

AN ACT relating to taxation and declaring an emergency.

Be it enacted by the General Assembly of the Commonwealth of Kentucky:

1 Section 1. KRS 141.010 is amended to read as follows:

2 As used in this chapter, unless the context requires otherwise:

- 3 (1) "Commissioner" means the commissioner of the Department of Revenue;
- 4 (2) "Department" means the Department of Revenue;
- 5 (3) "Internal Revenue Code" means the Internal Revenue Code in effect on December
6 31, 2004, exclusive of any amendments made subsequent to that date, other than
7 amendments that extend provisions in effect on December 31, 2004, that would
8 otherwise terminate, and as modified by KRS 141.0101, except that for property
9 placed in service after September 10, 2001, only the depreciation and expense
10 deductions allowed under Sections 168 and 179 of the Internal Revenue Code in
11 effect on December 31, 2001, exclusive of any amendments made subsequent to
12 that date, shall be allowed, and including the provisions of the Military Family Tax
13 Relief Act of 2003, Pub. L. No. 108-121, effective on the dates specified in that
14 Act;
- 15 (4) "Dependent" means those persons defined as dependents in the Internal Revenue
16 Code;
- 17 (5) "Fiduciary" means "fiduciary" as defined in Section 7701(a)(6) of the Internal
18 Revenue Code;
- 19 (6) "Fiscal year" means "fiscal year" as defined in Section 7701(a)(24) of the Internal
20 Revenue Code;
- 21 (7) "Individual" means a natural person;
- 22 (8) "Modified gross income" means ***the greater of:***
- 23 ***(a)*** Adjusted gross income as defined in Section 62 of the Internal Revenue Code
24 of 1986, including any subsequent amendments in effect on December 31 of
25 the taxable year, and adjusted as follows:

1 that these contributions shall not be included as gross income until such time
2 as the contributions are distributed or made available to the employee;

3 (e) Exclude Social Security and railroad retirement benefits subject to federal
4 income tax;

5 (f) Include, for taxable years ending before January 1, 1991, all overpayments of
6 federal income tax refunded or credited for taxable years;

7 (g) Deduct, for taxable years ending before January 1, 1991, federal income tax
8 paid for taxable years ending before January 1, 1990;

9 (h) Exclude any money received because of a settlement or judgment in a lawsuit
10 brought against a manufacturer or distributor of "Agent Orange" for damages
11 resulting from exposure to Agent Orange by a member or veteran of the
12 Armed Forces of the United States or any dependent of such person who
13 served in Vietnam;

14 (i) 1. For taxable years ending prior to December 31, 2005, exclude the
15 applicable amount of total distributions from pension plans, annuity
16 contracts, profit-sharing plans, retirement plans, or employee savings
17 plans.

18 The "applicable amount" shall be:

19 a. Twenty-five percent (25%), but not more than six thousand two
20 hundred fifty dollars (\$6,250), for taxable years beginning after
21 December 31, 1994, and before January 1, 1996;

22 b. Fifty percent (50%), but not more than twelve thousand five
23 hundred dollars (\$12,500), for taxable years beginning after
24 December 31, 1995, and before January 1, 1997;

25 c. Seventy-five percent (75%), but not more than eighteen thousand
26 seven hundred fifty dollars (\$18,750), for taxable years beginning
27 after December 31, 1996, and before January 1, 1998; and

- 1 d. One hundred percent (100%), but not more than thirty-five
2 thousand dollars (\$35,000), for taxable years beginning after
3 December 31, 1997.
- 4 2. For taxable years beginning after December 31, 2005, exclude up to
5 forty-one thousand one hundred ten dollars (\$41,110) of total
6 distributions from pension plans, annuity contracts, profit-sharing plans,
7 retirement plans, or employee savings plans.
- 8 3. As used in this paragraph:
- 9 a. "Distributions" includes, but is not limited to, any lump-sum
10 distribution from pension or profit-sharing plans qualifying for the
11 income tax averaging provisions of Section 402 of the Internal
12 Revenue Code; any distribution from an individual retirement
13 account as defined in Section 408 of the Internal Revenue Code;
14 and any disability pension distribution;
- 15 b. "Annuity contract" has the same meaning as set forth in Section
16 1035 of the Internal Revenue Code; and
- 17 c. "Pension plans, profit-sharing plans, retirement plans, or employee
18 savings plans" means any trust or other entity created or organized
19 under a written retirement plan and forming part of a stock bonus,
20 pension, or profit-sharing plan of a public or private employer for
21 the exclusive benefit of employees or their beneficiaries and
22 includes plans qualified or unqualified under Section 401 of the
23 Internal Revenue Code and individual retirement accounts as
24 defined in Section 408 of the Internal Revenue Code;
- 25 (j) 1. a. Exclude the portion of the distributive share of a shareholder's net
26 income from an S corporation subject to the franchise tax imposed

- 1 under KRS 136.505 or the capital stock tax imposed under KRS
2 136.300; and
- 3 b. Exclude the portion of the distributive share of a shareholder's net
4 income from an S corporation related to a qualified subchapter S
5 subsidiary subject to the franchise tax imposed under KRS
6 136.505 or the capital stock tax imposed under KRS 136.300.
- 7 2. The shareholder's basis of stock held in a S corporation where the S
8 corporation or its qualified subchapter S subsidiary is subject to the
9 franchise tax imposed under KRS 136.505 or the capital stock tax
10 imposed under KRS 136.300 shall be the same as the basis for federal
11 income tax purposes;
- 12 (k) Exclude for taxable years beginning after December 31, 1998, to the extent
13 not already excluded from gross income, any amounts paid for health
14 insurance, or the value of any voucher or similar instrument used to provide
15 health insurance, which constitutes medical care coverage for the taxpayer,
16 the taxpayer's spouse, and dependents during the taxable year. Any amounts
17 paid by the taxpayer for health insurance that are excluded pursuant to this
18 paragraph shall not be allowed as a deduction in computing the taxpayer's net
19 income under subsection (11) of this section;
- 20 (l) Exclude income received for services performed as a precinct worker for
21 election training or for working at election booths in state, county, and local
22 primary, regular, or special elections;
- 23 (m) Exclude any amount paid during the taxable year for insurance for long-term
24 care as defined in KRS 304.14-600;
- 25 (n) Exclude any capital gains income attributable to property taken by eminent
26 domain;

- 1 (o) Exclude any amount received by a producer of tobacco or a tobacco quota
2 owner from the multistate settlement with the tobacco industry, known as the
3 Master Settlement Agreement, signed on November 22, 1998;
- 4 (p) Exclude any amount received from the secondary settlement fund, referred to
5 as "Phase II," established by tobacco companies to compensate tobacco
6 farmers and quota owners for anticipated financial losses caused by the
7 national tobacco settlement;
- 8 (q) Exclude any amount received from funds of the Commodity Credit
9 Corporation for the Tobacco Loss Assistance Program as a result of a
10 reduction in the quantity of tobacco quota allotted;
- 11 (r) Exclude any amount received as a result of a tobacco quota buydown program
12 that all quota owners and growers are eligible to participate in;
- 13 (s) Exclude state Phase II payments received by a producer of tobacco or a
14 tobacco quota owner; and
- 15 (t) Exclude all income from all sources for active duty and reserve members and
16 officers of the Armed Forces of the United States or National Guard who are
17 killed in the line of duty, for the year during which the death occurred and the
18 year prior to the year during which the death occurred. For the purposes of
19 this paragraph, "all income from all sources" shall include all federal and state
20 death benefits payable to the estate or any beneficiaries;
- 21 (11) "Net income" in the case of taxpayers other than corporations means adjusted gross
22 income as defined in subsection (10) of this section, minus the standard deduction
23 allowed by KRS 141.081, or, at the option of the taxpayer, minus the deduction
24 allowed by KRS 141.0202, minus any amount paid for vouchers or similar
25 instruments that provide health insurance coverage to employees or their families,
26 and minus all the deductions allowed individuals by Chapter 1 of the Internal
27 Revenue Code as modified by KRS 141.0101 except those listed below, except that

1 deductions shall be limited to amounts allocable to income subject to taxation under
2 the provisions of this chapter and that nothing in this chapter shall be construed to
3 permit the same item to be deducted more than once:

- 4 (a) Any deduction allowed by the Internal Revenue Code for state or foreign
5 taxes measured by gross or net income, including state and local general sales
6 taxes allowed in lieu of state and local income taxes under the provisions of
7 Section 164(b)(5) of the Internal Revenue Code;
- 8 (b) Any deduction allowed by the Internal Revenue Code for amounts allowable
9 under KRS 140.090(1)(h) in calculating the value of the distributive shares of
10 the estate of a decedent, unless there is filed with the income return a
11 statement that such deduction has not been claimed under KRS 140.090(1)(h);
- 12 (c) The deduction for personal exemptions allowed under Section 151 of the
13 Internal Revenue Code and any other deductions in lieu thereof; and
- 14 (d) Any deduction for amounts paid to any club, organization, or establishment
15 which has been determined by the courts or an agency established by the
16 General Assembly and charged with enforcing the civil rights laws of the
17 Commonwealth, not to afford full and equal membership and full and equal
18 enjoyment of its goods, services, facilities, privileges, advantages, or
19 accommodations to any person because of race, color, religion, national
20 origin, or sex, except nothing shall be construed to deny a deduction for
21 amounts paid to any religious or denominational club, group, or establishment
22 or any organization operated solely for charitable or educational purposes
23 which restricts membership to persons of the same religion or denomination
24 in order to promote the religious principles for which it is established and
25 maintained;

- 1 (12) "Gross income," in the case of corporations, means "gross income" as defined in
2 Section 61 of the Internal Revenue Code and as modified by KRS 141.0101 and
3 adjusted as follows:
- 4 (a) Exclude income that is exempt from state taxation by the Kentucky
5 Constitution and the Constitution and statutory laws of the United States;
 - 6 (b) Exclude all dividend income received after December 31, 1969;
 - 7 (c) Include interest income derived from obligations of sister states and political
8 subdivisions thereof;
 - 9 (d) Exclude fifty percent (50%) of gross income derived from any disposal of
10 coal covered by Section 631(c) of the Internal Revenue Code if the
11 corporation does not claim any deduction for percentage depletion, or for
12 expenditures attributable to the making and administering of the contract
13 under which such disposition occurs or to the preservation of the economic
14 interests retained under such contract;
 - 15 (e) Include in the gross income of lessors income tax payments made by lessees
16 to lessors, under the provisions of Section 110 of the Internal Revenue Code,
17 and exclude such payments from the gross income of lessees;
 - 18 (f) Include the amount calculated under KRS 141.205;
 - 19 (g) Ignore the provisions of Section 281 of the Internal Revenue Code in
20 computing gross income;
 - 21 (h) Exclude income from "safe harbor leases" (Section 168(f)(8) of the Internal
22 Revenue Code);
 - 23 (i) Exclude any amount received by a producer of tobacco or a tobacco quota
24 owner from the multistate settlement with the tobacco industry, known as the
25 Master Settlement Agreement, signed on November 22, 1998;
 - 26 (j) Exclude any amount received from the secondary settlement fund, referred to
27 as "Phase II," established by tobacco companies to compensate tobacco

- 1 farmers and quota owners for anticipated financial losses caused by the
2 national tobacco settlement;
- 3 (k) Exclude any amount received from funds of the Commodity Credit
4 Corporation for the Tobacco Loss Assistance Program as a result of a
5 reduction in the quantity of tobacco quota allotted;
- 6 (l) Exclude any amount received as a result of a tobacco quota buydown program
7 that all quota owners and growers are eligible to participate in;
- 8 (m) **For taxable years beginning after December 31, 2004, and before January**
9 **1, 2007,** exclude the distributive share income or loss received from a
10 corporation **defined in paragraph (b) of subsection (24) of this section whose**
11 **income has been** subject to the tax imposed by KRS 141.040. **The exclusion**
12 **provided in this paragraph shall also apply to a taxable year that begins**
13 **prior to January 1, 2005, if the tax imposed by Section 3 of this Act is paid**
14 **on the distributive share income by a corporation defined in subparagraphs**
15 **2. to 8. of subsection (24)(b) of this section with a return filed for a period of**
16 **less than twelve (12) months that begins on or after January 1, 2005, and**
17 **ends on or before December 31, 2005. This paragraph shall not be used to**
18 **delay payment of the tax imposed by KRS 141.040;** and
- 19 (n) Exclude state Phase II payments received by a producer of tobacco or a
20 tobacco quota owner;
- 21 (13) "Net income," in the case of corporations, means "gross income" as defined in
22 subsection (12) of this section minus the deduction allowed by KRS 141.0202,
23 minus any amount paid for vouchers or similar instruments that provide health
24 insurance coverage to employees or their families, and minus all the deductions
25 from gross income allowed corporations by Chapter 1 of the Internal Revenue Code
26 and as modified by KRS 141.0101, except the following:

- 1 (a) Any deduction for a state tax which is computed, in whole or in part, by
2 reference to gross or net income and which is paid or accrued to any state of
3 the United States, the District of Columbia, the Commonwealth of Puerto
4 Rico, any territory or possession of the United States, or to any foreign
5 country or political subdivision thereof;
- 6 (b) The deductions contained in Sections 243, 244, 245, and 247 of the Internal
7 Revenue Code;
- 8 (c) The provisions of Section 281 of the Internal Revenue Code shall be ignored
9 in computing net income;
- 10 (d) Any deduction directly or indirectly allocable to income which is either
11 exempt from taxation or otherwise not taxed under the provisions of this
12 chapter, and nothing in this chapter shall be construed to permit the same item
13 to be deducted more than once;
- 14 (e) Exclude expenses related to "safe harbor leases" (Section 168(f)(8) of the
15 Internal Revenue Code);
- 16 (f) Any deduction for amounts paid to any club, organization, or establishment
17 which has been determined by the courts or an agency established by the
18 General Assembly and charged with enforcing the civil rights laws of the
19 Commonwealth, not to afford full and equal membership and full and equal
20 enjoyment of its goods, services, facilities, privileges, advantages, or
21 accommodations to any person because of race, color, religion, national
22 origin, or sex, except nothing shall be construed to deny a deduction for
23 amounts paid to any religious or denominational club, group, or establishment
24 or any organization operated solely for charitable or educational purposes
25 which restricts membership to persons of the same religion or denomination
26 in order to promote the religious principles for which it is established and
27 maintained; and

- 1 (g) Any deduction prohibited by KRS 141.205;
- 2 (14) (a) "Taxable net income," in the case of corporations that are taxable in this state,
3 means "net income" as defined in subsection (13) of this section;
- 4 (b) "Taxable net income," in the case of corporations that are taxable in this state
5 and taxable in another state, means "net income" as defined in subsection (13)
6 of this section and as allocated and apportioned under KRS 141.120. A
7 corporation is taxable in another state if, in any state other than Kentucky, the
8 corporation is required to file a return for or pay a net income tax, franchise
9 tax measured by net income, franchise tax for the privilege of doing business,
10 or corporate stock tax;
- 11 (c) "Taxable net income" in the case of homeowners' associations as defined in
12 Section 528(c) of the Internal Revenue Code, means "taxable income" as
13 defined in Section 528(d) of the Internal Revenue Code. Notwithstanding the
14 provisions of subsection (3) of this section, the Internal Revenue Code
15 sections referred to in this paragraph shall be those code sections in effect for
16 the applicable tax year; and
- 17 (d) "Taxable net income" in the case of a corporation that meets the requirements
18 established under Section 856 of the Internal Revenue Code to be a real estate
19 investment trust, means "real estate investment trust taxable income" as
20 defined in Section 857(b)(2) of the Internal Revenue Code;
- 21 (15) "Person" means "person" as defined in Section 7701(a)(1) of the Internal Revenue
22 Code;
- 23 (16) "Taxable year" means the calendar year or fiscal year ending during such calendar
24 year, upon the basis of which net income is computed, and in the case of a return
25 made for a fractional part of a year under the provisions of this chapter or under
26 regulations prescribed by the commissioner, "taxable year" means the period for
27 which the return is made;

- 1 (17) "Resident" means an individual domiciled within this state or an individual who is
 2 not domiciled in this state, but maintains a place of abode in this state and spends in
 3 the aggregate more than one hundred eighty-three (183) days of the taxable year in
 4 this state;
- 5 (18) "Nonresident" means any individual not a resident of this state;
- 6 (19) "Employer" means "employer" as defined in Section 3401(d) of the Internal
 7 Revenue Code;
- 8 (20) "Employee" means "employee" as defined in Section 3401(c) of the Internal
 9 Revenue Code;
- 10 (21) "Number of withholding exemptions claimed" means the number of withholding
 11 exemptions claimed in a withholding exemption certificate in effect under KRS
 12 141.325, except that if no such certificate is in effect, the number of withholding
 13 exemptions claimed shall be considered to be zero;
- 14 (22) "Wages" means "wages" as defined in Section 3401(a) of the Internal Revenue
 15 Code and includes other income subject to withholding as provided in Section
 16 3401(f) and Section 3402(k), (o), (p), (q), and (s) of the Internal Revenue Code;
- 17 (23) "Payroll period" means "payroll period" as defined in Section 3401(b) of the
 18 Internal Revenue Code;
- 19 (24) **(a) For taxable years beginning before January 1, 2005, and after December**
 20 **31, 2006, "corporation" means "corporation" as defined in Section**
 21 **7701(a)(3) of the Internal Revenue Code; and**
- 22 **(b) For taxable years beginning after December 31, 2004, and before January**
 23 **1, 2007,** "corporations" means:
- 24 **1.{(a)}** "Corporations" as defined in Section 7701(a)(3) of the Internal
 25 Revenue Code;
- 26 **2.{(b)}** S corporations as defined in Section 1361(a) of the Internal
 27 Revenue Code;

- 1 ~~3.(e)~~ A foreign limited liability company as defined in KRS 275.015(6);
- 2 ~~4.(d)~~ A limited liability company as defined in KRS 275.015(8);
- 3 ~~5.(e)~~ A professional limited liability company as defined in KRS
- 4 275.015(19);
- 5 ~~6.(f)~~ A foreign limited partnership as defined in KRS 362.401(4);
- 6 ~~7.(g)~~ A limited partnership as defined in KRS 362.401(7);
- 7 ~~8.(h)~~ A registered limited liability partnership as defined in KRS
- 8 362.155(7);
- 9 ~~9.(i)~~ A real estate investment trust as defined in Section 856 of the
- 10 Internal Revenue Code;
- 11 ~~10.(j)~~ A regulated investment company as defined in Section 851 of the
- 12 Internal Revenue Code;
- 13 ~~11.(k)~~ A real estate mortgage investment conduit as defined in Section
- 14 860D of the Internal Revenue Code;
- 15 ~~12.(l)~~ A financial asset securitization investment trust as defined in
- 16 Section 860L of the Internal Revenue Code; and
- 17 ~~13.(m)~~ Other similar entities created with limited liability for their
- 18 partners, members, or shareholders.
- 19 *For purposes of this paragraph,* "corporation" shall not include any publicly
- 20 traded partnership as defined by Section 7704(b) of the Internal Revenue
- 21 Code that is treated as a partnership for federal tax purposes under Section
- 22 7704(c) of the Internal Revenue Code or its publicly traded partnership
- 23 affiliates. *As used in this paragraph,* "publicly traded partnership affiliates"
- 24 shall include any limited liability company or limited partnership for which at
- 25 least eighty percent (80%) of the limited liability company member interests
- 26 or limited partner interests are owned directly or indirectly by the publicly
- 27 traded partnership;

- 1 (25) "Doing business in this state" includes but is not limited to:
- 2 (a) Being organized under the laws of this state;
- 3 (b) Having a commercial domicile in this state;
- 4 (c) Owning or leasing property in this state;
- 5 (d) Having one (1) or more individuals performing services in this state;
- 6 (e) Maintaining an interest in a pass-through entity~~[general partnership]~~ doing
- 7 business in this state;
- 8 (f) Deriving income from or attributable to sources within this state, including
- 9 deriving income directly or indirectly from a trust doing business in this state,
- 10 or deriving income directly or indirectly from a single-member limited
- 11 liability company that is doing business in this state and is disregarded as
- 12 an entity separate from its single member for federal income tax purposes;
- 13 or
- 14 (g) Directing activities at Kentucky customers for the purpose of selling them
- 15 goods or services.

16 Nothing in this subsection shall be interpreted in a manner that goes beyond the

17 limitations imposed and protections provided by the United States Constitution or

18 Pub. L. No. 86-272;

19 (26) "Pass-through entity" means any partnership, S corporation, limited liability

20 company, limited liability partnership, limited partnership, or similar entity

21 recognized by the laws of this state that is not taxed for federal purposes at the

22 entity level, but instead passes to each partner, member, shareholder, or owner

23 their proportionate share of income, deductions, gains, losses, credits, and any

24 other similar attributes;

25 (27) "S corporation" means "S corporation" as defined in Section 1361(a) of the

26 Internal Revenue Code; and

1 (28) "Limited liability pass-through entity" means any pass-through entity that
 2 affords any of its partners, members, shareholders, or owners, through function
 3 of the laws of this state or laws recognized by this state, protection from general
 4 liability for actions of the entity["Cost of goods sold" means the cost of goods sold

5 calculated using the same method specified by the Internal Revenue Service for the
 6 purpose of computing federal income tax. In determining cost of goods sold:

7 (a) Labor costs shall be limited to direct labor costs as defined in subsection (28)
 8 of this section; and

9 (b) Bulk delivery costs as defined in subsection (29) of this section may be
 10 included;

11 ~~(27) "Kentucky gross profits" means Kentucky gross receipts reduced by returns and~~
 12 ~~allowances attributable to Kentucky gross receipts, less the cost of goods sold~~
 13 ~~attributable to Kentucky gross receipts;~~

14 ~~(28) "Direct labor" means labor that is incorporated into the product sold or is an~~
 15 ~~integral part of the manufacturing process; and~~

16 ~~(29) "Bulk delivery costs" means the cost of delivering the product to the consumer if~~
 17 ~~the product is delivered in bulk and requires specialized equipment that generally~~
 18 ~~precludes commercial shipping and is taxable under KRS 138.220}.~~

19 Section 2. KRS 141.0205 is amended to read as follows:

20 If a taxpayer is entitled to more than one (1) of the tax credits allowed against the tax
 21 imposed by KRS 141.020, ~~[or]~~ 141.040, and Section 4 of this Act, the priority of
 22 application and use of the credits shall be determined as follows:

23 (1) The nonrefundable business incentive credits against the tax imposed by KRS
 24 141.020 shall be taken in the following order:

25 (a) 1. For taxable years beginning after December 31, 2004, and before
 26 January 1, 2007, the corporation income tax credit permitted by KRS
 27 141.420(3)(a);

1 **2. For taxable years beginning after December 31, 2006, the limited**
 2 **liability entity tax credit permitted by Section 4 of this Act:**

- 3 (b) The economic development credits computed under KRS 141.347, 141.400,
 4 **141.401**, 141.403, 141.407, **141.415**, and 154.12-2088;
- 5 (c) The certified rehabilitation credit permitted by KRS 171.397;
- 6 (d) The health insurance credit permitted by KRS 141.062;
- 7 (e) The tax paid to other states credit permitted by KRS 141.070;
- 8 (f) The credit for hiring the unemployed permitted by KRS 141.065;
- 9 (g) The recycling or composting equipment credit permitted by KRS 141.390;
- 10 (h) The tax credit for cash contributions in investment funds permitted by KRS
 11 154.20-263 in effect prior to July 15, 2002, and the credit permitted by KRS
 12 154.20-258;
- 13 (i) The coal incentive credit permitted under KRS 141.0405;
- 14 (j) The research facilities credit permitted under KRS 141.395;
- 15 (k) The employer GED incentive credit permitted under KRS 151B.127;
- 16 (l) The voluntary environmental remediation credit permitted by KRS 141.418;
- 17 (m) The biodiesel credit permitted by KRS 141.423;
- 18 (n) The environmental stewardship credit permitted by KRS 154.48-025; and
- 19 (o) The clean coal incentive credit permitted by KRS 141.428.
- 20 (2) After the application of the nonrefundable credits in subsection (1) of this section,
 21 the nonrefundable personal tax credits against the tax imposed by KRS 141.020
 22 shall be taken in the following order:
- 23 (a) The individual credits permitted by KRS 141.020(3);
- 24 (b) The credit permitted by KRS 141.066;
- 25 (c) The tuition credit permitted by KRS 141.069; and
- 26 (d) The household and dependent care credit permitted by KRS 141.067.

- 1 (3) After the application of the nonrefundable credits provided for in subsection (2) of
 2 this section, the refundable credits against the tax imposed by KRS 141.020 shall be
 3 taken in the following order:
- 4 (a) The individual withholding tax credit permitted by KRS 141.350;
 - 5 (b) The individual estimated tax payment credit permitted by KRS 141.305; and
 - 6 (c) *For taxable years beginning after December 31, 2004, and before January*
 7 *1, 2007,* the corporation income tax credit permitted by KRS 141.420(3)(c).
- 8 (4) *The nonrefundable credit permitted by Section 4 of this Act shall be applied*
 9 *against the tax imposed by KRS 141.040.*
- 10 (5) The *following* nonrefundable credits *shall be applied* against the *sum of the* tax
 11 imposed by KRS 141.040 *after subtracting the credit provided for in subsection*
 12 *(4) of this section, and the tax imposed by Section 4 of this Act*~~[shall be taken]~~ in
 13 the following order:
- 14 (a) The economic development credits computed under KRS 141.347, 141.400,
 15 *141.401,* 141.403, 141.407, *141.415,* and 154.12-2088;
 - 16 (b) The certified rehabilitation credit permitted by KRS 171.397;
 - 17 (c) The health insurance credit permitted by KRS 141.062;
 - 18 (d) The unemployment credit permitted by KRS 141.065;
 - 19 (e) The recycling or composting equipment credit permitted by KRS 141.390;
 - 20 (f) The coal conversion credit permitted by KRS 141.041;
 - 21 (g) The enterprise zone credit permitted by KRS 154.45-090, for taxable periods
 22 ending prior to January 1, 2008;
 - 23 (h) The tax credit for cash contributions to investment funds permitted by KRS
 24 154.20-263 in effect prior to July 15, 2002, and the credit permitted by KRS
 25 154.20-258;
 - 26 (i) The coal incentive credit permitted under KRS 141.0405;
 - 27 (j) The research facilities credit permitted under KRS 141.395;

- 1 (k) The employer GED incentive credit permitted under KRS 151B.127;
- 2 (l) The voluntary environmental remediation credit permitted by KRS 141.418;
- 3 (m) The biodiesel credit permitted by KRS 141.423;
- 4 (n) The environmental stewardship credit permitted by KRS 154.48-025; and
- 5 (o) The clean coal incentive credit permitted by KRS 141.428.

6 ~~(6)~~~~(5)~~ After the application of the nonrefundable credits in subsection ~~(5)~~~~(4)~~ of this
 7 section, the refundable corporation estimated tax payment credit permitted by KRS
 8 141.044 shall be allowed as a credit against the ***total of any remaining taxes***~~[tax]~~
 9 imposed by KRS 141.040 ***and the tax imposed by Section 4 of this Act.***

10 Section 3. KRS 141.040 is amended to read as follows:

- 11 (1) Every corporation doing business in this state, except those corporations listed in
- 12 paragraphs (a) to ~~(i)~~~~(h)~~ of this subsection, shall pay for each taxable year a tax to
- 13 be computed by the taxpayer on taxable net income or the alternative minimum
- 14 calculation computed under this section at the rates specified in this section:
 - 15 (a) Financial institutions, as defined in KRS 136.500, except bankers banks
 - 16 organized under KRS 287.135;
 - 17 (b) Savings and loan associations organized under the laws of this state and under
 - 18 the laws of the United States and making loans to members only;
 - 19 (c) Banks for cooperatives;
 - 20 (d) Production credit associations;
 - 21 (e) Insurance companies, including farmers or other mutual hail, cyclone,
 - 22 windstorm, or fire insurance companies, insurers, and reciprocal underwriters;
 - 23 (f) Corporations or other entities exempt under Section 501 of the Internal
 - 24 Revenue Code;
 - 25 (g) Religious, educational, charitable, or like corporations not organized or
 - 26 conducted for pecuniary profit;~~and~~

1 (h) Corporations whose only owned or leased property located in this state is
 2 located at the premises of a printer with which it has contracted for printing,
 3 provided that:

- 4 1. The property consists of the final printed product, or copy from which
 5 the printed product is produced; and
- 6 2. The corporation has no individuals receiving compensation in this state
 7 as provided in KRS 141.120(8)(b); **and**

8 **(i) For all taxable years except those beginning after December 31, 2004, and**
 9 **before January 1, 2007, S corporations.**

10 (2) For tax years ending before January 1, 1990, the following rates shall apply:

- 11 (a) Three percent (3%) of the first twenty-five thousand dollars (\$25,000) of
 12 taxable net income;
- 13 (b) Four percent (4%) of the amount of taxable net income in excess of twenty-
 14 five thousand dollars (\$25,000), but not in excess of fifty thousand dollars
 15 (\$50,000);
- 16 (c) Five percent (5%) of the amount of taxable net income in excess of fifty
 17 thousand dollars (\$50,000), but not in excess of one hundred thousand dollars
 18 (\$100,000);
- 19 (d) Six percent (6%) of the amount of taxable net income in excess of one
 20 hundred thousand dollars (\$100,000), but not in excess of two hundred fifty
 21 thousand dollars (\$250,000); and
- 22 (e) Seven and twenty-five one hundredths percent (7.25%) of the amount of
 23 taxable net income in excess of two hundred fifty thousand dollars
 24 (\$250,000).

25 (3) For tax years beginning after December 31, 1989, and before January 1, 2005, the
 26 following rates shall apply:

- 1 (a) Four percent (4%) of the first twenty-five thousand dollars (\$25,000) of
2 taxable net income;
- 3 (b) Five percent (5%) of the amount of taxable net income in excess of twenty-
4 five thousand dollars (\$25,000) but not in excess of fifty thousand dollars
5 (\$50,000);
- 6 (c) Six percent (6%) of the amount of taxable net income in excess of fifty
7 thousand dollars (\$50,000), but not in excess of one hundred thousand dollars
8 (\$100,000);
- 9 (d) Seven percent (7%) of the amount of taxable net income in excess of one
10 hundred thousand dollars (\$100,000), but not in excess of two hundred fifty
11 thousand dollars (\$250,000); and
- 12 (e) Eight and twenty-five one hundredths percent (8.25%) of the amount of
13 taxable net income in excess of two hundred fifty thousand dollars
14 (\$250,000).
- 15 (4) For tax years beginning before January 1, 1990, and ending after December 31,
16 1989, the tax shall be the sum of the amounts determined in paragraphs (a) and (b)
17 as follows:
- 18 (a) Apply the tax rates in subsection (2) of this section to the taxable net income
19 for the year and multiply the result by a fraction, the numerator of which is
20 the number of days from the first day of the taxable year through December
21 31, 1989, and the denominator of which is the total number of days of the
22 taxable year; and
- 23 (b) Apply the tax rates in subsection (3) of this section to the taxable net income
24 for the year and multiply the result by a fraction, the numerator of which is
25 the number of days from January 1, 1990, through the last day of the taxable
26 year and the denominator of which is the total number of days of the taxable
27 year.

- 1 (5) For taxable years beginning after December 31, 2004, and before January 1, 2007,
 2 corporations subject to the tax imposed by this section shall pay the greater of the
 3 tax computed under paragraph (a) of this subsection, the tax computed under
 4 paragraph (b)1. or 2. of this subsection, or the minimum tax imposed by subsection
 5 (7) of this section. The tax computed under this subsection is as follows:
- 6 (a) 1. Four percent (4%) of the first fifty thousand dollars (\$50,000) of taxable
 7 net income;
- 8 2. Five percent (5%) of taxable net income over fifty thousand dollars
 9 (\$50,000) up to one hundred thousand dollars (\$100,000); and
- 10 3. Seven percent (7%) of taxable net income over one hundred thousand
 11 dollars (\$100,000); or
- 12 (b) An alternative minimum calculation of an amount equal to the lesser of the
 13 amount computed under subparagraph 1. or 2. of this paragraph:
- 14 1. *The gross receipts calculation contained in subsection (11) of this*
 15 *section*~~[Nine and one-half cents (\$0.095) per one hundred dollars (\$100)~~
 16 ~~of the corporation's gross receipts. For purposes of this paragraph,~~
 17 ~~"gross receipts" means the numerator of the sales factor under the~~
 18 ~~provisions of KRS 141.120(8)(e)]; or~~
- 19 2. *The gross profits calculation contained in subsection (12) of this*
 20 *section*~~[Seventy-five cents (\$0.75) per one hundred dollars (\$100) of the~~
 21 ~~corporation's Kentucky gross profits].~~
- 22 (6) For taxable years beginning on or after January 1, 2007, *the following rates shall*
 23 *apply*~~[corporations subject to the tax imposed by this section shall pay the greater~~
 24 ~~of the tax computed under paragraph (a) of this subsection, the tax computed under~~
 25 ~~paragraph (b)1. or 2. of this subsection, or the minimum tax imposed by subsection~~
 26 ~~(7) of this section. The tax computed under this subsection is as follows]:~~

1 (a)~~[1.]~~ Four percent (4%) of the first fifty thousand dollars (\$50,000) of taxable
 2 net income;

3 (b)~~[2.]~~ Five percent (5%) of taxable net income over fifty thousand dollars
 4 (\$50,000) up to one hundred thousand dollars (\$100,000); and

5 (c)~~[3.]~~ Six percent (6%) of taxable net income over one hundred thousand
 6 dollars (\$100,000)~~]; or~~

7 ~~(b) An alternative minimum calculation of an amount equal to the lesser of the~~
 8 ~~amount computed under subparagraph 1. or 2. of this paragraph:~~

9 1. ~~a. If the corporation's gross receipts from all sources within and~~
 10 ~~without this state are two million dollars (\$2,000,000) or less, the~~
 11 ~~alternative minimum calculation shall be zero;~~

12 ~~b. If the corporation's gross receipts from all sources within and~~
 13 ~~without this state are greater than two million dollars (\$2,000,000)~~
 14 ~~but less than ten million dollars (\$10,000,000), the alternative~~
 15 ~~minimum calculation shall be nine and one-half cents (\$0.095) per~~
 16 ~~one hundred dollars (\$100) of the corporation's gross receipts from~~
 17 ~~doing business in this state, reduced by an amount equal to one~~
 18 ~~thousand nine hundred dollars (\$1,900) multiplied by a fraction,~~
 19 ~~the numerator of which is ten million dollars (\$10,000,000) less~~
 20 ~~the amount of the corporation's gross receipts from doing business~~
 21 ~~in this state for the taxable year, and the denominator of which is~~
 22 ~~eight million dollars (\$8,000,000), but in no case shall the result be~~
 23 ~~less than zero;~~

24 ~~e. If the corporation's gross receipts from all sources within and~~
 25 ~~without this state are equal to or greater than ten million~~
 26 ~~dollars (\$10,000,000), the alternative minimum calculation shall be~~
 27 ~~nine and one-half cents (\$0.095) per one hundred dollars (\$100) of~~

1 ~~the corporation's gross receipts from doing business in this state;~~

2 ~~or~~

3 ~~2. Seventy-five cents (\$0.75) per one hundred dollars (\$100) of the~~
 4 ~~corporation's Kentucky gross profits. The entire amount of the~~
 5 ~~corporation's gross receipts shall be considered when making the gross~~
 6 ~~profits calculation.~~

7 ~~3. For purposes of this paragraph, "gross receipts from doing business in~~
 8 ~~this state" means the numerator of the sales factor under the provisions~~
 9 ~~of KRS 141.120(8)(e), and "gross receipts from all sources within and~~
 10 ~~without this state" means the denominator of the sales factor under the~~
 11 ~~provisions of KRS 141.120(8)(e)].~~

12 (7) **For taxable years beginning on or after January 1, 2005, and before January 1,**
 13 **2007,** a minimum of one hundred seventy-five dollars (\$175) shall be due for the
 14 taxable year from each corporation subject to the tax imposed by this section,
 15 regardless of the application of any tax credits provided under this chapter or any
 16 other provision of the Kentucky Revised Statutes for which the business entity may
 17 qualify.

18 (8) The alternative minimum calculation portion of the tax computation provided in
 19 **subsection**~~[subsections] (5)[and (6)]~~ of this section shall not apply to:

- 20 (a) Public service corporations subject to tax under KRS 136.120;
- 21 (b) Open-end registered investment companies organized under the laws of this
 22 state and registered under the Investment Company Act of 1940;
- 23 (c) Any property or facility which has been certified as a fluidized bed energy
 24 production facility as defined in KRS 211.390;~~[and]~~
- 25 (d) An alcohol production facility as defined in KRS 247.910; **and**

1 (e) For taxable years beginning after December 31, 2005, and before January
 2 1, 2007, political organizations as defined in Internal Revenue Code Section
 3 527 and related regulations.

4 (9) For taxable years beginning after December 31, 2004, and before January 1,
 5 2007:

6 (a) As used in this subsection, "qualified exempt organization" means an entity
 7 listed in subsection (1)(a) to (h) of this section and shall not include any entity
 8 whose exempt status has been disallowed by the Internal Revenue Service.

9 (b) Notwithstanding any other provisions of this section or KRS 141.010, any
 10 corporation of the type listed in KRS 141.010(24)(b)~~2~~, to ~~8~~~~{(h)}~~ that is owned
 11 in whole or in part by a qualified exempt organization shall, in calculating its
 12 taxable net income, gross receipts, or Kentucky gross profits, exclude the
 13 proportionate share of its taxable net income, gross receipts, or Kentucky
 14 gross profits attributable to the ownership interest of the qualified exempt
 15 organization.

16 (c) Any corporation that reduces taxable net income, gross receipts, or Kentucky
 17 gross profits in accordance with paragraph (b) of this subsection shall
 18 disregard the ownership interest of the qualified exempt organization in
 19 determining the amount of credit available under KRS 141.420.

20 (d) The Department of Revenue may promulgate an administrative regulation to
 21 further define "qualified exempt organization" to include an entity for which
 22 exemption is constitutionally or legally required, or to exclude any entity
 23 created primarily for tax avoidance purposes with no legitimate business
 24 purpose.

25 (10) For taxable years beginning after December 31, 2004, and before January 1,
 26 2007:

1 (a) To the extent that a corporation identified in KRS 141.010(24)(b)~~2~~ to ~~8~~~~{(h)}~~
 2 is doing business in this state, any member, shareholder or partner of the
 3 corporation may elect to pay, on behalf of the corporation, his, her or its
 4 proportionate share of the tax imposed by this section against the corporation.
 5 If an election is made, the electing member, shareholder or partner shall be
 6 treated in the same manner as the corporation regarding the proportionate part
 7 of the tax paid by the member, shareholder or partner. An election made
 8 pursuant to this subsection shall not:

- 9 1. Be used by the Department of Revenue or the taxpayer to assert that the
 10 party making the election is doing business in Kentucky;
- 11 2. Result in an increase of the amount of credit allowable under KRS
 12 141.420; or
- 13 3. Apply to any corporation that is required to be included in a
 14 consolidated return under KRS 141.200(2) to (5) and (9) to (12).

15 (b) The Department of Revenue shall prescribe forms and promulgate regulations
 16 to execute and administer the provisions of this subsection.

