TAX PROVISIONS ENACTED DURING THE
2018 AND 2019 REGULAR SESSIONS
KENTUCKY GENERAL ASSEMBLY

GENERAL FUND

Sales and Use Tax

The sales and use tax base was expanded to include participatory admissions, certain services, certain accommodations, and the repeal of one exemption. Additionally, a clarification of the exemption for energy or energy-producing fuels was enacted.

Admissions: Prior to July 1, 2018, admissions to a display, program, sporting event, music concert, performance, play, show, movie, exhibit, fair, or other entertainment or amusement event or venue were taxable. Beginning July 1, 2018, the sales and use tax base was expanded to include participatory admissions, including but not limited to:

- Bowling centers;
- Skating rinks;
- Health spas;
- Swimming pools;
- Tennis courts;
- Weight training facilities;
- Fitness and recreational sports centers; and
- Golf courses, both public and private.

The definition of admission does not include:

- Fees paid to enter or participate in a fishing tournament; and
- Any fee paid for the use of a boat ramp for the purpose of allowing boats to be launched into or hauled out from the water.

Exemption for Nonprofit Organizations: Beginning March 26, 2019, the gross receipts from the sales of admissions and fundraising events of all nonprofit organizations are exempted. Fundraising event sales does not include sales related to the operation of a retail business, including thrift stores, bookstores, surplus property auctions, recycle and reuse stores, or any ongoing operations in competition with for-profit retailers. These exemptions do not apply to sales generated by or arising at a tourism development project or to the sales of admissions to a public facility that qualifies for a sales tax rebate.

Services: Beginning July 1, 2018, the sales tax base was also expanded to include certain services, including:

- The amount charged for labor or services rendered in installing or applying tangible personal property, digital property, or service sold, except for any charges for labor or services to apply, install, repair, or maintain tangible personal property directly used in manufacturing or industrial processing process, if the charges for the labor or services are separately stated on the invoice, bill of sale, or similar document given to the purchaser;
- Extended warranty services, except for the sale of a service contract agreement for tangible personal property to be used by a small telephone utility or a Tier III CMRS provider to deliver communications services or broadband;
- Landscaping services, including but not limited to:
    - Lawn care and maintenance services;

    - Tree trimming, pruning, or removal services;
    - Landscape design and installation services;
    - Landscape care and maintenance services; and
    - Snow plowing or removal services;
- Janitorial services, including but not limited to residential and commercial cleaning services, and carpet, upholstery, and window cleaning services;
- Small animal veterinary services, excluding veterinary services for equine, cattle, poultry, swine, sheep, goats, llamas, alpacas, ratite birds, buffalo, and cervids;
- Pet care services, including but not limited to grooming and boarding services, pet sitting services, and pet obedience training services;
- Industrial laundry services, including but not limited to industrial uniform supply services, protective apparel supply services, and industrial mat and rug supply services;
- Non-coin-operating laundry and dry cleaning services;
- Linen supply services, including but not limited to table and bed linen supply services and nonindustrial uniform supply services;
- Indoor skin tanning services, including but not limited to tanning booth or tanning bed services and spray tanning services;
- Non-medical diet and weight reducing services; and
- Limousine services, if a driver is provided.

<u>Resale Certificates and Direct Pay Authorizations</u>: If a retailer purchases any of these new services and intends to resell those services, a resale certificate may be issued, allowing those services to be exempt from tax until ultimately sold to a consumer. Additionally, if the taxpayer has received authorization from the Department of Revenue to directly pay tax to the Department, the taxpayer may include the tax payment for these new services within that direct pay authorization.

