments

A taxpayer who does not itemize deductions is permitted a deduction of a predetermined amount, referred to as the 'standard deduction'. The amount of the deduction has been amended several times; under current law it increases based on growth in inflation. For 2002, the standard deduction was $1,800 per taxpayer.

FY2004 .... $92.0 million
FY2005 .... $93.4 million
FY2006 .... $94.7 million

4. Deductibility of Home Mortgage Interest

Internal Revenue Code Section 163(a), effective 1954

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

FY2004 .... $132.8 million
FY2005 .... $135.1 million
FY2006 .... $138.2 million

5. Deductibility of State and Local Taxes Other Than Home Property Taxes

Internal Revenue Code Section 164(a), effective 1979 and 1990

A taxpayer who itemizes may deduct a nonbusiness state or local personal property tax, a windfall property tax, and a local occupational tax.

FY2004 .... $37.4 million
FY2005 .... $38.3 million
FY2006 .... $39.3 million

6. Exclusion of Employer Contributions for Medical Insurance Premiums and Care

Internal Revenue Code Section 105(b) and 106, effective 1954

Employer contributions for medical insurance premiums and reimbursements for medical care are not included in the income of the employee and are deductible by the employer.

FY2004 .... $260.1 million
FY2005 .... $278.3 million
FY2006 .... $297.8 million

7. Exclusion of Social Security Benefits: OASI for Retirees Disability Insurance Survivors' Benefits

Revenue Ruling 70-217, effective 1954

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

FY2004 .... $309.0 million
FY2005 .... $330.6 million
FY2006 .... $353.8 million

8. Deductibility of Property Tax on Owner-Occupied Homes

Internal Revenue Code Section 164(a), effective 1954

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

FY2004	$45.9 million
FY2005	$48.2 million
FY2006	$51.8 million

9. Deductibility of Charitable Contributions

Internal Revenue Code Section 170(c)(b), effective 1978

The deduction ceiling for most charitable contributions is 50 percent of Kentucky adjusted gross income, computed without regard to any net operating loss deduction. Gifts to private nonprofit organizations are limited to 20 percent of AGI. Some capital gain property is limited to 30 percent of AGI.

FY2004	$78.8 million
FY2005	$80.1 million
FY2006	$82.2 million

10. Exclusion of Interest on Life Insurance Savings

Internal Revenue Code Section 101(a), effective 1978

Interest received on life insurance savings because of death is exempt. Interest income that accrues within an insurance policy and passes to beneficiaries as part of the life insurance policy is exempt from income tax.

FY2004	$55.0 million
FY2005	$56.1 million
FY2006	$57.4 million

11. Exclusion of Capital Gains at Death

Internal Revenue Code Section 1014, effective 1954

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

FY2004 .... $82.0 million
FY2005 .... $83.9 million
FY2006 .... $85.8 million

12. Deductibility of Individual Retirement Account Contributions

Internal Revenue Code Section 219 (a)(b), effective 1982

Employees and self-employed persons receiving compensation can establish their own IRA even if they are already covered by a tax-qualified retirement plan, with certain limitations.

FY2004 .... $17.1 million
FY2005 .... $17.4 million
FY2006 .... $17.7 million

13. Deductibility of Keogh Plan Contributions

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

A sole proprietor or a partnership can set up a qualified retirement plan known as a Keogh plan to cover themselves as an employee or other employees.

FY2004 .... $6.6 million
FY2005 .... $6.7 million
FY2006 .... $6.8 million

14. Exclusion of Federal and Military Retirement Income Received

Kentucky Revised Statute 141.021, effective 1990

A total exclusion is allowed from gross income for federal and military retirement income.

FY2004 .... $54.8 million
FY2005 .... $58.6 million
FY2006 .... $62.7 million

15. Exclusion of Employee Benefits Premiums on Group Term Life Insurance Accident and Disability Insurance

Internal Revenue Code Section 79(a) and 106, effective 1955

Employer payments of employee group term life insurance premiums for coverage up to $50,000 per employee.