17 **(11) The alternative minimum calculation for gross receipts shall be:**

18 **(a) For taxable years beginning on or after January 1, 2005, and before**
 19 **January 1, 2006, nine and one-half cents (\$0.095) per one hundred dollars**
 20 **(\$100) of the corporation's Kentucky gross receipts; and**

21 **(b) For taxable years beginning on or after January 1, 2006, and before**
 22 **January 1, 2007:**

23 **1. If the corporation's gross receipts from all sources are three million**
 24 **dollars (\$3,000,000) or less, the alternative minimum calculation shall**
 25 **be zero;**

26 **2. If the corporation's gross receipts from all sources are greater than**
 27 **three million dollars (\$3,000,000) but less than six million dollars**

1 (\$6,000,000), the alternative minimum calculation shall be nine and
 2 one-half cents (\$0.095) per one hundred dollars (\$100) of the
 3 corporation's Kentucky gross receipts, reduced by an amount equal to
 4 two thousand eight hundred fifty dollars (\$2,850) multiplied by a
 5 fraction, the numerator of which is six million dollars (\$6,000,000)
 6 less the amount of the corporation's Kentucky gross receipts for the
 7 taxable year, and the denominator of which is three million dollars
 8 (\$3,000,000), but in no case shall the result be less than zero;

9 3. If the corporation's gross receipts from all sources are equal to or
 10 greater than six million dollars (\$6,000,000), the alternative minimum
 11 calculation shall be nine and one-half cents (\$0.095) per one hundred
 12 dollars (\$100) of the corporation's Kentucky gross receipts.

13 In determining eligibility for the reductions contained in this paragraph
 14 when the alternative minimum calculation is computed on a consolidated
 15 return, the gross receipts of the affiliated group shall include the total gross
 16 receipts from all sources of the affiliated group, including eliminating
 17 entries for transactions among the group.

18 (12) The alternative minimum calculation for gross profits shall be:

19 (a) For taxable years beginning on or after January 1, 2005, and before
 20 January 1, 2006, seventy-five cents (\$0.75) per one hundred dollars (\$100)
 21 of the corporation's Kentucky gross profits; and

22 (b) For taxable years beginning on or after January 1, 2006, and before
 23 January 1, 2007:

24 1. If the corporation's gross profits from all sources are three million
 25 dollars (\$3,000,000) or less, the tax shall be zero;

26 2. If the corporation's gross profits from all sources are at least three
 27 million dollars (\$3,000,000) but less than six million dollars

1 (\$6,000,000), the tax shall be seventy-five cents (\$0.75) per one
 2 hundred dollars (\$100) of the corporation's Kentucky gross profits,
 3 reduced by an amount equal to twenty-two thousand five hundred
 4 dollars (\$22,500) multiplied by a fraction, the numerator of which is
 5 six million dollars (\$6,000,000) less the amount of the corporation's
 6 Kentucky gross profits, and the denominator of which is three million
 7 dollars (\$3,000,000), but in no case shall the result be less than zero;

8 3. If the corporation's gross profits from all sources are equal to or
 9 greater than six million dollars (\$6,000,000), the tax shall be seventy-
 10 five cents (\$0.75) per one hundred dollars (\$100) on all of the
 11 corporation's Kentucky gross profits.

12 In determining eligibility for the reductions contained in this paragraph
 13 when the alternative minimum calculation is computed on a consolidated
 14 return, the gross profits of the affiliated group shall include the total gross
 15 profits from all sources of the affiliated group, including eliminating entries
 16 for transactions among the group.

17 (13) As used in subsections (11) and (12) of this section:

18 (a) "Kentucky gross receipts" means an amount equal to the computation of
 19 the numerator of the sales factor under the provisions of KRS
 20 141.120(8)(c);

21 (b) "Gross receipts from all sources" means an amount equal to the
 22 computation of the denominator of the sales factor under the provisions of
 23 KRS 141.120(8)(c);and

24 (c) The terms defined in paragraphs (d) to (l) of subsection (1) of Section 4 of
 25 this Act shall have the same meaning as provided in Section 4 of this Act.

26 (14) (a) For taxable years beginning on or after January 1, 2007, an S corporation
 27 shall pay income tax on the same items of income and in the same manner

1 as required for federal purposes, except to the extent required by differences
 2 between this chapter and the federal income tax law and regulations.

3 (b) 1. If the S corporation is required under Section 1363(d) of the Internal
 4 Revenue Code to submit installments of tax on the recapture of LIFO
 5 benefits, installments to pay the Kentucky tax due shall be paid on or
 6 before the due date of the S corporation's return, as extended, if
 7 applicable.

8 2. Notwithstanding KRS 141.170(3), no interest shall be assessed on the
 9 installment payment for the period of extension.

10 (c) If the S corporation is required under Section 1374 or 1375 of the Internal
 11 Revenue Code to pay tax on built-in gains or on passive investment income,
 12 the amount of tax imposed by this subsection shall be computed by applying
 13 the highest rate of tax for the taxable year.

14 SECTION 4. A NEW SECTION OF KRS CHAPTER 141, TO BE NUMBERED
 15 KRS 141.0401, IS CREATED TO READ AS FOLLOWS:

16 (1) As used in this section:

17 (a) "Kentucky gross receipts" means an amount equal to the computation of
 18 the numerator of the sales factor under the provisions of KRS
 19 141.120(8)(c), and includes the proportionate share of Kentucky gross
 20 receipts of all wholly or partially owned limited liability pass-through
 21 entities including all layers of a multi-layered pass-through structure;

22 (b) "Gross receipts from all sources" means an amount equal to the
 23 computation of the denominator of the sales factor under the provisions of
 24 KRS 141.120(8)(c), and includes the proportionate share of gross receipts
 25 from all sources of all wholly or partially owned limited liability pass-
 26 through entities including all layers of a multi-layered pass-through
 27 structure;

1 (c) "Combined group" means all members of an affiliated group as defined in
2 paragraph (b) of subsection (9) of Section 7 of this Act and all limited
3 liability pass-through entities that would be included in an affiliated group
4 if organized as a corporation;

5 (d) "Cost of goods sold" means:

6 1. Amounts that are:

7 a. Allowable as cost of goods sold pursuant to the Internal Revenue
8 Code and any guidelines issued by the Internal Revenue Service
9 relating to cost of goods sold, unless modified by this paragraph;
10 and

11 b. Incurred in acquiring or producing the tangible product
12 generating the Kentucky gross receipts.

13 2. For manufacturing, producing, reselling, retailing, or wholesaling
14 activities, cost of goods sold shall only include costs directly incurred
15 in acquiring or producing the tangible product. In determining cost of
16 goods sold:

17 a. Labor costs shall be limited to direct labor costs as defined in
18 paragraph (f) of this subsection;

19 b. Bulk delivery costs as defined in paragraph (g) of this subsection
20 may be included; and

21 c. Costs allowable under Section 263A of the Internal Revenue
22 Code may be included only to the extent the costs are incurred in
23 acquiring or producing the tangible product generating the
24 Kentucky gross receipts. Notwithstanding the foregoing, indirect
25 labor costs allowable under Section 263A shall not be included;

1 3. For any activity other than manufacturing, producing, reselling,
 2 retailing, or wholesaling, no costs shall be included in cost of goods
 3 sold.

4 As used in this paragraph, "guidelines issued by the Internal Revenue
 5 Service" includes regulations, private letter rulings, or any other guidance
 6 issued by the Internal Revenue Service that may be relied upon by taxpayers
 7 under reliance standards established by the Internal Revenue Service;

8 (e) 1. "Kentucky gross profits" means Kentucky gross receipts reduced by
 9 returns and allowances attributable to Kentucky gross receipts, less
 10 the cost of goods sold attributable to Kentucky gross receipts. If the
 11 amount of returns and allowances attributable to Kentucky gross
 12 receipts and the cost of goods sold attributable to Kentucky gross
 13 receipts is zero, then "Kentucky gross profits" means Kentucky gross
 14 receipts; and

15 2. "Gross profits from all sources" means gross receipts from all sources
 16 reduced by returns and allowances attributable to gross receipts from
 17 all sources, less the cost of goods sold attributable to gross receipts
 18 from all sources. If the amount of returns and allowances attributable
 19 to gross receipts from all sources and the cost of goods sold
 20 attributable to gross receipts from all sources is zero, then gross
 21 profits from all sources means gross receipts from all sources;

22 (f) "Direct labor" means labor that is incorporated into the tangible product
 23 sold or is an integral part of the manufacturing process;

24 (g) "Bulk delivery costs" means the cost of delivering the product to the
 25 consumer if:

26 1. The tangible product is delivered in bulk and requires specialized
 27 equipment that generally precludes commercial shipping; and

- 1 2. The tangible product is taxable under KRS 138.220;
- 2 (h) "Manufacturing" and "producing" means:
- 3 1. Manufacturing, producing, constructing, or assembling components
- 4 to produce a significantly different or enhanced end tangible product;
- 5 2. Mining or severing natural resources from the earth; or
- 6 3. Growing or raising agricultural or horticultural products or animals;
- 7 (i) "Real property" means land and anything growing on, attached to, or
- 8 erected on it, excluding anything that may be severed without injury to the
- 9 land;
- 10 (j) "Reselling," "retailing," and "wholesaling" mean the sale of a tangible
- 11 product;
- 12 (k) "Tangible personal property" means property, other than real property, that
- 13 has physical form and characteristics;
- 14 (l) "Tangible product" means real property and tangible personal property;
- 15 (2) (a) For taxable years beginning on or after January 1, 2007, an annual limited
- 16 liability entity tax shall be paid by every corporation and every limited
- 17 liability pass-through entity doing business in Kentucky on all Kentucky
- 18 gross receipts or Kentucky gross profits except as provided in this
- 19 subsection. A small business exclusion from this tax shall be provided based
- 20 on the reduction contained in this subsection. The tax shall be the greater of
- 21 the amount computed under paragraph (b) of this subsection or one
- 22 hundred seventy-five dollars (\$175), regardless of the application of any tax
- 23 credits provided under this chapter or any other provisions of the Kentucky
- 24 Revised Statutes for which the business entity may qualify.
- 25 (b) The limited liability entity tax shall be the lesser of subparagraph 1. or 2. of
- 26 this paragraph:

1 (\$3,000,000) but less than six million dollars (\$6,000,000), the
 2 limited liability entity tax shall be seventy-five cents (\$0.75) per
 3 one hundred dollars (\$100) of the corporation's or limited
 4 liability pass-through entity's Kentucky gross profits, reduced by
 5 an amount equal to twenty-two thousand five hundred dollars
 6 (\$22,500) multiplied by a fraction, the numerator of which is six
 7 million dollars (\$6,000,000) less the amount of the corporation's
 8 or limited liability pass-through entity's Kentucky gross profits,
 9 and the denominator of which is three million dollars
 10 (\$3,000,000), but in no case shall the result be less than zero;

11 c. If the corporation's or limited liability pass-through entity's
 12 gross profits from all sources are equal to or greater than six
 13 million dollars (\$6,000,000), the limited liability entity tax shall
 14 be seventy-five cents (\$0.75) per one hundred dollars (\$100) of
 15 all of the corporation's or limited liability pass-through entity's
 16 Kentucky gross profits.

17 In determining eligibility for the reductions contained in this paragraph, a
 18 member of a combined group shall consider the combined gross receipts
 19 and the combined gross profits from all sources of the entire combined
 20 group, including eliminating entries for transactions among the group.

21 (c) A credit shall be allowed against the tax imposed under paragraph (a) of
 22 this subsection for the current year to a corporation or limited liability pass-
 23 through entity that owns an interest in a limited liability pass-through
 24 entity. The credit shall be the proportionate share of tax calculated under
 25 this subsection by the lower-level pass-through entity, as determined after
 26 the amount of tax calculated by the pass-through entity has been reduced by
 27 the minimum tax of one hundred seventy-five dollars (\$175). The credit

1 shall apply across multiple layers of a multi-layered pass-through entity
 2 structure. The credit at each layer shall include the credit from each lower
 3 layer, after reduction for the minimum tax of one hundred seventy-five
 4 dollars (\$175) at each layer.

5 (d) The department may promulgate administrative regulations to establish a
 6 method for calculating the cost of goods sold attributable to Kentucky.

7 (3) A nonrefundable credit based on the tax calculated under subsection (2) of this
 8 section shall be allowed against the tax imposed by KRS 141.020 or Section 3 of
 9 this Act. The credit amount shall be determined as follows:

10 (a) The credit allowed a corporation subject to the tax imposed by Section 3 of
 11 this Act shall be equal to the amount of tax calculated under subsection (2)
 12 of this section for the current year after subtraction of any credits identified
 13 in Section 2 of this Act, reduced by the minimum tax of one hundred
 14 seventy-five dollars (\$175), plus any credit determined in paragraph (b) of
 15 this subsection for tax paid by wholly or partially owned limited liability
 16 pass-through entities. The amount of credit allowed to a corporation based
 17 on the amount of tax paid under subsection (2) of this section for the
 18 current year shall be applied to the income tax due from the corporation's
 19 activities in this state. Any remaining credit from the corporation shall be
 20 disallowed.

21 (b) The credit allowed members, shareholders, or partners of a limited liability
 22 pass-through entity shall be the members', shareholders', or partners'
 23 proportionate share of the tax calculated under subsection (2) of this
 24 section for the current year after subtraction of any credits identified in
 25 Section 2 of this Act, as determined after the amount of tax paid has been
 26 reduced by the minimum tax of one hundred seventy-five dollars (\$175).
 27 The credit allowed to members, shareholders, or partners of a limited

1 liability pass-through entity shall be applied to income tax assessed on
 2 income from the limited liability pass-through entity. Any remaining credit
 3 from the limited liability pass-through entity shall be disallowed.

4 (4) Each taxpayer subject to the tax imposed in this section shall file a return, on
 5 forms prepared by the department, on or before the fifteenth day of the fourth
 6 month following the close of the taxpayer's taxable year. Any tax remaining due
 7 after making the payments required in Section 5 of this Act shall be paid by the
 8 original due date of the return.

9 (5) The department shall prescribe forms and promulgate administrative regulations
 10 as needed to administer the provisions of this section.

11 (6) The tax imposed by subsection (2) of this section shall not apply to:

12 (a) Financial institutions, as defined in KRS 136.500, except banker's banks
 13 organized under KRS 287.135 or 286.3-135;

14 (b) Savings and loan associations organized under the laws of this state and
 15 under the laws of the United States and making loans to members only;

16 (c) Banks for cooperatives;

17 (d) Production credit associations;

18 (e) Insurance companies, including farmers' or other mutual hail, cyclone,
 19 windstorm, or fire insurance companies, insurers, and reciprocal
 20 underwriters;

21 (f) Corporations or other entities exempt under Section 501 of the Internal
 22 Revenue Code;

23 (g) Religious, educational, charitable, or like corporations not organized or
 24 conducted for pecuniary profit;

25 (h) Corporations whose only owned or leased property located in this state is
 26 located at the premises of a printer with which it has contracted for
 27 printing, provided that:

- 1 1. The property consists of the final printed product, or copy from which
2 the printed product is produced; and
- 3 2. The corporation has no individuals receiving compensation in this
4 state as provided in KRS 141.120(8)(b);
- 5 (i) Public service corporations subject to tax under KRS 136.120;
6 (j) Open-end registered investment companies organized under the laws of this
7 state and registered under the Investment Company Act of 1940;
8 (k) Any property or facility which has been certified as a fluidized bed energy
9 production facility as defined in KRS 211.390;
10 (l) An alcohol production facility as defined in KRS 247.910;
11 (m) Real estate investment trusts as defined in Section 856 of the Internal
12 Revenue Code;
13 (n) Regulated investment companies as defined in Section 851 of the Internal
14 Revenue Code;
15 (o) Real estate mortgage investment conduits as defined in Section 860D of the
16 Internal Revenue Code;
17 (p) Personal service corporations as defined in Section 269A(b)(1) of the
18 Internal Revenue Code;
19 (q) Cooperatives described in Sections 521 and 1381 of the Internal Revenue
20 Code, including farmers' agricultural and other cooperatives organized or
21 recognized under KRS Chapter 272, advertising cooperatives, purchasing
22 cooperatives, homeowners associations including those described in Section
23 528 of the Internal Revenue Code, political organizations as defined in
24 Section 527 of the Internal Revenue Code, and rural electric and rural
25 telephone cooperatives; or
26 (r) Publicly traded partnerships as defined by Section 7704(b) of the Internal
27 Revenue Code that are treated as partnerships for federal tax purposes

1 under Section 7704(c) of the Internal Revenue Code, or their publicly
2 traded partnership affiliates. "Publicly traded partnership affiliates" shall
3 include any limited liability company or limited partnership for which at
4 least eighty percent (80%) of the limited liability company member interests
5 or limited partner interests are owned directly or indirectly by the publicly
6 traded partnership.

7 (7) (a) As used in this subsection, "qualified exempt organization" means an entity
8 listed in subsection (6)(a) to (r) of this section and shall not include any
9 entity whose exempt status has been disallowed by the Internal Revenue
10 Service.

11 (b) Notwithstanding any other provisions of this section, any limited liability
12 pass-through entity that is owned in whole or in part by a qualified exempt
13 organization shall, in calculating its Kentucky gross receipts or Kentucky
14 gross profits, exclude the proportionate share of its Kentucky gross receipts
15 or Kentucky gross profits attributable to the ownership interest of the
16 qualified exempt organization.

17 (c) Any limited liability pass-through entity that reduces Kentucky gross
18 receipts or Kentucky gross profits in accordance with paragraph (b) of this
19 subsection shall disregard the ownership interest of the qualified exempt
20 organization in determining the amount of credit available under
21 subsection (3) of this section.

22 (d) The Department of Revenue may promulgate an administrative regulation
23 to further define "qualified exempt organization" to include an entity for
24 which exemption is constitutionally or legally required, or to exclude any
25 entity created primarily for tax avoidance purposes with no legitimate
26 business purpose.

1 **(8) The credit permitted by subsection (3) of this section shall flow through multiple**
 2 **layers of limited liability pass-through entities and shall be claimed by the**
 3 **taxpayer who ultimately pays the tax on the income of the limited liability pass-**
 4 **through entity.**

5 Section 5. KRS 141.042 is amended to read as follows:

6 (1) For all taxable years beginning on or after July 1, 1966, every corporation **and**
 7 **limited liability pass-through entity** subject to taxation under KRS 141.040 **and**
 8 **Section 4 of this Act** shall make a declaration of estimated tax if the tax imposed by
 9 KRS 141.040 **and Section 4 of this Act** for the taxable year can reasonably be
 10 expected to exceed five thousand dollars (\$5,000).

11 (2) For taxable years beginning on or after January 1, 2006, the amount of estimated
 12 tax due under the provisions of subsection (1) of this section shall be the amount of
 13 tax due under KRS 141.040 for the previous taxable year, **and for taxable years**
 14 **beginning on or after January 1, 2008, shall include the tax imposed by Section 4**
 15 **of this Act for the previous taxable year,** provided that the **combined** liability for
 16 the previous taxable year was equal to or less than twenty-five thousand dollars
 17 (\$25,000).

18 (3) The declaration required under subsection (1) of this section shall contain the
 19 following information:

20 (a) The amount which is estimated as the amount of tax under KRS 141.040 **and**
 21 **Section 4 of this Act** for the taxable year;

22 (b) The excess of the amount estimated under paragraph (a) of this subsection
 23 over five thousand dollars (\$5,000), which excess for purposes of this section
 24 and KRS 141.044 and 141.205 shall be considered the estimated tax for the
 25 taxable year;

26 (c) Such other information as the department by forms or regulations may
 27 prescribe.

- 1 (4) The declaration required under subsection (1) of this section shall be filed with the
 2 department on or before June 15 of the taxable year, except that if the requirements
 3 of subsection (1) are first met:
- 4 (a) After June 1 and before September 2 of the taxable year, the declaration shall
 5 be filed on or before September 15 of the taxable year;
- 6 (b) After September 1 of the taxable year, the declaration shall be filed on or
 7 before December 15 of the taxable year.
- 8 (5) A corporation *or limited liability pass-through entity* may make amendments of a
 9 declaration filed during the taxable year in accordance with regulations prescribed
 10 by the department. An amendment of a declaration may be filed in any interval
 11 between the installment dates prescribed for that taxable year but only one (1)
 12 amendment may be filed in each such interval. If any amendment of a declaration is
 13 filed, the remaining installments, if any, shall be ratably increased or decreased as
 14 the case may be, to reflect the increase or decrease of the estimated tax by reason of
 15 such amendment. If any amendment is made after September 15 of the taxable year,
 16 any increase in the estimated tax by reason thereof shall be paid in full at the time
 17 of making such amendment.
- 18 (6) A corporation *or limited liability pass-through entity* with a taxable year of less
 19 than twelve (12) months shall make a declaration in accordance with regulations
 20 prescribed by the department.
- 21 (7) The department may grant a reasonable extension of time for filing declarations and
 22 paying the estimated tax under such rules and regulations as it may prescribe. If any
 23 extension operates to postpone a payment of estimated tax, interest at the rate of
 24 eight percent (8%) per annum shall be collected.
- 25 Section 6. KRS 141.120 is amended to read as follows:
- 26 (1) As used in this section, unless the context requires otherwise:

- 1 (a) "Business income" means income arising from transactions and activity in the
2 regular course of a trade or business of the corporation and includes income
3 from tangible and intangible property if the acquisition, management, or
4 disposition of the property constitutes integral parts of the corporation's
5 regular trade or business operations;
- 6 (b) "Commercial domicile" means the principal place from which the trade or
7 business of the corporation is managed;
- 8 (c) "Compensation" means wages, salaries, commissions, and any other form of
9 remuneration paid or payable to employees for personal services;
- 10 (d) "Financial organization" means any bank, trust company, savings bank,
11 industrial bank, land bank, safe deposit company, private banker, savings and
12 loan association, credit union, cooperative bank, investment company, or any
13 type of insurance company;
- 14 (e) "Nonbusiness income" means all income other than business income;
- 15 (f) "Public service company" means any business entity subject to taxation under
16 KRS 136.120;
- 17 (g) "Sales" means all gross receipts of the corporation not allocated under
18 subsections (3) through (7) of this section;
- 19 (h) "State" means any state of the United States, the District of Columbia, the
20 Commonwealth of Puerto Rico, any territory or possession of the United
21 States, and any foreign country or political subdivision thereof.
- 22 (2) Any corporation which is required by KRS 141.010(14)(b) to allocate and
23 apportion its net income shall allocate and apportion its net income as provided in
24 this section.
- 25 (3) Rents and royalties from real, intangible or tangible personal property, capital gains
26 and losses, interest, or patent or copyright royalties, to the extent that they

1 constitute nonbusiness income, shall be allocated as provided in subsections (4)
2 through (7) of this section.

3 (4) (a) Net rents and royalties from real property located in this state are allocable to
4 this state.

5 (b) Net rents and royalties from tangible personal property are allocable to this
6 state if and to the extent that the property is utilized in this state; or in their
7 entirety if the corporation's commercial domicile is in this state and the
8 corporation is not organized under the laws of or taxable in the state in which
9 the property is utilized.

10 (c) The extent of utilization of tangible personal property in a state is determined
11 by multiplying the rents and royalties by a fraction, the numerator of which is
12 the number of days of physical location of the property in the state during the
13 rental or royalty period in the taxable year and the denominator of which is
14 the number of days of physical location of the property everywhere during all
15 rental or royalty periods in the taxable year. If the physical location of the
16 property during the rental or royalty period is unknown or unascertainable by
17 the corporation, the tangible personalty is utilized in the state in which the
18 property was located at the time the rental or royalty payer obtained
19 possession.

20 (d) Net rents and royalties from intangible personal property located in this state
21 are allocable to this state. For purposes of this section, royalties from property
22 leased in Kentucky shall be considered as royalties from intangible personal
23 property.

24 (5) (a) Capital gains and losses from sales or other dispositions of real property
25 located in this state are allocable to this state.

26 (b) Capital gains and losses from sales or other dispositions of tangible personal
27 property are allocable to this state if the property had a situs in this state at the

- 1 time of the sale, or the corporation's commercial domicile is in this state and
2 the corporation is not taxable in the state in which the property had a situs.
- 3 (c) Capital gains and losses from sales or other dispositions of intangible personal
4 property are allocable to this state if the corporation's commercial domicile is
5 in this state.
- 6 (6) Interest is allocable to this state if the corporation's commercial domicile is in this
7 state.
- 8 (7) (a) Patent and copyright royalties are allocable to this state if and to the extent
9 that the patent or copyright is utilized by the payer in this state; or if and to
10 the extent that the patent or copyright is utilized by the payer in a state in
11 which the corporation is not taxable and the corporation's commercial
12 domicile is in this state.
- 13 (b) A patent is utilized in a state to the extent that it is employed in production,
14 fabrication, manufacturing, or other processing in the state or to the extent
15 that a patented product is produced in the state. If the basis of receipts from
16 patent royalties does not permit allocation to states or if the accounting
17 procedures do not reflect states of utilization, the patent is utilized in the state
18 in which the corporation's commercial domicile is located.
- 19 (c) A copyright is utilized in a state to the extent that printing or other publication
20 originates in the state. If the basis of receipts from copyright royalties does
21 not permit allocation to states or if the accounting procedures do not reflect
22 states of utilization, the copyright is utilized in the state in which the
23 corporation's commercial domicile is located.
- 24 (8) Except as provided in subsection (9) of this section, all business income shall be
25 apportioned to this state by multiplying the income by a fraction, the numerator of
26 which is the property factor, representing twenty-five percent (25%) of the fraction,
27 plus the payroll factor, representing twenty-five percent (25%) of the fraction, plus

1 the sales factor, representing fifty percent (50%) of the fraction, and the
2 denominator of which is four (4), reduced by the number of factors, if any, having
3 no denominator, provided that if the sales factor has no denominator, then the
4 denominator shall be reduced by two (2).

5 (a) The property factor is a fraction, the numerator of which is the average value
6 of the corporation's real and tangible personal property owned or rented and
7 used in this state during the tax period and the denominator of which is the
8 average value of all the corporation's real and tangible personal property
9 owned or rented and used during the tax period; provided, however, that
10 property which has been certified as a pollution control facility as defined in
11 KRS 224.01-300 shall be excluded from the property factor.

12 1. Property owned is valued at its original cost. If the original cost of any
13 property is not determinable or is nominal or zero (0) the property shall
14 be valued by the department pursuant to administrative regulations
15 promulgated by the department. Property rented is valued at eight (8)
16 times the net annual rental rate. Net annual rental rate is the annual
17 rental rate paid by the corporation less any annual rental rate received
18 by the corporation from subrentals, provided that the rental and
19 subrentals are reasonable. If the department determines that the annual
20 rental or subrental rate is unreasonable, or if a nominal or zero (0) rate is
21 charged, the department may determine and apply the rental rate as will
22 reasonably reflect the value of the property rented by the corporation.

23 2. The average value of property shall be determined by averaging the
24 values at the beginning and ending of the tax period but the department
25 may require the averaging of monthly values during the tax period if
26 reasonably required to reflect properly the average value of the property.

- 1 (b) The payroll factor is a fraction, the numerator of which is the total amount
2 paid or payable in this state during the tax period by the corporation for
3 compensation, and the denominator of which is the total compensation paid or
4 payable by the corporation everywhere during the tax period. Compensation
5 is paid or payable in this state if:
- 6 1. The individual's service is performed entirely within the state;
 - 7 2. The individual's service is performed both within and without the state,
8 but the service performed without the state is incidental to the
9 individual's service within the state; or
 - 10 3. Some of the service is performed in the state and the base of operations
11 or, if there is no base of operations, the place from which the service is
12 directed or controlled is in the state, or the base of operations or the
13 place from which the service is directed or controlled is not in any state
14 in which some part of the service is performed, but the individual's
15 residence is in this state.
- 16 (c) 1. The sales factor is a fraction, the numerator of which is the total sales of
17 the corporation in this state during the tax period, and the denominator
18 of which is the total sales of the corporation everywhere during the tax
19 period.
- 20 2. Sales of tangible personal property are in this state if:
 - 21 a. The property is delivered or shipped to a purchaser, other than the
22 United States government, or to the designee of the purchaser
23 within this state regardless of the f.o.b. point or other conditions of
24 the sale; or
 - 25 b. The property is shipped from an office, store, warehouse, factory,
26 or other place of storage in this state and the purchaser is the
27 United States government.

- 1 3. Sales, other than sales of tangible personal property, are in this state if
2 the income-producing activity is performed in this state; or the income-
3 producing activity is performed both in and outside this state and a
4 greater proportion of the income-producing activity is performed in this
5 state than in any other state, based on costs of performance.
- 6 (9) (a) If the allocation and apportionment provisions of this section do not fairly
7 represent the extent of the corporation's business activity in this state, the
8 corporation may petition for or the department may require, in respect to all or
9 any part of the corporation's business activity, if reasonable:
- 10 1. Separate accounting;
11 2. The exclusion of any one (1) or more of the factors;
12 3. The inclusion of one (1) or more additional factors which will fairly
13 represent the corporation's business activity in this state; or
14 4. The employment of any other method to effectuate an equitable
15 allocation and apportionment of income.
- 16 (b) A corporation may elect the allocation and apportionment methods for the
17 corporation's business income provided for in subparagraphs 1. and 2. of this
18 paragraph. The election, if made, shall be irrevocable for a period of five
19 years.
- 20 1. All business income derived directly or indirectly from the sale of
21 management, distribution, or administration services to or on behalf of
22 regulated investment companies, as defined under the Internal Revenue
23 Code of 1986, as amended, including trustees, and sponsors or
24 participants of employee benefit plans which have accounts in a
25 regulated investment company, shall be apportioned to this state only to
26 the extent that shareholders of the investment company are domiciled in
27 this state as follows:

- 1 a. Total business income shall be multiplied by a fraction, the
2 numerator of which shall be Kentucky receipts from the services
3 for the tax period and the denominator of which shall be the total
4 receipts everywhere from the services for the tax period.
- 5 b. For purposes of subdivision a. of this subparagraph, Kentucky
6 receipts shall be determined by multiplying total receipts for the
7 tax period from each separate investment company for which the
8 services are performed by a fraction. The numerator of the fraction
9 shall be the average of the number of shares owned by the
10 investment company's shareholders domiciled in this state at the
11 beginning of and at the end of the investment company's taxable
12 year, and the denominator of the fraction shall be the average of
13 the number of the shares owned by the investment company
14 shareholders everywhere at the beginning of and at the end of the
15 investment company's taxable year.
- 16 c. Nonbusiness income shall be allocated to this state as provided in
17 subsections (4) through (7) of this section.
- 18 2. All business income derived directly or indirectly from the sale of
19 securities brokerage services by a business which operates within the
20 boundaries of any area of the Commonwealth, which on June 30, 1992,
21 was designated as a Kentucky Enterprise Zone, as defined in KRS
22 154.655(2), shall be apportioned to this state only to the extent that
23 customers of the securities brokerage firm are domiciled in this state.
24 The portion of business income apportioned to Kentucky shall be
25 determined by multiplying the total business income from the sale of
26 these services by a fraction determined in the following manner:

- 1 a. The numerator of the fraction shall be the brokerage commissions
2 and total margin interest paid in respect of brokerage accounts
3 owned by customers domiciled in Kentucky for the brokerage
4 firm's taxable year; and
- 5 b. The denominator of the fraction shall be the brokerage
6 commissions and total margin interest paid in respect of brokerage
7 accounts owned by all of the brokerage firm's customers for that
8 year.
- 9 c. Nonbusiness income shall be allocated to this state as provided in
10 subsections (4) through (7) of this section.
- 11 (10) Public service companies and financial organizations required by KRS
12 141.010(14)(b) to allocate and apportion net income shall allocate and apportion
13 such income as follows:
- 14 (a) Nonbusiness income shall be allocated to this state as provided in subsections
15 (4) through (7) of this section.
- 16 (b) Business income shall be apportioned to this state by multiplying the business
17 income by a fraction, the numerator of which is the property factor,
18 representing twenty-five percent (25%) of the fraction, plus the payroll factor,
19 representing twenty-five percent (25%) of the fraction, plus the sales factor,
20 representing fifty percent (50%) of the fraction, and the denominator of which
21 is four (4), reduced by the number of factors, if any, having no denominator,
22 provided that if the sales factor has no denominator, then the denominator
23 shall be reduced by two (2). The payroll factor shall be determined as
24 provided in subsection (8)(b) of this section. The property factor and sales
25 factor shall be determined as provided by administrative regulations
26 promulgated by the department.

1 (c) An affiliated group electing to file a consolidated return under KRS
 2 141.200(4) or required to file a consolidated return under KRS 141.200(11)
 3 that includes a public service company, a provider of communications
 4 services or multichannel video programming services as defined in KRS
 5 136.602, or financial organization shall determine the amount of payroll to be
 6 included in the apportionment factor as provided in subsection (8)(b) of this
 7 section. The amount of property and sales of the public service company,
 8 provider of communications services or multichannel video programming
 9 services as defined in KRS 136.602, or financial organization to be included
 10 in the apportionment factors of the affiliated group shall be determined in
 11 accordance with administrative regulations promulgated by the cabinet under
 12 paragraph (b) of this subsection.

13 **(11) For taxable years beginning on or after January 1, 2007, a corporation that:**

14 **(a) Owns an interest in a limited liability pass-through entity; or**

15 **(b) Owns an interest in a general partnership organized or formed as a general**
 16 **partnership after January 1, 2006;**

17 **shall include the proportionate share of sales, property, and payroll of the limited**
 18 **liability pass-through entity or general partnership when apportioning income,**
 19 **and shall include the proportionate share of sales in calculating the tax due**
 20 **pursuant to Section 4 of this Act. The phrases "an interest in a limited liability**
 21 **pass-through entity" and "an interest in a general partnership organized or**
 22 **formed as a general partnership after January 1, 2006," shall extend to each**
 23 **level of multiple-tiered pass-through entities.**

24 Section 7. KRS 141.200 is amended to read as follows:

25 (1) Subsections (2) to (7) of this section shall apply for taxable periods ending before
 26 January 1, 2005, and election periods beginning prior to January 1, 2005.

- 1 (2) As used in subsections (2) to (7) of this section, unless the context requires
2 otherwise:
- 3 (a) "Affiliated group" means affiliated group as defined in Section 1504(a) of the
4 Internal Revenue Code and related regulations;
- 5 (b) "Consolidated return" means a Kentucky corporation income tax return filed
6 by members of an affiliated group in accordance with this section. The
7 determinations and computations required by this chapter shall be made in
8 accordance with the provisions of Section 1502 of the Internal Revenue Code
9 and related regulations, except as required by differences between this chapter
10 and the Internal Revenue Code. Corporations exempt from taxation under
11 KRS 141.040 shall not be included in the return;
- 12 (c) "Separate return" means a Kentucky corporation income tax return in which
13 only the transactions and activities of a single corporation are considered in
14 making all determinations and computations necessary to calculate taxable net
15 income, tax due, and credits allowed in accordance with the provisions of this
16 chapter;
- 17 (d) "Corporation" means "corporation" as defined in Section 7701(a)(3) of the
18 Internal Revenue Code; and
- 19 (e) "Election period" means the ninety-six (96) month period provided for in
20 subsection (4)(d) of this section.
- 21 (3) Every corporation doing business in this state, except those exempt from taxation
22 under KRS 141.040, shall, for each taxable year, file a separate return unless the
23 corporation was, for any part of the taxable year, a member of an affiliated group
24 electing to file a consolidated return in accordance with subsection (4) of this
25 section.

- 1 (4) (a) An affiliated group, whether or not filing a federal consolidated return, may
2 elect to file a consolidated return which includes all members of the affiliated
3 group.
- 4 (b) An affiliated group electing to file a consolidated return under paragraph (a)
5 of this subsection shall be treated for all purposes as a single corporation
6 under the provisions of this chapter. All transactions between corporations
7 included in the consolidated return shall be eliminated in computing net
8 income in accordance with KRS 141.010(13), and in determining the
9 property, payroll, and sales factors in accordance with KRS 141.120. The
10 gross receipts received by a public service company that is a member of an
11 affiliated group shall be excluded from the calculation of the alternative
12 minimum calculation under the provisions of KRS 141.040. For purposes of
13 this paragraph, "public service company" has the same meaning as provided
14 in KRS 136.120.
- 15 (c) Any election made in accordance with paragraph (a) of this subsection shall
16 be made on a form prescribed by the department and shall be submitted to the
17 department on or before the due date of the return including extensions for the
18 first taxable year for which the election is made.
- 19 (d) Notwithstanding subsections (9) to (15) of this section, any election to file a
20 consolidated return pursuant to paragraph (a) of this subsection shall be
21 binding on both the department and the affiliated group for a period beginning
22 with the first month of the first taxable year for which the election is made
23 and ending with the conclusion of the taxable year in which the ninety-sixth
24 consecutive calendar month expires.
- 25 (e) For each taxable year for which an affiliated group has made an election in
26 accordance with paragraph (a) of this subsection, the consolidated return shall
27 include all corporations which are members of the affiliated group.

- 1 (5) Each corporation included as part of an affiliated group filing a consolidated return
2 shall be jointly and severally liable for the income tax liability computed on the
3 consolidated return, except that any corporation which was not a member of the
4 affiliated group for the entire taxable year shall be jointly and severally liable only
5 for that portion of the Kentucky consolidated income tax liability attributable to that
6 portion of the year that the corporation was a member of the affiliated group.
- 7 (6) Every corporation return or report required by this chapter shall be executed by one
8 (1) of the following officers of the corporation: the president, vice president,
9 secretary, treasurer, assistant secretary, assistant treasurer, or chief accounting
10 officer. The Department of Revenue may require a further or supplemental report of
11 further information and data necessary for computation of the tax.
- 12 (7) In the case of a corporation doing business in this state that carries on transactions
13 with stockholders or with other corporations related by stock ownership, by
14 interlocking directorates, or by some other method, the department shall require
15 information necessary to make possible accurate assessment of the income derived
16 by the corporation from sources within this state. To make possible such
17 assessment, the department may require the corporation to file supplementary
18 returns showing information respecting the business of any or all individuals and
19 corporations related by one (1) or more of these methods to the corporation. The
20 department may require the return to show in detail the record of transactions
21 between the corporation and any or all other related corporations or individuals.
- 22 (8) Subsections (9) to (14) of this section shall apply for taxable years beginning on or
23 after January 1, 2005, **unless otherwise provided.**
- 24 (9) As used in subsections (9) to (14) of this section:
- 25 (a) 1. **For taxable years beginning after December 31, 2004, and before**
26 **January 1, 2007,** "affiliated group" means one (1) or more chains of
27 includible corporations connected through stock ownership,

1 membership interest, or partnership interest with a common parent
2 corporation **which is an includible corporation** if:

3 a. The common parent owns directly an ownership interest meeting
4 the requirements of subparagraph 2. of this paragraph in at least
5 one (1) other includible corporation; and

6 b. An ownership interest meeting the requirements of subparagraph
7 2. of this paragraph in each of the includible corporations,
8 excluding the common parent, is owned directly by one (1) or
9 more of the other corporations.