<u>Sales Threshold for Small Businesses Selling Certain Services</u>: A business with gross receipts derived only from the sales of these new services which are less than $6,000 during a calendar year will not be required to collect and remit the sales and use tax. For a business making these sales prior to January 1, 2019, the business will look back to calendar year 2018. If the gross receipts from these sales are less than $6,000 during 2018, no tax is due until the gross receipts in the current calendar year exceed $6,000. For a business just beginning to make these sales on or after January 1, 2019, no tax is due until the gross receipts in the current calendar year exceed $6,000. At any time, if the business exceeds the $6,000 gross receipts threshold, all gross receipts are subject to tax in any calendar year. This exemption does not apply to a business that is also engaged in the business of selling tangible personal property, digital property, or the other services.

<u>Remote Sales</u>: Beginning July 1, 2018, every retailer engaged in business in this state shall collect and remit the sales and use tax including any remote retailer selling tangible personal property or digital property delivered or transferred electronically to a purchaser in this state if the remote retailer has 200 or more separate transactions or $100,000 in gross receipts from transactions in this state in the previous calendar year or the current calendar year.

<u>Marketplace Provider</u>: Beginning July 1, 2019, a marketplace provider is required to pay sales tax, if the marketplace provider makes retail sales on its own behalf or facilitates retail sales in this state that, for any sales combination, exceed 200 transactions or $100,000 in gross receipts in Kentucky during a calendar year. The marketplace provider is the taxpayer and is subject to audit for all sales made through their platform. No class action may be brought against a marketplace provider on behalf of purchasers.

Accommodations: In addition to the rental of any rooms, lodgings, or accommodations furnished by any hotel, motel, inn, tourist camp, or tourist cabin, the definition of accommodation also includes the rental of campsites, campgrounds, and recreational vehicle parks.

Pollution Control Facility: The exemption for property certified as a pollution control facility ended on July 1, 2018.

Energy or Energy-Producing Fuels Exemption for Tollers: A toller is a person who performs a manufacturing or industrial processing activity for a fee and does not take ownership of the tangible personal property that is incorporated into, or becomes the product of, the manufacturing or industrial processing activity.

- For a plant facility with tolling operations in place as of July 1, 2018, the costs of the tangible personal property are excluded from the toller's cost of production.
- For a plant facility that begins tolling operations after July 1, 2018, the costs of tangible personal property are excluded from the toller's cost of production if the toller:
    - Maintains a binding contract for periods after July 1, 2018, that governs the terms, conditions, and responsibilities with a separate legal entity, which holds title to the tangible personal property that is incorporated into, or becomes the product of, the manufacturing or industrial processing activity;
    - Maintains accounting records that show the expenses it incurs to fulfill the binding contract;
    - Maintains separate payroll, bank accounts, tax returns, and other records that demonstrate its independent operations in the performance of its tolling responsibilities;
    - Demonstrates one or more substantial business purposes for the tolling operations germane to the overall manufacturing, industrial processing activities, or corporate structure at the plant facility; and
    - Provides information to the department upon request that documents fulfillment of all requirements.
- These same changes are made to the Utility Gross Receipts License Tax authorized for schools under KRS 160.613 imposed by local governments.

Refunds to Motion Picture Production Companies: On or after April 13, 2018, and until July 1, 2022, the Department of Revenue shall not accept any new applications for a sales and use tax refund for the filming or producing of motion pictures in the Commonwealth.

Sunset of Certain Sales Tax Rebate Programs: Beginning July 1, 2020, the sales tax rebate program related to public facilities of governmental entities no longer applies.

Tobacco Taxes

Cigarette Tax: Beginning July 1, 2018, the cigarette tax was increased to $1.10 for each pack of twenty cigarettes. One penny of the tax on each pack is deposited in the cancer research institutions matching fund created in KRS 164.043, and $1.09 of the tax on each pack is deposited into the General Fund. Prior to July 1, 2018, the cigarette tax was $0.60 per pack.

Any person subject to the cigarette tax that files an application related to a modified risk tobacco product and receives an order authorizing the marketing of a modified risk tobacco product shall notify the Department of Revenue. Upon receipt of the information, the Department shall reduce the tax by 50% on any product as to which a modified risk tobacco product order is issued under 21 U.S.C. sec. 387k(g)(1) or by 25% on any product as to which a modified risk tobacco product order is issued under 21 U.S.C. sec. 387k(g)(2).