FY2004 .... $4.5 million
FY2005 .... $4.6 million
FY2006 .... $4.8 million

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

FY2004 .... $620,000
FY2005 .... $625,000
FY2006 .... $630,000

16. Exclusion of Worker's Compensation Benefits

Internal Revenue Code Section 104(a), effective 1954

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

FY2004 .... $ 7.5 million
FY2005 .... $ 7.7 million
FY2006 .... $ 7.9 million

17. Exclusion of Veteran's Disability Benefits

Internal Revenue Code Section 104(a)(4), effective 1954

Disability pensions paid to military personnel are fully excluded from gross income. The portion of a regular pension that is paid on the basis of disability may also be excluded.

FY2004 .... $6.1 million
FY2005 .... $6.1 million
FY2006 .... $6.2 million

18. Credit for Child and Dependent Care Expenses

Kentucky Revised Statute 141.067, effective 1990

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

FY2004 .... $5.8 million
FY2005 .... $5.9 million
FY2006 .... $5.9 million

19. Deductibility of Foreign Income Tax

Kentucky Revised Statute 141.010(11)(a), effective 1974

Foreign income tax is allowed as an itemized deduction.
Note: This deduction was suspended for returns filed during FY04.

FY2004 .... $0.0 million
FY2005 .... $3.3 million
FY2006 .... $3.3 million

20. Exclusion of Income Earned Abroad by U.S. Citizens

Internal Revenue Code Section 911(a)(1) and 911(b)(2), effective 1985

A qualifying individual who works and receives earned income from foreign sources may elect to exclude up to $72,000 of foreign earned income attributable to the period of residence in a foreign country.

FY2004	$4.8 million
FY2005	$4.8 million
FY2006	$4.9 million

21. Deductibility of Excess of Percentage Over Cost Depletion

Internal Revenue Code Section 613, effective 1981

When property is entitled to either cost or percentage depletion, the deduction is whichever is larger. Percentage depletion continues to be deductible as long as there is gross income, even after the taxpayer's basis for property has been reduced to zero.

FY2004	$1.1 million
FY2005	$1.1 million
FY2006	$1.1 million

22. Deductibility of Medical Expenses

Internal Revenue Code Section 213, effective 1990

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

FY2004	$22.8 million
FY2005	$24.0 million
FY2006	$25.1 million

23. Deductibility of Net Operating Losses

Kentucky Revised Statute 141.010(11) and 142.011, effective 1980

The Kentucky net operating loss deduction is permitted in computing adjusted gross income.

FY2004 ....$40.0 million
FY2005 ....$40.0 million
FY2006 ....$40.0 million

24. Exclusion of Employee Meals and Lodging on Employer Premises

Internal Revenue Code Section 119, effective 1978

The value of meals and lodging, furnished to the employee by the employer on the business premises for the employer's convenience, is not included in the income of the employee and is deductible by the employer.

FY2004 ....$1.5 million
FY2005 ....$1.5 million
FY2006 ....$1.6 million

25. Exclusion of Railroad and Supplemental Railroad Retirement System Benefits

45 USCA Section 228L and Kentucky Revised Statute 141.010(10(b), effective 1970

All Railroad Retirement Board benefits and supplemental railroad retirement benefits are not taxed. (Kentucky has not adopted IRC Sec. 86, which taxes some of these benefits if a taxpayer's income is above a certain level.)

FY2004 ....$ 9.9 million
FY2005 .... $10.3 million
FY2006 .... $10.6 million

26. Exclusion of State Employee Pension Benefits and Contributions

Kentucky Revised Statute 141.010(10)(d), effective various dates

Benefits received from state employee, county and local government employee, judicial, teacher, and state legislator retirement systems are totally exempt from tax if the recipient retired before December 31, 1997. Persons retiring after December 31, 1997 may be taxed on a portion of the benefits.