10 2. The ownership interest of any corporation meets the requirements of this
11 paragraph if the ownership interest encompasses at least eighty percent
12 (80%) of the voting power of all classes of ownership interests and has a
13 value equal to at least eighty percent (80%) of the total value of all
14 ownership interests;

15 (b) **1. For taxable years beginning after December 31, 2006, "affiliated**
16 **group" means one (1) or more chains of includible corporations**
17 **connected through stock ownership with a common parent**
18 **corporation which is an includible corporation if:**

19 **a. The common parent owns directly stock meeting the**
20 **requirements of subparagraph 2. of this paragraph in at least**
21 **one (1) other includible corporation; and**

22 **b. Stock meeting the requirements of subparagraph 2. of this**
23 **paragraph in each of the includible corporations, excluding the**
24 **common parent, is owned directly by one (1) or more of the other**
25 **corporations.**

26 **2. The stock of any corporation meets the requirements of this paragraph**
27 **if the stock encompasses at least eighty percent (80%) of the voting**

1 **power of all classes of stock and has a value equal to at least eighty**
 2 **percent (80%) of the total value of all stock;**

3 **(c)** "Common parent corporation" means the member of an affiliated group that
 4 meets the ownership requirement of paragraph (a)1. **or (b)1.**~~1.a.~~ of this
 5 subsection;

6 **(d)**~~(e)~~ "Foreign corporation" means a corporation that is organized under the
 7 laws of a country other than the United States and is related to a member of an
 8 affiliated group through stock ownership;

9 **(e)**~~(d)~~ "Includible corporation" means any corporation that is doing business in
 10 this state except:

- 11 1. Corporations exempt from corporation income tax under KRS
 12 141.040(1)(a) to **(i)**~~(h)~~;
- 13 2. Foreign corporations;
- 14 3. Corporations with respect to which an election under Section 936 of the
 15 Internal Revenue Code is in effect for the taxable year;
- 16 4. Real estate investment trusts as defined in Section 856 of the Internal
 17 Revenue Code;
- 18 5. Regulated investment companies as defined in Section 851 of the
 19 Internal Revenue Code;
- 20 6. A domestic international sales company as defined in Section 992(a)(1)
 21 of the Internal Revenue Code;
- 22 7. Any corporation that realizes a net operating loss whose Kentucky
 23 property, payroll, and sales factors pursuant to KRS 141.120(8) are de
 24 minimis;~~and~~
- 25 8. Any corporation for which the sum of the property, payroll and sales
 26 factors described in KRS 141.120(8) is zero; **and**

1 **9. For taxable years beginning prior to January 1, 2006, and taxable**
 2 **years beginning on or after January 1, 2007, an S corporation as**
 3 **defined in Section 1361(a) of the Internal Revenue Code;**

4 ~~(f)~~~~(e)~~ "Ownership interest" means stock, a membership interest in a limited
 5 liability company, or a partnership interest in a limited partnership or limited
 6 liability partnership;

7 ~~(g)~~~~(f)~~ "Consolidated return" means a Kentucky corporation income tax return
 8 filed by members of an affiliated group in accordance with this section. The
 9 determinations and computations required by this chapter shall be made in
 10 accordance with the provisions of the Internal Revenue Code and related
 11 regulations, except as required by differences between this chapter and the
 12 Internal Revenue Code;~~and~~

13 ~~(h)~~~~(g)~~ "Separate return" means a Kentucky corporation income tax return in
 14 which only the transactions and activities of a single corporation are
 15 considered in making all determinations and computations necessary to
 16 calculate taxable net income, tax due, and credits allowed in accordance with
 17 the provisions of this chapter; **and**

18 **(i) "Stock" means stock in a corporation, or a membership interest in a limited**
 19 **liability company that has elected to be treated as a corporation for federal**
 20 **tax purposes.**

21 (10) Every corporation doing business in this state except those exempt from taxation
 22 under KRS 141.040(1)(a) to ~~(j)~~~~(h)~~ shall, for each taxable year, file a separate
 23 return unless the corporation was, for any part of the taxable year:

- 24 (a) An includible corporation in an affiliated group;
 25 (b) A common parent corporation doing business in this state;
 26 (c) A qualified subchapter S Subsidiary that is included in the return filed by the
 27 Subchapter S parent corporation;

- 1 (d) A qualified real estate investment trust subsidiary that is included in the return
2 filed by the real estate investment trust parent; or
- 3 (e) A disregarded entity that is included in the return filed by its parent entity.
- 4 (11) (a) An affiliated group, whether or not filing a federal consolidated return, shall
5 file a consolidated return which includes all includible corporations.
- 6 (b) An affiliated group required to file a consolidated return under this subsection
7 shall be treated for all purposes as a single corporation under the provisions of
8 this chapter. All transactions between corporations included in the
9 consolidated return shall be eliminated in computing net income in
10 accordance with KRS 141.010(13), and in determining the property, payroll,
11 and sales factors in accordance with KRS 141.120. Includible corporations
12 that have incurred a net operating loss shall not deduct an amount that
13 exceeds, in the aggregate, fifty percent (50%) of the income realized by the
14 remaining includible corporations that did not realize a net operating loss. The
15 portion of any net operating loss limited by the application of this subsection
16 shall be available for carryforward in accordance with KRS 141.011. The
17 Department of Revenue shall promulgate administrative regulations to
18 establish the manner and extent to which net operating losses attributable to
19 tax periods ending prior to January 1, 2005, may offset income of affiliated
20 groups. The gross receipts received by a public service company that is a
21 member of an affiliated group shall be excluded from the calculation of the
22 alternative minimum calculation under KRS 141.040. For purposes of this
23 paragraph, "public service company" has the same meaning as provided in
24 KRS 136.120.
- 25 (12) Each includible corporation included as part of an affiliated group filing a
26 consolidated return shall be jointly and severally liable for the income tax liability
27 computed on the consolidated return, except that any includible corporation which

1 was not a member of the affiliated group for the entire taxable year shall be jointly
2 and severally liable only for that portion of the Kentucky consolidated income tax
3 liability attributable to that portion of the year that the corporation was a member of
4 the affiliated group.

5 (13) Every corporation return or report required by this chapter shall be executed by one
6 (1) of the following officers or management of the corporation: the president, vice
7 president, secretary, treasurer, assistant secretary, assistant treasurer, chief
8 accounting officer, manager, member, or partner. The Department of Revenue may
9 require a further or supplemental report of further information and data necessary
10 for computation of the tax.

11 (14) In the case of a corporation doing business in this state that carries on transactions
12 with stockholders, members or partners, or with other corporations related by
13 ownership, by interlocking directorates, or by some other method, the department
14 shall require that information necessary to make possible an accurate assessment of
15 the income derived by the corporation from sources within this state be provided.
16 To make possible this assessment, the department may require the corporation to
17 file supplementary returns showing information respecting the business of any or
18 all individuals and corporations related by one (1) or more of these methods to the
19 corporation. The department may require the return to show in detail the record of
20 transactions between the corporation and any or all other related corporations or
21 individuals.

22 (15) For any taxable year ending on or after December 31, 1995, except as provided
23 under this section and KRS 141.205, nothing in this chapter shall be construed as
24 allowing or requiring the filing of:

- 25 (a) A combined return under the unitary business concept; or
26 (b) A consolidated return.

- 1 (16) No assessment of additional tax due for any taxable year ending on or before
2 December 31, 1995, made after December 22, 1994, and based on requiring a
3 change from any initially filed separate return or returns to a combined return under
4 the unitary business concept or to a consolidated return, shall be effective or
5 recognized for any purpose.
- 6 (17) No claim for refund or credit of a tax overpayment for any taxable year ending on
7 or before December, 31, 1995, made by an amended return or any other method
8 after December 22, 1994, and based on a change from any initially filed separate
9 return or returns to a combined return under the unitary business concept or to a
10 consolidated return, shall be effective or recognized for any purpose.
- 11 (18) No corporation or group of corporations shall be allowed to file a combined return
12 under the unitary business concept or a consolidated return for any taxable year
13 ending before December 31, 1995, unless on or before December 22, 1994, the
14 corporation or group of corporations filed an initial or amended return under the
15 unitary business concept or consolidated return for a taxable year ending before
16 December 22, 1994.
- 17 (19) This section shall not be construed to limit or otherwise impair the department's
18 authority under KRS 141.205.
- 19 Section 8. KRS 141.205 is amended to read as follows:
- 20 (1) As used in this section:
- 21 (a) "Intangible property" means franchises, patents, patent applications, trade
22 names, trademarks, service marks, copyrights, trade secrets, and similar types
23 of intangible assets;
- 24 (b) "Intangible expenses" includes the following only to the extent that the
25 amounts are allowed as deductions or costs in determining taxable net income
26 before the application of any net operating loss deduction provided under
27 Chapter 1 of the Internal Revenue Code:

- 1 1. Expenses, losses, and costs for, related to, or in connection directly or
 - 2 indirectly with the direct or indirect acquisition, use, maintenance,
 - 3 management, ownership, sale, exchange, or any other disposition of
 - 4 intangible property;
 - 5 2. Losses related to, or incurred in connection directly or indirectly with,
 - 6 factoring transactions or discounting transactions;
 - 7 3. Royalty, patent, technical, and copyright fees;
 - 8 4. Licensing fees; and
 - 9 5. Other similar expenses and costs;
- 10 (c) "Intangible interest expense" means only those amounts which are directly or
- 11 indirectly allowed as deductions under Section 163 of the Internal Revenue
- 12 Code for purposes of determining taxable income under that code, to the
- 13 extent that the amounts are directly or indirectly for, related to, or connected
- 14 to the direct or indirect acquisition, use, maintenance, management,
- 15 ownership, sale, exchange, or any other disposition of intangible property;
- 16 (d) "Management fees" includes but is not limited to expenses and costs paid for
- 17 services pertaining to accounts receivable and payable, employee benefit
- 18 plans, insurance, legal, payroll, data processing, purchasing, tax, financial and
- 19 securities, accounting, reporting and compliance services or similar services,
- 20 only to the extent that the amounts are allowed as a deduction or cost in
- 21 determining taxable net income before application of the net operating loss
- 22 deduction for the taxable year provided under Chapter 1 of the Internal
- 23 Revenue Code;
- 24 (e) "Affiliated group" has the same meaning as provided in KRS 141.200;
- 25 (f) "Foreign corporation" means a corporation that is organized under the laws of
- 26 a country other than the United States and that would be a related member if it
- 27 were a domestic corporation;

- 1 (g) "Related member" means a person that, with respect to the entity[corporation]
2 during all or any portion of the taxable year, is:
- 3 1. A person or entity that has, directly or indirectly, at least fifty percent
4 (50%) of the equity ownership interest in the taxpayer, as determined
5 under Section 318 of the Internal Revenue Code;
 - 6 2. A component member as defined in Section 1563(b) of the Internal
7 Revenue Code;
 - 8 3. A person to or from whom there is attribution of stock ownership in
9 accordance with Section 1563(e) of the Internal Revenue Code; or
 - 10 4. A person that, notwithstanding its form of organization, bears the same
11 relationship to the taxpayer as a person described in subparagraphs 1. to
12 3. of this paragraph;
- 13 (h) "Recipient" means a related member or foreign corporation to whom the item
14 of income that corresponds to the intangible interest expense, the intangible
15 expense, or the management fees, is paid;
- 16 (i) "Unrelated party" means a person that has no direct, indirect, beneficial or
17 constructive ownership interest in the recipient; and in which the recipient has
18 no direct, indirect, beneficial or constructive ownership interest;
- 19 (j) "Disclosure" means that the entity[corporation] shall provide the following
20 information to the Revenue Cabinet with its tax return regarding a related
21 party transaction:
- 22 1. The name of the recipient;
 - 23 2. The state or country of domicile of the recipient;
 - 24 3. The amount paid to the recipient; and
 - 25 4. A description of the nature of the payment made to the recipient;
- 26 (k) "Other related party transaction" means a transaction which:

- 1 1. Is undertaken by *an entity*~~[a corporation]~~ which was not required to file
2 a consolidated return under KRS 141.200;
- 3 2. Is undertaken by *an entity*~~[a corporation]~~, directly or indirectly, with
4 one (1) or more of its stockholders, members, partners, or affiliated
5 *entities*~~[corporations]~~; and
- 6 3. Is not within the scope of subsections (2) to (5) of this section; ~~and~~
- 7 (1) "Related party costs" means intangible expense, intangible interest expense,
8 management fees and any costs or expenses associated with other related
9 party transactions; *and*
- 10 *(m) "Entity" means any taxpayer other than a natural person.*
- 11 (2) *An entity*~~[A corporation]~~ subject to the tax imposed by *this chapter*~~[KRS 141.040]~~
12 shall not be allowed to deduct an intangible expense or intangible interest expense
13 directly or indirectly paid, accrued or incurred to, or in connection directly or
14 indirectly with one (1) or more direct or indirect transactions with one (1) or more
15 related members or with a foreign corporation as defined in subsection (1) of this
16 section, *or with an entity that would be included in the affiliated group based*
17 *upon ownership interest if it were organized as a corporation.*
- 18 (3) The disallowance of deductions provided by subsection (2) of this section shall not
19 apply if:
- 20 (a) The *entity*~~[corporation]~~ and the recipient are both included in the same
21 consolidated Kentucky corporation income tax return for the relevant taxable
22 year: or
- 23 (b) The *entity*~~[corporation]~~ makes a disclosure, and establishes by a
24 preponderance of the evidence that:
- 25 1. The payment made to the recipient was subject to, in its state or country
26 of commercial domicile, a net income tax, or a franchise tax measured
27 by, in whole or in part, net income. If the recipient is a foreign

- 1 corporation, the foreign nation shall have in force a comprehensive
 2 income tax treaty with the United States; and
- 3 2. The recipient is engaged in substantial business activities separate and
 4 apart from the acquisition, use, licensing, management, ownership, sale,
 5 exchange, or any other disposition of intangible property, or in the
 6 financing of related members, as evidenced by the maintenance of
 7 permanent office space and full-time employees dedicated to the
 8 maintenance and protection of intangible property; and
- 9 3. The transaction giving rise to the intangible interest expense or the
 10 intangible expense between the entity[~~corporation~~] and the recipient was
 11 made at a commercially reasonable rate and at terms comparable to an
 12 arm's-length transaction; or
- 13 (c) The entity[~~corporation~~] makes a disclosure, and establishes by preponderance
 14 of the evidence that the recipient regularly engages in transactions with one or
 15 more unrelated parties on terms identical to that of the subject transaction; or
- 16 (d) The entity[~~corporation~~] and the Department of Revenue agree in writing to the
 17 application or use of an alternative method of apportionment under KRS
 18 141.120(9).
- 19 (4) An entity[~~A corporation~~] subject to the tax imposed by this chapter[~~KRS 141.040~~]
 20 shall not be allowed to deduct management fees directly or indirectly paid, accrued
 21 or incurred to, or in connection directly or indirectly with one (1) or more direct or
 22 indirect transactions with one (1) or more related members or with a foreign
 23 corporation as defined in subsection (1) of this section or with an entity that would
 24 be included in the affiliated group based upon ownership interest if it were
 25 organized as a corporation.
- 26 (5) The disallowance of the deduction provided in subsection (4) of this section shall
 27 not apply if:

- 1 (a) The entity[corporation] and recipient are both included in the same
 2 consolidated Kentucky corporation income tax return for the relevant taxable
 3 year;
- 4 (b) The entity[corporation] makes a disclosure and establishes by a
 5 preponderance of the evidence that the transaction giving rise to the
 6 management fees between the corporation and the recipient was made at a
 7 commercially reasonable rate and at terms comparable to an arm's-length
 8 transaction; or
- 9 (c) The entity[corporation] and the Department of Revenue agree in writing to the
 10 application or use of an alternative method of apportionment under subsection
 11 KRS 141.120(9).
- 12 (6) An entity[A corporation] subject to the tax imposed by this chapter[KRS 141.040]
 13 may deduct expenses or costs associated with an other related party transaction only
 14 in an amount equal to the amount which would have resulted if the other related
 15 party transaction had been carried out at arm's length. In any dispute between the
 16 department and the entity[corporation] with respect to the amount which would
 17 have resulted if the transaction had been carried out at arm's length, the
 18 entity[corporation] shall bear the burden of establishing the amount by a
 19 preponderance of the evidence.
- 20 (7) Nothing in this section shall be deemed to prohibit an entity[a corporation] from
 21 deducting a related party cost in an amount permitted by this section, provided that
 22 the entity[corporation] has incurred related party costs equal to or greater than the
 23 amounts permitted by this section.
- 24 (8) If it is determined by the department that the amount of a deduction claimed by an
 25 entity[a corporation] with respect to a related party cost is greater than the amount
 26 permitted by this section, the net income of the entity[corporation] shall be adjusted
 27 to reflect the amount of the related party cost permitted by this section.

1 (9) For tax periods ending before January 1, 2005, in the case of entities~~[corporations]~~
 2 not required to file a consolidated or combined return under subsection (1) of this
 3 section that carried on transactions with stockholders or affiliated
 4 entities~~[corporations]~~ directly or indirectly, the department shall adjust the net
 5 income of such entities~~[corporations]~~ to an amount that would result if such
 6 transactions were carried on at arm's length.

7 Section 9. KRS 141.206 is amended to read as follows:

8 (1) As used in this section unless the context requires otherwise:

9 (a) For taxable years beginning after December 31, 2004, and before January
 10 1, 2007, "pass-through entity"~~["General partnership"]~~ means a general
 11 partnership not subject to the tax imposed by KRS 141.040, including any
 12 publicly traded partnership as defined by Section 7704(b) of the Internal
 13 Revenue Code that is treated as a partnership for federal tax purposes under
 14 Section 7704(c) of the Internal Revenue Code and its publicly traded
 15 partnership affiliates. "Publicly traded partnership affiliates" shall include any
 16 limited liability company or limited partnership for which at least eighty
 17 percent (80%) of the limited liability company member interests or limited
 18 partner interests are owned directly or indirectly by the publicly traded
 19 partnership; and

20 (b) For all other taxable years, "pass-through entity" means pass-through
 21 entity as defined in KRS 141.010~~["Property" means real property or tangible~~
 22 ~~personal property which is owned or leased; and~~

23 (c) ~~"Payroll" means compensation paid to one (1) or more individuals as~~
 24 ~~described in KRS 141.120(8)(b)].~~

25 (2) Every pass-through entity~~[partnership]~~ doing business in this state shall, on or
 26 before the fifteenth day of the fourth month following the close of its annual

1 accounting period, file a copy of its federal tax~~[partnership]~~ return with the form
2 prescribed and furnished by the department.

3 (3) **Pass-through entities**~~[General partnerships]~~ shall determine net income in the same
4 manner as in the case of an individual under KRS 141.010(9) to (11) and the
5 adjustment required under Sections~~[Section]~~ 703(a) **and 1363(b)** of the Internal
6 Revenue Code. Computation of net income under this section and the computation
7 of the **partner's, member's, or shareholder's**~~[partners']~~ distributive share shall be
8 computed as nearly as practicable identical with those required for federal income
9 tax purposes except to the extent required by differences between this chapter and
10 the federal income tax law and regulations.

11 (4) **(a)** Individuals, estates, trusts, or corporations doing business in this state as a
12 partner, **member, or shareholder** in a **pass-through entity**~~[general~~
13 ~~partnership]~~ shall be liable for income tax only in their individual, fiduciary,
14 or corporate capacities, and no income tax shall be assessed **against**~~[upon]~~ the
15 **net** income of any **pass-through entity, except as required for S corporations**
16 **by subsection (14) of Section 3 of this Act**~~[general partnership]~~.

17 **(b) 1. Every pass-through entity required to file a return under subsection**
18 **(2) of this section, except publicly traded partnerships as defined in**
19 **paragraph (r) of subsection (6) of Section 4 of this Act, shall**~~[General~~
20 ~~partnerships may be required to]~~ withhold Kentucky income tax on the
21 distributive share, **whether distributed or undistributed, of each**
22 **nonresident individual partner, member, or shareholder, or each**
23 **corporate partner or member that is doing business in Kentucky only**
24 **through its ownership interest in a pass-through entity. Withholding**
25 **shall be at the maximum rate provided in KRS 141.020 or Section 3 of**
26 **this Act.**

1 **2. If a pass-through entity demonstrates to the department that a partner,**
 2 **member, or shareholder has filed an appropriate tax return for the**
 3 **prior year with the department, then the pass-through entity shall not**
 4 **be required to withhold on that partner, member, or shareholder for**
 5 **the current year unless the exemption from withholding has been**
 6 **revoked pursuant to subparagraph 3. of this paragraph.**

7 **3. An exemption from withholding shall be considered revoked if the**
 8 **partner, member, or shareholder does not file and pay all taxes due in**
 9 **a timely manner. An exemption so revoked shall be reinstated only**
 10 **with permission of the department. If a partner, member, or**
 11 **shareholder who has been exempted from withholding does not file a**
 12 **return or pay the tax due, the department may require the pass-**
 13 **through entity to pay to the department the amount that should have**
 14 **been withheld, up to the amount of the partner's, member's, or**
 15 **shareholder's ownership interest in the entity. The pass-through entity**
 16 **shall be entitled to recover a payment made pursuant to this**
 17 **subparagraph from the partner, member, or shareholder on whose**
 18 **behalf the payment was made.**

19 **(c) The department may promulgate**~~[of partners under]~~ administrative
 20 regulations **as needed to implement this subsection**~~[promulgated by the~~
 21 department].

22 (5) In determining the tax under this chapter, a resident individual, estate, or trust that
 23 is a partner, **member, or shareholder** in a **pass-through entity**~~[general partnership]~~
 24 shall take into account the partner's, **member's, or shareholder's** total distributive
 25 share of the **pass-through entity's**~~[partnership's]~~ items of income, loss, deduction,
 26 and credit.

1 (6) In determining the tax under this chapter, a nonresident individual, estate, or trust
 2 that is a partner, member, or shareholder in a pass-through entity~~[general~~
 3 ~~partnership]~~ required to file a return under subsection (2) of this section shall take
 4 into account:

5 (a) 1. If the pass-through entity~~[partnership]~~ is doing business only in this
 6 state, the partner's, member's, or shareholder's total distributive share
 7 of the pass-through entity's~~[partnership's]~~ items of income, loss, and
 8 deduction~~]. A general partnership is doing business only in the state if~~
 9 ~~property and payroll are entirely within this state. Property and payroll~~
 10 ~~are deemed to be entirely within this state if all other states are~~
 11 ~~prohibited by Pub. L. No. 86-272, as it existed on December 31, 1975,~~
 12 ~~from enforcing income tax jurisdiction]; or~~

13 2. If the pass-through entity~~[partnership]~~ is doing business both within
 14 and without this state, the partner's, member's, or shareholder's
 15 distributive share of the pass-through entity's~~[general partnership's]~~
 16 items of income, loss, and deduction multiplied by the apportionment
 17 fraction of the pass-through entity~~[partnership]~~ as prescribed in
 18 subsection (9) of this section; and

19 (b) The partner's, member's, or shareholder's total distributive share of credits of
 20 the pass-through entity~~[partnership]~~.

21 (7) A corporation that is subject to tax under KRS 141.040 and is a partner or member
 22 in a pass-through entity~~[general partnership]~~ shall take into account~~[-~~

23 ~~(a) —]~~ the corporation's distributive share of the pass-through entity's~~[partnership's]~~
 24 items of income, loss, and deduction and:

25 (a) For taxable years beginning prior to January 1, 2007, the items of income,
 26 loss and deduction~~[and]~~, when applicable, shall be multiplied by the

1 apportionment fraction of the pass-through entity~~[partnership]~~ as prescribed
 2 in subsection (9) of this section; or~~[and]~~

3 (b) For taxable years beginning on or after January 1, 2007:

4 1. A corporation that owns an interest in a limited liability pass-through
 5 entity or that owns an interest in a general partnership organized or
 6 formed as a general partnership after January 1, 2006, shall include
 7 the proportionate share of the sales, property, and payroll of the
 8 limited liability pass-through entity or general partnership in
 9 computing its own apportionment factor;

10 2. A corporation that owns an interest in a general partnership organized
 11 or formed on or before January 1, 2006, shall follow the provisions of
 12 paragraph (a) of this subsection; and

13 (c) Credits from the partnership.

14 (8) (a) If a pass-through entity~~[general partnership]~~ is doing business both within
 15 and without this state, the pass-through entity~~[partnership]~~ shall compute and
 16 furnish to each partner, member, or shareholder the numerator and
 17 denominator of each factor of the~~[an]~~ apportionment fraction determined in
 18 accordance with subsection (9) of this section.

19 (b) For purposes of determining an apportionment fraction~~[factor]~~ under
 20 paragraph (a) of this subsection, if the pass-through entity~~[general~~
 21 ~~partnership]~~ is:

22 1. Doing business both within and without this state; and
 23 2. A partner or member in another pass-through entity~~[general~~
 24 ~~partnership]~~;

25 then the pass-through entity~~[general partnership]~~ shall be deemed to own the
 26 pro rata share of the property owned or leased by the other pass-through

- 1 entity~~[general partnership]~~, and shall also include its pro rata share of the
 2 other pass-through entity's~~[general partnership's]~~ payroll and sales.
- 3 (c) The phrases~~[phrase]~~ "a partner or member in another pass-through entity"
 4 and "doing business both within and without this state"~~[general~~
 5 ~~partnership"]~~ shall extend to each level of multiple-tiered pass-through
 6 entities~~[general partnerships]~~.
- 7 (d) The attribution to the pass-through entity~~[general partnership]~~ of the pro rata
 8 share of property, payroll and sales from its role as a partner or member in
 9 another pass-through entity~~[general partnership]~~ will also apply when
 10 determining the pass-through entity's~~[general partnership's]~~ ultimate
 11 apportionment factor for property, payroll and sales as required under
 12 subsection (9) of this section.
- 13 (9) A pass-through entity~~[general partnership]~~ doing business within and without the
 14 state shall compute an apportionment~~[apportion its net income by a]~~ fraction, the
 15 numerator of which is the property factor, representing twenty-five percent (25%)
 16 of the fraction, plus the payroll factor, representing twenty-five percent (25%) of
 17 the fraction, plus the sales factor, representing fifty percent (50%) of the fraction,
 18 with each factor determined in the same manner as provided in KRS 141.120(8),
 19 and the denominator of which is four (4), reduced by the number of factors, if any,
 20 having no denominator, provided that if the sales factor has no denominator, then
 21 the denominator shall be reduced by two (2).
- 22 (10) Resident individuals, estates, or trusts that are partners in a partnership, members of
 23 a limited liability company electing partnership tax treatment for federal income tax
 24 purposes, owners of single member limited liability companies, or shareholders in
 25 an S corporation which does not do business in this state are subject to tax under
 26 KRS 141.020 on federal net income, gain, deduction, or loss~~[or credit]~~ passed
 27 through the partnership, limited liability company, or S corporation.

- 1 (11) [~~"S corporation," for purposes of this section, means a corporation which has~~
2 ~~elected for federal tax purposes to be taxed as an S corporation.~~] An **S corporation**
3 election **made in accordance with Section 1362 of the Internal Revenue Code** for
4 federal tax purposes is a binding election for Kentucky tax purposes.
- 5 (12) (a) Nonresident individuals shall not be taxable on investment income distributed
6 by a qualified investment partnership. For purposes of this subsection, a
7 "qualified investment partnership" means a **pass-through entity that, during**
8 **the taxable year, holds**[~~general partnership, a limited partnership, or a limited~~
9 ~~liability partnership formed to hold~~] only investments that produce income
10 that would not be taxable to ~~a~~[~~the~~] nonresident individual if held or owned
11 individually.
- 12 (b) A qualified investment partnership shall be subject to all other provisions
13 relating to a **pass-through entity**[~~general partnership~~] under this section and
14 shall not be subject to the tax imposed under KRS 141.040 **or Section 4 of**
15 **this Act.**
- 16 (13) (a) A **pass-through entity**[~~general partnership~~] may file a composite income tax
17 return on behalf of electing nonresident individual partners, **members, or**
18 **shareholders,** reporting and paying income tax at the highest marginal rate
19 provided in this chapter on the partners', **members', or shareholders'** pro rata
20 or distributive shares of income of the **pass-through entity**[~~general~~
21 ~~partnership~~] from doing business in, or deriving income from sources within,
22 this state. The partners', **members', or shareholders'** pro rata or distributive
23 share of income shall include all items of income or deduction used to
24 compute adjusted gross income on the Kentucky return that is passed through
25 to the partner, **member, or shareholder** by the **pass-through**
26 **entity**[~~partnership~~], including but not limited to interest, dividend, capital
27 gains and losses, guaranteed payments, and rents.

- 1 (b) A nonresident individual partner, **member, or shareholder** whose only source
 2 of income within this state is **distributive share income** from one (1) or more
 3 **pass-through entities**~~[general partnerships]~~ may elect to be included in a
 4 composite return filed pursuant to this section.
- 5 (c) A nonresident individual partner, **member, or shareholder** that has been
 6 included in a composite return may file an individual income tax return and
 7 shall receive credit for tax paid on the partner's behalf by the **pass-through**
 8 **entity**~~[general partnership]~~.
- 9 (d) A **pass-through entity**~~[general partnership]~~ shall deliver to the department a
 10 return upon a form prescribed by the department showing the total amounts
 11 paid or credited to its electing nonresident individual partners, **members, or**
 12 **shareholders**, the amount paid in accordance with this subsection, and any
 13 other information the department may require. A **pass-through entity**~~[general~~
 14 ~~partnership]~~ shall furnish to its nonresident partner, **member, or shareholder**
 15 annually, but not later than the fifteenth day of the fourth month after the end
 16 of its taxable year, a record of the amount of tax paid on behalf of the partner,
 17 **member, or shareholder** on a form prescribed by the department.

18 Section 10. KRS 141.208 is amended to read as follows:

- 19 (1) For the purposes of this section, "limited liability company" shall mean any
 20 company subject to the provisions of KRS Chapter 275.
- 21 (2) **For taxable years beginning after December 31, 2004, and before January 1,**
 22 **2007,** a limited liability company shall file a Kentucky corporate income tax return
 23 and determine its Kentucky income tax liability as provided in KRS 141.040
 24 regardless of the tax treatment elected for federal income tax purposes. **For all**
 25 **other taxable years, a limited liability company shall be treated for Kentucky**
 26 **income tax purposes in the same manner as its tax treatment elected for federal**
 27 **income tax purposes.** All other income tax issues not expressly addressed by the

1 provisions of this chapter shall be treated in the same manner as the issues are
 2 treated for federal income tax purposes.

3 Section 11. KRS 141.420 is amended to read as follows:

4 **For taxable years beginning after December 31, 2004, and before January 1, 2007:**

5 (1) (a) Every corporation identified in KRS 141.010(24)(b)~~2~~ to ~~8~~~~{(b)}~~ that is doing
 6 business in this state shall, on or before the fifteenth day of the fourth month
 7 following the close of its annual accounting period, file a copy of its
 8 applicable federal return with the form prescribed and furnished by the
 9 department.

10 (b) For a corporation filing a return under paragraph (a) of this subsection, the
 11 individual partner's, member's, or shareholder's distributive share of net
 12 income, gain, loss, or deduction shall be computed as nearly as practicable in
 13 a manner identical to that required for federal income tax purposes except to
 14 the extent required by differences between this chapter and the federal income
 15 tax law and regulations.

16 (2) (a) Resident individuals who are members, partners, or shareholders of a
 17 corporation required to file a return under subsection (1)(a) of this section
 18 shall report and pay tax on the distributive share of net income, gain, loss, or
 19 deduction as determined in subsection (1)(b) of this section.

20 (b) Nonresident individuals who are members, partners, or shareholders of a
 21 corporation required to file a return under subsection (1)(a) of this section
 22 shall report and pay tax on the distributive share of net income, gain, loss, or
 23 deduction as determined in subsection (1)(b) of this section multiplied by the
 24 apportionment fraction in KRS 141.120(8).

25 (3) (a) Resident and nonresident individuals who are members, shareholders, or
 26 partners of a corporation required to file a return under paragraph (a) of

- 1 subsection (1) of this section shall be entitled to a nonrefundable credit
2 against the tax imposed under KRS 141.020.
- 3 (b) The credit determined under this subsection shall be the member's,
4 shareholder's, or partner's proportionate share of the tax due from the
5 corporation as determined under KRS 141.040, before the application of any
6 credits identified in KRS 141.0205~~(5)~~~~(4)~~ and reduced by the required
7 minimum imposed by KRS 141.040(7).
- 8 (c) Notwithstanding the provisions of paragraph (a) of this subsection, for taxable
9 years beginning after December 31, 2004, and before January 1, 2007, the
10 portion of the credit computed under paragraph (b) of this subsection that
11 exceeds the credit that would have been utilized if the corporation's income
12 were taxed at the rates in KRS 141.020 shall be refundable. The refundable
13 portion of the credit shall be the individual member's, shareholder's, or
14 partner's proportionate share of the amount computed by multiplying the
15 amount the corporation's income exceeds two hundred sixteen thousand six
16 hundred dollars (\$216,600) by one percent (1%).
- 17 (d) The credit determined under paragraphs (a) and (b) of this subsection shall not
18 operate to reduce the member's, shareholder's, or partner's tax due to an
19 amount that is less than what would have been payable were the income
20 attributable to doing business in this state by the corporation ignored.
- 21 (e) If a corporation identified in KRS 141.010(24)(b)1. to ~~8.~~~~(h)~~ is a partner,
22 shareholder, or member of another corporation identified in KRS
23 141.010(24)(b)2. to ~~8.~~~~(h)~~, the amount of income, gain, loss, deduction,
24 refundable credit, or nonrefundable credit that the entity receives from the
25 entity in which it is a partner, shareholder, or member shall proportionately
26 pass through to the corporation's individual partners, members, or
27 shareholders based upon the distributive share ratio. The phrase "a

1 corporation identified in KRS 141.010(24)(b)1 to 8.{(h)} is a partner,
 2 shareholder, or member of another corporation identified in KRS
 3 141.010(24)(b)2 to 8.{(h)}" shall extend through each level of multitiered
 4 ownership.

5 (f) The nonrefundable and refundable credits provided by this section shall be
 6 allowed only to the extent that the tax is paid by the corporation. If after the
 7 credits are disallowed the corporation subsequently pays the tax due, the
 8 nonrefundable and refundable credits shall then be allowed.

9 (4) For purposes of computing the basis of an ownership interest or stock in a
 10 corporation identified in KRS 141.010(24)(b) to (h), the basis attributable to a
 11 member, partner, or shareholder shall be adjusted by the distributive share of the
 12 items of net income, gain, loss and deduction as though the items had been passed
 13 through to the member, partner, or shareholder.

14 (5) Except as otherwise provided in this chapter, distributions by or from a corporation
 15 shall be treated in the same manner as they are treated for federal tax purposes.

16 Section 12. KRS 141.011 is amended to read as follows:

17 (1) Notwithstanding any other provision of this chapter, the net operating loss
 18 carryback-carryforward deduction, including casualty loss, allowed under Section
 19 172 of the Internal Revenue Code shall apply only to such losses incurred in taxable
 20 years beginning after December 31, 1979, and no such loss shall be carried back to
 21 taxable years beginning before January 1, 1980. Any casualty loss carryforward
 22 authorized by this section as it existed before January 1, 1980, may be carried
 23 forward as an itemized deduction until it has been fully deducted.

24 (2) The net operating loss carryback deduction shall not be allowed for losses incurred
 25 for taxable years beginning on or after January 1, 2005.

26 (3) For taxable years when the tax due under KRS 141.040 is based on the alternative
 27 minimum calculation provided in KRS 141.040, any net operating loss

1 carryforward deduction that is utilized for the taxable year shall be the amount of
 2 taxable net income **before the net operating loss deduction**, that exceeds the
 3 taxable net income equivalent~~[of the alternative minimum calculation]~~. For
 4 purposes of this subsection, "taxable net income equivalent" means the **amount of**
 5 taxable net income that would generate an income tax equal to the alternative
 6 minimum calculation liability computed under KRS 141.040.

7 (4) For taxable years beginning on or after January 1, 2005, **and before December 31,**
 8 **2006**, the net operating loss carryforward deduction of a corporation shall be
 9 reduced by the amount of distributive share income, loss, and deduction distributed
 10 to an individual or general partnership as defined in KRS 141.206.

11 (5) The portion of a net operating loss that is not used to offset the income of an
 12 affiliate according to the limits in KRS 141.200(11) shall be available for
 13 carryforward, subject to the limitations contained in this section.

14 Section 13. KRS 136.505 is amended to read as follows:

15 (1) Every financial institution regularly engaged in business in this Commonwealth at
 16 any time during the taxable year as determined under KRS 136.520 shall pay an
 17 annual state franchise tax for each taxable year or portion of a taxable year to be
 18 measured by its net capital as determined in KRS 136.515 and, for financial
 19 institutions with business activity that is taxable both within and without this
 20 Commonwealth, apportioned under KRS 136.525.

21 (2) The tax shall be in lieu of all city, county, and local taxes, except the real estate
 22 transfer tax levied in KRS Chapter 142, real property and tangible personal
 23 property taxes levied in KRS Chapter 132, taxes upon users of utility services, and
 24 the local franchise tax levied in KRS 136.575.

25 (3) Every financial institution regularly engaged in business in this Commonwealth
 26 shall be subject to all state taxes in effect on July 15, 1996, except for the

1 corporation income tax levied in KRS Chapter 141, *the limited liability entity tax*
 2 *levied in Section 4 of this Act*, and the corporation license tax levied in this chapter.

3 Section 14. KRS 141.0405 is amended to read as follows:

4 (1) There shall be allowed a nonrefundable credit against taxes imposed by the
 5 Commonwealth on any taxpayer that:

6 (a) 1. Is an electric power company as defined in KRS Chapter 136; or

7 2. Is an entity that owns or operates a coal-fired electric generation plant;

8 (b) Remits tax to the Commonwealth under KRS 136.070, 136.120, 141.020, ~~[or]~~
 9 141.040, *or Section 4 of this Act*; and

10 (c) Purchases coal subject to the tax imposed under KRS 143.020 that is used by
 11 the taxpayer, or by a parent company if the taxpayer is a wholly owned
 12 subsidiary, for the purpose of generating electricity.

13 (2) The amount of the allowable credit shall be two dollars (\$2) per each incentive ton
 14 of coal purchased that is subject to tax under KRS 143.020 and that is used to
 15 generate electric power.

16 (3) Incentive tons are calculated as the tons of coal purchased in the current year for
 17 which coal severance tax was paid minus the tons of coal purchased and used
 18 during the base year.

19 (4) The base year amount shall be equal to:

20 (a) For entities existing on July 14, 2000, that meet the eligibility requirements
 21 imposed under subsection (1) of this section, the tons of coal purchased and
 22 used to generate electricity during the twelve (12) calendar months ending in
 23 December 31, 1999, that were subject to the tax imposed by KRS 143.020; or

24 (b) For entities that come into existence after July 14, 2000, that meet the
 25 eligibility requirements imposed under subsection (1) of this section, the base
 26 year amount shall be equal to zero (0). However, no company qualifying for
 27 the credit as of July 14, 2000, with a base year calculation as provided under

1 subsection (4)(a) of this section may create an affiliate, subsidiary, or
2 corporation that would qualify for a base year of zero (0).