Cigarette Tax Floor Stock Tax: Every retailer, sub-jobber, resident wholesaler, nonresident wholesaler, and unclassified acquirer shall take a physical inventory of all cigarettes in packages bearing Kentucky tax stamps and all unaffixed Kentucky cigarette tax stamps possessed by them or in their control at 11:59 p.m. on June 30, 2018, and pay the floor stock tax on them. Each taxpayer was required to file a return with the department on or before July 10, 2018. The floor stock tax may be paid in three equal installments on or before July 10, 2018, August 10, 2018, and September 10, 2018.

Income Taxes

The income tax bases for both corporation income tax and individual income tax were broadened and the tax rates for both taxes were lowered to a flat rate of 5%. These changes apply to taxable years beginning on or after January 1, 2018.

Update to the Internal Revenue Code: During the 2018 Regular Session, the reference date of the Internal Revenue Code was updated to the Internal Revenue Code on December 31, 2017, and includes the federal tax reform measures included in the Tax Cuts and Jobs Act of 2017, except that the 20% deduction allowed under Section 199A of the Internal Revenue Code for federal tax purposes related to income from a pass-through entity to an individual is not allowed for Kentucky tax purposes. Prior differences, including depreciation and expensing of assets, remain different between Kentucky and federal.

During the 2019 Regular Session, the reference date of the Internal Revenue Code was updated again to the Internal Revenue Code on December 31, 2018. While no major tax reform initiatives were enacted by Congress during this time, the update keeps Kentucky the same as federal regarding the administration of the income taxes.

Elimination of the Domestic Production Activities Deduction: Along with the update of the Internal Revenue Code, the Kentucky domestic production activities deduction was eliminated since the deduction was eliminated for federal tax purposes.

Section 179 Expensing: For property placed in service on or after January 1, 2020, the expense deduction under Section 179 of the Internal Revenue Code in effect on December 31, 2003, exclusive of any amendments made subsequent to that date, is allowed. This provision increases the amount that can be expensed in the first year that the property is placed in service to $100,000. Prior to this change, only $25,000 could be expensed in the first year. No change was made to the depreciation methods computed for Kentucky income tax purposes.

Estimated Tax Payments and Related Penalties: For taxable years beginning on or after January 1, 2019, corporations, limited liability pass-through entities, and individuals required to make estimated tax payments will make those payments at the same time and in the same manner as estimated tax payments are made for federal income tax purposes. The estimated tax liabilities for Kentucky's tax will be used instead of the federal amounts. The addition to tax identified for federal purposes is considered a penalty under Kentucky's statutes. Penalties for failure to make estimated tax payments and for any underpayment of estimated tax payments will be assessed in the same manner as for federal purposes, except that Kentucky's tax interest rate shall be used.

Income Tax Credits

Inventory Credit: A nonrefundable and nontransferable income tax credit was established based on the property tax timely paid on business inventory and in an amount equal to:

- 25% of the property tax timely paid for taxable years beginning on or after January 1, 2018, and before January 1, 2019;
- 50% of the property tax timely paid for taxable years beginning on or after January 1, 2019, and before January 1, 2020;
- 75% of the property tax timely paid for taxable years beginning on or after January 1, 2020, and before January 1, 2021; and
- 100% of the property tax timely paid for taxable years beginning on or after January 1, 2021.

Film Industry Credit: The film industry credit for income tax purposes was modified to eliminate a commercial from the definition of a motion picture or entertainment production for purposes of allowing the tax credit. Beginning on April 13, 2018, the total tax incentive approved is limited to $100 million for each calendar year. A refundable tax credit is allowed for applications approved prior to April 13, 2018, and a non-refundable and non-transferrable tax credit is allowed for applications approved on or after April 13, 2018. Prior to June 1, 2019, the Kentucky Film Office and the Department of Revenue are required to report to the Interim Joint Committee on Appropriations and Revenue.