FY2004 .... $47.2 million
FY2005 .... $51.2 million
FY2006 .... $55.6 million

27. Exclusion of Private Pensions and Individual Retirement Accounts

Kentucky Revised Statute 141.010(10)(i), effective 1995; and Kentucky Revised Statute 141.0105, effective 1995

An exemption is allowed for benefits received from private pensions and Individual Retirement Accounts including Roth IRAs. The exclusion was $35,000 for tax year 1998, and is increased for inflation each year. The exclusion for tax year 2004 is $40,200.

FY2004 .... $133.1 million
FY2005 .... $145.0 million
FY2006 .... $158.1 million

28. Exclusion of Scholarship and Fellowship Income

Internal Revenue Code Section 117, effective 1954

Students can exclude scholarship and fellowship income, limited to amounts received for tuition, fees, and supplies, if the amounts are not for compensation for services. Only candidates for degrees qualify for the exclusion.

FY2004 .... $3.2 million
FY2005 .... $3.5 million
FY2006 .... $3.8 million

29. Exclusion of Public Assistance Benefits

Internal Revenue Code Section 61, et. al.

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

FY2004 ....$1.9 million
FY2005 ....$1.9 million
FY2006 ....$1.9 million

30. Credit for Hiring Unemployed

Kentucky Revised Statute 141.065, effective 1982

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

FY2004 ....$10,000
FY2005 ....$10,000
FY2006 ....$10,000

31. Exclusion of Special Benefits for Disabled Coal Miners

Internal Revenue Code Section 104 and 192, effective 1981

Coal miners or their survivors may exclude payments for disability or death from black lung disease.

FY2004 .... $3.7 million
FY2005 .... $3.7 million
FY2006 .... $3.6 million

32. Exclusion of GI Bill Benefits

Internal Revenue Code Section 72(n), 104, and 112, effective 1966

GI bill benefits are excluded from gross income.

FY2004 .... $300,000
FY2005 .... $300,000
FY2006 .... $300,000

33. Deductibility of Expenses of Certain Capital Outlays

Internal Revenue Code Section 179 and 175(a), effective 1980

Taxpayers may elect to treat the cost of qualifying property, up to $25,000, as an expense rather than a capital expenditure subject to depreciation. Soil and water conservation expenditures can be expensed limited to 25 percent of gross farm income.

FY2004	$13.4 million
FY2005	$13.6 million
FY2006	$13.8 million

34. Low Income Tax Credit

Kentucky Revised Statute 141.066, effective 1990

Kentucky residents are allowed a low income tax credit based on adjusted gross income. The credit is a percent of tax liability.

FY2004	$47.5 million
FY2005	$47.5 million
FY2006	$47.5 million

35. Exclusion of Benefits Provided Under Cafeteria Plans

Internal Revenue Code Section 125, effective 1978

Qualified benefits paid under a cafeteria plan are excluded from income, except in the case of highly compensated employees.

FY2004	$23.8 million
FY2005	$24.8 million
FY2006	$25.9 million

36. Exclusion of Miscellaneous Fringe Benefits

Internal Revenue Code Section 132, effective 1992

Any fringe benefit which qualifies as a no-additional-cost service, a qualified employee discount, a working condition fringe, or a de minimis fringe is excluded from income.

FY2004	$10.1 million
FY2005	$10.8 million
FY2006	$11.5 million

37. Deductibility of Casualty and Theft Losses

Internal Revenue Code Section 165, effective 1954

Any losses incurred by the taxpayer during the tax year as a result of a casualty or theft that were not covered by insurance are deductible as an itemized deduction.

FY2004	$550,000
FY2005	$550,000
FY2006	$550,000

38. Credit for Recycling and/or Composting Equipment

Kentucky Revised Statute 141.390, effective 1991

A credit is allowed for 50 percent of the installed costs of recycling or composting equipment used exclusively in this state for recycling or composting postconsumer waste.