3 (5) On or before March 15 of each year, a company eligible for the credit provided
4 under subsection (2) of this section shall file a coal incentive credit claim on forms
5 prescribed by the Department of Revenue. At the time of filing for the credit, the
6 taxpayer shall submit verification of the tons of coal purchased in the base year and
7 the tons of coal purchased in the year for which the credit is being claimed. The
8 Department of Revenue shall determine the amount of the eligible credit and issue a
9 credit certificate to the taxpayer.

10 (6) The taxpayer shall be eligible to apply, subject to the conditions imposed under
11 subsection (7) of this section, the amount identified on the credit certificate issued
12 by the Department of Revenue under subsection (5) of this section, against the
13 taxpayer's liability for the taxes, in consecutive order as follows:

14 (a) **The credit shall first be applied against both the taxes imposed by KRS**
15 **141.040 or 141.020 and the tax imposed by Section 4 of this Act, with the**
16 **ordering of credits as provided in KRS 141.0205;**

17 (b) **The credit shall next be applied to the taxes imposed by** ~~KRS 141.020;~~

18 ~~(e)~~ ~~—~~ KRS 136.070; and

19 ~~(c)~~ ~~(d)~~ **Any remaining credit shall be applied against the taxes imposed by**
20 **KRS 136.120.**

21 (7) The credit shall meet the entirety of the taxpayer's liability under the first tax listed
22 in consecutive order under subsection (6) of this section before applying the
23 remaining credit to the next tax listed in consecutive order. The taxpayer's total
24 liability under each preceding tax must be fully met before the remaining credit can
25 be applied to the subsequent tax listed in consecutive order.

26 (8) The taxpayer shall maintain records required in subsection (5) of this section for a
27 period of five (5) years.

1 (9) Acceptable verification of coal purchased during the base year shall include
 2 invoices that indicate the tons of coal purchased from a Kentucky supplier of coal
 3 and proof of remittance for that purchase.

4 (10) The Department of Revenue shall develop the forms required under subsection (5)
 5 of this section, specifying the procedure for claiming the credit, and applying the
 6 credit against the taxpayer's liability in the order provided under subsections (6) and
 7 (7) of this section.

8 Section 15. KRS 141.041 is amended to read as follows:

9 (1) There shall be allowed a credit against the tax imposed on any corporation subject
 10 to taxation under KRS 141.040 and Section 4 of this Act, and which, on or after
 11 January 1, 1984, installs, modifies, and utilizes facilities located in Kentucky for
 12 generating steam or hot water for space-heating or materials processing or for
 13 providing direct heat for industrial processes in the following ways:

- 14 (a) Replacement of an existing heat-generating facility not capable of using coal
 15 as a fuel with one in which coal can be used;
- 16 (b) Erection of a heat-generating facility additional to any existing heat-
 17 generating facility or facilities and capable of using coal as a fuel;
- 18 (c) Refurbishment for coal utilization of heat-generating facilities which were at
 19 one time capable of using coal but which had been altered to allow use of
 20 other fuels;
- 21 (d) Alteration of an existing heat-generating facility not capable of utilizing coal
 22 in such ways as to allow the use of coal;
- 23 (e) Substitution of coal for other fuels in any heat-generating facility which on
 24 January 1, 1984, was in existence and capable of utilizing coal and other
 25 fuels. Substitution means the increased heat input in BTU from coal matched
 26 by equal decreases of heat input in equivalent measures to BTU from other

1 fuels, based upon relative fuel usage in the calendar year preceding the year in
2 which the substitution occurred.

- 3 (2) The amount of the allowable credit shall be equal to four and one-half percent
4 (4.5%) of the purchase price of the coal subject to taxation under KRS Chapter 143
5 consumed or substituted in each eligible heating facility as described in subsection
6 (1) of this section, minus any transporting cost included in the purchase price.
- 7 (3) The credit shall be allowed for ten (10) years consecutive from the date of the
8 initial installation, modification, or utilization of any heat-generating facility
9 installed or modified on and after January 1, 1984, as defined in subsection (1)(a),
10 (b), (c), and (d) of this section or ten (10) years consecutive from the filing of a
11 fuel-switching credit claim in subsection (1)(e) of this section.
- 12 (4) The credit allowable under this section shall be applied against ***both*** the taxpayer's
13 ***income tax liability and the taxpayer's tax liability under the limited liability***
14 ***entity tax imposed by Section 4 of this Act, with the ordering of the credits*** as
15 provided in KRS 141.0205, and no part of the credit shall be applicable to the tax
16 imposed by KRS 141.040 ***or Section 4 of this Act*** for any other taxable year.
- 17 (5) A corporation claiming the credit under this section must submit proof of the
18 installation, modification, utilization or substitution as required by regulations
19 issued by the Department of Revenue prior to the claiming of such credit.

20 Section 16. KRS 141.062 is amended to read as follows:

- 21 (1) The amount of premiums paid for health insurance shall be treated as an income tax
22 credit for state income tax purposes, ***and as a credit against the limited liability***
23 ***entity tax imposed by Section 4 of this Act, with the ordering of the credits as***
24 ***provided in KRS 141.0205***, as follows:
- 25 (a) Twenty percent (20%) of the first year premium;
- 26 (b) Fifteen percent (15%) of the second year premium;
- 27 (c) Ten percent (10%) of the third year premium; and

- 1 (d) Five percent (5%) of the fourth year premium.
- 2 (2) No employer or employee shall be eligible for the income tax credits enumerated in
3 this section unless:
- 4 (a) Premiums are paid into the trust prior to July 1, 1992;
- 5 (b) Fifty (50) or fewer employees are employed;
- 6 (c) No health insurance benefits have been provided by the employer during the
7 three (3) years preceding the date premiums are initially paid to the trust;
- 8 (d) Employers maintain participation in the trust for all full-time and part-time
9 employees for a period of four (4) continuous years; and
- 10 (e) Employers pay at least fifty percent (50%) of the premium.

11 Section 17. KRS 141.065 is amended to read as follows:

- 12 (1) For the purposes of this section, "code" or "Internal Revenue Code" means the
13 Internal Revenue Code in effect as of December 31, 1981.
- 14 (2) There shall be allowed as a credit for any taxpayer against the tax imposed by **KRS**
15 **141.020 or 141.040 and Section 4 of this Act**~~[this chapter]~~ for any taxable year,
16 **with the ordering of the credits as provided in KRS 141.0205,** an amount equal to
17 one hundred dollars (\$100) for each person hired by the taxpayer, if that person has
18 been classified as unemployed by the **office of Employment and Training of the**
19 **Department of Workforce Investment in the Education Cabinet**~~[Department for~~
20 ~~Community Based Services of the Cabinet for Health and Family Services,]~~ and has
21 been so classified for at least sixty (60) days prior to his employment by the
22 taxpayer, and if further that person has remained in the employ of the taxpayer for
23 at least one hundred eighty (180) consecutive days during the taxable year in which
24 the taxpayer claims the credit.
- 25 (3) No credit shall be allowed to any taxpayer for any person hired under any of the
26 following circumstances:

- 1 (a) A person for whom the taxpayer receives federally funded payments for on-
2 the-job training;
- 3 (b) For any person who bears any of the relationships to the taxpayer described in
4 paragraphs (1) through (8) of Section 152(a) of the Internal Revenue Code, or,
5 if the taxpayer is a corporation, to an individual who owns, directly or
6 indirectly, more than fifty percent (50%) in value of the outstanding stock of
7 the corporation as determined with the application of Section 267(c) of the
8 code;
- 9 (c) If the taxpayer is an estate or trust, to any person who is a grantor,
10 beneficiary, or fiduciary of the estate or trust, or is an individual who bears
11 any of the relationships described in paragraphs (1) through (8) of Section
12 152(a) of the code to a grantor, beneficiary, or fiduciary of the estate or trust;
13 or
- 14 (d) To any person who is a dependent of the taxpayer as described in code
15 Section 152(a)(9), or, if the taxpayer is an estate or trust, of a grantor,
16 beneficiary, or fiduciary of the estate or trust.
- 17 (4) For purposes of this section, all employees of all corporations which are members
18 of the same controlled group of corporations shall be treated as employed by a
19 single employer. In no instance shall the credit, if any, allowable by subsection (2)
20 of this section for any employee qualified thereunder be claimed more than once for
21 any taxable year by such a controlled group of corporations. For purposes of this
22 subsection, the term "controlled group of corporations" has the meaning given to
23 that term by code Section 1563(a), except that "more than fifty percent (50%)" shall
24 be substituted for "at least eighty percent (80%)" each place it appears in code
25 Section 1563(a)(1), and the determination shall be made without regard to
26 subsections (a)(4) and (e)(3)(c) of code Section 1563.

- 1 (5) For purposes of this section, all employees of trades or businesses (whether or not
 2 incorporated) which are under common control shall be treated as employed by a
 3 single employer, and in no instance shall the credit, if any, allowable by subsection
 4 (2) of this section for any employee qualified thereunder be claimed more than once
 5 for any taxable year.
- 6 (6) No credit shall be allowed under subsection (2) of this section to any organization
 7 which is exempt from income tax by this chapter.
- 8 (7) In the case of ***a pass-through entity***~~[an electing small business corporation]~~, the
 9 amount of the credit determined under this section for any taxable year shall be
 10 ***applied at the entity level against the limited liability entity tax imposed by Section***
 11 ***4 of this Act and shall also be*** apportioned pro rata among the ***members, partners,***
 12 ***or***~~[persons who are]~~ shareholders of the ***limited liability entity***~~[corporation]~~ on the
 13 last day of the taxable year, and any person to whom an amount is so apportioned
 14 shall be allowed, subject to code Section 53, a credit under subsection (2) of this
 15 section for that amount.
- 16 (8) In the case of an estate or trust, the amount of the credit determined under this
 17 section for any taxable year shall be apportioned between the estate or trust and the
 18 beneficiaries on the basis of income of the estate or trust allocable to each, and any
 19 beneficiary to whom any amount has been apportioned under this subsection shall
 20 be allowed, subject to code Section 53, a credit under subsection (2) of this section
 21 for that amount.
- 22 (9) In no event shall the credit allowed, pursuant to this section, for any taxable year
 23 exceed the tax liability of the taxpayer for the taxable year.
- 24 Section 18. KRS 141.068 is amended to read as follows:
- 25 (1) As used in this section, unless the context requires otherwise:
- 26 (a) "Authority" means the Kentucky Economic Development Finance Authority
 27 as created pursuant to KRS 154.20-010;

- 1 (b) "Investor" has the same meaning as set forth in KRS 154.20-254;
- 2 (c) "Investment fund" has the same meaning as set forth in KRS 154.20-254;
- 3 (d) "Investment fund manager" has the same meaning as set forth in KRS 154.20-
- 4 254; and
- 5 (e) "Tax credit" means the credits provided for in KRS 154.20-258.
- 6 (2) (a) An investor which is an individual or a corporation shall be entitled to the
- 7 credit certified by the authority under KRS 154.20-258 against the tax due
- 8 computed as provided by KRS 141.020 or 141.040, respectively, **and against**
- 9 **the tax imposed by Section 4 of this Act, with the ordering of credits as**
- 10 **provided in KRS 141.0205.**
- 11 (b) The amount of the certified tax credit that may be claimed in any tax year of
- 12 the investor shall be determined in accordance with the provisions of KRS
- 13 154.20-258.
- 14 (3) (a) In the case of an investor that is a **pass-through entity**~~[general partnership]~~
- 15 not subject to the tax imposed by KRS 141.040, the amount of the tax credit
- 16 certified by the authority under KRS 154.20-258 **shall be taken by the pass-**
- 17 **through entity against the limited liability entity tax imposed by Section 4 of**
- 18 **this Act, and** shall **also** be apportioned among the partners, **members, or**
- 19 **shareholders** at the same ratio as the partners', **members', or shareholders'**
- 20 distributive shares of income are determined for the tax year during which the
- 21 amount of the credit is certified by the authority.
- 22 (b) The amount of the tax credit apportioned to each partner, **member, or**
- 23 **shareholder** that may be claimed in any tax year of the partner, **member, or**
- 24 **shareholder** shall be determined in accordance with the provisions of KRS
- 25 154.20-258.
- 26 (4) (a) In the case of an investor that is a trust not subject to the tax imposed by KRS
- 27 141.040, the amount of the tax credit certified by the authority under KRS

1 154.20-258 shall be apportioned to the trust and the beneficiaries on the basis
2 of the income of the trust allocable to each for the tax year during which the
3 tax credit is certified by the authority.

4 (b) The amount of tax credit apportioned to each trust or beneficiary that may be
5 claimed in any tax year of the trust or beneficiary shall be determined in
6 accordance with the provisions of KRS 154.20-258.

7 (5) The Department of Revenue shall promulgate administrative regulations under KRS
8 Chapter 13A adopting forms and procedures for the reporting and administration of
9 credits authorized by KRS 154.20-258.

10 Section 19. KRS 141.130 is amended to read as follows:

11 If any corporation or **pass-through entity**~~[general partnership]~~ dissolves or withdraws
12 from this state during any taxable year, or if any corporation in any manner surrenders or
13 loses its charter during any taxable year, the dissolution, withdrawal, or loss or surrender
14 of charter shall not defeat the filing of returns and the assessment and collection of
15 income taxes for the period of that taxable year during which the corporation or **pass-**
16 **through entity**~~[general partnership]~~ had an income in this state.

17 Section 20. KRS 141.347 is amended to read as follows:

18 (1) As used in this section, unless the context requires otherwise:

19 (a) "Approved company" shall have the same meaning as set forth in KRS
20 154.22-010;

21 (b) "Economic development project" shall have the same meaning as set forth in
22 KRS 154.22-010;

23 (c) "Tax credit" means the "tax credit" allowed in KRS 154.22-010 to 154.22-
24 070;~~[and]~~

25 (d) "**Kentucky** gross receipts" means **Kentucky** gross receipts as defined in
26 **Section 4 of this Act; and**

1 (e) "Kentucky gross profits" means Kentucky gross profits as defined in
 2 Section 4 of this Act~~[KRS 141.040(5)(b) and (6)(b)]~~.

3 (2) An approved company shall determine the~~[income]~~ tax credit as provided in this
 4 section.

5 (3) An approved company which is an individual sole proprietorship subject to tax
 6 under KRS 141.020 or a corporation or pass-through entity treated as a
 7 corporation for federal income tax purposes subject to tax under KRS 141.040(1)
 8 shall:

9 (a) 1. Compute the tax due at the applicable tax rates as provided by KRS
 10 141.020 or 141.040 on net income as defined by KRS 141.010(11) or~~[,]~~
 11 taxable net income as defined by KRS 141.010(14),~~[gross receipts, or~~
 12 ~~Kentucky gross profits,]~~ including income~~[, gross receipts, or Kentucky~~
 13 ~~gross profits]~~ from the~~[an]~~ economic development project;~~[and]~~

14 2. Compute the limited liability entity tax imposed under Section 4 of this
 15 Act including Kentucky gross profits or Kentucky gross receipts from
 16 the economic development project; and

17 3. Add the amounts computed under subparagraphs 1. and 2. of this
 18 paragraph and, if applicable, subtract the credit permitted by
 19 subsection (3) of Section 4 of this Act from that sum. The resulting
 20 amount shall be the net tax for purposes of this paragraph.

21 (b) 1. Compute the tax due at the applicable tax rates as provided by KRS
 22 141.020 or 141.040 on net income as defined by KRS 141.010(11) or~~[,]~~
 23 taxable net income as defined by KRS 141.010(14),~~[gross receipts, or~~
 24 ~~Kentucky gross profits,]~~ excluding net income~~[, gross receipts, or~~
 25 ~~Kentucky gross profits]~~ attributable to the~~[an]~~ economic development
 26 project;

1 2. Using the method chosen under subparagraph 2. of paragraph (a) of
 2 this subsection, compute the limited liability entity tax imposed under
 3 Section 4 of this Act excluding Kentucky gross profits or Kentucky
 4 gross receipts from the economic development project; and

5 3. Add the amounts computed under subparagraphs 1. and 2. of this
 6 paragraph and, if applicable, subtract the credit permitted by
 7 subsection (3) of Section 4 of this Act from that sum. The resulting
 8 amount shall be the net tax for purposes of this paragraph.

9 (c) The tax credit shall be the amount by which the net tax computed under
 10 subparagraph 3. of paragraph (a) of this subsection exceeds the tax computed
 11 under subparagraph 3. of paragraph (b) of this subsection; however, the
 12 credit shall not exceed the limits set forth in KRS 154.22-050.

13 (4) (a) Notwithstanding any other provisions of this chapter, an approved company
 14 which is a pass-through entity~~[general partnership]~~ not subject to tax under
 15 KRS 141.040 or a trust not subject to tax under KRS 141.040 shall be subject
 16 to income tax on the net income attributable to an economic development
 17 project at the rates provided in KRS 141.020(2).

18 (b) The amount of the tax credit shall be determined as provided in subsection
 19 (3) of this section.~~[the same as the amount of the tax computed in this~~
 20 ~~subsection or.]~~ Upon the annual election of the approved company, in lieu of
 21 the tax credit, an amount shall be applied as an estimated tax payment equal
 22 to the tax computed in this section. Any estimated tax payment made pursuant
 23 to this paragraph shall be in satisfaction of the tax liability of the partners,
 24 members, shareholders, or beneficiaries of the pass-through entity~~[general~~
 25 ~~partnership]~~ or trust, and shall be paid on behalf of the partners, members,
 26 shareholders, or beneficiaries.

- 1 (c) The tax credit or estimated payment shall not exceed the limits set forth in
2 KRS 154.22-050.
- 3 (d) If the tax computed in this section exceeds the credit, the excess shall be paid
4 by the pass-through entity~~[general partnership]~~ or trust at the times provided
5 by KRS 141.160 or Section 4 of this Act for filing the returns.
- 6 (e) Any estimated tax payment made by the pass-through entity~~[general~~
7 ~~partnership]~~ or trust in satisfaction of the tax liability of partners, members,
8 shareholders, or beneficiaries shall not be treated as taxable income subject to
9 Kentucky income tax by the partner, member, shareholder, or beneficiary.
- 10 (5) Notwithstanding any other provisions of this chapter, the net income subject to tax,
11 the tax credit, and the estimated tax payment determined under subsection (4) of
12 this section shall be excluded in determining each partner's, member's,
13 shareholder's, or beneficiary's distributive share of net income or credit of a pass-
14 through entity~~[general partnership]~~ or trust.
- 15 (6) If the economic development project is a totally separate facility:
- 16 (a) Net income attributable to the project for the purposes of subsections (3), (4),
17 and (5) of this section shall be determined under the separate accounting
18 method reflecting only the gross income, deductions, expenses, gains, and
19 losses allowed under this chapter directly attributable to the facility and
20 overhead expenses apportioned to the facility; and
- 21 (b) Kentucky gross receipts or Kentucky gross profits attributable to the project
22 for the purposes of subsection (3) of this section shall be determined under the
23 separate accounting method reflecting only the Kentucky gross receipts or
24 Kentucky gross profits directly attributable to the facility.
- 25 (7) If the economic development project is an expansion to a previously existing
26 facility:

- 1 (a) Net income attributable to the entire facility shall be determined under the
2 separate accounting method reflecting only the gross income, deductions,
3 expenses, gains, and losses allowed under this chapter directly attributable to
4 the facility, and the net income attributable to the economic development
5 project for the purposes of subsections (3), (4), and (5) of this section shall be
6 determined by apportioning the separate accounting net income of the entire
7 facility to the economic development project by a formula approved by the
8 Department of Revenue; and
- 9 (b) Kentucky gross receipts or Kentucky gross profits attributable to the entire
10 facility shall be determined under the separate accounting method reflecting
11 only the Kentucky gross receipts or Kentucky gross profits directly
12 attributable to the facility, and Kentucky gross receipts or Kentucky gross
13 profits attributable to the economic development project for the purposes of
14 subsection (3) of this section shall be determined by apportioning the separate
15 accounting Kentucky gross receipts or Kentucky gross profits of the entire
16 facility to the economic development project by a formula approved by the
17 Department of Revenue.
- 18 (8) If an approved company can show to the satisfaction of the Department of Revenue
19 that the nature of the operations and activities of the approved company are such
20 that it is not practical to use the separate accounting method to determine the net
21 income, Kentucky gross receipts, or Kentucky gross profits from the facility at
22 which the economic development project is located, the approved company shall
23 determine net income, Kentucky gross receipts, or Kentucky gross profits from the
24 economic development project using an alternative method approved by the
25 Department of Revenue.
- 26 (9) The Department of Revenue may issue administrative regulations and require the
27 filing of forms designed by the Department of Revenue to reflect the intent of KRS

1 154.22-020 to 154.22-070 and the allowable income tax credit which an approved
2 company may retain under KRS 154.22-020 to 154.22-070.

3 Section 21. KRS 141.390 is amended to read as follows:

4 (1) As used in this section:

5 (a) "Postconsumer waste" means any product generated by a business or
6 consumer which has served its intended end use, and which has been
7 separated from solid waste for the purposes of collection, recycling,
8 composting, and disposition and which does not include secondary waste
9 material or demolition waste;

10 (b) "Recycling equipment" means any machinery or apparatus used exclusively to
11 process postconsumer waste material and manufacturing machinery used
12 exclusively to produce finished products composed of substantial
13 postconsumer waste materials;

14 (c) "Composting equipment" means equipment used in a process by which
15 biological decomposition of organic solid waste is carried out under
16 controlled aerobic conditions, and which stabilizes the organic fraction into a
17 material which can easily and safely be stored, handled, and used in a
18 environmentally acceptable manner;

19 (d) "Recapture period" means:

20 1. For qualified equipment with a useful life of five (5) or more years, the
21 period from the date the equipment is purchased to five (5) full years
22 from that date; or

23 2. For qualified equipment with a useful life of less than five (5) years, the
24 period from the date the equipment is purchased to three (3) full years
25 from that date;

26 (e) "Useful life" means the period determined under Section 168 of the Internal
27 Revenue Code;

- 1 (f) “Baseline tax liability” means the tax liability of the taxpayer for the most
 2 recent tax year ending prior to January 1, 2005; and
- 3 (g) “Major recycling project” means a project where the taxpayer:
- 4 1. Invests more than ten million dollars (\$10,000,000) in recycling or
 5 composting equipment to be used exclusively in this state;
 - 6 2. Has more than seven hundred fifty (750) full-time employees with an
 7 average hourly wage of more than three hundred percent (300%) of the
 8 federal minimum wage; and
 - 9 3. Has plant and equipment with a total cost of more than five hundred
 10 million dollars (\$500,000,000).
- 11 (2) (a) A taxpayer that purchases recycling or composting equipment to be used
 12 exclusively within this state for recycling or composting postconsumer waste
 13 materials shall be entitled to a credit against the income taxes imposed
 14 pursuant to this chapter, including any tax due under the provisions of KRS
 15 141.040, in an amount equal to fifty percent (50%) of the installed cost of the
 16 recycling or composting equipment. **Any credit allowed against the income**
 17 **taxes imposed pursuant to this chapter shall also be applied against the**
 18 **limited liability entity tax imposed by Section 4 of this Act, with the ordering**
 19 **of credits as provided in KRS 141.0205.** The amount of credit claimed in the
 20 tax year during which the recycling equipment is purchased shall not exceed
 21 ten percent (10%) of the amount of the total credit allowable and shall not
 22 exceed twenty-five percent (25%) of the total of each tax liability which
 23 would be otherwise due.
- 24 (b) For taxable years beginning after December 31, 2004, a taxpayer that has a
 25 major recycling project containing recycling or composting equipment to be
 26 used exclusively within this state for recycling or composting postconsumer
 27 waste material shall be entitled to a credit against the income taxes imposed

- 1 pursuant to this chapter, including any tax due under the provisions of KRS
 2 141.040, in an amount equal to fifty percent (50%) of the installed cost of the
 3 recycling or composting equipment. **Any credit allowed against the income**
 4 **taxes imposed pursuant to this chapter shall also be applied against the**
 5 **limited liability entity tax imposed by Section 4 of this Act, with the ordering**
 6 **of credits as provided in KRS 141.0205.** The credit described in this
 7 paragraph shall be limited to a period of ten (10) years commencing with the
 8 approval of the recycling credit application. In each taxable year, the amount
 9 of credits claimed for all major recycling projects shall be limited to:
- 10 1. Fifty percent (50%) of the excess of the total of each tax liability over
 11 the baseline tax liability of the taxpayer; or
 - 12 2. Two million five hundred thousand dollars (\$2,500,000), whichever is
 13 less.
- 14 (c) A taxpayer with one (1) or more major recycling projects shall be entitled to a
 15 total credit including the amount computed in paragraph (a) of this subsection
 16 plus the amount of credit computed in paragraph (b) of this subsection.
- 17 (d) A taxpayer shall not be permitted to utilize a credit computed under paragraph
 18 (a) of this subsection and a credit computed under paragraph (b) of this
 19 subsection on the same recycling or composting equipment.
- 20 (3) Application for a tax credit shall be made to the Department of Revenue on or
 21 before the first day of the seventh month following the close of the taxable year in
 22 which the recycling or composting equipment is purchased. The application shall
 23 include a description of each item of recycling equipment purchased, the date of
 24 purchase and the installed cost of the recycling equipment, a statement of where the
 25 recycling equipment is to be used, and any other information as the Department of
 26 Revenue may require. The Department of Revenue shall review all applications
 27 received to determine whether expenditures for which credits are required meet the

1 requirements of this section and shall advise the taxpayer of the amount of credit
 2 for which the taxpayer is eligible under this section. Any corporation as defined in
 3 KRS 141.010(24)(b)~~2.~~ to ~~8. (h)~~ may elect to claim the balance of a recycling credit
 4 approved prior to March 18, 2005, against its tax liability imposed under KRS
 5 141.040 **and Section 4 of this Act.** The election shall be binding on the taxpayer
 6 and the Department of Revenue until the balance of the recycling credit is used.

7 (4) Except as provided in subsection (6) of this section, if a taxpayer that receives a tax
 8 credit under this section sells, transfers, or otherwise disposes of the qualifying
 9 recycling or composting equipment before the end of the recapture period, the tax
 10 credit shall be redetermined under subsection (5) of this section. If the total credit
 11 taken in prior taxable years exceeds the redetermined credit, the difference shall be
 12 added to the taxpayer's tax liability under this chapter for the taxable year in which
 13 the sale, transfer, or disposition occurs. If the redetermined credit exceeds the total
 14 credit already taken in prior taxable years, the taxpayer shall be entitled to use the
 15 difference to reduce the taxpayer's tax liability under this chapter for the taxable
 16 year in which the sale, transfer, or disposition occurs.

17 (5) The total tax credit allowable under subsection (2) of this section for equipment that
 18 is sold, transferred, or otherwise disposed of before the end of the recapture period
 19 shall be adjusted as follows:

20 (a) For equipment with a useful life of five (5) or more years that is sold,
 21 transferred, or otherwise disposed of:

- 22 1. One (1) year or less after the purchase, no credit shall be allowed.
- 23 2. Between one (1) year and two (2) years after the purchase, twenty
 24 percent (20%) of the total allowable credit shall be allowed.
- 25 3. Between two (2) and three (3) years after the purchase, forty percent
 26 (40%) of the total allowable credit shall be allowed.

- 1 4. Between three (3) and four (4) years after the purchase, sixty percent
2 (60%) of the total allowable credit shall be allowed.
- 3 5. Between four (4) and five (5) years after the purchase, eighty percent
4 (80%) of the total allowable credit shall be allowed.
- 5 (b) For equipment with a useful life of less than five (5) years that is sold,
6 transferred, or otherwise disposed of:
- 7 1. One (1) year or less after the purchase, no credit shall be allowed.
- 8 2. Between one (1) year and two (2) years after the purchase, thirty-three
9 percent (33%) of the total allowable credit shall be allowed.
- 10 3. Between two (2) and three (3) years after the purchase, sixty-seven
11 percent (67%) of the total allowable credit shall be allowed.
- 12 (6) Subsections (4) and (5) of this section shall not apply to transfers due to death, or
13 transfers due merely to a change in business ownership or organization as long as
14 the equipment continues to be used exclusively in recycling or composting, or
15 transactions to which Section 381(a) of the Internal Revenue Code applies.
- 16 (7) The Department of Revenue may promulgate administrative regulations to carry out
17 the provisions of this section.
- 18 Section 22. KRS 141.395 is amended to read as follows:
- 19 (1) As used in this section:
- 20 (a) "Construction of research facilities" means constructing, remodeling, and
21 equipping facilities in this state or expanding existing facilities in this state for
22 qualified research and includes only tangible, depreciable property, and does
23 not include any amounts paid or incurred for replacement property; and
- 24 (b) "Qualified research" means qualified research as defined in Section 41 of the
25 Internal Revenue Code.
- 26 (2) A nonrefundable credit in the amount determined in subsection (3) of this section is
27 permitted against the tax assessed by both ~~in~~ KRS 141.020 or 141.040 and Section

1 4 of this Act, with the ordering of credits as provided in KRS 141.0205, for the
 2 construction of research facilities. Any unused credit may be carried forward ten
 3 (10) years.

4 (3) The credit allowed in subsection (2) of this section shall equal five percent (5%) of
 5 the qualified costs of construction of research facilities.

6 Section 23. KRS 141.400 is amended to read as follows:

7 (1) As used in this section, unless the context requires otherwise:

8 (a) "Approved company" shall have the same meaning as set forth in KRS
 9 154.28-010;

10 (b) "Economic development project" shall have the same meaning as set forth in
 11 KRS 154.28-010;

12 (c) "Tax credit" means the "tax credit" allowed in KRS 154.28-090;~~and~~

13 (d) "Kentucky gross receipts" means Kentucky gross receipts as defined in
 14 Section 4 of this Act; and

15 (e) "Kentucky gross profits" means Kentucky gross profits as defined in
 16 Section 4 of this Act~~[KRS 141.040(5)(b) and (6)(b)]~~.

17 (2) An approved company shall determine the income tax credit as provided in this
 18 section.

19 (3) An approved company which is an individual sole proprietorship subject to tax
 20 under KRS 141.020 or a corporation or pass-through entity treated as a
 21 corporation for federal income tax purposes subject to tax under KRS 141.040(1)
 22 shall:

23 (a) 1. Compute the tax due at the applicable tax rates as provided by KRS
 24 141.020 or 141.040 on net income as defined by KRS 141.010(11) ~~or~~
 25 taxable net income as defined by KRS 141.010(14), ~~gross receipts, or~~
 26 ~~Kentucky gross profits,~~ including income~~, gross receipts, or Kentucky~~
 27 ~~gross profits~~ from the~~an~~ economic development project;

1 **2. Compute the limited liability entity tax imposed under Section 4 of this**
 2 **Act including Kentucky gross profits or Kentucky gross receipts from**
 3 **the economic development project; and**

4 **3. Add the amounts computed under subparagraphs 1. and 2. of this**
 5 **paragraph and, if applicable, subtract the credit permitted by**
 6 **subsection (3) of Section 4 of this Act from that sum. The resulting**
 7 **amount shall be the net tax for purposes of this paragraph.**

8 (b) **1.** Compute the tax due at the applicable tax rates as provided by KRS
 9 141.020 or 141.040 on net income as defined by KRS 141.010(11) ~~or~~
 10 taxable net income as defined by KRS 141.010(14), ~~gross receipts, or~~
 11 ~~Kentucky gross profits,~~ excluding net income ~~, gross receipts, or~~
 12 ~~Kentucky gross profits~~ attributable to ~~the~~~~an~~ economic development
 13 project; ~~and~~

14 **2. Using the same method used under subparagraph 2. of paragraph (a)**
 15 **of this subsection, compute the limited liability entity tax imposed**
 16 **under Section 4 of this Act excluding Kentucky gross receipts or**
 17 **Kentucky gross profits from the economic development project; and**

18 **3. Add the amounts computed under subparagraphs 1. and 2. of this**
 19 **paragraph and, if applicable, subtract the credit permitted by**
 20 **subsection (3) of Section 4 of this Act from that sum. The resulting**
 21 **amount shall be the net tax for purposes of this paragraph.**

22 (c) The tax credit shall be the amount by which the **net** tax computed under
 23 **subparagraph 3. of** paragraph (a) of this subsection exceeds the tax computed
 24 under **subparagraph 3. of** paragraph (b) of this subsection; however, the
 25 credit shall not exceed the limits set forth in KRS 154.28-090.

26 (4) (a) Notwithstanding any other provisions of this chapter, an approved company
 27 which is a **pass-through entity** ~~general partnership~~ not subject to tax under

- 1 KRS 141.040, or a trust not subject to tax under KRS 141.040 shall be subject
 2 to income tax on the net income attributable to an economic development
 3 project at the rates provided in KRS 141.020(2).
- 4 (b) The amount of the tax credit shall be **determined as provided in subsection**
 5 **(3) of this section.**~~[the same as the amount of the tax computed in this~~
 6 ~~subsection or.]~~ Upon the annual election of the approved company, in lieu of
 7 the tax credit, an amount shall be applied as an estimated tax payment equal
 8 to the tax computed in this section. Any estimated tax payment made pursuant
 9 to this paragraph shall be in satisfaction of the tax liability of the partners,
 10 **members, shareholders,** or beneficiaries of the **pass-through entity**~~[general~~
 11 ~~partnership]~~ or trust, and shall be paid on behalf of the partners, **members,**
 12 **shareholders,** or beneficiaries.
- 13 (c) The tax credit or estimated payment shall not exceed the limits set forth in
 14 KRS 154.28-090.
- 15 (d) If the tax computed in this section exceeds the credit, the excess shall be paid
 16 by the **pass-through entity**~~[general partnership]~~ or trust at the times provided
 17 by KRS 141.160 **or Section 4 of this Act** for filing the returns.
- 18 (e) Any estimated tax payment made by the **pass-through entity**~~[general~~
 19 ~~partnership]~~ or trust in satisfaction of the tax liability of partners, **members,**
 20 **shareholders,** or beneficiaries shall not be treated as taxable income subject to
 21 Kentucky income tax by the partner, **member, shareholder,** or beneficiary.
- 22 (5) Notwithstanding any other provisions of this chapter, the net income subject to tax,
 23 the tax credit, and the estimated tax payment determined under subsection (4) of
 24 this section shall be excluded in determining each partner's, **member's,**
 25 **shareholder's,** or beneficiary's distributive share of net income or credit of a **pass-**
 26 **through entity**~~[partnership]~~ or trust.
- 27 (6) If the economic development project is a totally separate facility:

- 1 (a) Net income attributable to the project for the purposes of subsections (3), (4),
2 and (5) of this section shall be determined under the separate accounting
3 method reflecting only the gross income, deductions, expenses, gains, and
4 losses allowed under this chapter directly attributable to the facility and
5 overhead expenses apportioned to the facility; and
- 6 (b) Kentucky gross receipts or Kentucky gross profits attributable to the project
7 for purposes of subsection (3) of this section shall be determined under the
8 separate accounting method reflecting only the Kentucky gross receipts or
9 Kentucky gross profits directly attributable to the facility.
- 10 (7) If the economic development project is an expansion to a previously existing
11 facility:
- 12 (a) Net income attributable to the entire facility shall be determined under the
13 separate accounting method reflecting only the gross income, deductions,
14 expenses, gains, and losses allowed under this chapter directly attributable to
15 the facility and overhead expenses apportioned to the facility, and the net
16 income attributable to the economic development project for the purposes of
17 subsections (3), (4), and (5) of this section shall be determined by
18 apportioning the separate accounting net income of the entire facility to the
19 economic development project by a formula approved by the Department of
20 Revenue; and
- 21 (b) Kentucky gross receipts or Kentucky gross profits attributable to the entire
22 facility shall be determined under the separate accounting method reflecting
23 only the Kentucky gross receipts or Kentucky gross profits directly
24 attributable to the facility, and Kentucky gross receipts or Kentucky gross
25 profits attributable to the economic development project for the purposes of
26 subsection (3) of this section shall be determined by apportioning the separate
27 accounting Kentucky gross receipts or Kentucky gross profits of the entire

1 facility to the economic development project by a formula approved by the
2 Department of Revenue.

3 (8) If an approved company can show to the satisfaction of the Department of Revenue
4 that the nature of the operations and activities of the approved company are such
5 that it is not practical to use the separate accounting method to determine the net
6 income, ***Kentucky*** gross receipts, or Kentucky gross profits from the facility at
7 which the economic development project is located, the approved company shall
8 determine net income, ***Kentucky*** gross receipts, or Kentucky gross profits from the
9 economic development project using an alternative method approved by the
10 Department of Revenue.

11 (9) The Department of Revenue may issue administrative regulations and require the
12 filing of forms designed by the Department of Revenue to reflect the intent of KRS
13 154.22-020 to 154.22-070 and KRS 154.28-010 to 154.28-090 and this section and
14 the allowable tax credit which an approved company may retain under KRS 154.22-
15 020 to 154.22-070 and KRS 154.28-010 to 154.28-090 and this section.

16 Section 24. KRS 141.401 is amended to read as follows:

17 (1) As used in this section, unless the context requires otherwise:

18 (a) "Approved company" shall have the same meaning as set forth in KRS
19 154.23-010;

20 (b) "Economic development project" shall have the same meaning as set forth in
21 KRS 154.23-010;

22 (c) "Tax credit" means the "tax credit" allowed under KRS 154.23-005 to 154.23-
23 079; ~~and~~

24 (d) "***Kentucky*** gross receipts" means ***Kentucky*** gross receipts as defined in
25 ***Section 4 of this Act; and***

26 ***(e) "Kentucky gross profits" means Kentucky gross profits as defined in***
27 ***Section 4 of this Act***~~[KRS 141.040(5)(b) and (6)(b)].~~

1 (2) An approved company shall determine the ~~income~~ tax credit as provided in this
2 section.

3 (3) An approved company that is an individual sole proprietorship subject to tax under
4 KRS 141.020 or a corporation *or pass-through entity treated as a corporation for*
5 *federal income tax purposes* subject to tax under KRS 141.040(1) shall:

6 (a) 1. Compute the tax due at the applicable tax rates as provided by KRS
7 141.020 or 141.040 on net income as defined by KRS 141.010(11) ~~or~~
8 taxable net income as defined by KRS 141.010(14), ~~gross receipts, or~~
9 ~~Kentucky gross profits,~~ including income, ~~gross receipts, or Kentucky~~
10 ~~gross profits~~ from the ~~an~~ economic development project; ~~and~~

11 2. Compute the limited liability entity tax imposed under Section 4 of this
12 Act including Kentucky gross profits or Kentucky gross receipts from
13 the economic development project; and

14 3. Add the amounts computed under subparagraphs 1. and 2. of this
15 paragraph and, if applicable, subtract the credit permitted by
16 subsection (3) of Section 4 of this Act from that sum. The resulting
17 amount shall be the net tax for purposes of this paragraph.