Recycling and Composting Tax Credit: For taxable years beginning on or after January 1, 2021, the recycling and composting tax credit was amended to allow more taxpayers to qualify for a major recycling project. The taxpayer is required to have more than 400 full-time employees with an average hourly wage of more than 300% of the federal minimum wage. Prior to this change, the requirement was 750 employees. No more than 75% of the taxpayer’s tax liability can be offset by the tax credit during any taxable year. The credit is limited to a period of 30 years. The Department of Revenue is required to report to the Appropriations and Revenue Committee related to taxpayers claiming this tax credit.

Farmer Small Business Tax Credit: A new income tax credit was created related to the selling of real and personal property to a beginning farmer beginning January 1, 2020. The new credit shares the maximum $3 million credit available under the Small Business Tax Credit.

Industrial Revitalization Credit: The Kentucky Economic Development Authority and the Department of Revenue are required to report certain information to the Interim Joint Committee on Appropriations and Revenue by July 1, 2019, and by each July 1 thereafter.

Kentucky Investment Fund Act Credit: The Department of Revenue and the Cabinet for Economic Development are required to work jointly to provide a report detailing each investment fund agreement entered into by the Cabinet. If either the Department or Cabinet does not currently have the data to fulfill the reporting requirement, they are to work jointly to obtain the data in an expedient manner to provide the report on or before May 1, 2019.

Kentucky Angel Investor Act Credit: The Department of Revenue and the Cabinet for Economic Development are required to work jointly to submit information to the Interim Joint Committee on Appropriations and Revenue. If either the Department or the Cabinet does not currently have the data to fulfill the reporting requirement, they are to work jointly to obtain the data in an expedient manner to provide the report on or before May 1, 2019. The total amount of credit that may be awarded for the Kentucky Investment Fund Act and the Kentucky Angel Investor Act is no more than $40 million in total for all years prior to December 31, 2020. The $40 million cap was attained during the calendar year 2018. The impact of this provision was to suspend the applications for and approval of any further credits until January 1, 2021. At that time, a $3 million annual cap is established for each of the two tax credits.

Tax Increment Financing (TIF): For projects established after July 14, 2018, to implement the activation date, the minimum capital investment must be met. Additionally, the commencement date is the final approval date or the date on which a tax incentive agreement is executed. A TIF footprint of a discrete, identified project shall not include any portion of a development area outside the area for which actual capital investments are made and the area of the footprint must be contiguous. In determining the incremental revenue, old revenues related to the development area are calculated based on the amount of revenues received by a taxing district with respect to a development area as of December 31 of the year of preliminary approval, instead of during the calendar year prior to the commencement date.

Kentucky Environmental Stewardship Act: The Kentucky Environmental Stewardship Act was repealed. This program and its incentives were established under Subchapter 48 of KRS Chapter 154. The purpose of the program was to promote investment and development of facilities that produce new environmental technologies in the Commonwealth and to induce investment for production of new environmental technologies in order to relieve unemployment by preserving jobs that might otherwise no longer exist or creating new jobs and by preserving and creating sources of tax revenues for the support of public services provided by the Commonwealth. According to the Cabinet for Economic Development's website, there are no active projects under this program.

Signature Project Loan Support Program: The Signature Project Loan Support Program was repealed. This program was established by KRS 154.30-052 as an option for signature projects approved with a tax incentive agreement executed prior to January 1, 2008. According to the Cabinet for Economic Development, this program has never been used and the projects that qualify for it have progressed without this program.

Skills Training Investment Credit: The skills training investment credit program was ended as of July 14, 2018, and a modified skills training investment credit program is established and combined within the grant-in-aid program contained in KRS 154.12-204 to 154.12-208. By combining the programs, changes have been made to the definitions, application process, and criteria of the programs. The skills training investment credit shall be an amount equal to 50% of the amount of costs to provide the skills training, not to exceed $500 per employee and, in the aggregate, not to exceed $100,000 for each approved company per biennium. Only one application per biennium for each corporation may be approved. The maximum amount of skills training investment credit that may be approved each fiscal year is $2.5 million.

