

**COMMONWEALTH OF KENTUCKY STATE FISCAL NOTE STATEMENT  
LEGISLATIVE RESEARCH COMMISSION  
2018 REGULAR SESSION**

**MEASURE**

2018 BR NUMBER **0015**

**HOUSE** BILL NUMBER **29**

RESOLUTION NUMBER \_\_\_\_\_

AMENDMENT NUMBER \_\_\_\_\_

**SUBJECT/TITLE** **An ACT relating to taxation.**

**SPONSOR** **Representative J. Wayne**

**NOTE SUMMARY**

FISCAL ANALYSIS:  IMPACT     NO IMPACT     INDETERMINABLE IMPACT

LEVEL(S) OF IMPACT:  STATE     LOCAL     FEDERAL

BUDGET UNIT(S) IMPACT: \_\_\_\_\_

FUND(S) IMPACT:  GENERAL  ROAD  FEDERAL  RESTRICTED AGENCY \_\_\_\_\_  OTHER

**FISCAL SUMMARY**

<b>FISCAL ESTIMATES</b>	<b>2017-2018</b>	<b>2018-2019</b>	<b>2019-2020</b>	<b>ANNUAL IMPACT AT FULL IMPLEMENTATION</b>
<b>REVENUES</b>		\$248.9 million (GF) \$8 million (RF)	\$561.9 million (GF) \$9 million (RF)	\$566.9 million (GF) \$9 million (RF)
<b>EXPENDITURES</b>				
<b>NET EFFECT</b>		\$248.9 million (GF) \$8 million (RF)	\$561.9 million (GF) \$9 million (RF)	\$566.9 million (GF) \$9 million (RF)

( ) indicates a decrease/negative

**MEASURE'S PURPOSE:** This is a comprehensive tax reform proposal.

**PROVISIONS/MECHANICS:**

**Income Taxes:**

Various sections of KRS Chapter 141 would be amended or created to provide for the income tax amendments.

For individuals:

- The income tax rate brackets would be expanded, with a new top rate of 6.5% imposed on taxable income over \$150,000.
- Itemized deductions that currently are determined in a manner similar to what is allowed on the federal return would be limited or capped at \$17,500. Amounts that exceed \$17,500 would not be deductible.
- The pension exclusion would be reduced to \$35,000, and the exclusion would be phased out as income increases above \$35,000.
- A Kentucky earned income tax credit that equals 15% of the federal credit would be allowed.

- An income tax for airport noise mitigation would be allowed.

For businesses:

- The limited liability entity tax exclusion and phase out would be reduced to an exclusion of \$1 million of receipts, with a phase out of the exclusion from \$1 million to \$2 million of receipts.
- The domestic production activity deduction is eliminated.
- Interrelated corporate entities would be required to file as a combined group.
- Multistate businesses that apportion income would be required to report to Kentucky certain income that is not taxed in other states.
- The film industry tax credit would no longer be refundable.
- Transactions that would cause income to be reported in a “tax haven” location would be ignored in determining taxable income.

**Estate Taxes:**

Kentucky estate tax law would revert to the federal law in effect on January 1, 2003, with limits on the amount of the unified credit that may be used to reduce a taxable estate. The bill would reinstate Kentucky’s estate tax to the amount that would have been due if federal changes that occurred after 2003 were not recognized.

**Inheritance Tax:**

Agricultural value would be allowed as the method of determining estate values for inheritance and estate taxes for the spouse and descendants of a decedent if the beneficiaries agree to maintain agricultural use of the property for a specified time.

**Motor Fuels Taxes:**

Reduce the dealer compensation for motor fuels taxes from 2.25% to 1% of the tax due.

**Property Taxes:**

- Remove the annual adjustment to real property tax rates and set the property tax rate at the current rate of 12.2 cents per \$100 of value.
- Remove the voter recall provision for a real property tax rate that results in a revenue increase of more than 4%, apply the same change to all local property tax rate increases.
- Require that a business providing rental space to RV’s, mobile/manufactured homes, boats, and aircraft to report the rental arrangements.
- Clarify that personal property that is exempted from assessment because of being shipped out of state must be permanently shipped out of state.

**Distilled Spirits:**

Repeal the distilled spirits case tax.

**Tobacco, Cigarette, and E-Cigarette Taxes:**

- Increase the tax on cigarettes from a combined rate of 60 cents per pack to a rate of \$1.60 per pack, for a net increase of \$1.00 per pack.
- Increase the tax on snuff, chewing tobacco, and all other types of tobacco products in an amount proportionate to the increase in cigarettes.

- Include e-cigarettes as a tobacco product subject to the tax.

**Economic Development Tax Credits:**

Require a study and evaluation of all current economic development credits, and provide a systematic sunset on the granting of any additional credits. After the expiration date of a credit, additional credits may be granted only with express action of the General Assembly.

**Sales Tax:**

Extend the sales and use tax to a group of services.

**FISCAL EXPLANATION:**

	Estimated Fiscal Impact (in millions of dollars)			
	FY 2017–2018	FY 2018–2019	FY 2019–2020	Full Implementation
<b>Income Tax</b>				
Itemized deduction cap		35	200	200
Lower and phase out retirement exclusion		38	205	220
Refundable earned income tax credit			(105)	(115)
Tax rate structure changes and new top rate		(110)	(110)	(110)
Throwback for apportionment		16	16	16
Combined reporting requirement		25	25	25
Disallowance of “tax haven” transactions		25	25	25
Limited Liability Entity Tax exclusion change		13	13	13
Domestic production activity deduction		4	4	4
Film industry tax credit (non-refundable)		5	5	5
Airport noise mitigation credit		(3)	(3)	(3)
<b>Estate Tax</b>				
Reinstate tax		8	25	25
<b>Sales and Use Tax</b>				
Impose on selected services		69	104	104
<b>Property Tax</b>				
Real property rate at 12.2 cents		0	0	0
Reporting of rental space for RVs, boats, aircraft		3	3	3
<b>Distilled Spirits Case Tax</b>				
Repeal		(0.1)	(0.1)	(0.1)
<b>Tobacco Taxes</b>				
Cigarettes		75	100	100
Other tobacco products		30	36	36
E-cigarettes		16	19	19
<b>Motor Fuels</b>				
Reduce dealer compensation rate		8	9	9

**DATA SOURCE(S):** LRC Appropriations and Revenue Staff

**PREPARER:** Amit M. Shanker **NOTE NUMBER:** 3 **REVIEW:** JAB **DATE:** 1/29/2018