18 (b) 1. Compute the tax due at the applicable tax rates as provided by KRS
19 141.020 or 141.040 on net income as defined by KRS 141.010(11) ~~or~~
20 taxable net income as defined by KRS 141.010(14), ~~gross receipts, or~~
21 ~~Kentucky gross profits,~~ excluding net income, ~~gross receipts, or~~
22 ~~Kentucky gross profits~~ attributable to the ~~an~~ economic development
23 project;

24 2. Using the same method used under subparagraph 2. of paragraph (a)
25 of this subsection, compute the limited liability entity tax imposed
26 under Section 4 of this Act excluding Kentucky gross profits or
27 Kentucky gross receipts from the economic development project; and

1 **3. Add the amounts computed under subparagraphs 1. and 2. of this**
 2 **paragraph and, if applicable, subtract the credit permitted by**
 3 **subsection (3) of Section 4 of this Act from that sum. The resulting**
 4 **amount shall be the net tax for purposes of this paragraph.**

5 (c) The tax credit shall be the amount by which the tax computed under
 6 subparagraph 3. of paragraph (a) of this subsection exceeds the tax computed
 7 under subparagraph 3. of paragraph (b) of this subsection; however, the
 8 credit shall not exceed the limits set forth in KRS 154.23-005 to 154.23-079.

9 (4) Notwithstanding any other provisions of this chapter, an approved company that is
 10 a pass-through entity~~[general partnership]~~ not subject to the tax imposed by KRS
 11 141.040 or trust not subject to the tax imposed by KRS 141.040 shall be subject to
 12 income tax on the net income attributable to an economic development project at
 13 the rates provided in KRS 141.020(2), as follows:

14 (a) The amount of the tax credit shall be determined as provided in subsection
 15 (3) of this section.~~[the same as the amount of the tax computed in this~~
 16 ~~subsection or.]~~ Upon the annual election of the approved company, in lieu of
 17 the tax credit, an amount shall be applied as an estimated tax payment equal
 18 to the tax computed in this section. Any estimated tax payment made in this
 19 paragraph shall be in satisfaction of the tax liability of the partners, members,
 20 shareholders, or beneficiaries of the pass-through entity~~[general partnership]~~
 21 or trust, and shall be paid on behalf of the partners, members, shareholders,
 22 or beneficiaries.

23 (b) The tax credit or estimated payment shall not exceed the limits set forth in
 24 KRS 154.23-005 to 154.23-079.

25 (c) If the tax computed in this section exceeds the credit, the excess shall be paid
 26 by the pass-through entity~~[general partnership]~~ or trust at the times provided
 27 by KRS 141.160 for filing the returns.

- 1 (d) Any estimated tax payment made by the pass-through entity~~[general~~
2 ~~partnership]~~ or trust in satisfaction of the tax liability of partners, members,
3 shareholders, or beneficiaries shall not be treated as taxable income subject to
4 Kentucky income tax by the partner, member, shareholder, or beneficiary.
- 5 (5) Notwithstanding any other provisions of this chapter, the net income subject to tax,
6 the tax credit, and the estimated tax payment determined under subsection (4) of
7 this section shall be excluded in determining each partner's, member's,
8 shareholder's, or beneficiary's distributive share of net income or credit of a pass-
9 through entity~~[general partnership]~~ or trust.
- 10 (6) If the economic development project is a totally separate facility:
- 11 (a) Net income attributable to the project for the purposes of subsections (3), (4),
12 and (5) of this section shall be determined under the separate accounting
13 method reflecting only the gross income, deductions, expenses, gains, and
14 losses allowed under this chapter directly attributable to the facility and
15 overhead expenses apportioned to the facility; and
- 16 (b) Kentucky gross receipts or Kentucky gross profits attributable to the project
17 for the purposes of subsection (3) of this section shall be determined under the
18 separate accounting method reflecting only the Kentucky gross receipts or
19 Kentucky gross profits directly attributable to the facility.
- 20 (7) If the economic development project is an expansion to a previously existing
21 facility:
- 22 (a) Net income attributable to the entire facility shall be determined under the
23 separate accounting method reflecting only the gross income, deductions,
24 expenses, gains, and losses allowed under this chapter directly attributable to
25 the facility, and the net income attributable to the economic development
26 project for the purposes of subsections (3), (4), and (5) of this section shall be
27 determined by apportioning the separate accounting net income of the entire

1 facility to the economic development project by a formula approved by the
2 Department of Revenue; and

3 (b) Kentucky gross receipts or Kentucky gross profits attributable to the entire
4 facility shall be determined under the separate accounting method reflecting
5 only the Kentucky gross receipts or Kentucky gross profits directly
6 attributable to the facility, and Kentucky gross receipts or Kentucky gross
7 profits attributable to the economic development project for the purposes of
8 subsection (3) of this section shall be determined by apportioning the separate
9 accounting Kentucky gross receipts or Kentucky gross profits of the entire
10 facility to the economic development project by a formula approved by the
11 Department of Revenue.

12 (8) If an approved company can show to the satisfaction of the Department of Revenue
13 that the nature of the operations and activities of the approved company are such
14 that it is not practical to use the separate accounting method to determine the net
15 income, Kentucky gross receipts, or Kentucky gross profits from the facility at
16 which the economic development project is located, the approved company shall
17 determine net income, Kentucky gross receipts, or Kentucky gross profits from the
18 economic development project using an alternative method approved by the
19 Department of Revenue.

20 (9) The Department of Revenue may issue administrative regulations and require the
21 filing of forms designed by the Department of Revenue to reflect the intent of KRS
22 154.23-005 to 154.23-079 and the allowable income tax credit that an approved
23 company may retain under KRS 154.23-005 to 154.23-079.

24 Section 25. KRS 141.403 is amended to read as follows:

25 (1) As used in this section, unless the context requires otherwise:

26 (a) "Approved company" shall have the same meaning as set forth in KRS
27 154.26-010;

1 (b) "Economic revitalization project" shall have the same meaning as set forth in
2 KRS 154.26-010;

3 (c) "Tax credit" means the tax credit allowed in KRS 154.26-090; and

4 (d) "Kentucky gross receipts" means Kentucky gross receipts as defined in
5 Section 4 of this Act; and

6 (e) "Kentucky gross profits" means Kentucky gross profits as defined in
7 Section 4 of this Act~~[KRS 141.040(5)(b) and (6)(b)]~~.

8 (2) An approved company shall determine the income tax credit as provided in this
9 section.

10 (3) An approved company which is an individual sole proprietorship subject to tax
11 under KRS 141.020 or a corporation or pass-through entity treated as a
12 corporation for federal income tax purposes subject to tax under KRS 141.040(1)
13 shall:

14 (a) 1. Compute the tax due at the applicable tax rates as provided by KRS
15 141.020 or 141.040 on net income as defined by KRS 141.010(11) or
16 taxable net income as defined by KRS 141.010(14),~~[gross receipts, or~~
17 ~~Kentucky gross profits,]~~ including income~~[, gross receipts, or Kentucky~~
18 ~~gross profits]~~ from the~~[an]~~ economic revitalization project;

19 2. Compute the limited liability entity tax imposed under Section 4 of this
20 Act including Kentucky gross profits or Kentucky gross receipts from
21 the economic revitalization project; and

22 3. Add the amounts computed under subparagraphs 1. and 2. of this
23 paragraph and, if applicable, subtract the credit permitted by
24 subsection (3) of Section 4 of this Act from that sum. The resulting
25 amount shall be the net tax for purposes of this paragraph.

26 (b) 1. Compute the tax due at the applicable tax rates as provided by KRS
27 141.020 or 141.040 on net income as defined by KRS 141.010(11) or~~[,]~~

1 taxable net income as defined by KRS 141.010(14), ~~gross receipts, or~~
 2 ~~Kentucky gross profits,~~ excluding net income ~~gross receipts, or~~
 3 ~~Kentucky gross profits~~ attributable to the~~an~~ economic revitalization
 4 project; ~~and~~

5 **2. Using the same method used under subparagraph 2. of paragraph (a)**
 6 **of this subsection, compute the limited liability entity tax imposed**
 7 **under Section 4 of this Act excluding Kentucky gross profits or**
 8 **Kentucky gross receipts from the economic revitalization project; and**

9 **3. Add the amounts computed under subparagraphs 1. and 2. of this**
 10 **paragraph and, if applicable, subtract the credit permitted by**
 11 **subsection (3) of Section 4 of this Act from that sum. The resulting**
 12 **amount shall be the net tax for purposes of this paragraph.**

13 (c) The tax credit shall be the amount by which the net tax computed under
 14 subparagraph 3. of paragraph (a) of this subsection exceeds the tax computed
 15 under subparagraph 3. of paragraph (b) of this subsection; however, the
 16 credit shall not exceed the limits set forth in KRS 154.26-090.

17 (4) (a) Notwithstanding any other provisions of this chapter, an approved company
 18 which is a pass-through entity~~general partnership~~ not subject to the tax
 19 imposed by KRS 141.040 or trust not subject to the tax imposed KRS 141.040
 20 shall be subject to income tax on the net income attributable to an economic
 21 revitalization project at the rates provided in KRS 141.020(2).

22 (b) The amount of the tax credit shall be determined as provided in subsection
 23 (3) of this section.~~the same as the amount of the tax computed in this~~
 24 ~~subsection or,~~ Upon the annual election of the approved company, in lieu of
 25 the tax credit, an amount shall be applied as an estimated tax payment equal
 26 to the tax computed in this section. Any estimated tax payment made pursuant
 27 to this paragraph shall be in satisfaction of the tax liability of the partners.

- 1 members, shareholders, or beneficiaries of the pass-through entity~~[general~~
2 ~~partnership]~~ or trust, and shall be paid on behalf of the partners, members,
3 shareholders, or beneficiaries.
- 4 (c) The tax credit or estimated payment shall not exceed the limits set forth in
5 KRS 154.26-090.
- 6 (d) If the tax computed in this section exceeds the tax credit, the difference shall
7 be paid by the pass-through entity~~[general partnership]~~ or trust at the times
8 provided by KRS 141.160 for filing the returns.
- 9 (e) Any estimated tax payment made by the pass-through entity~~[general~~
10 ~~partnership]~~ or trust in satisfaction of the tax liability of partners, members,
11 shareholders, or beneficiaries shall not be treated as taxable income subject to
12 Kentucky income tax by the partner, member, shareholder, or beneficiary.
- 13 (5) Notwithstanding any other provisions of this chapter, the net income subject to tax,
14 the tax credit, and the estimated tax payment determined under subsection (4) of
15 this section shall be excluded in determining each partner's, member's,
16 shareholder's, or beneficiary's distributive share of net income or credit of a pass-
17 through entity~~[general partnership]~~ or trust.
- 18 (6) If the economic revitalization project is a totally separate facility:
- 19 (a) Net income attributable to the project for the purposes of subsections (3), (4),
20 and (5) of this section shall be determined under the separate accounting
21 method reflecting only the gross income, deductions, expenses, gains, and
22 losses allowed under KRS Chapter 141 directly attributable to the facility and
23 overhead expenses apportioned to the facility; and
- 24 (b) Kentucky gross receipts or Kentucky gross profits attributable to the project
25 for purposes of subsection (3) of this section shall be determined under the
26 separate accounting method reflecting only the Kentucky gross receipts or
27 Kentucky gross profits directly attributable to the facility.

- 1 (7) If the economic revitalization project is an expansion to a previously existing
2 facility:
- 3 (a) Net income attributable to the entire facility shall be determined under the
4 separate accounting method reflecting only the gross income, deductions,
5 expenses, gains, and losses allowed under KRS Chapter 141 directly
6 attributable to the facility and overhead expenses apportioned to the facility,
7 and the net income attributable to the economic revitalization project for the
8 purposes of subsections (3), (4), and (5) of this section shall be determined by
9 apportioning the separate accounting net income of the entire facility to the
10 economic revitalization project by a formula approved by the Department of
11 Revenue; and
- 12 (b) Kentucky gross receipts or Kentucky gross profits attributable to the entire
13 facility shall be determined under the separate accounting method reflecting
14 only the Kentucky gross receipts or Kentucky gross profits directly
15 attributable to the facility. Kentucky gross receipts or Kentucky gross profits
16 attributable to the economic revitalization project for purposes of subsection
17 (3) of this section shall be determined by apportioning the separate accounting
18 Kentucky gross receipts or Kentucky gross profits of the entire facility to the
19 economic revitalization project pursuant to a formula approved by the
20 Department of Revenue.
- 21 (8) If an approved company can show to the satisfaction of the Department of Revenue
22 that the nature of the operations and activities of the approved company are such
23 that it is not practical to use the separate accounting method to determine the net
24 income, Kentucky gross receipts, or Kentucky gross profits from the facility at
25 which the economic revitalization project is located, the approved company shall
26 determine net income, Kentucky gross receipts, or Kentucky gross profits from the

1 economic revitalization project using an alternative method approved by the
2 Department of Revenue.

3 (9) The Department of Revenue may issue administrative regulations and require the
4 filing of forms designed by the Department of Revenue to reflect the intent of KRS
5 154.26-010 to 154.26-100 and the allowable income tax credit which an approved
6 company may retain under KRS 154.26-010 to 154.26-100.

7 Section 26. KRS 141.405 is amended to read as follows:

8 (1) As used in this section, unless the context requires otherwise:

9 (a) "Approved company" has the same meaning as set forth in KRS 154.12-2084;

10 (b) "Skills training investment credit" has the same meaning as set forth in KRS
11 154.12-2084; ~~and~~

12 (c) "Kentucky gross receipts" means Kentucky gross receipts as defined in
13 Section 4 of this Act; and

14 (d) "Kentucky gross profits" means Kentucky gross profits as defined in
15 Section 4 of this Act~~[KRS 141.040(5)(b) and (6)(b)]~~.

16 (2) An approved company shall determine the ~~income~~ tax credit as provided in this
17 section.

18 (3) (a) An approved company which is an individual sole proprietorship subject to
19 tax under KRS 141.020 or a corporation or pass-through entity treated as a
20 corporation for federal income tax purposes subject to tax under KRS
21 141.040(1) shall:

22 1. Compute the tax due at the applicable tax rates as provided by KRS
23 141.020 or 141.040 on net income as defined by KRS 141.010(11) ~~or~~
24 taxable net income as defined by KRS 141.010(14);

25 2. Compute the limited liability entity tax imposed under Section 4 of this
26 Act on Kentucky gross profits or Kentucky gross receipts; and

- 1 **3. Add the amounts computed under subparagraphs 1. and 2. of this**
2 **paragraph and, if applicable, subtract the credit permitted by**
3 **subsection (3) of Section 4 of this Act from that sum. The resulting**
4 **amount shall be the net tax for purposes of this subsection**~~[, gross~~
5 receipts, or Kentucky gross profits];
- 6 (b) The amount of the skills training investment credit that the Bluegrass State
7 Skills Corporation has given final approval for under KRS 154.12-2088(6)
8 shall be applied against the ~~net~~~~[amount of the]~~ tax computed under
9 **subparagraph 3. of** paragraph (a) of this subsection; and
- 10 (c) The skills training investment credit payment shall not exceed the amount of
11 the final approval awarded by the Bluegrass State Skills Corporation under
12 KRS 154.12-2088(6).
- 13 (4) (a) In the case of an approved company which is a **pass-through entity**~~[general~~
14 partnership] not subject to the tax imposed by KRS 141.040, the amount of
15 the tax credit awarded by the Bluegrass State Skills Corporation in KRS
16 154.12-2088(6) shall be **taken against the tax imposed by Section 4 of this**
17 **Act by the approved company, and shall also be** apportioned among the
18 partners, **members, or shareholders** thereof at the same ratio as the partners',
19 **members', or shareholders'** distributive shares of income are determined for
20 the tax year during which the final authorization resolution is adopted by the
21 Bluegrass State Skills Corporation in KRS 154.12-2088(6).
- 22 (b) The amount of the tax credit apportioned to each partner, **member, or**
23 **shareholder** that may be claimed in any tax year of the partner, **member, or**
24 **shareholder** shall be determined in accordance with the provisions of KRS
25 154.12-2086.
- 26 (5) (a) In the case of an approved company that is a trust not subject to the tax
27 imposed by KRS 141.040, the amount of the tax credit awarded by the

1 Bluegrass State Skills Corporation in KRS 154.12-2088(6) shall be
 2 apportioned to the trust and the beneficiaries on the basis of the income of the
 3 trust allocable to each for the tax year during which the final authorizing
 4 resolution is adopted by the Bluegrass State Skills Corporation in KRS
 5 154.12-2088(6).

6 (b) The amount of tax credit apportioned to each trust or beneficiary that may be
 7 claimed in any tax year of the trust or beneficiary shall be determined in
 8 accordance with the provisions of KRS 154.12-2086.

9 (6) The Department of Revenue may promulgate administrative regulations in
 10 accordance with KRS Chapter 13A adopting forms and procedures for the reporting
 11 of the credit allowed in KRS 154.12-2084 to 154.12-2089.

12 Section 27. KRS 141.407 is amended to read as follows:

13 (1) As used in this section, unless the context requires otherwise:

14 (a) "Approved company" shall have the same meaning as set forth in KRS
 15 154.24-010;

16 (b) "Economic development project" shall have the same meaning as economic
 17 development project as set forth in KRS 154.24-010;

18 (c) "Tax credit" means the tax credit allowed in KRS 154.24-020 to 154.24-150;~~f~~
 19 ~~and~~

20 (d) "Kentucky gross receipts" means Kentucky gross receipts as defined in
 21 Section 4 of this Act; and

22 (e) "Kentucky gross profits" means Kentucky gross profits as defined in
 23 Section 4 of this Act~~[KRS 141.040(5)(b) and (6)(b)]~~.

24 (2) An approved company shall determine the tax credit as provided in this section.

25 (3) An approved company which is an individual sole proprietorship subject to tax
 26 under KRS 141.020 or a corporation or pass-through entity treated as a

1 corporation for federal income tax purposes subject to tax under KRS 141.040(1)
2 shall:

3 (a) 1. Compute the tax due at the applicable tax rates as provided by KRS
4 141.020 or 141.040 on net income as defined by KRS 141.010(11) or~~;~~
5 taxable net income as defined by KRS 141.010(14), ~~gross receipts, or~~
6 ~~Kentucky gross profits,~~ including income~~, gross receipts, or Kentucky~~
7 ~~gross profits~~ from the~~an~~ economic development project;

8 2. Compute the limited liability entity tax imposed under Section 4 of this
9 Act including Kentucky gross profits or Kentucky gross receipts from
10 the economic development project; and

11 3. Add the amounts computed under subparagraphs 1. and 2. of this
12 paragraph and, if applicable, subtract the credit permitted by
13 subsection (3) of Section 4 of this Act from that sum. The resulting
14 amount shall be the net tax for purposes of this paragraph.

15 (b) 1. Compute the tax due at the applicable tax rates as provided by KRS
16 141.020 or 141.040 on net income as defined by KRS 141.010(11) or~~;~~
17 taxable net income as defined by KRS 141.010(14), ~~gross receipts, or~~
18 ~~Kentucky gross profits,~~ excluding net income~~, gross receipts, or~~
19 ~~Kentucky gross profits~~ attributable to the~~an~~ economic development
20 project;~~and~~

21 2. Using the same method used under subparagraph 2. of paragraph (a)
22 of this subsection, compute the limited liability entity tax imposed
23 under Section 4 of this Act excluding Kentucky gross profits or
24 Kentucky gross receipts from the economic development project; and

25 3. Add the amounts computed under subparagraphs 1. and 2. of this
26 paragraph and, if applicable, subtract the credit permitted by

1 *subsection (3) of Section 4 of this Act from that sum. The resulting*
 2 *amount shall be the net tax for purposes of this paragraph.*

- 3 (c) The tax credit shall be the amount by which the *net* tax computed under
 4 *subparagraph 3. of* paragraph (a) of this subsection exceeds the tax computed
 5 under *subparagraph 3. of* paragraph (b) of this subsection; however, the
 6 credit shall not exceed the limits set forth in KRS 154.24-020 to 154.24-150.
- 7 (4) (a) Notwithstanding any other provisions of this chapter, an approved company
 8 which is a *pass-through entity*~~[general partnership]~~ not subject to the tax
 9 imposed by KRS 141.040 or a trust not subject to the tax imposed by KRS
 10 141.040 shall be subject to income tax on the net income attributable to an
 11 economic development project at the rates provided in KRS 141.020(2).
- 12 (b) The amount of the tax credit shall be *determined as provided in subsection*
 13 *(3) of this section.*~~[the same as the amount of the tax computed in this~~
 14 ~~subsection or.]~~ Upon the annual election of the approved company, in lieu of
 15 the tax credit, an amount shall be applied as an estimated tax payment equal
 16 to the tax computed in this section. Any estimated tax payment made pursuant
 17 to this paragraph shall be in satisfaction of the tax liability of the partners or
 18 beneficiaries of the *pass-through entity*~~[general partnership]~~ or trust, and
 19 shall be paid on behalf of the partners, *members, shareholders,* or
 20 beneficiaries.
- 21 (c) The tax credit or estimated payment shall not exceed the limits set forth in
 22 KRS 154.24-020 to 154.24-150.
- 23 (d) If the tax computed herein exceeds the credit, the excess shall be paid by the
 24 *pass-through entity*~~[general partnership]~~ or trust at the times provided by
 25 KRS 141.160 for filing the returns.
- 26 (e) Any estimated tax payment made by the *pass-through entity*~~[general~~
 27 ~~partnership]~~ or trust in satisfaction of the tax liability of partners, *members,*

1 shareholders, or beneficiaries shall not be treated as taxable income subject to
2 Kentucky income tax by the partner, member, shareholder, or beneficiary.

3 (5) Notwithstanding any other provisions of this chapter, the net income subject to tax,
4 the tax credit, and the estimated tax payment determined under subsection (4) of
5 this section shall be excluded in determining each partner's, member's,
6 shareholder's, or beneficiary's distributive share of net income or credit of a pass-
7 through entity ~~[general partnership]~~ or trust.

8 (6) If the economic development project is a totally separate facility:

9 (a) Net income attributable to the project for the purposes of subsections (3), (4),
10 and (5) of this section shall be determined under the separate accounting
11 method reflecting only the gross income, deductions, expenses, gains, and
12 losses allowed under KRS Chapter 141 directly attributable to the facility and
13 overhead expenses apportioned to the facility; and

14 (b) Kentucky gross receipts or Kentucky gross profits attributable to the project
15 for the purposes of subsection (3) of this section shall be determined under the
16 separate accounting method reflecting only the Kentucky gross receipts or
17 Kentucky gross profits directly attributable to the facility.

18 (7) If the economic development project is an expansion to a previously existing
19 facility:

20 (a) Net income attributable to the entire facility shall be determined under the
21 separate accounting method reflecting only the gross income, deductions,
22 expenses, gains, and losses allowed under KRS Chapter 141 directly
23 attributable to the facility and overhead expenses apportioned to the facility,
24 and the net income attributable to the economic development project for the
25 purposes of subsections (3), (4), and (5) of this section shall be determined by
26 apportioning the separate accounting net income of the entire facility to the

1 economic development project by a formula approved by the Department of
2 Revenue; and

3 (b) Kentucky gross receipts or Kentucky gross profits attributable to the entire
4 facility shall be determined under the separate accounting method reflecting
5 only the Kentucky gross receipts or Kentucky gross profits directly
6 attributable to the facility, and Kentucky gross receipts or Kentucky gross
7 profits attributable to the economic development project for the purposes of
8 subsection (3) of this section shall be determined by apportioning the separate
9 accounting Kentucky gross receipts or Kentucky gross profits of the entire
10 facility to the economic development project by a formula approved by the
11 Department of Revenue.

12 (8) If an approved company can show to the satisfaction of the Department of Revenue
13 that the nature of the operations and activities of the approved company are such
14 that it is not practical to use the separate accounting method to determine the net
15 income, Kentucky gross receipts, or Kentucky gross profits from the facility at
16 which the economic development project is located, the approved company shall
17 determine net income, Kentucky gross receipts, or Kentucky gross profits from the
18 economic development project using an alternative method approved by the
19 Department of Revenue.

20 (9) The Department of Revenue may promulgate administrative regulations and require
21 the filing of forms designed by the Department of Revenue to reflect the intent of
22 KRS 154.24-010 to 154.24-150 and the allowable income tax credit which an
23 approved company may retain under KRS 154.24-010 to 154.24-150.

24 Section 28. KRS 141.410 is amended to read as follows:

25 As used in KRS 141.410 to 141.414, unless the context requires otherwise:

- 1 (1) "Approved costs" means the costs incurred during the taxable year by a qualified
2 farming operation for training and improving the skills of managers and employees
3 involved in a networking project.
- 4 (2) "Business network" means a formalized, collaborative mechanism organized by and
5 operating among three (3) or more qualified farming operations, industrial entities,
6 business enterprises, or private sector firms for the purposes of, but not limited to:
7 pooling expertise; improving responses to changing technology or markets;
8 lowering the risks to individual entities of accelerated modernization; encouraging
9 new technology investments, new market development, and employee skills
10 improvement; and developing a system of collective intelligence among
11 participating entities.
- 12 (3) "Food producing facilities" means establishments that manufacture or process foods
13 and beverages for human consumption, and which are included under the three (3)
14 digit NAICS code three hundred eleven (311).
- 15 (4) "Networking project" means a project by which farmers and other entities involved
16 in the production of food join together to form a network approved by the Cabinet
17 for Economic Development for the purpose of producing or expanding the
18 production of crops or livestock necessary for the establishment or expansion of
19 secondary food-producing facilities in Kentucky.
- 20 (5) "Qualified farming operation" means an individual, sole proprietorship, partnership,
21 joint venture, trust, unincorporated organization, association, corporation, or
22 institution, engaged in farming in Kentucky that provides raw materials for food-
23 producing facilities in Kentucky, and that purchases new buildings or equipment, or
24 that incurs training expenses, to support its participation in a networking project.
- 25 (6) "NAICS code" means the classification system grouping business operations or
26 enterprises as published in the North American Industry Classification System

1 United States Manual published by Convergence Working Group and the United
2 States Office of Management and Budget, 2002 edition.

3 (7) "**Kentucky** gross receipts" means **Kentucky** gross receipts as defined in **Section 4 of**
4 **this Act.**

5 **(8) "Kentucky gross profits" means Kentucky gross profits as defined in Section 4 of**
6 **this Act**~~{KRS 141.040(5)(b) or (6)(b)}~~.

7 Section 29. KRS 141.412 is amended to read as follows:

8 (1) A qualified farming operation shall be entitled to a nonrefundable credit against the
9 Kentucky income tax liability established pursuant to the provisions of this chapter
10 on any income of the qualified farming operation generated by or arising out of the
11 qualified farming operation's participation in a networking project, **and against the**
12 **limited liability entity tax imposed by Section 4 of this Act on any Kentucky gross**
13 **profits or Kentucky gross receipts of the qualified farming operation generated by**
14 **or arising out of the qualified farming operation's participation in a networking**
15 **project. The credits shall be applied as provided in KRS 141.0205.** The annual
16 credit shall be available for the first five (5) years that the farming operation is
17 involved in the networking project. The annual credit shall be equal to the approved
18 costs incurred by the qualified farming operation during the tax year and shall not
19 exceed the income, **Kentucky gross profits or Kentucky gross receipts, as the case**
20 **may be,** of the qualified farming operation generated by or arising out of the
21 qualified farming operation's participation in a networking project.

22 (2) Any credit not used in the tax year in which it first becomes available may be
23 carried forward to the next succeeding five (5) tax years until the credit has been
24 fully used. The aggregate credit used in any tax year shall not exceed the income,
25 **Kentucky gross profits or Kentucky gross receipts, as the case may be,** of the
26 qualified farming operation generated by or arising out of the qualified farming
27 operation's participation in a networking project in that tax year.

1 Section 30. KRS 141.414 is amended to read as follows:

2 (1) A qualified farming operation which is an individual sole proprietorship subject to
 3 tax under KRS 141.020 or a corporation *or pass-through entity treated as a*
 4 *corporation for federal income tax purposes* subject to tax under KRS 141.040
 5 shall:

6 (a) *1.* Compute the tax due at the applicable tax rates as provided by KRS
 7 141.020 or 141.040 on net income as defined by KRS 141.010(11) *or*~~],~~
 8 taxable net income as defined by KRS 141.010(14),~~[gross receipts, or~~
 9 ~~Kentucky gross profits,]~~ including income~~[, gross receipts, or Kentucky~~
 10 ~~gross profits]~~ from the qualified farming operation's participation in a
 11 networking project.

12 *2. Compute the limited liability entity tax imposed under Section 4 of this*
 13 *Act including Kentucky gross profits or Kentucky gross receipts from*
 14 *the qualified farming operation's participation in a networking*
 15 *project; and*

16 *3. Add the amounts computed under subparagraphs 1. and 2. of this*
 17 *paragraph and, if applicable, subtract the credit permitted by*
 18 *subsection (3) of Section 4 of this Act from that sum. The resulting*
 19 *amount shall be the net tax for purposes of this paragraph;*

20 (b) *1.* Compute the tax due at the applicable tax rates as provided by KRS
 21 141.020 or 141.040 applies on net income as defined by KRS
 22 141.010(11) *or*~~],~~ taxable net income as defined by KRS 141.010(14),~~[~~
 23 ~~gross receipts, or Kentucky gross profits,]~~ excluding net income~~[, gross~~
 24 ~~receipts, or Kentucky gross profits]~~ attributable to the qualified farming
 25 operation's participation in a networking project;

26 *2. Using the same method used under subparagraph 2. of paragraph (a)*
 27 *of this subsection, compute the limited liability entity tax imposed*

1 under Section 4 of this Act excluding Kentucky gross profits or
 2 Kentucky gross receipts from the qualified farming operation's
 3 participation in a networking project; and

4 3. Add the amounts computed under subparagraphs 1. and 2. of this
 5 paragraph and, if applicable, subtract the credit permitted by
 6 subsection (3) of Section 4 of this Act from that sum. The resulting
 7 amount shall be the net tax for purposes of this paragraph; and

8 (c) Be entitled to a tax credit in the amount by which the tax computed under
 9 subparagraph 3. of paragraph (a) of this subsection exceeds the tax computed
 10 under subparagraph 3. of paragraph (b) of this subsection. The credit shall
 11 not exceed the farming operation's approved costs, as defined in KRS
 12 141.410.

13 (2) Notwithstanding any other provisions of this chapter, a qualified farming operation
 14 which is a pass-through entity~~[general partnership]~~ not subject to the tax imposed
 15 by KRS 141.040 or trust not subject to the tax imposed by KRS 141.040 shall be
 16 subject to income tax on the net income attributable to its participation in a
 17 networking project at the rates provided in KRS 141.020(2), and the amount of the
 18 tax credit shall be the same as the amount of the tax computed in this subsection.
 19 The credit shall not exceed the farming operation's approved costs, as defined in
 20 KRS 141.410. If the tax computed in this subsection exceeds the tax credit, the
 21 difference shall be paid by the pass-through entity~~[general partnership]~~ or trust at
 22 the times provided by KRS 141.160 for filing the returns.

23 (3) Notwithstanding any other provisions of this chapter, the net income subject to tax
 24 and the tax credit determined under subsection (2) of this section shall be excluded
 25 in determining each partner's, member's, shareholder's, or beneficiary's distributive
 26 share of net income or credit of a pass-through entity~~[general partnership]~~ or trust.

27 (4) If the networking entity is a separate facility:

- 1 (a) Net income attributable to the project for the purposes of subsections (1), (2),
2 and (3) of this section shall be determined under the separate accounting
3 method reflecting only the gross income, deductions, expenses, gains, and
4 losses allowed under KRS Chapter 141 directly attributable to the project and
5 overhead expenses apportioned to the facility; and
- 6 (b) Kentucky gross receipts or Kentucky gross profits attributable to the project
7 for the purposes of subsection (1) of this section shall be determined under the
8 separate accounting method reflecting only the Kentucky gross receipts or
9 Kentucky gross profits directly attributable to the facility.
- 10 (5) If the networking project is an expansion to a previously existing farming
11 operation:
- 12 (a) Net income attributable to the entire operation shall be determined under the
13 separate accounting method reflecting only the gross income, deductions,
14 expenses, gains, and losses allowed under this chapter directly attributable to
15 the farming operation's participation in the networking project and overhead
16 expenses apportioned to the networking project, and the net income
17 attributable to the networking project for the purposes of subsections (1), (2),
18 and (3) of this section shall be determined by apportioning the separate
19 accounting net income of the entire networking project to the networking
20 project by a formula approved by the Department of Revenue; and
- 21 (b) Kentucky gross receipts or Kentucky gross profits attributable to the entire
22 facility shall be determined under the separate accounting method reflecting
23 only the Kentucky gross receipts or Kentucky gross profits directly
24 attributable to the facility, and Kentucky gross receipts or Kentucky gross
25 profits attributable to the economic development project for the purposes of
26 subsection (1) of this section shall be determined by apportioning the separate
27 accounting Kentucky gross receipts or Kentucky gross profits of the entire

1 facility to the economic development project by a formula approved by the
2 Department of Revenue.

3 (6) If an approved company can show to the satisfaction of the Department of Revenue
4 that the nature of the operations and activities of the approved farming operation
5 are such that it is not practical to use the separate accounting method to determine
6 the net income, Kentucky gross receipts, or Kentucky gross profits from the
7 networking project, the approved farming operation shall determine net income,
8 Kentucky gross receipts, or Kentucky gross profits from its participation in the
9 networking project using an alternative method approved by the Department of
10 Revenue.

11 (7) The Department of Revenue may promulgate administrative regulations pursuant to
12 KRS Chapter 13A and require the filing of forms designed by the Department of
13 Revenue necessary to effectuate KRS 141.0101 and KRS 141.410 to 141.414 and
14 the allowable income tax credit which an approved farming operation may retain
15 under the provisions of KRS 141.412 and this section.

16 Section 31. KRS 141.415 is amended to read as follows:

17 (1) As used in this section, unless the context requires otherwise:

18 (a) "Approved company" has the same meaning as set forth in KRS 154.34-010;

19 (b) "Reinvestment project" has the same meaning as set forth in KRS 154.34-010;

20 (c) "Tax credit" means the tax credit allowed in KRS 154.34-080; ~~and~~

21 (d) "Kentucky gross receipts" means Kentucky gross receipts as defined in
22 Section 4 of this Act; and

23 (e) "Kentucky gross profits" means Kentucky gross profits as defined in
24 Section 4 of this Act ~~[KRS 141.040(5)(b) and (6)(b)]~~.

25 (2) An approved company shall determine the income tax credit as provided in this
26 section.

1 (3) An approved company which is an individual sole proprietorship subject to tax
 2 under KRS 141.020 or a corporation or pass-through entity treated as a
 3 corporation for federal income tax purposes subject to tax under KRS 141.040(1)
 4 shall:

5 (a) 1. Compute the tax due at the applicable tax rates as provided by KRS
 6 141.020 or 141.040 on net income as defined by KRS 141.010(11) or ~~]~~
 7 taxable net income as defined by KRS 141.010(14), ~~[gross receipts, or~~
 8 ~~Kentucky gross profits,]~~ including income ~~[, gross receipts, or Kentucky~~
 9 ~~gross profits]~~ from a reinvestment project;

10 2. Compute the limited liability entity tax imposed under Section 4 of this
 11 Act including Kentucky gross profits or Kentucky gross receipts from
 12 the reinvestment project; and

13 3. Add the amounts computed under subparagraphs 1. and 2. of this
 14 paragraph and, if applicable, subtract the credit permitted by
 15 subsection (3) of Section 4 of this Act from that sum. The resulting
 16 amount shall be the net tax for purposes of this paragraph.

17 (b) 1. Compute the tax due at the applicable tax rates as provided by KRS
 18 141.020 or 141.040 on net income as defined by KRS 141.010(11) or ~~]~~
 19 taxable net income as defined by KRS 141.010(14), ~~[gross receipts, or~~
 20 ~~Kentucky gross profits,]~~ excluding net income ~~[, gross receipts, or~~
 21 ~~Kentucky gross profits]~~ attributable to a reinvestment project;

22 2. Using the same method used under subparagraph 2. of paragraph (a)
 23 of this subsection, compute the limited liability entity tax imposed
 24 under Section 4 of this Act including Kentucky gross profits or
 25 Kentucky gross receipts from the reinvestment project; and

26 3. Add the amounts computed under subparagraphs 1. and 2. of this
 27 paragraph and, if applicable, subtract the credit permitted by

1 subsection (3) of Section 4 of this Act from that sum. The resulting
 2 amount shall be the net tax for purposes of this paragraph.~~and~~

3 (c) The tax credit shall be the amount by which the tax computed under
 4 subparagraph 3. of paragraph (a) of this subsection exceeds the tax computed
 5 under subparagraph 3. of paragraph (b) of this subsection; however, the
 6 credit shall not exceed the limits set forth in KRS 154.34-080.

7 (4) (a) Notwithstanding any other provisions of this chapter, an approved company
 8 which is a pass-through entity~~general partnership~~ not subject to the tax
 9 imposed by KRS 141.040 or trust not subject to the tax imposed by KRS
 10 141.040 shall be subject to income tax on the net income attributable to a
 11 reinvestment project at the rates provided in KRS 141.020(2).

12 (b) The amount of the tax credit shall be determined as provided in subsection
 13 (3) of this section.~~the same as the amount of the tax computed in this~~
 14 ~~subsection or,~~ Upon the annual election of the approved company, in lieu of
 15 the tax credit, an amount shall be applied as an estimated tax payment equal
 16 to the tax computed in this section. Any estimated tax payment made pursuant
 17 to this paragraph shall be in satisfaction of the tax liability of the partners,
 18 members, shareholders, or beneficiaries of the pass-through entity~~general~~
 19 ~~partnership~~ or trust, and shall be paid on behalf of the partners, members,
 20 shareholders, or beneficiaries.

21 (c) The tax credit or estimated payment shall not exceed the limits set forth in
 22 KRS 154.34-080.

23 (d) If the tax computed in this section exceeds the tax credit, the difference shall
 24 be paid by the pass-through entity~~general partnership~~ or trust at the times
 25 provided by KRS 141.160 for filing the returns.

26 (e) Any estimated tax payment made by the pass-through entity~~general~~
 27 ~~partnership~~ or trust in satisfaction of the tax liability of partners, members,

1 shareholders, or beneficiaries shall not be treated as taxable income subject to
2 Kentucky income tax by the partner, member, shareholder, or beneficiary.

3 (5) Notwithstanding any other provisions of this chapter, the net income subject to tax,
4 the tax credit, and the estimated tax payment determined under subsection (4) of
5 this section shall be excluded in determining each partner's, member's,
6 shareholder's, or beneficiary's distributive share of net income or credit of a pass-
7 through entity ~~[general partnership]~~ or trust.

8 (6) If the reinvestment project is a totally separate facility:

9 (a) Net income attributable to the project for the purposes of subsections (3), (4),
10 and (5) of this section shall be determined under the separate accounting
11 method reflecting only the gross income, deductions, expenses, gains, and
12 losses allowed under KRS Chapter 141 directly attributable to the facility and
13 overhead expenses apportioned to the facility; and

14 (b) Kentucky gross receipts or Kentucky gross profits attributable to the project
15 for the purposes of subsection (3) of this section shall be determined under the
16 separate accounting method reflecting only the Kentucky gross receipts or
17 Kentucky gross profits directly attributable to the facility.