Incentives for Energy Independence Act: No applications for incentives related to this program are accepted after August 1, 2018, but outstanding projects with preliminary or final approval are allowed to continue throughout the terms of each project's agreement. The Kentucky Business Incentive program and Kentucky Enterprise Initiative Act programs are revised to include certain energy-related projects to be approved. The revision of the programs is an effort to streamline available incentives. These modifications to the remaining programs will alter who qualifies for the programs. The incentives in the Kentucky Business Incentive program are not capped, but the Kentucky Enterprise Incentive Act incentives are capped annually at $20 million for building and construction materials and $5 million for equipment used for research and development or electronic processing.

Kentucky Angel Investment Act: Changes to this program include combining the number of days for submitting specific information into one 80-day deadline, removing the requirement to post all companies ever certified for investment on the website, requiring the posting of just the currently certified companies, thus removing companies that are no longer certified, and removing the requirement that the investment be exchanged for consideration in the form of an equity interest in the qualified small business. The Kentucky Economic Development Finance Authority is authorized to establish additional requirements and guidelines for the efficient implementation and administration of the Kentucky Angel Investment Act and to carry out its purpose.

Individual Income Tax

Tax Rates: For years prior to 2018, the following graduated rate brackets were in effect:

- 2% on the first $3,000 of net income;
- 3% on the next $1,000 of net income;
- 4% on the next $1,000 of net income;
- 5% on the next $3,000 of net income;
- 5.8% on the next $67,000 of net income; and
- 6% on net income exceeding $75,000.

For 2018 and later, a flat rate of 5% is effective. Every individual that has net income from $0 to $5,000 pays more tax on that income. Instead of the graduated rates, a 5% rate is imposed. Every individual that has net income from $5,000 to $8,000 pays the same amount of tax on that income because the 5% rate remains the same. Finally, every individual that has net income over $8,000 pays less tax on that net income. Instead of the higher graduated rates of 5.8% and 6%, the 5% rate is be imposed. The break-even point is net income of $23,000. Those with net income less than $23,000 pay more tax and those with net income over $23,000 pay less tax.

Additional Tax Credit for Certain Households Claiming the Family Sixe Tax Credit: For taxable years beginning on or after January 1, 2019, but before January 1, 2021, an additional amount of tax credit is allowed households having income within the range of 100% and 133% of the federal poverty level. The purpose of this additional tax credit is to help eliminate additional tax due from these households by the 2018 action taken by the General Assembly to eliminate the graduated tax brackets and to move to a flat tax rate of 5%. The General Assembly will study the long-term impact of the income tax on certain family-size households and evaluate whether an extension of these provisions is necessary or find a permanent alternative to these provisions.

Itemized Deductions: The individual income tax base was broadened to include the following, previously allowed, itemized deductions reported on Schedule A of both the Federal and Kentucky returns. No longer allowed are:

- The itemized deduction for taxes paid;
- The itemized deduction for casualty and theft losses, except that gambling losses are allowed;
- The itemized deduction for medical care expenses, including any deduction for health insurance;
- The itemized deduction for moving expenses; and
- The itemized deduction for any other miscellaneous deductions.

The elimination of these deductions will not impact any taxpayer that elects to claim the standard deduction instead of the itemized deduction. No change was made to the standard deduction. The standard deduction will continue to increase each year based on the Consumer Price Index.

Pension Income Exclusion: For taxable years prior to 2018, a taxpayer may exclude up to $41,110 of total distributions from pension plans, annuity contracts, profit-sharing plans, retirements plans, or employee savings plans; beginning in 2018 the taxpayer may exclude only $31,110 of that income. The current provision related to service performed prior to 1998 remains the same. For federal and Kentucky government retirees, the 1998 service date further keeps most distributions from these retirement plans from being taxed.