FY2004	$1.0 million
FY2005	$1.1 million
FY2006	$1.1 million

39. Job Development Credit

Kentucky Revised Statute 154.22-070, 154.24-110, 154.26-100, effective 1992

A job development assessment fee of 6 percent, a job creation assessment fee of 5 percent, or a job revitalization assessment fee of 6 percent may be collected from employees under several economic development plans. A portion of these fees may be claimed as credits on the employees' income tax returns.

FY2004	$57.0 million
FY2005	$63.5 million
FY2006	$68.0 million

40. Exclusion of Untaxed Medicare Benefits: Hospital Insurance & Supplementary Medical Insurance

Internal Revenue Code Sections 61 and 138

Medicare benefits received for hospital insurance are not taxed.

FY2004	$49.8 million
FY2005	$51.0 million
FY2006	$52.6 million

Medicare benefits received for supplementary medical care insurance are not taxed.

FY2004	$27.5 million
FY2005	$28.2 million
FY2006	$29.0 million

41. Deductibility of Moving Expenses

Internal Revenue Code Section 217, effective 1964

Some of the expenses incurred when moving to a new home, as the result of a job location change or a new job, can be deducted in computing adjusted gross income if certain conditions are met.

FY2004	$5.0 million
FY2005	$5.1 million
FY2006	$5.1 million

42. Gain on the Sale of a Personal Residence

Internal Revenue Code Section 121, effective 1997

Taxpayers may exclude from income the capital gain on the sale of a personal residence (up to $500,000 for married taxpayers and $250,000 for single taxpayers).

FY2004 .... $27.5 million
FY2005 .... $29.0 million
FY2006 .... $30.6 million

43. Savings Incentives Match Plans for Employees (SIMPLE)

Internal Revenue Code Section 408(k), effective 1997

Employers of small businesses that make contributions to a retirement plan on behalf of their employees are allowed to deduct the contributions as a business expense.

FY2004 .... $100,000
FY2005 .... $100,000
FY2006 .... $100,000

44. Health Insurance Premiums Paid by Self-Employed

Internal Revenue Code Section 162(l), effective 1997

A percentage of the health insurance premiums paid by a self-employed individual are an allowable deduction. The percentage gradually increases from 45 percent in 1998 to 100 percent in 2007 and after.

FY2004 .... $4.6 million
FY2005 .... $4.7 million
FY2006 .... $4.8 million

45. Health Insurance Premiums

Kentucky Revised Statute 141.010(10), effective 1999

Premiums paid by the taxpayer for health insurance coverage for the taxpayer, a spouse or dependents are an allowable deduction.

FY2004 .... $8.8 million
FY2005 .... $9.2 million
FY2006 .... $9.6 million

46. Interest on Educational Loans

Internal Revenue Code Section 62(a), effective 1997

Up to $1,000 of interest paid on qualified educational loans is deductible.

FY2004 .... $1.5 million
FY2005 .... $1.6 million
FY2006 .... $1.7 million

47. Precinct Workers

Kentucky Revised Statute 141.010(10), effective 1997

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

FY2004 .... $75,000
FY2005 .... $75,000
FY2006 .... $75,000

48. Tobacco Settlement

Kentucky Revised Statute 141.010(10), effective 1998

Income received by a producer of tobacco or a tobacco quota owner from a tobacco settlement is exempt from tax.

FY2004 .... $5.0 million
FY2005 .... $5.0 million
FY2006 .... $5.0 million

49. Capital Gains

Kentucky Revised Statute 141.010(10), effective 1998

Capital gains on property taken by eminent domain are exempt from individual income tax.

FY2004 .... $110,000
FY2005 .... $120,000
FY2006 .... $130,000

50. Long-Term Care Insurance

Kentucky Revised Statute 141.010(10), effective 1998

Premiums paid for long-term care insurance are excludable from gross income if not previously excluded under the Internal Revenue Code.

FY2004 .... $750,000
FY2005 .... $600,000
FY2006 .... $450,000

51. Financial Institutions Structured as S Corporations

Kentucky Revised Statute 141.010(10), effective 1997

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

FY2004 .... $1.0 million
FY2005 .... $1.0 million
FY2006 .... $1.0 million