18 (7) If the reinvestment project is an expansion to a previously existing facility:

19 (a) Net income attributable to the entire facility shall be determined under the
20 separate accounting method reflecting only the gross income, deductions,
21 expenses, gains, and losses allowed under KRS Chapter 141 directly
22 attributable to the facility and overhead expenses apportioned to the facility,
23 and the net income attributable to the reinvestment project for the purposes of
24 subsections (3), (4), and (5) of this section shall be determined by
25 apportioning the separate accounting net income of the entire facility to the
26 reinvestment project by a formula approved by the Department of Revenue;
27 and

1 (b) Kentucky gross receipts or Kentucky gross profits attributable to the entire
 2 facility shall be determined under the separate accounting method reflecting
 3 only the Kentucky gross receipts or Kentucky gross profits directly
 4 attributable to the facility, and Kentucky gross receipts or Kentucky gross
 5 profits attributable to the reinvestment~~[economic development]~~ project for the
 6 purposes of subsection (3) of this section shall be determined by apportioning
 7 the separate accounting Kentucky gross receipts or Kentucky gross profits of
 8 the entire facility to the reinvestment~~[economic development]~~ project by a
 9 formula approved by the Department of Revenue.

10 (8) If an approved company can show to the satisfaction of the Department of Revenue
 11 that the nature of the operations and activities of the approved company are such
 12 that it is not practical to use the separate accounting method to determine the net
 13 income, Kentucky~~[or]~~ gross receipts, or Kentucky gross profits from the facility at
 14 which the reinvestment project is located, the approved company shall determine
 15 net income, Kentucky~~[or]~~ gross receipts, Kentucky gross profits from the
 16 reinvestment project using an alternative method approved by the Department of
 17 Revenue.

18 (9) The Department of Revenue may issue administrative regulations and require the
 19 filing of forms designed by the Department of Revenue to reflect the intent of KRS
 20 154.34-010 to 154.34-100 and the allowable income tax credit which an approved
 21 company may retain under KRS 154.34-010 to 154.34-100.

22 Section 32. KRS 141.418 is amended to read as follows:

23 (1) As used in this section:

24 (a) "Qualifying voluntary environmental remediation property" means real
 25 property subject to the provisions of KRS 224.01-400 and KRS 224.01-405
 26 for which the Environmental and Public Protection Cabinet has made a
 27 determination that:

- 1 1. The responsible parties are financially unable to carry out the
2 obligations in KRS 224.01-400 and KRS 224.01-405; and
- 3 2. The property was acquired after March 18, 2005, by a bona fide
4 prospective purchaser as defined in 42 U.S.C. sec. 9601(40);
- 5 (b) "Expenditures" means payment for work to characterize the extent of
6 contamination and to remediate the contamination at a qualifying voluntary
7 environmental remediation property; and
- 8 (c) "Taxpayer" means an individual subject to tax under KRS 141.020 or a
9 corporation subject to tax under KRS 141.040.
- 10 (2) **(a)** There shall be allowed a nonrefundable credit against the tax imposed under
11 KRS 141.020 or 141.040 for taxable years beginning after December 31,
12 2004, **and against the tax imposed by Section 4 of this Act for taxable years**
13 **beginning after December 31, 2006,** for taxpayer expenditures made at a
14 qualifying voluntary environmental remediation property in order to meet the
15 requirements of an agreed order entered into by the taxpayer under the
16 provisions of KRS 224.01-518, provided that the taxpayer has obtained a
17 covenant not to sue from the Environmental and Public Protection Cabinet
18 under KRS 224.01-526.
- 19 **(b) The credit allowed under paragraph (a) of this subsection shall be applied**
20 **both to the income tax imposed under KRS 141.020 or 141.040 and to the**
21 **limited liability entity tax imposed under Section 4 of this Act, with the**
22 **ordering of the credits as provided in KRS 141.0205.**
- 23 (3) The maximum total credit for each taxpayer shall not exceed one hundred fifty
24 thousand dollars (\$150,000). For purposes of this section, an affiliated group of
25 taxpayers required to file a consolidated return under KRS 141.200 shall be treated
26 as one (1) taxpayer.

- 1 (4) A taxpayer claiming a credit under this section shall submit receipts to the Finance
2 and Administration Cabinet in proof of the expenditures claimed. The Finance and
3 Administration Cabinet shall forward the receipts to the Environmental and Public
4 Protection Cabinet for verification. After the receipts are verified, the Finance and
5 Administration Cabinet shall notify the taxpayer of eligibility for the credit.
- 6 (5) The credit may be first claimed on the income tax return of the taxpayer filed in the
7 taxable year during which the credit was certified. The amount of the allowable
8 credit for any taxable year shall be twenty-five percent (25%) of the maximum
9 credit approved. The credit may be carried forward for ten (10) successive taxable
10 years.
- 11 (6) If the taxpayer is a *pass-through entity, the taxpayer shall apply the credit against*
12 *the limited liability entity tax imposed by Section 4 of this Act, and shall also pass*
13 *the credit through to its members, partners, or shareholders*~~[general partnership,~~
14 ~~the credit shall pass through]~~ in the same proportion as the distributive share of
15 income or loss is passed through.

16 Section 33. KRS 141.423 is amended to read as follows:

- 17 (1) (a) A biodiesel producer or a blender of blended biodiesel shall be entitled to a
18 nonrefundable tax credit against the taxes imposed by KRS 141.020 ~~or~~~~and~~
19 141.040 and Section 4 of this Act in an amount certified by the department
20 under subsection (4) of this section. The credit rate shall be one dollar (\$1)
21 per biodiesel and blended biodiesel gallons unless the total amount of
22 approved credit for all biodiesel producers and blenders exceeds the annual
23 biodiesel tax credit cap. If the total amount of approved credit for all biodiesel
24 producers and blenders exceeds the annual biodiesel tax credit cap, the
25 department shall determine the amount of credit each biodiesel producer and
26 blender receives by multiplying the annual biodiesel tax credit cap by a
27 fraction, the numerator of which is the amount of approved credit for the

1 biodiesel producer and blender and the denominator of which is the total
2 approved credit for all biodiesel producers and blenders.

3 **(b) The credit allowed under paragraph (a) of this subsection shall be applied**
4 **both to the income tax imposed under KRS 141.020 or 141.040 and to the**
5 **limited liability entity tax imposed under Section 4 of this Act, with the**
6 **ordering of credits as provided in KRS 141.0205.**

7 (2) Re-blending of blended biodiesel shall not qualify for the credit provided under this
8 section.

9 (3) The credit shall not be carried forward to a return for any other period.

10 (4) Each biodiesel producer and blender eligible for the credit provided under
11 subsection (1) of this section shall file a biodiesel tax credit claim for biodiesel
12 gallons produced or blended in this state on forms prescribed by the department by
13 the fifteenth day of the first month following the close of the preceding calendar
14 year. The department shall determine the amount of the approved credit based on
15 the amount of biodiesel produced or blended in this state during the preceding
16 calendar year and issue a credit certificate to the biodiesel producer or blender by
17 the fifteenth day of the fourth month following the close of the calendar year.

18 (5) In the case of a biodiesel producer or blender that has a fiscal year end for purposes
19 of computing the tax imposed by KRS 141.040, the amount of approved credit shall
20 be claimed on the return filed for the first fiscal year ending after the close of the
21 preceding calendar year.

22 Section 34. KRS 141.424 is amended to read as follows:

23 In the case of a biodiesel producer or blender which is a **pass-through entity**~~general~~
24 ~~partnership~~ not subject to tax under KRS 141.040, the amount of approved credit shall
25 be **applied against the tax imposed by Section 4 of this Act at the entity level, and shall**
26 **also be** distributed to each partner, **member, shareholder, or beneficiary** based on the
27 partner's, **member's, shareholder's, or beneficiary's** distributive share of the income of

1 the *pass-through entity*[partnership]. Each biodiesel producer or blender shall notify the
 2 department electronically of all partners, *members, shareholders, or beneficiaries* who
 3 may claim any amount of the approved credit. Failure to provide information to the
 4 department in a manner prescribed by administrative regulation may constitute the
 5 forfeiture of available credits to all partners, *members, shareholders, or beneficiaries* in
 6 the *pass-through entity*[partnership].

7 Section 35. KRS 141.428 is amended to read as follows:

8 (1) As used in this section:

9 (a) "Clean coal facility" means an electric generation facility beginning
 10 commercial operation on or after January 1, 2005, at a cost greater than one
 11 hundred fifty million dollars (\$150,000,000) that is located in the
 12 Commonwealth of Kentucky and is certified by the Environmental and Public
 13 Protection Cabinet as reducing emissions of pollutants released during
 14 generation of electricity through the use of clean coal equipment and
 15 technologies;

16 (b) "Clean coal equipment" means equipment purchased and installed for
 17 commercial use in a clean coal facility to aid in reducing the level of
 18 pollutants released during the generation of electricity from eligible coal;

19 (c) "Clean coal technologies" means technologies incorporated for use within a
 20 clean coal facility to lower emissions of pollutants released during the
 21 generation of electricity from eligible coal;

22 (d) "Eligible coal" means coal that is subject to the tax imposed under KRS
 23 143.020;

24 (e) "Ton" means a unit of weight equivalent to two thousand (2,000) pounds; and

25 (f) "Taxpayer" means taxpayer as defined in KRS 131.010(4).

26 (2) Effective for tax years ending on or after December 31, 2006, a nonrefundable,
 27 nontransferable credit shall be allowed for:

- 1 (a) Any electric power company as defined in KRS Chapter 136 and certified as a
 2 clean coal facility or any taxpayer that owns or operates a clean coal facility
 3 and purchases eligible coal that is used by the taxpayer in a certified clean
 4 coal facility; or
- 5 (b) A parent company of an entity identified in paragraph (a) of this subsection if
 6 the subsidiary is wholly owned.
- 7 (3) **(a)** The credit may be taken against the taxes imposed by:
- 8 **1.** KRS 136.070;~~[,]~~
- 9 **2.** KRS 136.120;~~or[,]~~
- 10 **3.** KRS 141.020~~[,]~~ or KRS 141.040, **and Section 4 of this Act.**
- 11 **(b)** The credit shall not be carried forward and must be used on the tax return
 12 filed for the period during which the eligible coal was purchased. The
 13 Environmental and Public Protection Cabinet must approve and certify use of
 14 the clean coal equipment and technologies within a clean coal facility before
 15 any taxpayer may claim the credit.
- 16 **(c) The credit allowed under paragraph (a) of this subsection shall be applied**
 17 **both to the income tax imposed under KRS 141.020 or 141.040 and to the**
 18 **limited liability entity tax imposed under Section 4 of this Act, with the**
 19 **ordering of credits as provided in KRS 141.0205.**
- 20 (4) The amount of the allowable credit shall be two dollars (\$2) per ton of eligible coal
 21 purchased that is used to generate electric power at a certified clean coal facility,
 22 except that no credit shall be allowed if the eligible coal has been used to generate a
 23 credit under KRS 141.0405 for the taxpayer, a parent, or a subsidiary.
- 24 (5) Each taxpayer eligible for the credit provided under subsection (2) of this section
 25 shall file a clean coal incentive credit claim on forms prescribed by the Department
 26 of Revenue. At the time of filing for the credit, the taxpayer shall submit an
 27 electronic report verifying the tons of coal subject to the tax imposed by KRS

1 143.020 purchased for each year in which the credit is claimed. The Department of
 2 Revenue shall determine the amount of the approved credit and issue a credit
 3 certificate to the taxpayer.

- 4 (6) **Corporations and pass-through entities subject to the tax imposed under Section**
 5 **3 or 4 of this Act** ~~[The taxpayer]~~ shall be eligible to apply, subject to the conditions
 6 imposed under this section, the approved credit against its liability for the taxes, in
 7 consecutive order as follows:

8 (a) **The credit shall first be applied against both the tax imposed by Section 4 of**
 9 **this Act and the tax imposed by KRS 141.020 or KRS 141.040, with the**
 10 **ordering of credits as provided in KRS 141.0205;**

11 (b) **The credit shall then be applied to the tax imposed by** ~~[KRS 141.020;~~

12 ~~(c)—KRS 136.070; and~~

13 ~~(d)—]KRS 136.120.~~

14 The credit shall meet the entirety of the taxpayer's liability under the first tax listed
 15 in consecutive order before applying any remaining credit to the next tax listed. The
 16 taxpayer's total liability under each preceding tax must be fully met before the
 17 remaining credit can be applied to the subsequent tax listed in consecutive order.

- 18 (7) If the taxpayer is a **pass-through entity** ~~[general partnership]~~ not subject to tax under
 19 KRS 141.040, the amount of approved credit shall be **applied against the tax**
 20 **imposed by Section 4 of this Act at the entity level, and shall also be** distributed to
 21 each partner, **member, or shareholder** based on the partner's, **member's, or**
 22 **shareholder's** distributive share of the income of the **pass-through entity. The**
 23 **credit** ~~[partnership and]~~ shall be claimed in the same manner as specified in
 24 subsection (6) of this section. Each **pass-through entity** ~~[general partnership]~~ shall
 25 notify the Department of Revenue electronically of all partners, **members, or**
 26 **shareholders** who may claim any amount of the approved credit. Failure to provide
 27 information to the Department of Revenue in a manner prescribed by regulation

1 may constitute the forfeiture of available credits to all partners, members, or
 2 shareholders associated with the pass-through entity ~~[partnership]~~.

3 (8) The taxpayer shall maintain all records associated with the credit for a period of
 4 five (5) years. Acceptable verification of eligible coal purchased shall include
 5 invoices that indicate the tons of eligible coal purchased from a Kentucky supplier
 6 of coal and proof of remittance for that purchase.

7 (9) The Department of Revenue shall develop the forms required under this section,
 8 specifying the procedure for claiming the credit, and applying the credit against the
 9 taxpayer's liability in the order provided under subsections (6) and (7) of this
 10 section.

11 (10) The Commerce Cabinet, Environmental and Public Protection Cabinet, and the
 12 Department of Revenue shall promulgate administrative regulations necessary to
 13 administer this section.

14 (11) This section shall be known as the Kentucky Clean Coal Incentive Act.

15 Section 36. KRS 141.430 is amended to read as follows:

16 (1) As used in this section, unless the context requires otherwise:

17 (a) "Approved company" has the same meaning as set forth in KRS 154.48-010;

18 (b) "Project" has the same meaning as set forth in KRS 154.48-010; ~~[and]~~

19 (c) "Tax credit" means the tax credit allowed in KRS 154.48-025;

20 (d) "Kentucky gross profits" means Kentucky gross profits as defined in
 21 Section 4 of this Act; and

22 (e) "Kentucky gross receipts" means Kentucky gross receipts as defined in
 23 Section 4 of this Act.

24 (2) An approved company shall determine the income tax credit as follows:

25 (a) 1. Compute the tax imposed by KRS 141.040 or the tax imposed by KRS
 26 141.020 on the taxable net income ~~[, gross receipts, or Kentucky gross~~
 27 ~~profits]~~ of the corporation or taxable net income of the individual for the

1 first taxable period after December 31, 2005, that ends immediately
 2 prior to the activation date defined in KRS 154.48-010(1);

3 **2. Compute the limited liability entity tax imposed under Section 4 of this**
 4 **Act for the first taxable period after December 31, 2005, that ends**
 5 **immediately prior to the activation date defined in KRS 154.48-010(1);**
 6 **and**

7 **3. Add the amounts computed under subparagraphs 1. and 2. of this**
 8 **paragraph and, if applicable, subtract the credit permitted by**
 9 **subsection (3) of Section 4 of this Act from that sum. The resulting**
 10 **amount shall be the net tax for purposes of this paragraph.**

11 (b) **1.** Compute the tax imposed by KRS 141.040 or the tax imposed by KRS
 12 141.020 on the taxable net income~~], gross receipts, or Kentucky gross~~
 13 ~~profits in the case of a corporation or taxable net income in the case of~~
 14 ~~an individual]~~ for the first taxable period ending after the activation date
 15 defined in KRS 154.48-010(1);

16 **2. Using the same method used under subparagraph 2. of paragraph (a)**
 17 **of this subsection, compute the limited liability entity tax imposed**
 18 **under Section 4 of this Act for the first taxable period ending after the**
 19 **activation date defined in KRS 154.48-010(1); and**

20 **3. Add the amounts computed under subparagraphs 1. and 2. of this**
 21 **paragraph and, if applicable, subtract the credit permitted by**
 22 **subsection (3) of Section 4 of this Act from that sum. The resulting**
 23 **amount shall be the net tax for purposes of this paragraph.**

24 (c) The income tax credit shall be the amount that the computation under
 25 **subparagraph 3. of** paragraph (b) of this subsection exceeds the amount
 26 computed under **subparagraph 3. of** paragraph (a) of this subsection, subject
 27 to the limitations provided by KRS 154.48-025.

- 1 (3) ~~[In the case of]~~An approved company that is a *pass-through entity not subject to*
2 *the tax imposed by KRS 141.040 shall be subject to income tax on the net income*
3 *attributable to the project at the rates provided in KRS 141.020. The amount of*
4 *the credit shall be determined as provided in subsection (2) of this section. The*
5 *credit shall apply to both the tax imposed by Section 4 of this Act and the tax*
6 *imposed by KRS 141.020, with the ordering of credits as provided in KRS*
7 *141.0205. Upon the annual election of the approved company, in lieu of the tax*
8 *credit, an amount shall be applied as an estimated tax payment equal to the tax*
9 *computed in this section. Any estimated tax payment made pursuant to this*
10 *paragraph shall be in satisfaction of the tax liability of the partners, members, or*
11 *shareholders of the pass-through entity and shall be paid on behalf of the*
12 *partners, members, shareholders, or beneficiaries*~~[general partnership, the tax~~
13 ~~credit shall be determined as follows:~~
- 14 (a) ~~Compute the tax imposed by KRS 141.040 or the tax imposed by KRS~~
15 ~~141.020 on the distributive share income of the general partnership for the~~
16 ~~first taxable period after December 31, 2005 that ends immediately prior to~~
17 ~~the activation date.~~
- 18 (b) ~~Compute the tax imposed by KRS 141.040 or the tax imposed by KRS~~
19 ~~141.020 on the distributive share income of the general partnership for the~~
20 ~~first taxable period ending after the activation date.~~
- 21 (c) ~~The income tax credit shall be the amount that the computation under~~
22 ~~paragraph (b) of this subsection exceeds the amount computed under~~
23 ~~paragraph (a) of this subsection, subject to the limitations provided by KRS~~
24 ~~154.48-025].~~
- 25 (4) The Department of Revenue may issue administrative regulations and require the
26 filing of forms designed by the Department of Revenue to reflect the intent of the
27 provisions of this section.

1 Section 37. KRS 144.139 is amended to read as follows:

2 The general tax credit reconciliation report required to be filed by qualifying certificated
3 air carriers pursuant to KRS 144.125 shall be submitted to the Department of Revenue in
4 a form and contain information and documentation as the department may reasonably
5 require to verify the carrier's computation of the tax credit and the use of the credit
6 against the tax levied by KRS 141.040 and Section 4 of this Act.

7 Section 38. KRS 151B.127 is amended to read as follows:

8 The General Assembly recognizes the critical condition of the educational level of
9 Kentucky's adult population and seeks to stimulate the attendance at, and successful
10 completion of, programs that provide a high school equivalency diploma. Incentives shall
11 be provided to full-time employees who complete a high school equivalency diploma
12 program within one (1) year and their employers. For purposes of this section "equivalent
13 diploma" means a high school equivalency diploma issued after successful completion of
14 the General Educational Development tests.

15 (1) The Department for Adult Education and Literacy in conjunction with the Council
16 on Postsecondary Education shall promulgate administrative regulations to
17 establish the operational procedures for this section. The administrative regulations
18 shall include, but not be limited to, the criteria for:

19 (a) A learning contract that includes the process to develop a learning contract
20 between the student and the adult education instructor with the employer's
21 agreement to participate and support the student;

22 (b) Attendance reports that validate that the student is studying for the high
23 school equivalency diploma during the release time from work;

24 (c) Final reports that qualify the student for the tuition discounts under subsection
25 (2)(a) of this section and that qualify the employer for tax credits under
26 subsection (3) of the section.

- 1 (2) (a) An individual who has been out of secondary school for at least three (3)
 2 years, develops and successfully completes a learning contract that requires a
 3 minimum of five (5) hours per week to study for the high school equivalency
 4 diploma tests, and passes the tests shall earn a tuition discount of two hundred
 5 fifty dollars (\$250) per semester for a maximum of four (4) semesters at one
 6 (1) of Kentucky's public postsecondary institutions.
- 7 (b) The department, with the cooperation of the Council on Postsecondary
 8 Education, shall work with the postsecondary institutions to establish
 9 notification procedures for students who qualify for the tuition discount.
- 10 (3) An employer who assists an individual to complete his or her learning contract
 11 under the provisions of this section shall receive a state~~income~~ tax credit ***against***
 12 ***the income tax imposed by KRS 141.020 or 141.040, and the limited liability***
 13 ***entity tax imposed by Section 4 of this Act, with credit ordering as provided in***
 14 ***KRS 141.0205*** for a portion of the released time given to the employee to study for
 15 the tests. The application for the tax credit shall be supported with attendance
 16 documentation provided by the Department for Adult Education and Literacy and
 17 calculated by multiplying fifty percent (50%) of the hours released for study by the
 18 student's hourly salary, and not to exceed a credit of one thousand two hundred fifty
 19 dollars (\$1250).

20 Section 39. KRS 154.01-010 is amended to read as follows:

21 As used in this chapter, unless the context indicates otherwise:

- 22 (1) "Agribusiness" or "agricultural business entity" means any person, partnership,
 23 registered limited liability partnership, corporation, limited liability company, or
 24 any other entity engaged in a business that processes raw agricultural products,
 25 including timber, or provides value-added functions with regard to raw agricultural
 26 products;

- 1 (2) "Approved business network" or "approved flexible industrial network" means a
2 business network comprising three (3) or more business firms or industries which
3 have been identified as key industries and targeted by the state's strategic economic
4 development plan for special consideration and assistance by the agencies of the
5 Commonwealth;
- 6 (3) "Authority" means the Kentucky Economic Development Finance Authority,
7 consisting of a committee as set forth in KRS 154.20-010;
- 8 (4) "Board" means the Kentucky Economic Development Partnership, an
9 administrative body within the meaning of KRS 12.010, and the governing body of
10 the Cabinet for Economic Development, as created and established in KRS 154.10-
11 010;
- 12 (5) "Business network" or "flexible industrial network" means a formalized,
13 collaborative mechanism organized by and operating among three (3) or more
14 industrial entities, business enterprises, or private sector firms for the purposes of,
15 but not limited to: pooling expertise; improving responses to changing technology
16 or markets; lowering the risks to individual entities of accelerated modernization;
17 encouraging new technology investments, new market development, and employee
18 skills improvement; and developing a system of collective intelligence among
19 participating entities;
- 20 (6) "Cabinet" means the Cabinet for Economic Development as established under KRS
21 12.250, and governed by the Kentucky Economic Development Partnership;
- 22 (7) "Commonwealth" means the Commonwealth of Kentucky;
- 23 (8) "Cost of a project" means the cost of the acquisition, construction, reconstruction,
24 conversion, or leasing of any industrial, commercial, health care, agricultural, or
25 forestry enterprise, or any part thereof, to carry out the purposes and objectives of
26 this chapter, including, but not limited to, acquisition of land or interest in land,
27 buildings, structures, or other planned or existing planned improvements to land,

1 including leasehold improvements, machinery, equipment, or furnishings; working
2 capital; and administrative costs including, but not limited to, engineering,
3 architectural, legal, and accounting fees which are necessary for the project;

4 (9) "Local and regional economic development interest" means any local business or
5 economic development interest, including, but not limited to, chambers of
6 commerce, business development associations, industrial development
7 organizations, area development districts, and public economic development
8 entities;

9 (10) "Industrial entity" means any corporation, limited liability company, partnership,
10 registered limited liability partnership, person, or any other legal entity, domestic or
11 foreign, which will itself or through its subsidiaries or affiliates, engage in an
12 industrial improvement project in the Commonwealth;

13 (11) "Industrial improvement project" means and includes the acquisition, construction,
14 or implementation of new manufacturing, processing, or assembling facilities,
15 equipment, methods or processes, or improvements to or repair of existing
16 manufacturing, processing, or assembling facilities, equipment, methods, or
17 processes, as well as improvements to the real estate upon which the facilities are
18 located, and includes any capital improvement to any existing facility, including
19 any restructuring, retooling, rebuilding, reequipping, or any other form of
20 upgrading such existing facility and equipment and any other improvements to such
21 real estate, existing facility, or manufacturing, processing, or assembling
22 equipment, method, or process;

23 (12) "Key industry" means an industry or business within an industrial sector which has
24 been identified in and targeted by the state's economic development strategic plan
25 as having major importance to the sustained economic growth of the
26 Commonwealth and in which member firms sell goods or services into markets for
27 which national or international competition exists, including, but not limited to,

- 1 secondary forest products manufacturing, agribusiness, and high technology and
2 biotechnology manufacturing and services;
- 3 (13) "Military" and "defense" mean all military and defense installations, entities,
4 activities, and personnel located, operating, or living in Kentucky;
- 5 (14) "Municipality" means a county, city, village, township, development organization,
6 an institution of higher education, a community or junior college, a subdivision or
7 instrumentality of any of the foregoing, or any entity created by two (2) or more
8 municipalities pursuant to the Interlocal Cooperation Act, KRS 65.210 to 65.300;
- 9 (15) "Network broker" means a person who is trained to assist private sector firms to
10 form business networks and make other similar efforts to provide for joint
11 manufacturing, marketing, technology development, information dissemination,
12 and other activities;
- 13 (16) "Non-appropriation-supported bond" means any long-term financial borrowing
14 instrument for which regular debt service does not originate from an appropriation
15 of the General Assembly;
- 16 (17) "Non-appropriation-supported note" means any short-term financial borrowing
17 instrument for which loan payments do not originate from an appropriation of the
18 General Assembly;
- 19 (18) "Person" means an individual, partnership, registered limited liability partnership,
20 joint venture, military facility operated by a department or agency of the United
21 States, profit or nonprofit corporation including a public or private college or
22 university, limited liability company, or other entity or association of persons
23 organized for agricultural, commercial, health care, or industrial purposes; or a
24 public utility or local industrial development corporation;
- 25 (19) "Private sector" means any source other than the authority, a state or federal entity,
26 or an agency thereof;

- 1 (20) "Project" means an endeavor approved by the cabinet or authority and related to
2 industrial, manufacturing, mining, mining reclamation for economic development,
3 commercial, health care, or agricultural enterprise. Project shall include, but is not
4 limited to, agribusiness, agricultural or forestry production, harvesting, storage, or
5 processing facilities or equipment; equipment or facilities designed to produce
6 energy from renewable resources; research parks; office facilities; engineering
7 facilities; research and development laboratories; warehousing facilities; parts
8 distribution facilities; depots or storage facilities; port facilities; railroad facilities,
9 including trackage, right-of-way, and appurtenances; airports and airport
10 renovation; water and air pollution control equipment or waste disposal facilities;
11 tourist facilities; theme or recreational parks; health care and health related
12 facilities; farms, ranches, forests, and other agricultural or forestry commodity
13 producers; agricultural harvesting, storage, transportation, or processing facilities or
14 equipment; grain elevators; shipping heads and livestock pens; livestock; wharves
15 and dock facilities; water, electricity, hydroelectric, coal, petroleum, or natural gas
16 provision facilities; dams and irrigation facilities; sewage, liquid, and solid waste
17 collection, disposal treatment, and drainage services and facilities. Except for
18 airport-related facilities, project shall not include that portion of an endeavor
19 devoted to the sale of goods at retail or that portion of an endeavor devoted to
20 housing which does not consist of the manufacture of housing;
- 21 (21) "Reclamation development fund" means the fund administered by the Kentucky
22 Economic Development Finance Authority to foster economic development on
23 surface mining land;
- 24 (22) "Reclamation development project" means only that reconditioning of land affected
25 by surface mining, which will directly promote and benefit an economic
26 undertaking which constitutes a project under subsection (20) of this section;

1 (23) "Reclamation development plan" means a plan submitted to the Environmental and
 2 Public Protection Cabinet to show compliance with reclamation standards, and
 3 submitted to the Kentucky Economic Development Finance Authority to seek
 4 moneys from the reclamation development fund for a reclamation development
 5 project;

6 (24) "Secretary" means the chief executive officer and secretary of the Cabinet for
 7 Economic Development;

8 (25) "State" means the Commonwealth of Kentucky; and

9 (26) "Tax revenues" means any revenues received by the Commonwealth directly or
 10 indirectly as a result of the industrial improvement project, including state corporate
 11 income taxes, **the limited liability entity tax imposed by Section 4 of this Act**, state
 12 income taxes paid by employees who work in the project, state property taxes, state
 13 corporation license taxes, or state sales and use taxes.

14 Section 40. KRS 154.12-2084 is amended to read as follows:

15 As used in KRS 154.12-2084 to 154.12-2089, unless the context requires otherwise:

16 (1) "Approved company" means any qualified company seeking to sponsor an
 17 occupational upgrade training program or skills upgrade training program for the
 18 benefit of one (1) or more of its employees, which is approved by the authority to
 19 receive skills training investment credits in accordance with KRS 154.12-2084 to
 20 154.12-2089;

21 (2) "Approved costs" means:

22 (a) Fees or salaries required to be paid to instructors who are employees of the
 23 approved company, instructors who are full-time, part-time, or adjunct
 24 instructors with an educational institution, and instructors who are consultants
 25 on contract with an approved company in connection with an occupational
 26 upgrade training program or skills upgrade training program sponsored by an
 27 approved company;

- 1 (b) Administrative fees charged by educational institutions in connection with an
2 occupational upgrade training program or skills upgrade training program
3 sponsored by an approved company and specifically approved by the
4 Bluegrass State Skills Corporation;
- 5 (c) The cost of supplies, materials, and equipment used exclusively in an
6 occupational upgrade training program or skills upgrade training program
7 sponsored by an approved company;
- 8 (d) The cost of leasing a training facility where space is unavailable at an
9 educational institution or at the premises of an approved company in
10 connection with an occupational upgrade training program or skills upgrade
11 training program sponsored by an approved company;
- 12 (e) Employee wages to be paid in connection with an occupational upgrade
13 training program or skills upgrade training program sponsored by an approved
14 company; and
- 15 (f) All other costs of a nature comparable to those described in this subsection;
- 16 (3) "Bluegrass State Skills Corporation" means the Bluegrass State Skills Corporation
17 created by KRS 154.12-205;
- 18 (4) "Commonwealth" means the Commonwealth of Kentucky;
- 19 (5) "Educational institution" means a public or nonpublic secondary or postsecondary
20 institution or an independent provider within the Commonwealth authorized by law
21 to provide a program of skills training or education beyond the secondary school
22 level or to adult persons without a high school diploma or its equivalent;
- 23 (6) "Employee" means any person:
- 24 (a) Who is currently a permanent full-time employee of the qualified company;
- 25 (b) Who has been employed by the qualified company for the last twelve (12)
26 calendar months immediately preceding the filing of the application for skills
27 training investment credits by the qualified company;

- 1 (c) Who is a Kentucky resident, as that term is defined in KRS 141.010; and
- 2 (d) Who receives a base hourly wage which is one hundred fifty percent (150%)
- 3 of the federal minimum wage plus employee benefits equal to at least fifteen
- 4 percent (15%) of the applicable base hourly wage, if the qualified company is
- 5 located in a county of Kentucky which has had an average countywide rate of
- 6 unemployment of fifteen percent (15%) or greater in the most recent twelve
- 7 (12) consecutive months for which unemployment figures are available, on
- 8 the basis of the final unemployment figures calculated by the Department for
- 9 Employment Services within the Cabinet for Workforce Development.

10 For purposes of this subsection, a "full-time employee" means an employee who

11 has been employed by the qualified company for a minimum of thirty-five (35)

12 hours per week for more than two hundred fifty (250) work days during the most

13 recently ended calendar year and is subject to the tax imposed by KRS 141.020;

14 (7) "Occupational upgrade training" means employee training sponsored by a qualified

15 company that is designed to qualify the employee for a promotional opportunity

16 with the qualified company;

17 (8) "Preliminarily approved company" means a qualified company seeking to sponsor

18 an occupational upgrade training program or skills upgrade training program, which

19 has received preliminarily approval from the authority under KRS 154.12-2088 to

20 receive a certain maximum amount of skills training investment credits;

21 (9) "Qualified company" means any person, corporation, limited liability company,

22 partnership, limited partnership, registered limited liability partnership, sole

23 proprietorship, firm, enterprise, franchise, association, organization, holding

24 company, joint stock company, professional service corporation, or any other legal

25 entity through which business is conducted that has been actively engaged in any of

26 the following qualified activities within the Commonwealth for not less than three

27 (3) consecutive years: manufacturing, including the processing, assembling,

1 production, or warehousing of any property; processing of agricultural and forestry
 2 products; telecommunications; health care; product research and engineering; tool
 3 and die and machine technology; mining; tourism and operation of facilities to be
 4 used in the entertainment, recreation, and convention industry; and transportation in
 5 support of manufacturing. Notwithstanding the provisions of this subsection, any
 6 company whose primary purpose is the sale of goods at retail shall not constitute a
 7 qualified company;

8 (10) "Skills upgrade training" means employee training sponsored by a qualified
 9 company that is designed to provide the employee with new skills necessary to
 10 enhance productivity, improve performance, or retain employment, including but
 11 not limited to technical and interpersonal skills training, and training that is
 12 designed to enhance the computer skills, communication skills, problem solving,
 13 reading, writing, or math skills of employees who are unable to function effectively
 14 on the job due to deficiencies in these areas, are unable to advance on the job, or
 15 who risk displacement because their skill deficiencies inhibit their training potential
 16 for new technology; and

17 (11) "Skills training investment credit" means the credit against Kentucky income tax
 18 imposed by KRS 141.020 or 141.040, and the limited liability entity tax imposed
 19 by Section 4 of this Act, as provided in KRS 154.12-2086(1).

20 Section 41. KRS 154.12-2086 is amended to read as follows:

21 (1) The Bluegrass State Skills Corporation may, in accordance with KRS 154.12-2084
 22 to 154.12-2089, award a credit against the Kentucky~~income~~ tax imposed by KRS
 23 141.020 or 141.040, and Section 4 of this Act, to an approved company. The
 24 amount of the skills training investment credit awarded by the Bluegrass State
 25 Skills Corporation shall be an amount equal to fifty percent (50%) of the amount of
 26 approved costs incurred by the approved company in connection with its program
 27 of occupational upgrade training or skills upgrade training, the credit amount not to

- 1 exceed five hundred dollars (\$500) per employee and, in the aggregate, not to
2 exceed one hundred thousand dollars (\$100,000) for each approved company per
3 biennium. The Bluegrass State Skills Corporation shall only approve one (1)
4 application per biennium for each qualified company.
- 5 (2) The skills training investment credit shall be credited on the ~~income~~ tax return of
6 the approved company filed for the fiscal year during which the final authorizing
7 resolution is adopted by the Bluegrass State Skills Corporation in accordance with
8 KRS 154.12-2088(6). The skill training investment credits allowed under KRS
9 154.12-2084 to 154.12-2089 shall only be used by the approved company that has
10 been awarded the credits in accordance with KRS 154.12-2084 to 154.12-2089. The
11 skills training investment credits provided for in this section shall be **applied to**
12 **both the income tax imposed by KRS 141.020 or 141.040, and the limited liability**
13 **entity tax imposed by Section 4 of this Act, with the ordering of the credits as**
14 **provided in KRS 141.0205. These credits shall be** in addition to all other tax credits
15 granted under the laws of the Commonwealth.
- 16 (3) The skills training investment credits may be carried forward for three (3)
17 successive fiscal years of the approved company if the amount allowable as credits
18 exceeds the income tax liability of the approved company in the tax year during
19 which the final authorizing resolution is adopted by the Bluegrass State Skills
20 Corporation; however, thereafter, if the amount allowable as credits exceeds the
21 income tax liability of the approved company, the excess credits shall not be
22 refundable or carried forward to any other fiscal year of the approved company for
23 which a tax return of the approved company is to be filed.
- 24 (4) A qualified company shall not be entitled to receive the skills training investment
25 credits if the qualified company requires that the employee reimburse the employer
26 or otherwise pay for any costs or expenses incurred in connection with the
27 occupational upgrade training or skills upgrade training.

- 1 (5) To the extent that any expenditures of a qualified company constitute approved
 2 costs and are the basis for the skills training investment credits under KRS 154.12-
 3 2084 to 154.12-2089, these expenditures shall not be eligible as the basis for grants-
 4 in-aid under Bluegrass State Skills Corporation provisions in KRS 154.12-204 to
 5 154.12-208 or the Local Government Economic Development Program under the
 6 provisions of KRS 42.4588 to 42.4595.
- 7 (6) Priority consideration for preliminary approval under KRS 154.12-2088 shall be
 8 given to qualified companies that the Bluegrass State Skills Corporation determines
 9 to be high performance companies. A minimum of thirty percent (30%) of the total
 10 skills training investment credits authorized by the Bluegrass State Skills
 11 Corporation during any fiscal year shall be awarded to qualified companies that
 12 have been designated as high performance companies by the Bluegrass State Skills
 13 Corporation. The Bluegrass State Skills Corporation shall establish guidelines and
 14 standards for the designation of high performance companies.
- 15 (7) By October 1 of each year, the Department of Revenue shall certify to the
 16 Bluegrass State Skills Corporation the amount of any skills training investment
 17 credits taken pursuant to KRS 154.12-2084 to 154.12-2089 on tax returns filed
 18 during the fiscal year ending June 30 of that year.

19 Section 42. KRS 154.20-258 is amended to read as follows:

- 20 (1) An investor shall be entitled to a nonrefundable credit equal to forty percent (40%)
 21 of the investor's proportional ownership share of all qualified investments made by
 22 its investment fund and verified by the authority. The aggregate tax credit available
 23 to any investor shall not exceed forty percent (40%) of the cash contribution made
 24 by the investor to its investment fund. The credit may be applied against:
- 25 **(a) Both** the income tax imposed by KRS 141.020 or 141.040, **and the limited**
 26 **liability entity tax imposed by Section 4 of this Act, with the ordering of the**
 27 **credits as provided in KRS 141.0205;**

1 **(b)** The corporation license tax imposed by KRS 136.070;~~;~~

2 **(c)** The insurance taxes imposed by KRS 136.320, 136.330, and 304.3-270;~~;~~
3 and

4 **(d)** The taxes on financial institutions imposed by KRS 136.300, 136.310, and
5 136.505.

6 (2) The tax credit amount that may be claimed by an investor in any tax year shall not
7 exceed fifty percent (50%) of the initial aggregate credit amount approved by the
8 authority for the investment fund which would be proportionally available to the
9 investor. An investor may first claim the credit granted in subsection (1) of this
10 section in the year following the year in which the credit is granted.

11 (3) If the credit amount that may be claimed in any tax year, as determined under
12 subsections (1) and (2) of this section, exceeds the investor's combined tax
13 liabilities against which the credit may be claimed for that year, the investor may
14 carry the excess tax credit forward until the tax credit is used, but the carry-forward
15 of any excess tax credit shall not increase the fifty percent (50%) limitation
16 established by subsection (2) of this section. Any tax credits not used within fifteen
17 (15) years of the approval by the authority of the aggregate tax credit amount
18 available to the investor shall be lost.