This bifurcation of service is related to court decisions in the *Gossum* and *Cope* cases in the early 1990s that ruled against taxing a federal pension, while allowing a full exemption for Kentucky state and local government employees. For these specific government plans, any distribution that accrued prior January 1, 1998, is exempt from tax. Additionally, only that portion which accrued on or after January 1, 1998, is subject to tax. The new exclusion amount of $31,110 only applies to the amount subject to tax, not the entire distribution. Here are three examples:

1. A person retired from federal government on August 1, 1997, and has an annual distribution of $50,000. The entire amount is exempt.
2. A person retired from Kentucky state government on January 1, 2004, with 30 years of service and an annual distribution of $50,000. 24 years of service were prior to 1998 and 6 years of service were during 1998 and after. The pre-1998 amount of $40,000 (80% of $50,000) is totally exempt. The 1998 and after amount of $10,000 is the amount that applies to the $31,110 exemption. Since the $31,110 exemption exceeds the taxable portion, none of this person's distribution would be taxable.
3. A person began working in January 1, 1991, and retired January 1, 2018, with 27 years of service, with an annual distribution of $50,000. 7 years of service were prior to 1998 and 20 years of service were 1998 and after. The pre-1998 amount of $12,500 (25% of $50,000) is totally exempt. The $31,110 income exclusion applies to the 1998 and after amount of $37,500. In this case, $6,390 of this person's distribution is taxed at the 5% flat rate.

As time advances and as younger federal and Kentucky government workers prepare for retirement, more and more of this type of pension income will become taxable in the future.

Personal Tax Credit: The $10 personal tax credit for the taxpayer, spouse, and each dependent was eliminated. The following personal tax credits remain, when applicable:

- A $40 credit for each, if the taxpayer or the spouse has attained the age of 65;
- A $40 credit for each, if the taxpayer of the spouse is blind;
- A $2 credit, in the case of a fiduciary;
- A $20 credit, if the taxpayer is a member of the Kentucky National Guard.

Clarification of Active Duty for Members of the Armed Forces: The definition of "active duty" was clarified to include time that a member of the Armed Forces is in training, codifying the current practice of exempting this income by the Department of Revenue.

Individual Refund Checkoff Program: For taxable years beginning on or after January 1, 2019, any individual who is entitled to an income tax refund and who desires to contribute to the Kentucky YMCA Youth Assembly program may designate an amount, not to exceed the amount of their refund, to be paid to that program.

STABLE Kentucky Accounts: A STABLE Kentucky account was defined and the statute was clarified by stating the tax exemption provisions related to distributions from the account.

Corporation Income Tax

Tax Rates: For 2018 and later, a flat rate of 5% is effective. For years prior to 2018, the following graduated rate brackets are in effect:

- 4% on the first $50,000 of taxable income;
- 5% on the next $50,000 of taxable income; and

- 6% on the taxable income exceeding $100,000.

Apportionment: Prior to taxable years beginning on January 1, 2018, a corporation apportioned income to Kentucky using a three-factor formula based on property, payroll, and receipts. Beginning in 2018, corporations apportion income to Kentucky using a single-factor apportionment fraction based on receipts. This provision lowers the tax burden for corporations that have more property and payroll in this state than receipts in this state.

Additionally, receipts are now sourced to Kentucky if the taxpayer's market for that sale is in this state. Prior to this change, receipts from the sale of a service and sales other than tangible personal property were sourced based on the greater cost of performance for that sale.

A provider of communications service, cable service, or internet access continues to apportion taxable income to Kentucky using the three-factor formula based on property, payroll, and receipts.

Combined Reporting: For taxable years beginning on or after January 1, 2019, every corporation doing business in Kentucky shall, for each taxable year, file a:

1. Combined report if the corporation is a member of a unitary business group;
2. Consolidated return, by making an election to file, for a period of 48 consecutive calendar months, with all members of the affiliated group that file for federal income tax purposes; or
3. Separate return, if not required to file a combined report.

