



***Office of State Budget Director***

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**Andy Beshear**  
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**John T. Hicks**  
State Budget Director

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

September 11, 2024

Jay Hartz, Director  
Legislative Research Commission  
The Honorable Christian McDaniel, Co-Chairman  
The Honorable Jason Petrie, Co-Chairman  
Interim Joint Committee on Appropriations and Revenue  
Capitol Annex  
Frankfort, Kentucky 40601

Dear Director Hartz and Co-Chairs of the Interim Joint Committee on Appropriations and Revenue:

The Office of State Budget Director is providing the Tax Expenditure Analysis report detailing estimates for the General and Road Fund for the current and next two fiscal years as required by House Bill 6, section 16, from the 2024 Regular Session.

A new provision was added in House Bill 8, section 62, which seeks, in conjunction with the Tax Expenditure Report, recommendations of 40 tax expenditures which may be considered by the General Assembly. Since the inception of the Tax Expenditure Report, all of the tax expenditures in each report have been available for consideration by the General Assembly.

As shown in the Executive Summary, the total estimated impact of all tax expenditures exceeds \$9 billion. The top ten areas comprise nearly 60 percent of the total. Among them are:

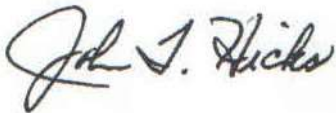
- Sales tax exemption for Prescription Medicine, Prosthetic Devices, Physical Aids
- Property tax exemption - State Real Property Tax Yearly Revenue Ceiling
- Sales tax exemption for Food items
- Individual income tax exclusion for Employer Contributions for Medical Insurance and Medical Care
- Individual income tax exclusion for Pension Plans, Retirement Income and Individual Retirement Accounts
- Sales tax exemption for Non-Profit Educational, Qualified Non-Profit Organizations, Charitable and Religious Institutions
- Sales tax exemption for Residential Utilities

Tax expenditures in most public jurisdictions are not subject to the same frequent and rigorous review as appropriations are. For those state governments that have chosen to formally review tax expenditures, their legislatures have enacted statutes which typically encompass several elements: they delineate the policy reasons for each tax expenditure, determine a method for selecting a limited number of tax expenditures for review and set standard timeframes to periodically assess the cost and effectiveness of them along with the resources to perform that analysis. Kentucky has not put in place a structure to examine tax expenditures. Directing this Office to perform a significant amount of analysis of 40 self-selected tax expenditures without a legislatively determined structure was not possible in a four-month period.

In an attempt to identify a few tax expenditures that the General Assembly may consider having a thorough analysis performed, below are some suggested areas for study:

- Individual income tax deduction for gambling losses
- Sales tax exemption for lodgings of thirty days or more
- Property tax exemption for noncommercial aircraft
- Property tax exemption for federally documented vessels

Sincerely,

A handwritten signature in black ink that reads "John T. Hicks". The signature is written in a cursive, flowing style.

John T. Hicks  
State Budget Director

Attachment