19 (4) The tax credits allowed by this section shall not apply to any liability an investor
20 may have for interest, penalties, past due taxes, or any other additions to the
21 investor's tax liability. The holder of the tax credit shall assume any and all
22 liabilities and responsibilities of the credit.

23 (5) The tax credits allowed by this section are not transferable, except that:

24 (a) A nonprofit entity may transfer, for some or no consideration, any or all of the
25 credits it receives under this section and any related benefits, rights,
26 responsibilities, and liabilities. Within thirty (30) days of the date of any

1 transfer of credits pursuant to this subsection, the nonprofit entity shall notify
2 the authority and the Department of Revenue of:

- 3 1. The name, address, and Social Security number or employer
4 identification number, as may be applicable, of the party to which the
5 nonprofit entity transferred its credits;
- 6 2. The amount of credits transferred; and
- 7 3. Any additional information the authority or the Department of Revenue
8 deems necessary.

9 (b) If an investor is an entity and is a party to a merger, acquisition,
10 consolidation, dissolution, liquidation, or similar corporate reorganization, the
11 tax credits shall pass through to the investor's successor.

12 (c) If an individual investor dies, the tax credits shall pass to the investor's estate
13 or beneficiaries in a manner consistent with the transfer of ownership of the
14 investor's interest in the investment fund.

15 (6) The tax credit amount that may be claimed by an investor shall reflect only the
16 investor's participation in qualified investments properly reported to the authority
17 by the investment fund manager. No tax credit authorized by this section shall
18 become effective until the Department of Revenue receives notification from the
19 authority that includes:

20 (a) A statement that a qualified investment has been made that is in compliance
21 with KRS 154.20-250 to 154.20-284 and all applicable regulations; and

22 (b) A list of each investor in the investment fund that owns a portion of the small
23 business in which a qualified investment has been made by virtue of an
24 investment in the investment fund, and each investor's amount of credit
25 granted to the investor for each qualified investment.

26 The authority shall, within sixty (60) days of approval of credits, notify the
27 Department of Revenue of the information required pursuant to this subsection and

1 notify each investor of the amount of credits granted to that investor, and the year
2 the credits may first be claimed.

3 (7) After the date on which investors in an investment fund have cumulatively received
4 an amount of credits equal to the amount of credits allocated to the investment fund
5 by the authority, no investor shall receive additional credits by virtue of its
6 investment in that investment fund unless the investment fund's allocation of credits
7 is increased by the authority pursuant to an amended application.

8 (8) The maximum amount of credits to be authorized by the authority shall be three
9 million dollars (\$3,000,000) for each of fiscal years 2002-03 and 2003-04.

10 Section 43. KRS 154.22-010 is amended to read as follows:

11 The following words and terms as used in KRS 154.22-010 to 154.22-080, unless the
12 context clearly indicates a different meaning, shall have the following meanings:

13 (1) "Activation date" means a date selected by an approved company in the tax
14 incentive agreement at any time within a two (2) year period after the date of final
15 approval of the tax incentive agreement by the authority;

16 (2) "Affiliate" means the following:

17 (a) Members of a family, including only brothers and sisters of the whole or half
18 blood, spouse, ancestors, and lineal descendants of an individual;

19 (b) An individual, and a corporation more than fifty percent (50%) in value of the
20 outstanding stock of which is owned, directly or indirectly, by or for that
21 individual;

22 (c) An individual, and a limited liability company of which more than fifty
23 percent (50%) of the capital interest or profits are owned or controlled,
24 directly or indirectly, by or for that individual;

25 (d) Two (2) corporations which are members of the same controlled group, which
26 includes and is limited to:

- 1 1. One (1) or more chains of corporations connected through stock
2 ownership with a common parent corporation if:
- 3 a. Stock possessing more than fifty percent (50%) of the total
4 combined voting power of all classes of stock entitled to vote or
5 more than fifty percent (50%) of the total value of shares of all
6 classes of stock of each of the corporations, except the common
7 parent corporation, is owned by one (1) or more of the other
8 corporations; and
- 9 b. The common parent corporation owns stock possessing more than
10 fifty percent (50%) of the total combined voting power of all
11 classes of stock entitled to vote or more than fifty percent (50%) of
12 the total value of shares of all classes of stock of at least one (1) of
13 the other corporations, excluding, in computing the voting power
14 or value, stock owned directly by the other corporations; or
- 15 2. Two (2) or more corporations if five (5) or fewer persons who are
16 individuals, estates, or trusts own stock possessing more than fifty
17 percent (50%) of the total combined voting power of all classes of stock
18 entitled to vote or more than fifty percent (50%) of the total value of
19 shares of all classes of stock of each corporation, taking into account the
20 stock ownership of each person only to the extent the stock ownership is
21 identical with respect to each corporation;
- 22 (e) A grantor and a fiduciary of any trust;
- 23 (f) A fiduciary of a trust and a fiduciary of another trust, if the same person is a
24 grantor of both trusts;
- 25 (g) A fiduciary of a trust and a beneficiary of that trust;
- 26 (h) A fiduciary of a trust and a beneficiary of another trust, if the same person is a
27 grantor of both trusts;

- 1 (i) A fiduciary of a trust and a corporation more than fifty percent (50%) in value
2 of the outstanding stock of which is owned, directly or indirectly, by or for the
3 trust or by or for a person who is a grantor of the trust;
- 4 (j) A fiduciary of a trust and a limited liability company more than fifty percent
5 (50%) of the capital interest, or the interest in profits, of which is owned
6 directly or indirectly, by or for the trust or by or for a person who is a grantor
7 of the trust;
- 8 (k) A corporation and a partnership, including a registered limited liability
9 partnership, if the same persons own:
- 10 1. More than fifty percent (50%) in value of the outstanding stock of the
11 corporation; and
- 12 2. More than fifty percent (50%) of the capital interest, or the profits
13 interest, in the partnership, including a registered limited liability
14 partnership;
- 15 (l) A corporation and a limited liability company if the same persons own:
- 16 1. More than fifty percent (50%) in value of the outstanding stock of the
17 corporation; and
- 18 2. More than fifty percent (50%) of the capital interest or the profits in the
19 limited liability company;
- 20 (m) A partnership, including a registered limited liability partnership, and a
21 limited liability company if the same persons own:
- 22 1. More than fifty percent (50%) of the capital interest or profits in the
23 partnership, including a registered limited liability partnership; and
- 24 2. More than fifty percent (50%) of the capital interest or the profits in the
25 limited liability company;
- 26 (n) An S corporation and another S corporation if the same persons own more
27 than fifty percent (50%) in value of the outstanding stock of each corporation,

- 1 S corporation designation being the same as that designation under the
2 Internal Revenue Code of 1986, as amended; or
- 3 (o) An S corporation and a C corporation, if the same persons own more than
4 fifty percent (50%) in value of the outstanding stock of each corporation; S
5 and C corporation designations being the same as those designations under
6 the Internal Revenue Code of 1986, as amended;
- 7 (3) "Agribusiness" means any activity involving the processing of raw agricultural
8 products, including timber, or the providing of value-added functions with regard to
9 raw agricultural products;
- 10 (4) "Approved company" means any eligible company seeking to locate an economic
11 development project in a qualified county, which eligible company is approved by
12 the authority pursuant to KRS 154.22-010 to 154.22-080;
- 13 (5) "Approved costs" means:
- 14 (a) Obligations incurred for labor and to contractors, subcontractors, builders, and
15 materialmen in connection with the acquisition, construction, installation,
16 equipping, and rehabilitation of an economic development project;
- 17 (b) The cost of acquiring land or rights in land and any cost incidental thereto,
18 including recording fees;
- 19 (c) The cost of contract bonds and of insurance of all kinds that may be required
20 or necessary during the course of acquisition, construction, installation,
21 equipping, and rehabilitation of an economic development project which is
22 not paid by the contractor or contractors or otherwise provided for;
- 23 (d) All costs of architectural and engineering services, including test borings,
24 surveys, estimates, plans and specifications, preliminary investigations, and
25 supervision of construction, as well as for the performance of all the duties
26 required by or consequent upon the acquisition, construction, installation,
27 equipping, and rehabilitation of an economic development project;

- 1 (e) All costs which shall be required to be paid under the terms of any contract or
 2 contracts for the acquisition, construction, installation, equipping, and
 3 rehabilitation of an economic development project; and
- 4 (f) All other costs of a nature comparable to those described above;
- 5 (6) "Assessment" means the job development assessment fee authorized by KRS
 6 154.22-010 to 154.22-080;
- 7 (7) "Authority" means the Kentucky Economic Development Finance Authority as
 8 created in KRS 154.20-010;
- 9 (8) "Average hourly wage" means the wage and employment data published by the
 10 Department for Employment Services in the Kentucky Cabinet for Workforce
 11 Development collectively translated into wages per hour based on a two thousand
 12 eighty (2,080) hour work year for the following sectors:
- 13 (a) Manufacturing;
- 14 (b) Transportation, communications and public utilities;
- 15 (c) Wholesale and retail trade;
- 16 (d) Finance, insurance, and real estate; and
- 17 (e) Services;
- 18 (9) "Commonwealth" means the Commonwealth of Kentucky;
- 19 (10) (a) "Economic development project" means and includes:
- 20 1. The acquisition of ownership in any real estate in a qualified county by
 21 the authority, the approved manufacturing or agribusiness company, or
 22 its affiliate;
- 23 2. The present ownership of real estate in a qualified county by the
 24 approved manufacturing or agribusiness company or its affiliate;
- 25 3. The acquisition or present ownership of improvements or facilities, as
 26 described in paragraph (b) of this subsection, on land which is possessed
 27 or is to be possessed by the approved manufacturing or agribusiness

1 company pursuant to a ground lease having a term of sixty (60) years or
2 more; and

3 4. The new construction of an electric generation facility;

4 (b) For purposes of subparagraphs 1. and 2. of paragraph (a) of this subsection,
5 ownership of real estate shall only include fee ownership of real estate and
6 possession of real estate pursuant to a capital lease as determined in
7 accordance with Statement of Financial Accounting Standards No. 13,
8 Accounting for Leases, issued by the Financial Accounting Standards Board,
9 November 1976. With respect to subparagraphs 1., 2., and 3. of paragraph (a)
10 or paragraph (b) of this subsection, the construction, installation, equipping,
11 and rehabilitation of improvements, including fixtures and equipment, and
12 facilities necessary or desirable for improvement of the real estate, including
13 surveys; site tests and inspections; subsurface site work; excavation; removal
14 of structures, roadways, cemeteries, and other surface obstructions; filling,
15 grading, and provision of drainage, storm water retention, installation of
16 utilities such as water, sewer, sewage treatment, gas, electricity,
17 communications, and similar facilities; off-site construction of utility
18 extensions to the boundaries of the real estate; and the acquisition,
19 installation, equipping, and rehabilitation of manufacturing facilities on the
20 real estate, for use and occupancy by the approved company or its affiliates
21 for manufacturing purposes, electric generation, or for agribusiness purposes.
22 Pursuant to subparagraph 3. of paragraph (a) of this subsection, an economic
23 development project shall not include lease payments made pursuant to a
24 ground lease for purposes of the tax credits provided under the provisions of
25 KRS 154.22-010 to 154.22-080;

- 1 (11) "Electric generation" means the generation of electricity for resale by means of
2 combusting at least fifty percent (50%) of the total fuel used to generate electricity
3 from coal or from gas derived from coal;
- 4 (12) "Eligible company" means any corporation, limited liability company, partnership,
5 registered limited liability partnership, sole proprietorship, business trust, or any
6 other entity engaged in manufacturing, electric generation, or in agribusiness;
- 7 (13) "Employee benefits" means nonmandated costs paid by an eligible company for its
8 full-time employees for health insurance, life insurance, dental insurance, vision
9 insurance, defined benefits, 401(k) or similar plans;
- 10 (14) "Final approval" means the action taken by the authority authorizing the eligible
11 company to receive inducements under this subchapter;
- 12 (15) "Full-time employee" means a person employed by an approved company for a
13 minimum of thirty-five (35) hours per week and subject to the state income tax
14 imposed by KRS 141.020;
- 15 (16) "Inducements" means the assessment and the ~~income~~ tax credits allowed by KRS
16 154.22-060;
- 17 (17) "Manufacturing" means any activity involving the manufacturing, processing,
18 assembling, or production of any property, including the processing resulting in a
19 change in the conditions of the property and any activity related to it, together with
20 the storage, warehousing, distribution, and related office facilities; however,
21 "manufacturing" shall not include mining, coal or mineral processing, or extraction
22 of minerals;
- 23 (18) "Preliminary approval" means the action taken by the authority conditioning final
24 approval by the authority upon satisfaction by the eligible company of the
25 requirements under this subchapter;
- 26 (19) "Qualified county" means any county certified as such by the authority pursuant to
27 KRS 154.22-010 to 154.22-080;

- 1 (20) "Revenues" shall not be considered state funds;
- 2 (21) "State agency" shall have the meaning assigned to the term in KRS 56.440(8);~~and~~
- 3 (22) "Tax incentive agreement" means the agreement entered into, pursuant to KRS
4 154.22-050, between the authority and an approved company with respect to an
5 economic development project;

6 **(23) "Kentucky gross receipts" means Kentucky gross receipts as defined in Section 4**
7 **of this Act; and**

8 **(24) "Kentucky gross profits" means Kentucky gross profits as defined in Section 4 of**
9 **this Act.**

10 Section 44. KRS 154.22-050 is amended to read as follows:

11 The authority may enter into, with any approved company, a tax incentive agreement
12 with respect to its economic development project, upon adoption of a resolution
13 authorizing the tax incentive agreement. Subject to the inclusion of the mandatory
14 provisions set forth below, the terms and provisions of each tax incentive agreement shall
15 be determined by negotiations between the authority and the approved company.

16 (1) The tax incentive agreement shall set forth the maximum amount of inducements
17 available to the approved company for recovery of the approved costs authorized by
18 the authority and expended by the approved company.

19 (2) The approved company shall expend the authorized approved costs for the
20 economic development project within three (3) years of the date of the final
21 approval by the authority.

22 (3) The approved company shall provide the authority with documentation as to the
23 expenditures for approved costs in a manner acceptable to the authority.

24 (4) The term of the tax incentive agreement shall commence upon the activation date
25 and will terminate upon the earlier of the full receipt of the maximum amount of
26 inducements by the approved company or fifteen (15) years after the activation
27 date.

- 1 (5) The tax incentive agreement shall include the activation date. To implement the
2 activation date, the approved company shall notify the authority, the Department of
3 Revenue, and the approved company's employees of the activation date when the
4 implementation of the inducements authorized in the tax incentive agreement shall
5 occur. If the approved company does not satisfy the minimum investment and
6 minimum employment requirements of KRS 154.22-040(3) by the activation date,
7 the approved company shall not be entitled to receive inducements pursuant to this
8 subchapter until the approved company satisfies the requirements; however, the
9 fifteen (15) year period for the term of the tax incentive agreement shall begin from
10 the activation date. Notwithstanding the previous sentence, if the approved
11 company does not satisfy the minimum investment and minimum employment
12 requirements of KRS 154.22-040(3) within two (2) years from the date of final
13 approval of the tax incentive agreement, then the approved company shall be
14 ineligible to receive inducements under this subchapter unless an extension is
15 approved by the authority.
- 16 (6) The tax agreement shall also state that if the total number of new full-time
17 employees at the site of the economic development project who are residents of the
18 Commonwealth and subject to the Kentucky income tax is less than fifteen (15) at
19 any time after activation, the authorized inducements shall be suspended for a
20 period of up to one (1) year. If the company does not have at least fifteen (15) new
21 full-time employees at the site who are residents of the Commonwealth and subject
22 to Kentucky income tax within one (1) year from the date of the initial suspension,
23 the inducements may be terminated at the discretion of the authority.
- 24 (7) The approved company shall comply with the hourly wage criteria set forth in KRS
25 154.22-040(4) and provide documentation in connection with hourly wages paid to
26 its full-time employees hired as a result of the economic development project in a
27 manner acceptable to the authority.

- 1 (8) The approved company may be permitted the following inducements during the
 2 term of the tax incentive agreement:
- 3 (a) A one-hundred percent (100%) credit against the Kentucky income tax **and**
 4 **the limited liability entity tax imposed under Section 4 of this Act** that would
 5 otherwise be owed in the approved company's fiscal year, as determined
 6 under KRS 141.347, to the Commonwealth by the approved company on the
 7 income, **Kentucky gross receipts, or Kentucky gross profits** of the approved
 8 company generated by or arising from the economic development project.
 9 **The ordering of the credits shall be as provided in KRS 141.0205**; and
- 10 (b) The aggregate assessments withheld by the approved company in each year.
- 11 (9) The **credit allowed**~~income tax credited to~~ the approved company shall be **applied**
 12 **against both the income tax imposed by KRS 141.020 or 141.040, and the limited**
 13 **liability entity tax imposed by Section 4 of this Act, with credit ordering as**
 14 **provided in KRS 141.0205**~~, credited~~ for the fiscal year for which the tax return of
 15 the approved company is filed. The total inducements may not exceed authorized
 16 cumulative approved costs paid by the approved company in the period
 17 commencing with the date of final approval.
- 18 (10) The approved company shall not be required to pay estimated~~income~~ tax
 19 payments as prescribed in KRS 141.042 on the Kentucky taxable income, **Kentucky**
 20 **gross receipts or Kentucky gross profits** generated by or arising from the economic
 21 development project.
- 22 (11) The tax incentive agreement may be assigned by the approved company only upon
 23 the prior written consent of the authority following the adoption of a resolution by
 24 the authority to that effect.
- 25 (12) The tax incentive agreement shall provide that if an approved company fails to
 26 comply with its obligations under the tax incentive agreement then the authority
 27 shall have the right, at its option, to:

- 1 (a) Suspend the~~income~~ tax credits and assessments available to the approved
 2 company;
- 3 (b) Pursue any remedy provided under the tax incentive agreement, including
 4 termination thereof; and
- 5 (c) Pursue any other remedy at law to which it may be entitled.

6 (13) All remedies provided in subsection (12) of this section shall be deemed to be
 7 cumulative.

8 Section 45. KRS 154.22-060 is amended to read as follows:

9 (1) The approved company shall be entitled to a credit against the Kentucky~~income~~
 10 tax liability mandated by KRS Chapter 141, as determined under KRS 141.347~~on~~
 11 ~~any income that may result from the operation of the approved economic~~
 12 ~~development project~~; the credit shall be equal to the total amount of the tax
 13 liability, and together with the aggregate assessments not to exceed the maximum
 14 amount of inducements as set forth in the tax incentive agreement.

15 (2) By October 1 of each year, the Department of Revenue of the Commonwealth shall
 16 certify to the authority in the form of an annual report, aggregate income tax credits
 17 claimed on tax returns filed during the fiscal year ending June 30 of that year, and
 18 assessments taken by approved companies with respect to their economic
 19 development projects during the prior calendar year under this subchapter, and shall
 20 certify to the authority, within ninety (90) days from the date an approved company
 21 has filed its state income tax return, when an approved company has taken income
 22 tax credits equal to its total inducements.

23 Section 46. KRS 154.23-010 is amended to read as follows:

24 As used in KRS 154.23-005 to 154.23-079, unless the context clearly indicates
 25 otherwise:

26 (1) "Approved company" means an eligible company that locates an economic
 27 development project in a qualified zone, as provided for in KRS 154.23-030;

1 (2) "Approved costs" means:

2 (a) For an approved company that establishes a new manufacturing facility or
3 expands an existing manufacturing facility, the following obligations incurred
4 in its economic development project, including rent under leases subject to
5 subsection (6)(b)4. of this section:

- 6 1. The cost of labor, contractors, subcontractors, builders, and material
7 workers in connection with the acquisition, construction, installation,
8 equipping, and rehabilitation of an economic development project;
- 9 2. The cost of acquiring real estate or rights in land and any cost incidental
10 thereto, including recording fees;
- 11 3. The cost of contract bonds and insurance of all kinds that may be
12 required or necessary during the course of acquisition, construction,
13 installation, equipping, and rehabilitation of an economic development
14 project that is not paid by the contractor or contractors or otherwise
15 provided for;
- 16 4. The cost of architectural and engineering services, including test
17 borings, surveys, estimates, plans and specifications, preliminary
18 investigations, and supervision of construction, as well as for the
19 performance of all duties required by or consequent to the acquisition,
20 construction, installation, equipping, and rehabilitation of an economic
21 development project;
- 22 5. All costs required to be paid under the terms of any contract for the
23 acquisition, construction, installation, equipping, and rehabilitation of an
24 economic development project; and
- 25 6. All other costs of a nature comparable to those described above; or

26 (b) For an approved company that establishes a new service or technology
27 business or expands existing service or technology operations, up to a

1 maximum of fifty percent (50%) of the total start-up costs during the term of
 2 the service and technology agreement, plus up to a maximum of fifty percent
 3 (50%) of the annual rent for each elapsed year of the service and technology
 4 agreement;

5 (3) "Assessment" means the job development assessment fee authorized by KRS
 6 154.23-055;

7 (4) "Authority" means the Kentucky Economic Development Finance Authority, as
 8 created in KRS 154.20-010;

9 (5) "Average hourly wage" means the wage and employment data published by the
 10 Department for Employment Services in the Kentucky Cabinet for Workforce
 11 Development collectively translated into wages per hour based on a two thousand
 12 eighty (2,080) hour work year for the following sectors:

13 (a) Manufacturing;

14 (b) Transportation, communications, and public utilities;

15 (c) Wholesale and retail trade;

16 (d) Finance, insurance, and real estate; and

17 (e) Services;

18 (6) "Commonwealth" means the Commonwealth of Kentucky;

19 (7) "Economic development project" or "project" means:

20 (a) A new or expanded service or technology activity conducted at a new or
 21 expanded site by:

22 1. An approved company; or

23 2. An approved company and its affiliate or affiliates; or

24 (b) Any of the following activities of an approved company engaged in
 25 manufacturing:

26 1. The acquisition of or present ownership in any real estate in a qualified
 27 zone for the purposes described in KRS 154.23-005 to 154.23-079,

- 1 which ownership shall include only fee simple ownership of real estate
2 and possession of real estate according to a capital lease as determined
3 in accordance with Statement of Financial Accounting Standards No.
4 13, Accounting for Leases, issued by the Financial Accounting
5 Standards Board, November 1976;
- 6 2. The acquisition or present ownership of improvements or facilities on
7 land that is possessed or is to be possessed by the approved company in
8 a ground lease having a term of sixty (60) years or more; provided,
9 however, that this project shall not include lease payments made under a
10 ground lease for purposes of calculating the tax credits offered under
11 KRS 154.23-005 to 154.23-079;
- 12 3. The construction, installation, equipping, and rehabilitation of
13 improvements, fixtures, equipment, and facilities necessary or desirable
14 for improvement of the real estate owned, used, or occupied by the
15 approved company for manufacturing purposes. Construction activities
16 include surveys; site tests and inspections; subsurface site work;
17 excavation; removal of structures, roadways, cemeteries, and other
18 surface obstructions; filling, grading, and providing drainage and storm
19 water retention; installation of utilities such as water, sewer, sewage
20 treatment, gas, electric, communications, and similar facilities; off-site
21 construction of utility extensions to the boundaries of the real estate; or
22 similar activities as the authority may determine necessary for
23 construction; and
- 24 4. The leasing of real estate and the buildings and fixtures thereon
25 acquired, constructed, and installed with funds from grants under KRS
26 154.23-060;

- 1 (8) "Eligible company" means any corporation, limited liability company, partnership,
2 registered limited liability partnership, sole proprietorship, business trust, or any
3 other legal entity engaged in manufacturing, or service or technology; however, any
4 company whose primary purpose is retail sales shall not be an eligible company;
- 5 (9) "Employee benefits" means nonmandated costs paid by an eligible company for its
6 full-time employees for health insurance, life insurance, dental insurance, vision
7 insurance, defined benefits, 401(k) or similar plans;
- 8 (10) "Final approval" means action taken by the authority that authorizes the eligible
9 company to receive inducements in connection with a project under KRS 154.23-
10 005 to 154.23-079;
- 11 (11) "Full-time employee" means a person employed by an approved company for a
12 minimum of thirty-five (35) hours per week and subject to the state income tax
13 imposed by KRS 141.020;
- 14 (12) "Inducements" means the assessment and the income tax credits allowed to an
15 approved company under KRS 154.23-050 and 154.23-055;
- 16 (13) "Local government" means a city, county, or urban-county government;
- 17 (14) "Manufacturing" means to make, assemble, process, produce, or perform any other
18 activity that changes the form or conditions of raw materials and other property,
19 and shall include any ancillary activity to the manufacturing process, such as
20 storage, warehousing, distribution, and related office facilities; however,
21 "manufacturing" shall not include mining, the extraction of minerals or coal, or
22 processing of these resources;
- 23 (15) "Person" means an individual, sole proprietorship, partnership, registered limited
24 liability partnership, joint venture, trust, unincorporated organization, association,
25 corporation, limited liability company, institution, entity or government, whether
26 federal, state, county, city, or otherwise, including without limitation any

1 instrumentality, division, political subdivision, district, court, agency, or
2 department thereof;

3 (16) "Preliminary approval" means action taken by the authority that conditions final
4 approval of an eligible company and its economic development project upon
5 satisfaction by the eligible company of the applicable requirements under KRS
6 154.23-005 to 154.23-079;

7 (17) "Qualified employee" means an individual subject to Kentucky income tax who has
8 resided in the qualified zone where the project exists for at least twelve (12)
9 consecutive months preceding full-time employment by an approved company;

10 (18) "Qualified statewide employee" means an individual subject to Kentucky income
11 tax who has resided in any census tract or county in the Commonwealth that meets
12 the criteria in KRS 154.23-015, regardless of whether the tract or county is in a
13 qualified zone, for at least twelve (12) consecutive months preceding full-time
14 employment by an approved company;

15 (19) "Qualified zone" means any census tract or county certified as such by the authority
16 in KRS 154.23-015 and 154.23-020;

17 (20) "Rent" means:

18 (a) The actual annual rent or leasing fee paid by an approved company to a bona
19 fide entity negotiated at arms length for the use of a building by the approved
20 company to conduct the approved project for which the inducement has been
21 granted; or

22 (b) The fair rental value on an annual basis in a building owned by the approved
23 company of the space used by the approved company to conduct the approved
24 project for which the inducement has been granted as determined by the
25 authority using criteria that are customary in the real estate industry for the
26 type of building being used. The fair rental value shall include an analysis of
27 the cost of amortizing the cost of land and building over the period of time

1 customary in the real estate industry for the type of building and for the land
2 being utilized; and

3 (c) Rent shall include the customary cost of occupancy, including but not limited
4 to property taxes, heating and air conditioning, electricity, water, sewer, and
5 insurance;

6 (21) "Service and technology agreement" means any agreement entered into, under KRS
7 154.23-040, on behalf of the authority, an approved company engaged in service or
8 technology, and third-party lessors, if applicable, with respect to an economic
9 development project;

10 (22) (a) "Service or technology" means either:

11 1. Any activity involving the performance of work, except work classified
12 by the divisions, including successor divisions, of agriculture, forestry
13 and fishing, mining, utilities, construction, manufacturing, wholesale
14 trade, retail trade, real estate rental and leasing, educational services,
15 accommodation and food services, and public administration in
16 accordance with the "North American Industry Classification System,"
17 as revised by the United States Office of Management and Budget from
18 time to time, or any successor publication; or

19 2. Regional or headquarters operations of an entity engaged in an activity
20 listed in subparagraph 1. of this paragraph.

21 (b) Notwithstanding paragraph (a) of this subsection, "service or technology"
22 shall not include any activity involving the performance of work by an
23 individual who is providing direct service to the public pursuant to a license
24 issued by the state or an association that licenses in lieu of the state;

25 (23) "Start-up costs" means the acquisition cost associated with the project and related
26 to furnishing and equipping a building for ordinary business functions, including
27 computers, nonrecurring costs of fixed telecommunication equipment, furnishings,

1 office equipment, and the relocation of out-of-state equipment, as verified and
 2 approved by the authority in accordance with KRS 154.23-040;

3 (24) "Tax incentive agreement" means that agreement entered into, pursuant to KRS
 4 154.23-035, between the authority and an approved company with respect to an
 5 economic development project; ~~and~~

6 (25) "Affiliate" means the following:

7 (a) Members of a family, including only brothers and sisters of the whole or half
 8 blood, spouse, ancestors, and lineal descendants of an individual;

9 (b) An individual, and a corporation more than fifty percent (50%) in value of the
 10 outstanding stock of which is owned, directly or indirectly, by or for that
 11 individual;

12 (c) An individual, and a limited liability company of which more than fifty
 13 percent (50%) of the capital interest or profits are owned or controlled,
 14 directly or indirectly, by or for that individual;

15 (d) Two (2) corporations which are members of the same controlled group, which
 16 includes and is limited to:

17 1. One (1) or more chains of corporations connected through stock
 18 ownership with a common parent corporation if:

19 a. Stock possessing more than fifty percent (50%) of the total
 20 combined voting power of all classes of stock entitled to vote or
 21 more than fifty percent (50%) of the total value of shares of all
 22 classes of stock of each of the corporations, except the common
 23 parent corporation, is owned by one (1) or more of the other
 24 corporations; and

25 b. The common parent corporation owns stock possessing more than
 26 fifty percent (50%) of the total combined voting power of all
 27 classes of stock entitled to vote or more than fifty percent (50%) of

- 1 the total value of shares of all classes of stock of at least one (1) of
2 the other corporations, excluding, in computing the voting power
3 or value, stock owned directly by the other corporations; or
- 4 2. Two (2) or more corporations if five (5) or fewer persons who are
5 individuals, estates, or trusts own stock possessing more than fifty
6 percent (50%) of the total combined voting power of all classes of stock
7 entitled to vote or more than fifty percent (50%) of the total value of
8 shares of all classes of stock of each corporation, taking into account the
9 stock ownership of each person only to the extent the stock ownership is
10 identical with respect to each corporation;
- 11 (e) A grantor and a fiduciary of any trust;
- 12 (f) A fiduciary of a trust and a fiduciary of another trust, if the same person is a
13 grantor of both trusts;
- 14 (g) A fiduciary of a trust and a beneficiary of that trust;
- 15 (h) A fiduciary of a trust and a beneficiary of another trust, if the same person is a
16 grantor of both trusts;
- 17 (i) A fiduciary of a trust and a corporation more than fifty percent (50%) in value
18 of the outstanding stock of which is owned, directly or indirectly, by or for the
19 trust or by or for a person who is a grantor of the trust;
- 20 (j) A fiduciary of a trust and a limited liability company, of which more than fifty
21 percent (50%) of the capital interest, or the interest in profits, is owned
22 directly or indirectly, by or for the trust or by or for a person who is a grantor
23 of the trust;
- 24 (k) A corporation and a partnership, including a registered limited liability
25 partnership, if the same persons own:
- 26 1. More than fifty percent (50%) in value of the outstanding stock of the
27 corporation; and

- 1 2. More than fifty percent (50%) of the capital interest, or the profits
2 interest, in the partnership, including a registered limited liability
3 partnership;
- 4 (l) A corporation and a limited liability company if the same persons own:
- 5 1. More than fifty percent (50%) in value of the outstanding stock of the
6 corporation; and
- 7 2. More than fifty percent (50%) of the capital interest or the profits in the
8 limited liability company;
- 9 (m) A partnership, including a registered limited liability partnership, and a
10 limited liability company if the same persons own:
- 11 1. More than fifty percent (50%) of the capital interest or profits in the
12 partnership, including a registered limited liability partnership; and
- 13 2. More than fifty percent (50%) of the capital interest or the profits in the
14 limited liability company;
- 15 (n) An S corporation and another S corporation if the same persons own more
16 than fifty percent (50%) in value of the outstanding stock of each corporation,
17 S corporation designation being the same as that designation under the
18 Internal Revenue Code of 1986, as amended; or
- 19 (o) An S corporation and a C corporation, if the same persons own more than
20 fifty percent (50%) in value of the outstanding stock of each corporation; S
21 and C corporation designations being the same as those designations under
22 the Internal Revenue Code of 1986, as amended;

23 **(26) "Kentucky gross receipts" means Kentucky gross receipts as defined in Section 4**
24 **of this Act; and**

25 **(27) "Kentucky gross profits" means Kentucky gross profits as defined in Section 4 of**
26 **this Act.**

27 Section 47. KRS 154.23-035 is amended to read as follows:

1 The authority, upon adoption of an authorizing resolution, may enter into a tax incentive
2 agreement with any approved company engaged in manufacturing activities with respect
3 to its economic development project. The terms and provisions of each tax incentive
4 agreement, including the amount of approved costs, shall be determined by negotiations
5 between the authority and the approved company, subject to the inclusion of the
6 following mandatory provisions:

- 7 (1) The tax incentive agreement shall set forth the maximum amount of inducements
8 available to the approved company for recovery of the approved costs authorized by
9 the authority and expended by the approved company.
- 10 (2) The approved company shall expend the authorized approved costs within three (3)
11 years of the date of the final approval by the authority.
- 12 (3) The approved company shall provide the authority with documentation as to the
13 expenditures for approved costs in a manner acceptable to the authority.
- 14 (4) The term of the tax incentive agreement shall commence upon the activation date
15 and will terminate upon the earlier of the full receipt of the maximum amount of
16 inducements by the approved company or ten (10) years after the activation date.
- 17 (5) The tax incentive agreement shall include the activation date, which shall be a date
18 selected by the approved company within two (2) years of the date of final approval
19 by the authority of the tax incentive agreement. If the approved company does not
20 satisfy the minimum investment and minimum employment requirements of KRS
21 154.23-025 by the activation date, the approved company shall not be entitled to
22 receive inducements pursuant to this subchapter until the approved company
23 satisfies the requirements; however, the ten (10) year period for the term of the tax
24 incentive agreement shall begin from the activation date. Notwithstanding the
25 previous sentence, if the approved company does not satisfy the minimum
26 investment and minimum employment requirements of KRS 154.23-025 within two
27 (2) years from the date of final approval of the tax incentive agreement, then the

- 1 approved company shall be ineligible to receive inducements under this subchapter
 2 unless an extension is approved by the authority.
- 3 (6) The approved company shall comply with the hourly wage criteria set forth in KRS
 4 154.23-025(4) and provide documentation in connection with hourly wages paid to
 5 its full-time employees hired as a result of the economic development project in a
 6 manner acceptable to the authority.
- 7 (7) The approved company may be permitted the following inducements during the
 8 term of the tax incentive agreement:
- 9 (a) A one-hundred percent (100%) credit against the Kentucky income tax and
 10 the limited liability entity tax imposed under Section 4 of this Act that would
 11 otherwise be owed in the approved company's fiscal year, as determined
 12 under KRS 141.401, to the Commonwealth by the approved company on the
 13 income, Kentucky gross profits, or Kentucky gross receipts of the approved
 14 company generated by or arising from the economic development project.
 15 The ordering of the credits shall be as provided in KRS 141.0205; and
- 16 (b) The aggregate assessments withheld by the approved company each year.
- 17 (8) The total inducements may not exceed authorized cumulative approved costs paid
 18 by the approved company in the three (3) year period commencing with and after
 19 the date of final approval.
- 20 (9) The ~~income~~ tax credited to the approved company shall be credited for the fiscal
 21 year for which the tax return of the approved company is filed. The approved
 22 company shall not be required to pay estimated income tax payments as prescribed
 23 in KRS 141.042 on the Kentucky taxable income, Kentucky gross receipts or
 24 Kentucky gross profits generated by or arising from the economic development
 25 project.

- 1 (10) The tax incentive agreement may be assigned by the approved company only upon
2 the prior written consent of the authority following the adoption of a resolution by
3 the authority to that effect.
- 4 (11) The tax incentive agreement shall provide that if the total number of full-time
5 qualified employees at the site of the economic development project is less than ten
6 (10), the authorized inducements shall be suspended for a period of up to one (1)
7 year. If the company does not have at least ten (10) new full-time qualified
8 employees at the site within one (1) year from the date of the initial suspension, the
9 inducements may be terminated at the discretion of the authority.
- 10 (12) The tax incentive agreement shall provide that if an approved company fails to
11 comply with its obligations under the tax incentive agreement then the authority
12 shall have the right, at its option, to:
- 13 (a) Suspend the ~~income~~ tax credits and assessments available to the approved
14 company, pursuant to subsection (11) of this section;
- 15 (b) Pursue any remedy provided under the tax incentive agreement, including
16 termination thereof; and
- 17 (c) Pursue any other remedy at law to which it may be entitled.
- 18 (13) All remedies provided in subsection (12) of this section shall be deemed to be
19 cumulative.
- 20 (14) The approved company shall pay all costs of counsel to the authority resulting from
21 approval of its economic development project.
- 22 Section 48. KRS 154.23-040 is amended to read as follows:
- 23 (1) Before any approved company engaged in service or technology activity is granted
24 inducements under KRS 154.23-005 to 154.23-079, a service and technology
25 agreement with respect to the approved company's economic development project
26 shall be entered into between the authority and the approved company. The terms
27 and provisions of the service and technology agreement, including the amount of

1 approved costs, shall be determined by negotiations between the authority and the
2 approved company, subject to inclusion of the following mandatory provisions:

3 (a) The term of the service and technology agreement shall commence upon the
4 activation date and shall terminate upon the earlier of the full receipt of the
5 maximum amount of inducements by the approved company or ten (10) years
6 after the activation date.

7 (b) The service and technology agreement shall include the activation date, which
8 shall be a date selected by the approved company within two (2) years of the
9 date of final approval by the authority of the service and technology
10 agreement. If the approved company does not satisfy the minimum investment
11 and minimum employment requirements of KRS 154.23-025 by the activation
12 date, the approved company shall not be entitled to receive inducements
13 pursuant to this subchapter until the approved company satisfies the
14 requirements; however, the ten (10) year period for the term of the service and
15 technology agreement shall begin from the activation date. Notwithstanding
16 the previous sentence, if the approved company does not satisfy the minimum
17 investment and minimum employment requirements of KRS 154.23-025
18 within two (2) years from the date of final approval of the service and
19 technology agreement, then the approved company shall be ineligible to
20 receive inducements under this subchapter unless an extension is approved by
21 the authority.