Kentucky's enactment of combined reporting follows the model language recommended by the Multistate Tax Commission, except in these areas:

- A combined group shall include only corporations, the voting stock of which is more than 50% owned, directly or indirectly, by a common owner or owners.
- The definition of "tax haven" was clarified to exclude a jurisdiction that has entered into a comprehensive income tax treaty with the United States.
- Clarifications were included to ensure that the combined report:
    - Is filed on a waters-edge basis; and
    - Includes eliminating entries for transactions among the members in the combined report.
- Net operating loss deductions may be shared among members in the combined report.
- Certain members are included in the combined report if that member earns less than 80% of its income from sources outside of the United States;
- If a non-U.S. corporation is includible as a member of the combined group, to the extent that the member's income is excluded for federal taxation pursuant to the provisions of a comprehensive income tax treaty, the income or loss is not includible in the combined group's net income; and
- A deferred tax deduction is allowed if:
    - The provisions of combined reporting result in an aggregate increase to the member's net deferred tax liability, an aggregate decrease to the member's net deferred tax asset, or an aggregate change from a net deferred tax asset to a net deferred tax liability;
    - The taxpayers are publicly traded companies as of January 1, 2019; and
    - The unitary group filed a statement with the Department of Revenue on or before July 1, 2019.

  The deferred tax impact is determined through a statutory formula. The deduction is not adjusted as a result of any events happening subsequent to the calculation and is allowable, in one-tenth increments, for 10 years beginning on or after January 1, 2024.

Financial Institutions: For taxable years beginning on or after January 1, 2021, financial institutions will be subject to the corporation income tax.

Corporation Extension of Time to File a Return: A corporation will have not more than seven months beyond the original due date of the return for filing its income tax return, provided that the corporation requests an extension of time and pays the amount properly estimated as its tax by the original due date of the return. The extension of time was expanded by one month because the due date for federal income tax purposes was expanded by that same one-month period

Limited Liability Entity Tax

Financial Institutions: For taxable years beginning on or after January 1, 2021, financial institutions will be subject to the limited liability entity tax.

Clarification of the Minimum Amount of Tax: Clarifications to the statute were made to clarify that the minimum tax is $175.

Property Taxes

Reduced Property Tax Rate for Qualified Heavy Equipment: A rate of five cents ($0.05) upon each $100 of value is imposed on machinery and equipment primarily used for construction, mining, forestry, or industrial purposes and held in a heavy equipment rental company's inventory for rent or sale.

Threshold for Listing Tangible Personal Property: For each address, if the sum of all of the taxable tangible personal property's fair cash values is $1,000 or less, the taxpayer is not required to list the property with the property valuation administrator of the county of taxable situs for that address or with the Department of Revenue.

Protest Period for Tangible Personal Property: The 60-day protest period that is applicable to other tax types will also apply to increases in assessments for tangible personal property.

Sunset of Taxes Imposed on Thrifts, Savings and Loan Associations, and Savings Banks: Beginning January 1, 2021, all savings and loan associations will be subject to the corporation income tax and the limited liability entity tax, similar to other financial institutions, instead of the intangible property taxes imposed under KRS 136.290, 136.300, and 136.310.

Miscellaneous Taxes

Sunset of the Bank Franchise Tax: Beginning January 1, 2021, the state bank franchise tax no longer applies to financial institutions. Financial institutions will become subject to the corporation income tax and the limited liability entity tax.
Financial institutions will remain subject to all application local government franchise taxes currently imposed.

TVA in-lieu-of-tax payments: A portion of the revenue from the Tennessee Valley Authority (TVA) in-lieu-of-tax that is currently deposited in the general fund will be deposited into the regional development agency assistance fund. This portion shall be:

- $2 million in fiscal year 2018-2019;
- $4 million in fiscal year 2019-2020; and
- $6 million in each fiscal year thereafter.

- The regional development agency assistance fund shall be used to provide funds to agencies through the Regional Development Agency Assistance Program for economic development; job creation activities; acquiring federal, state, or private matching funds; and debt service of approved projects. The funds shall be distributed to agencies that have been designated by a fiscal court of a county with TVA property located in its county or that purchases power from the TVA. Each agency's share shall be calculated as the total amount of funds transferred to the regional development agency assistance fund in that fiscal year divided by the total number of agencies that requested to receive the funds. Additionally, statutory amendments were made to clarify the duties related to the administration of the TVA-in-lieu-of-tax payments between the Department of Revenue and the Department of Local Government.

Multichannel Video Programming and Communications Services Tax Changes - Video Streaming: Beginning July 1, 2019, video streaming services are taxable as a multichannel video programming service. The video streaming services provider will be required to collect a 3% excise tax imposed on the sales price of the service and to pay a gross receipts tax of 2.4%. Both taxes may be passed to the customer.

Pari-mutuel taxes: The Breeder’s Cup tax exemptions are made permanent. The exemptions are for the excise tax imposed on a track conducting pari-mutuel wagering on live racing under the jurisdiction of the Kentucky Horse Racing Commission, if that track conducts a two day international horse racing event that distributes in excess of a total of $20 million in purses and awards. The exemptions apply to:

- The money wagered at the track on live races conducted at the track during the event; and
- The calculation of the daily average live handle, by allowing an exclusion of the amounts wagered at the track on live races conducted at the track during the event.

Alcohol Taxes, relating to small farm wineries: The statutes were clarified to state that the first 50,000 gallons of wine produced by a small farm winery in a calendar year are exempt from tax.

Alcohol Taxes, relating to microbreweries: Microbreweries are required to report and pay taxes directly to the Department of Revenue, instead of reporting to the distributor, on the wholesale sales made directly to consumers. The authorization to deduct 1% of the tax due was eliminated, thus increasing the amount that will be collected by the Department of Revenue from the microbreweries.

Administrative Provisions

- No arrangement or contract shall be entered into by the Department of Revenue for the services of examining a taxpayer's books and records, collecting a tax from a taxpayer, or providing legal representation for the department if any part of the compensation is based on the amount of tax, interest, fee, or penalty assessed against or collected from the taxpayer.
- Collection of tax is stayed by the filing of a petition or an appeal to any court. A supersedeas bond is no longer required.
- For assessments issued prior to July 1, 2018, taxpayers have 45 days to protest the assessment. For assessments issued on or after July 1, 2018, taxpayers have 60 days to protest the assessment.
- An employer issuing more than 25 withholding statements shall electronically file those statements.
- For taxable years beginning on or after January 1, 2019, a corporation or pass-through entity that has gross receipts of $1 million or more shall electronically file income tax returns.
- Criminal penalties related to Department of Revenue employees were clarified to state that that information acquired by the Department of Revenue while performing the function of tax

administration is prohibited from divulgence or disclosure and that employees are protected from criminal penalties if documents are provided pursuant to an order issued by a court

- The statute of limitation was extended to the greater of the normal four-year period or 180 days from the date an assessment becomes final so that partners, members, or shareholders have time to file amended returns requesting any refund of tax for the taxable years of the assessment and to allow for items of income, deduction, and credit to be properly reported on the returns of the partner, member, or shareholder.

ROAD FUND

Fees for Disabled parking Placards: A $10 fee was established for disabled parking placards if a second placard is requested or a replacement placard is obtained and the damaged placard is not returned to the clerk. $8 of the $10 fee is deposited in the Road Fund and the remaining $2 is retained by the clerk.

OTHER FUNDS

New Tire Fee: Beginning July 1, 2018, the new tire fee was imposed upon a retailer and increased to $2 for each new tire purchased. Sales and use tax will also be imposed upon the new tire fee. The new tire fee is deposited into the waste tire fund and used to oversee the management of waste tires, including cleaning up abandoned waste tire piles and preventing illegal dumping of waste tires