22 (c) In order to implement the activation date, the approved company shall notify
23 the authority, the Kentucky Department of Revenue, the qualified statewide
24 employees, and the affected local jurisdictions, if any, of the activation date
25 on which implementation of the inducements authorized in the service and
26 technology agreement shall occur;

- 1 (d) The approved company may be permitted the following inducements during
 2 the term of the service and technology agreement:
- 3 1. ~~A~~~~[An income]~~ tax credit of up to one hundred percent (100%) of the
 4 Kentucky income tax liability imposed by KRS 141.020~~[or]~~ 141.040,
 5 **and the limited liability entity tax imposed by Section 4 of this Act** that
 6 would otherwise be due, determined under KRS 141.401, on the
 7 income, **Kentucky gross receipts, or Kentucky gross profits** of the
 8 approved company generated by or arising out of the economic
 9 development project, as limited by the provisions of this section and
 10 KRS 154.23-045. **The ordering of the credits shall be as provided in**
 11 **KRS 141.0205**; and
- 12 2. The assessment, if applicable, withheld by the approved company in
 13 each year;
- 14 (e) The inducements allowed to the approved company shall be subtracted from
 15 the approved cost balance in the fiscal year of the approved company for
 16 which the tax return of the approved company is filed;
- 17 (f) If the total number of full-time qualified employees at the site of the economic
 18 development project is less than ten (10) or, in the case of an existing
 19 business, the approved company fails to maintain the increase of at least ten
 20 (10) full-time qualified employees, the authorized inducements shall be
 21 suspended for a period of up to one (1) year. If the company does not have at
 22 least ten (10) new full-time qualified employees at the site within one (1) year
 23 from the date of the initial suspension, the inducements may be terminated at
 24 the discretion of the authority;
- 25 (g) The service and technology agreement may be assigned by the approved
 26 company only upon the prior written consent of the authority; and

- 1 (h) The approved company shall pay all costs of counsel to the authority resulting
2 from approval of its economic development project.
- 3 (2) Before the end of the first year following the activation date, the authority shall,
4 using data supplied by the approved company, verify and determine the total start-
5 up costs for the approved company's economic development project. The initial
6 approved costs shall be up to a maximum of fifty percent (50%) of the start-up
7 costs.
- 8 (3) Each year, during the ten (10) year term of the service and technology agreement,
9 up to fifty percent (50%) of the annualized rent shall be added to the unrecouped
10 balance of approved costs, and the inducements earned shall be subtracted from the
11 approved costs.
- 12 (4) If, in any fiscal year of the approved company during which the service and
13 technology agreement is in effect, the accumulated inducements equal the
14 unrecouped remaining balance of the approved costs then expended, the
15 assessments collected from the wages of the employees shall cease for the
16 remainder of that fiscal year of the approved company, and the approved company
17 shall resume normal personal income tax and occupational license fee withholdings
18 from the qualified statewide employees' wages for the remainder of that fiscal year.
- 19 (5) If, in any fiscal year of the approved company during which the service and
20 technology agreement is in effect, the total of the income tax credit granted to the
21 approved company plus the assessment collected from the wages of the qualified
22 statewide employees exceeds the remaining balance of the approved costs then
23 expended, the approved company shall pay the excess to the Commonwealth as
24 income tax.
- 25 (6) If, in any fiscal year of the approved company during which the service and
26 technology agreement is in effect, the assessment collected from the wages of the
27 qualified statewide employees exceeds the unrecouped remaining balance of the

1 approved costs then expended, the assessment collected from the wages of the
2 qualified statewide employees shall cease for the remainder of that fiscal year of the
3 approved company, the approved company shall resume normal personal income
4 tax and occupational license fee withholdings from the qualified statewide
5 employees for the remainder of that fiscal year, and the approved company shall
6 remit to the Commonwealth and applicable local jurisdictions their respective
7 shares of the excess assessment collected on the withholding filing date for
8 qualified statewide employees' wages next succeeding the first date when the
9 approved company collected excess assessments.

10 Section 49. KRS 154.23-045 is amended to read as follows:

- 11 (1) If an eligible company operates an existing business in a qualified zone, and wishes
12 to expand that business within the zone, the eligible company may submit an
13 application to the authority to become an approved company under KRS 154.23-
14 025.
- 15 (2) If the eligible company under subsection (1) of this section becomes an approved
16 company, the authority shall determine a base level of employment in the
17 Commonwealth, a base level of state income tax liability, *a base level of limited*
18 *liability entity tax liability under Section 4 of this Act*, and a base level of
19 manufacturing or service or technology activity, as applicable, of the approved
20 company for determining eligible credits for the approved company's project
21 during the term of a tax incentive agreement or service and technology agreement.
22 The base level shall be determined by taking into consideration any seasonal
23 fluctuations or aberrations of employment levels during the preceding three (3)
24 years. Notwithstanding the determination of a base level of employment in the
25 Commonwealth, no qualified statewide employee who is an employee of this
26 business prior to the date of the preliminary approval by the authority as prescribed
27 in KRS 154.23-030 shall be subject to assessment.

- 1 (3) The authority shall identify, by name, all of the existing qualified statewide
2 employees employed by the eligible company prior to preliminary approval, and
3 these employees shall be exempt from the assessment. If any of these employees
4 cease working in the activity, then another qualified statewide employee shall be
5 added to the base level of employment, based on the earliest date of entry into the
6 work force, and this employee shall be exempt from the assessment. The authority
7 may negotiate with the approved company a different method of determining the
8 base level of employment that would yield a more equitable result for the approved
9 company, the Commonwealth, local jurisdictions, and the qualified statewide
10 employees.
- 11 (4) To become eligible for inducements, the approved company shall create and
12 maintain above the base level of employment in the Commonwealth, an increase at
13 the site of the project of at least ten (10) new full-time qualified employees.
- 14 (5) The approved company shall continue to pay to the Commonwealth, on an
15 annualized basis during the term of the tax incentive agreement or service and
16 technology agreement, as applicable, the base level of income tax, **and the limited**
17 **liability entity tax imposed under Section 4 of this Act**, adjusted on an annual basis
18 to reflect changes in the consumer price index. The excess income tax **and limited**
19 **liability entity tax imposed under Section 4 of this Act** owed may be offset by the
20 income tax credit provided in KRS 154.23-050.
- 21 (6) If any approved company expands in a qualified zone because of an increase in
22 business or because of the commencement of a new line of business, it may be
23 eligible, at the discretion of the authority, to negotiate a separate, additional tax
24 incentive agreement or service and technology agreement to cover the expanded
25 business under the same conditions as authorized for an expansion in this section.
26 Section 50. KRS 154.23-050 is amended to read as follows:

- 1 (1) An approved company engaged in manufacturing or in service or technology
 2 activities shall be entitled to ~~a~~~~an income~~ tax credit equal to one hundred percent
 3 (100%) of the income tax liability **and one hundred percent (100%) of the limited**
 4 **liability entity tax liability imposed under Section 4 of this Act** that would
 5 otherwise be due to the Commonwealth from the approved company attributable to
 6 its economic development project, as limited by the provisions of KRS 154.23-045.
 7 **The ordering of the credits shall be as provided in KRS 141.0205.**
- 8 (2) The Department of Revenue of the Commonwealth shall initiate contact and fully
 9 cooperate with the authority in the collection of information to determine the fiscal
 10 impact of qualified zone inducements on state revenues. The Department of
 11 Revenue shall certify to the authority, in the form of an annual report, aggregate~~f~~
 12 ~~income~~ tax credits and assessments taken by approved companies with respect to
 13 their economic development projects under KRS 154.23-005 to 154.23-079, and
 14 certify to the authority when an approved company has taken~~f~~ ~~income~~ tax credits
 15 and assessments equal to its total inducements. The Department of Revenue shall
 16 certify to the authority, upon written request of the authority, the aggregate~~f~~
 17 ~~income~~ tax credits and assessments taken by an approved company with respect to
 18 its economic development project under KRS 154.23-005 to 154.23-079.

19 Section 51. KRS 154.24-010 is amended to read as follows:

20 The following words and terms, unless the context clearly indicates a different meaning,
 21 shall have the following respective meanings in KRS 154.24-010 to 154.24-150:

- 22 (1) "Affiliate" means the following:
- 23 (a) Members of a family, including only brothers and sisters of the whole or half
 24 blood, spouse, ancestors, and lineal descendants of an individual;
- 25 (b) An individual, and a corporation more than fifty percent (50%) in value of the
 26 outstanding stock of which is owned, directly or indirectly, by or for that
 27 individual;

- 1 (c) An individual, and a limited liability company of which more than fifty
2 percent (50%) of the capital interest or profits are owned or controlled,
3 directly or indirectly, by or for that individual;
- 4 (d) Two (2) corporations which are members of the same controlled group, which
5 includes and is limited to:
- 6 1. One (1) or more chains of corporations connected through stock
7 ownership with a common parent corporation if:
- 8 a. Stock possessing more than fifty percent (50%) of the total
9 combined voting power of all classes of stock entitled to vote or
10 more than fifty percent (50%) of the total value of shares of all
11 classes of stock of each of the corporations, except the common
12 parent corporation, is owned by one (1) or more of the other
13 corporations; and
- 14 b. The common parent corporation owns stock possessing more than
15 fifty percent (50%) of the total combined voting power of all
16 classes of stock entitled to vote or more than fifty percent (50%) of
17 the total value of shares of all classes of stock of at least one (1) of
18 the other corporations, excluding, in computing the voting power
19 or value, stock owned directly by the other corporations; or
- 20 2. Two (2) or more corporations if five (5) or fewer persons who are
21 individuals, estates, or trusts own stock possessing more than fifty
22 percent (50%) of the total combined voting power of all classes of stock
23 entitled to vote or more than fifty percent (50%) of the total value of
24 shares of all classes of stock of each corporation, taking into account the
25 stock ownership of each person only to the extent the stock ownership is
26 identical with respect to each corporation;
- 27 (e) A grantor and a fiduciary of any trust;

- 1 (f) A fiduciary of a trust and a fiduciary of another trust, if the same person is a
2 grantor of both trusts;
- 3 (g) A fiduciary of a trust and a beneficiary of that trust;
- 4 (h) A fiduciary of a trust and a beneficiary of another trust, if the same person is a
5 grantor of both trusts;
- 6 (i) A fiduciary of a trust and a corporation more than fifty percent (50%) in value
7 of the outstanding stock of which is owned, directly or indirectly, by or for the
8 trust or by or for a person who is a grantor of the trust;
- 9 (j) A fiduciary of a trust and a limited liability company, of which more than fifty
10 percent (50%) of the capital interest, or the interest in profits, is owned
11 directly or indirectly, by or for the trust or by or for a person who is a grantor
12 of the trust;
- 13 (k) A corporation and a partnership, including a registered limited liability
14 partnership, if the same persons own:
- 15 1. More than fifty percent (50%) in value of the outstanding stock of the
16 corporation; and
- 17 2. More than fifty percent (50%) of the capital interest, or the profits
18 interest, in the partnership, including a registered limited liability
19 partnership;
- 20 (l) A corporation and a limited liability company if the same persons own:
- 21 1. More than fifty percent (50%) in value of the outstanding stock of the
22 corporation; and
- 23 2. More than fifty percent (50%) of the capital interest or the profits in the
24 limited liability company;
- 25 (m) A partnership, including a registered limited liability partnership, and a
26 limited liability company if the same persons own:

- 1 1. More than fifty percent (50%) of the capital interest or profits in the
2 partnership, including a registered limited liability partnership; and
- 3 2. More than fifty percent (50%) of the capital interest or the profits in the
4 limited liability company;
- 5 (n) An S corporation and another S corporation if the same persons own more
6 than fifty percent (50%) in value of the outstanding stock of each corporation,
7 S corporation designation being the same as that designation under the
8 Internal Revenue Code of 1986, as amended; or
- 9 (o) An S corporation and a C corporation, if the same persons own more than
10 fifty percent (50%) in value of the outstanding stock of each corporation; S
11 and C corporation designations being the same as those designations under
12 the Internal Revenue Code of 1986, as amended;
- 13 (2) "Agreement" means the service and technology agreement made pursuant to KRS
14 154.24-120, between the authority and an approved company with respect to an
15 economic development project;
- 16 (3) "Approved company" means any eligible company seeking to locate an economic
17 development project from outside the Commonwealth into the Commonwealth, or
18 undertaking an economic development project in the Commonwealth for which it is
19 approved pursuant to KRS 154.24-100;
- 20 (4) "Approved costs" means fifty percent (50%) of the total of the start-up costs up to a
21 maximum of ten thousand dollars (\$10,000) per new full-time job created and to be
22 held by a Kentucky resident subject to the personal income tax of the
23 Commonwealth, plus fifty percent (50%) of the annual rent for each elapsed year of
24 the service and technology agreement;
- 25 (5) "Assessment" means the "service and technology job creation assessment fee"
26 authorized by KRS 154.24-110;

- 1 (6) "Authority" means the Kentucky Economic Development Finance Authority, as
2 created in KRS 154.20-010;
- 3 (7) "Average hourly wage" means the wage and employment data published by the
4 Department for Employment Services in the Kentucky Cabinet for Workforce
5 Development collectively translated into wages per hour based on a two thousand
6 eighty (2,080) hour work year for the following sectors:
- 7 (a) Manufacturing;
 - 8 (b) Transportation, communications, and public utilities;
 - 9 (c) Wholesale and retail trade;
 - 10 (d) Finance, insurance, and real estate; and
 - 11 (e) Services;
- 12 (8) "Commonwealth" means the Commonwealth of Kentucky;
- 13 (9) "Economic development project" or "project" means a new or expanded service or
14 technology activity conducted at a new or expanded site by:
- 15 (a) An approved company; or
 - 16 (b) An approved company and its affiliate or affiliates;
- 17 (10) "Eligible company" means any corporation, limited liability company, partnership,
18 registered limited liability partnership, sole proprietorship, business trust, or any
19 other entity engaged in service or technology and meeting the standards
20 promulgated by the authority in accordance with KRS Chapter 13A;
- 21 (11) "Employee benefits" means nonmandated costs paid by an approved company for
22 its full-time employees for health insurance, life insurance, dental insurance, vision
23 insurance, defined benefits, 401(k) or similar plans;
- 24 (12) "Final approval" means the action taken by the authority authorizing the eligible
25 company to receive inducements under this subchapter;

- 1 (13) "Full-time employee" means a person employed by an approved company for a
2 minimum of thirty-five (35) hours per week and subject to the state tax imposed by
3 KRS 141.020;
- 4 (14) "In lieu of credits" means a local government appropriation to the extent permitted
5 by law, or other form of local government grant or service benefit, directly related
6 to the economic development project and in an amount equal to one percent (1%) of
7 employees' gross wages, exclusive of any noncash benefits provided to an
8 employee, or the provision by a local government of an in-kind contribution
9 directly related to the economic development project and in an amount equal to one
10 half (1/2) of the rent for the duration of the agreement;
- 11 (15) "Inducements" means the ~~income~~ tax credits allowed and the assessment
12 authorized by KRS 154.24-110, which are intended to induce companies engaged in
13 service and technology industries to locate or expand in the Commonwealth;
- 14 (16) "Person" means an individual, sole proprietorship, partnership, registered limited
15 liability partnership, joint venture, trust, unincorporated organization, association,
16 corporation, limited liability company, institution, entity or government, whether
17 federal, state, county, city, or otherwise, including without limitation any
18 instrumentality, division, political subdivision, district, court, agency, or
19 department thereof;
- 20 (17) "Preliminary approval" means the action taken by the authority conditioning final
21 approval by the authority upon satisfaction by the eligible company of the
22 requirements under this subchapter;
- 23 (18) "Rent" means:
- 24 (a) The actual annual rent or leasing fee paid by an approved company to a bona
25 fide entity negotiated at arms length for the use of a building by the approved
26 company to conduct the approved activity for which the inducement has been
27 granted; or

- 1 (b) The fair rental value on an annual basis in a building owned by the approved
2 company of the space used by the approved company to conduct the approved
3 activity for which the inducement has been granted as determined by the
4 authority using criteria which is customary in the real estate industry for the
5 type of building being used. The fair rental value shall include an analysis of
6 the cost of amortizing the cost of land and building over the period of time
7 customary in the real estate industry for the type of building and for the land
8 being utilized;
- 9 (c) Rent shall include the customary cost of occupancy, including but not limited
10 to property taxes, heating and air-conditioning, electricity, water, sewer, and
11 insurance;
- 12 (19) (a) "Service or technology" means either:
- 13 1. Any activity involving the performance of work, except work classified
14 by the divisions, including successor divisions, of agriculture, forestry
15 and fishing, mining, utilities, construction, manufacturing, wholesale
16 trade, retail trade, real estate rental and leasing, educational services,
17 accommodation and food services, and public administration in
18 accordance with the "North American Industry Classification System,"
19 as revised by the United States Office of Management and Budget from
20 time to time, or any successor publication; or
- 21 2. Regional or headquarters operations of an entity engaged in an activity
22 listed in subparagraph 1. of this paragraph.
- 23 (b) Notwithstanding paragraph (a) of this subsection, "service or technology"
24 shall not include any activity involving the performance of work by an
25 individual who is providing direct service to the public pursuant to a license
26 issued by the state or an association that licenses in lieu of the state; and

1 (20) "Start-up costs" means the acquisition cost associated with the project related to the
 2 furnishing and equipping the building for ordinary business functions, including
 3 computers, furnishings, office equipment, the relocation of out-of-state equipment,
 4 and nonrecurring costs of fixed telecommunication equipment as verified and
 5 approved by the authority in accordance with KRS 154.24-130.

6 Section 52. KRS 154.24-110 is amended to read as follows:

7 (1) The approved company shall be entitled to ~~a~~~~an income~~ tax credit equal to one
 8 hundred percent (100%) of the income tax **and one hundred percent (100%) of the**
 9 **limited liability entity tax imposed by Section 4 of this Act** that would otherwise be
 10 due to the Commonwealth by the approved company attributable to the economic
 11 development project, as limited by the provisions of this section and KRS 154.24-
 12 130. The amount of the approved company's income, **Kentucky gross profits or**
 13 **Kentucky gross receipts** that is attributable to the economic development project
 14 shall be determined under KRS 141.407. **The ordering of credits shall be as**
 15 **provided in KRS 141.0205.**

16 (a) The ~~income~~ tax credit allowed to the approved company shall be subtracted
 17 from the approved cost balance in the fiscal year of the approved company for
 18 which the tax return of the approved company is filed; and

19 (b) By October 1 of each year, the Department of Revenue of the Commonwealth
 20 shall certify to the authority, in the form of an annual report, aggregate ~~income~~
 21 ~~income~~ tax credits claimed on tax returns filed during the fiscal year ending
 22 June 30 of that year, and assessments taken by approved companies with
 23 respect to their economic development projects during the prior calendar year
 24 under this subchapter, and shall certify to the authority, within ninety (90)
 25 days from the date an approved company has filed its state ~~income~~ tax
 26 return, when an approved company has taken ~~income~~ tax credits and
 27 assessments equal to its total inducements.

- 1 (2) The approved company or, with the authority's consent, an affiliate of the approved
2 company may require each employee, subject to state tax imposed by KRS 141.020,
3 as a condition of employment, to agree to pay a service and technology job creation
4 assessment fee up to five percent (5%) of the gross wages exclusive of any noncash
5 benefits provided to an employee for each employee whose job has been deemed by
6 the authority to be created as a result of the economic development project,
7 provided that the service and technology job creation assessment fee shall not
8 exceed the amount determined in accordance with KRS 154.24-150(5) if the
9 circumstances in that subsection apply. Where a person is already employed by the
10 approved company at a site other than the site of the economic development project
11 and where that employee is subject to state tax imposed by KRS 141.020, the
12 employee's job shall be deemed to have been created when the employee is
13 transferred to the site of the economic development project, provided that the
14 employee's existing job is filled with a new employee.
- 15 (a) Each employee paying the assessment shall be entitled to a credit against his
16 Kentucky income tax required to be withheld under KRS 141.310 equal to
17 four-fifths (4/5) of the assessment;
- 18 (b) If the assessment has been approved by the local jurisdiction as provided in
19 KRS 154.24-150, each employee paying the assessment also shall be entitled,
20 in the local jurisdiction in which the economic development project is located,
21 to a credit against his local occupational license fee in the form of a
22 simultaneous adjustment of his local occupational license fee withholding
23 equal to one-fifth (1/5) of the assessment. If more than one (1) local tax is
24 incurred, the one-fifth (1/5) assessment shall be prorated proportionately
25 among the taxes unless one (1) local jurisdiction agrees to forgo the receipt of
26 these taxes in an amount equal to the one-fifth (1/5) assessment, in which case
27 no proration need be made;

- 1 (c) If an approved company elects to impose the assessment as a condition of
2 employment, it shall be authorized to deduct the assessment from each
3 payment of wages to the employee;
- 4 (d) No credit, or portion thereof, shall be allowed against any occupational
5 license fee imposed by or dedicated solely to the board of education in a local
6 jurisdiction;
- 7 (e) The approved company collecting an assessment shall make its payroll,
8 books, and records available to the authority when the authority shall request,
9 and shall file with the authority documentation pertaining to the assessment as
10 the authority may require; and
- 11 (f) Any assessment of the wages of employees of an approved company in
12 connection with their employment at an economic development project shall
13 permanently cease at the expiration of the agreement.
- 14 (3) Notwithstanding subsection (2) of this section, if a local government in which the
15 project is located has a local occupational license fee that is less than one percent
16 (1%) and agrees to forgo all of its local occupational license fee, then the
17 assessment shall be four percent (4%), all of which shall be contributed by the
18 Commonwealth, plus the percentage of the local occupational license fee that the
19 local government has agreed to forgo. Each employee paying the assessment under
20 this subsection shall be entitled to a credit against Kentucky income tax, under KRS
21 141.350, equal to four percent (4%) and a credit against the local occupational
22 license fee equal to the local occupational license fee that the local jurisdiction has
23 agreed to forgo.

24 Section 53. KRS 154.24-120 is amended to read as follows:

25 Before any approved company is granted inducements as prescribed in KRS 154.24-010
26 to 154.24-150, a service and technology agreement with respect to the company's
27 economic development project shall be entered into between the authority and the

1 approved company. The terms and provisions of the agreement, including the amount of
2 approved costs, shall be determined by negotiations between the authority and the
3 approved company, except that each agreement shall include the following provisions:

4 (1) The term of an agreement shall not be longer than ten (10) years from the activation
5 date established by the approved company. The activation date shall be any time
6 within two (2) years after the date of final approval of the agreement by the
7 authority. In order to implement the activation date, the approved company shall
8 notify the authority, the Kentucky Department of Revenue, the employees, and the
9 affected local jurisdictions, if any, of the activation date on which implementation
10 of the inducements authorized in the agreement shall occur.

11 (2) The agreement shall include:

12 (a) A description of the authorized inducements to be used by the approved
13 company;

14 (b) A provision that, if the total number of full-time employees at the site of the
15 economic development project who are residents of the Commonwealth and
16 subject to the Kentucky income tax is less than fifteen (15), or in the case of
17 an existing Kentucky business the approved company fails to maintain the
18 increase of at least fifteen (15) full-time employees who are residents of the
19 Commonwealth and subject to the Kentucky income tax, the authorized
20 inducements shall be suspended for a period of up to one (1) year. If the
21 company does not have at least fifteen (15) new full-time employees at the
22 site who are residents of the Commonwealth and subject to Kentucky income
23 tax within one (1) year from the date of the initial suspension, the
24 inducements may be terminated at the discretion of the authority;

25 (c) A provision that, if seventy-five percent (75%) or less of services provided by
26 the approved company from the economic development project should be
27 provided to persons located outside of the Commonwealth during any fiscal

1 year of the approved company as prescribed in KRS 154.24-090, the
2 authorized inducements shall be suspended for a period of up to one (1) year.
3 If the percentage of these services does not exceed seventy-five percent (75%)
4 within one (1) year from the initial date of suspension, the inducements may
5 be terminated at the discretion of the authority; and

- 6 (d) A provision that neither ~~income~~ tax credits nor assessments are assignable
7 without written consent by the authority.

8 Section 54. KRS 154.24-130 is amended to read as follows:

- 9 (1) Before the end of the first year following the activation date, the authority shall,
10 using data supplied by the approved company, verify and determine the total start-
11 up costs for the approved company's economic development project. The initial
12 approved costs shall be fifty percent (50%) of the start-up cost.
- 13 (2) Each year, during the ten (10) year life span of the agreement, fifty percent (50%)
14 of the annualized rental payments shall be added to the unrecouped balance of
15 approved costs.
- 16 (3) Each year, the inducement earned and any in lieu of credits received shall be
17 subtracted from the approved costs.
- 18 (4) If, in any fiscal year of the approved company during which the agreement is in
19 effect, the accumulated inducements equal the unrecouped remaining balance of the
20 approved costs then expended, the assessments collected from the wages of the
21 employees shall cease for the remainder of that fiscal year of the approved
22 company, and the approved company shall resume normal personal income tax and
23 occupational license fee withholdings from the employees' wages for the remainder
24 of that fiscal year.
- 25 (5) If in any fiscal year of the approved company during which the agreement is in
26 effect, the total of the ~~income~~ tax credit granted to the approved company plus the
27 assessment collected from the wages of the employees exceeds the remaining

1 balance of the approved costs then expended, the approved company shall pay the
 2 excess to the Commonwealth as income tax or limited liability entity tax as the
 3 case may be.

- 4 (6) If in any fiscal year of the approved company during which the agreement is in
 5 effect the assessment collected from the wages of the employees exceeds the
 6 unrecouped remaining balance of the approved costs then expended, the assessment
 7 collected from the wages of the employees shall cease for the remainder of that
 8 fiscal year of the approved company, the approved company shall resume normal
 9 personal income tax and occupational license fee withholdings from the employees'
 10 wages for the remainder of that fiscal year, and the approved company shall remit
 11 to the Commonwealth and applicable local jurisdictions their respective shares of
 12 the excess assessment collected on the withholding filing date for employees' wages
 13 next succeeding the first date when the approved company collected excess
 14 assessments.

15 Section 55. KRS 154.24-140 is amended to read as follows:

- 16 (1) If an eligible company operates an existing service and technology business in
 17 Kentucky, and wishes to expand that business within the Commonwealth, the
 18 eligible company may submit an application to the authority to become an approved
 19 company and eligible for the inducements offered in KRS 154.24-010 to 154.24-
 20 150.
- 21 (2) If an existing business becomes an approved company, the authority shall
 22 determine a base level of employment, a base level of state income tax liability, a
 23 base level of limited liability entity tax liability, and a base level of services of the
 24 approved company for determining eligible credits in remaining years of the
 25 approved company's project period. The base level shall be determined by taking
 26 into consideration any seasonal fluctuations or aberrations of employment levels
 27 over a preceding three (3) year period. Notwithstanding the determination of a base

1 level of employment, no employee of the existing business who is an employee of
2 such business prior to the date of the preliminary resolution of the authority as
3 prescribed in KRS 154.24-100 shall be subject to assessment.

4 (3) The authority shall identify, by name, all of the existing employees engaged in the
5 service and technology activity, and these employees shall be exempt from the
6 assessment. If any of these employees cease working in the activity, another
7 employee shall be added to the base level of employment, based on the earliest date
8 of entry into the work force, and he shall be exempt from the assessment. The
9 authority may negotiate with the approved company a different method of
10 determining the base level of employment which would yield a more equitable
11 result for the approved company, the Commonwealth, local jurisdictions, and the
12 employees.

13 (4) To become eligible for inducements, the approved company shall create and
14 maintain above the base level of employment an increase at the site of the economic
15 development project of at least fifteen (15) full-time employees who are residents
16 of the Commonwealth, subject to the Kentucky income tax.

17 (5) The approved company shall continue to pay to the Commonwealth, on an
18 annualized basis during the term of the agreement, the base level of income tax,
19 **and limited liability entity tax** adjusted on an annual basis to reflect changes in the
20 consumers price index. Any excess income tax **or limited liability entity tax** owed
21 may be taken as a credit.

22 (6) If any approved company expands because of an increase in business or because of
23 the commencement of a new line of business, it shall be eligible, at the discretion of
24 the authority, to negotiate a separate and additional agreement to cover the
25 expanded business under the same conditions as authorized for expansion in this
26 section.

27 Section 56. KRS 154.26-010 is amended to read as follows:

1 As used in this subchapter, unless the context clearly indicates otherwise:

- 2 (1) "Agreement" means a revitalization agreement entered into, pursuant to KRS
3 154.26-090, on behalf of the authority and an approved company with respect to an
4 economic revitalization project;
- 5 (2) "Agribusiness" means any activity involving the processing of raw agricultural
6 products, including timber, or the providing of value-added functions with regard to
7 raw agricultural products;
- 8 (3) "Appropriation agreement" means an agreement entered into, pursuant to KRS
9 154.26-090(1)(f)2., among the approved company, the authority, and local
10 governmental entities with respect to appropriations by these local governmental
11 entities for the benefit of the approved company;
- 12 (4) "Approved company" means any eligible company approved by the authority
13 pursuant to KRS 154.26-080 requiring an economic revitalization project;
- 14 (5) "Approved costs" means:
- 15 (a) Obligations incurred for labor and to vendors, contractors, subcontractors,
16 builders, suppliers, deliverymen, and materialmen in connection with the
17 acquisition, construction, equipping, rehabilitation, and installation of an
18 economic revitalization project;
- 19 (b) The cost of contract bonds and of insurance of all kinds that may be required
20 or necessary during the course of acquisition, construction, equipping,
21 rehabilitation, and installation of an economic revitalization project which is
22 not paid by the vendor, supplier, deliveryman, contractor, or otherwise
23 provided;
- 24 (c) All costs of architectural and engineering services, including estimates, plans
25 and specifications, preliminary investigations, and supervision of
26 construction, rehabilitation and installation, as well as for the performance of
27 all the duties required by or consequent upon the acquisition, construction,

- 1 equipping, rehabilitation, and installation of an economic revitalization
2 project;
- 3 (d) All costs required to be paid under the terms of any contract for the
4 acquisition, construction, equipping, rehabilitation, and installation of an
5 economic revitalization project;
- 6 (e) All costs required for the installation of utilities, including, but not limited to,
7 water, sewer, sewer treatment, gas, electricity, communications, and railroads,
8 and including off-site construction of the facilities paid for by the approved
9 company; and
- 10 (f) All other costs comparable with those described above;
- 11 (6) "Assessment" means the job revitalization assessment fee authorized by KRS
12 154.26-100;
- 13 (7) "Authority" means the Kentucky Economic Development Finance Authority
14 created by KRS 154.20-010;
- 15 (8) "Commonwealth" means the Commonwealth of Kentucky;
- 16 (9) "Economic revitalization project" or "project" means the acquisition, construction,
17 equipping, and rehabilitation of machinery and equipment, constituting fixtures or
18 otherwise, and with respect thereto, the construction, rehabilitation, and installation
19 of improvements of facilities necessary or desirable for the acquisition,
20 construction, installation, and rehabilitation of the machinery and equipment,
21 including surveys; installation of utilities, including water, sewer, sewage
22 treatment, gas, electricity, communications, and similar facilities; and off-site
23 construction of utility extensions to the boundaries of the real estate on which the
24 facilities are located, all of which are utilized to improve the economic situation of
25 the approved company to allow the approved company to remain in operation and
26 retain or create jobs;

- 1 (10) "Eligible company" means any corporation, limited liability company, partnership,
2 registered limited liability partnership, sole proprietorship, business trust, or any
3 other entity:
- 4 (a) Employing or intending to employ full-time a minimum of twenty-five (25)
5 persons engaged in manufacturing or agribusiness operations at the same
6 facility, whether owned or leased, located and operating within the
7 Commonwealth on a permanent basis for a reasonable period of time
8 preceding the request for approval by the authority of an economic
9 revitalization project, including facilities where manufacturing or agribusiness
10 operations has been temporarily suspended and which meets the standards
11 promulgated by the authority pursuant to KRS 154.26-080; or
- 12 (b) Having a base contract for annual delivery of at least four (4) million tons of
13 coal mined within the Commonwealth and employing a minimum of five
14 hundred (500) persons engaged in coal mining and processing operations at
15 facilities, whether owned or leased, located and operating within the
16 Commonwealth on a permanent basis for a reasonable period of time
17 preceding the request for approval by the authority of an economic
18 revitalization project, including facilities on or adjacent to where coal mining
19 and processing operations have been temporarily suspended or severely
20 reduced, and which meets the standards promulgated by the authority under
21 KRS 154.26-080;
- 22 (11) "Final approval" means the action taken by the authority authorizing the eligible
23 company to receive inducements under this subchapter;
- 24 (12) "Inducements" means the Kentucky tax credit and the job revitalization assessment
25 fee as prescribed in KRS 154.26-090 and 154.26-100;
- 26 (13) "Manufacturing" means any activity involving the manufacturing, processing,
27 assembling, or production of any property, including the processing that results in a

1 change in the condition of the property and any related activity or function, together
2 with the storage, warehousing, distribution, and related office facilities;

3 (14) "Coal mining and processing" means activities resulting in the eligible company
4 being subject to the tax imposed by KRS Chapter 143;

5 (15) "Preliminary approval" means the action taken by the authority conditioning final
6 approval by the authority upon satisfaction by the eligible company of the
7 requirements under this subchapter;~~and~~

8 (16) "State agency" means any state administrative body, agency, department, or
9 division as defined in KRS 42.010, or any board, commission, institution, or
10 division exercising any function of the state which is not an independent municipal
11 corporation or political subdivision;

12 **(17) "Kentucky gross profits" means Kentucky gross profits as defined in Section 4 of**
13 **this Act; and**

14 **(18) "Kentucky gross receipts" means Kentucky gross receipts as defined in Section 4**
15 **of this Act.**

16 Section 57. KRS 154.26-090 is amended to read as follows:

17 (1) The authority, upon adoption of its final approval, may enter into, with any
18 approved company, an agreement with respect to its project. The terms and
19 provisions of each agreement, including the amount of approved costs, the amount
20 of the license tax credit pursuant to KRS 136.0704, and any limitations the
21 authority may deem necessary, shall be determined by negotiations between the
22 authority and the approved company, except that each agreement shall include the
23 following provisions:

24 (a) The amount the approved company may recover through inducements under
25 this subchapter shall not exceed seventy-five percent (75%) of approved
26 costs.

- 1 (b) The agreement shall set a date by which the approved company will have
 2 completed the project. Within three (3) months of the completion date, the
 3 approved company shall document the actual cost of the project in a manner
 4 acceptable to the authority. The authority may employ an independent
 5 consultant or utilize technical resources to verify the cost of the project. The
 6 approved company shall reimburse the authority for the cost of the consultant.
- 7 (c) In consideration of the execution of the agreement, the approved company
 8 may be permitted during the time not to exceed ten (10) years during which
 9 the agreement is in effect, which time shall commence on the date of the
 10 agreement for purposes of the inducements:
- 11 1. A credit against the Kentucky ~~income~~ tax imposed by KRS 141.020 or
 12 141.040 on the income of the approved company generated by or arising
 13 out of the economic revitalization project **and a credit against the**
 14 **limited liability entity tax imposed by Section 4 of this Act on Kentucky**
 15 **gross profits or Kentucky gross receipts** as determined under KRS
 16 141.403. **The ordering of credits shall be as provided in KRS 141.0205;**
 - 17 2. A credit against the Kentucky license tax imposed by KRS 136.070 as
 18 determined under KRS 136.0704; plus
 - 19 3. The aggregate assessment withheld by the approved company in each
 20 year.
- 21 (d) The tax credits allowed to the approved company shall be equal to the lesser
 22 of the total amount of the tax liability or the amount that the company may
 23 recover under paragraph (a) of this subsection that has not yet been recovered,
 24 reduced by any recovery through the collection of assessments and
 25 appropriations made under any appropriation agreement. The credit shall be
 26 allowed for each fiscal year of the approved company during the term of the
 27 agreement and for which a tax return of the approved company is filed until

1 the amount that the company may recover under paragraph (a) of this
 2 subsection has been received through a combination of credits, assessments, if
 3 assessments are elected to be imposed, and appropriations made under any
 4 appropriation agreement. The approved company shall not be required to pay
 5 estimated~~[-income]~~ tax payments as prescribed under KRS 141.044 or
 6 141.305 on income, **Kentucky gross profits or Kentucky gross receipts** from
 7 the economic revitalization project. Ninety (90) days after the filing of the tax
 8 return of the approved company, the Department of Revenue of the
 9 Commonwealth shall certify to the authority for the preceding fiscal year of
 10 an approved company for which a return was filed with respect to an
 11 economic revitalization project of the approved company the state tax liability
 12 of the approved company receiving inducements under KRS 154.26-015 to
 13 154.26-100 and the amount of any tax credits taken pursuant to this section.

14 (e) The agreement shall provide that the term shall not be longer than the earlier
 15 of:

- 16 1. The date on which the approved company has received inducements or
 17 withheld assessments equal to the amount that the company may recover
 18 under paragraph (a) of this subsection; or
- 19 2. Ten (10) years from the date of the execution of the agreement.

20 (f) Prior to execution of the agreement, the eligible company shall secure from all
 21 local governmental authorities responsible for collecting local occupational
 22 license fees one (1) of the following:

- 23 1. A resolution or order of the local governmental entities acknowledging
 24 and consenting to the termination or partial termination of the receipt of
 25 local occupational license fees paid by the approved company on behalf
 26 of its employees to the local government entities resulting from the
 27 execution of the agreement; or

- 1 2. In lieu of the credit against the local occupational license fee, an
2 appropriation agreement with the authority and the local governmental
3 entities by which the local governmental entities will appropriate funds
4 in an amount equal to the amount of the credit of the local occupational
5 license fee for the benefit of the approved company in a manner
6 consistent with the applicable state laws.
- 7 (g) If more than one (1) local occupational license fee is imposed upon the
8 employees of the approved company, the assessment imposed upon the
9 employees shall be credited against the local occupational license fee and
10 shall be apportioned to each local occupational license fee according to each
11 local occupational license fee's proportion to the total of all local occupational
12 license fees for such employees. No credit, or portion thereof shall be allowed
13 against any local occupational license fee imposed by or dedicated solely to a
14 local board of education.
- 15 (h) If in any fiscal year of the approved company during which the agreement is
16 in effect the total of the tax credits granted to the approved company plus the
17 assessment collected from the wages of the employees exceeds the expended
18 portion of the amount that the approved company may recover under
19 paragraph (a) of this subsection, the approved company shall pay the excess
20 to the Commonwealth as income tax.
- 21 (i) If in any fiscal year of the approved company during which the agreement is
22 in effect the assessment collected from the wages of the employees exceeds
23 the expended portion of the amount that the approved company may recover
24 under paragraph (a) of this subsection, the assessment collected from the
25 wages of the employees shall cease for the remainder of that fiscal year of the
26 approved company, the approved company shall resume normal personal
27 income tax and occupational license fee withholdings from the employees'

1 wages for the remainder of that fiscal year, and the approved company shall
2 remit to the Commonwealth and applicable local jurisdictions their respective
3 shares of the excess assessment collected on the withholding filing date for
4 employees' wages next succeeding the first date when the approved company
5 collected excess assessments.

6 (j) All proceeds of any loan or other financing incurred in connection with the
7 economic revitalization project shall be expended by the approved company
8 within five (5) years from the date of the revitalization agreement. In the
9 event that all proceeds of any loan or other financing incurred in connection
10 with the economic revitalization project are not fully expended within the five
11 (5) year period, the authorized inducements shall automatically be reduced to
12 and shall not be greater than the amount of proceeds actually expended by the
13 approved company within the five (5) year period.

14 (2) If the approved company elects to utilize the assessment as prescribed in KRS
15 154.26-100, it shall not assess the wages of an employee who is party to an
16 individual employment contract with the approved company.

17 (3) Neither the appropriation agreement nor the agreement shall be transferable or
18 assignable by the approved company without the expressed written consent of the
19 authority.

20 Section 58. KRS 154.26-100 is amended to read as follows:

21 (1) The approved company may require that each employee subject to the income tax
22 imposed by KRS 141.020, whose job was preserved or created as a result of the
23 project, as a condition of employment or the retention of employment, agree to pay
24 an assessment, not to exceed, during any fiscal year of the approved company, five
25 percent (5%) of the gross wages of each employee subject to the income tax
26 imposed by KRS 141.020 whose job was retained or created as a result of the
27 project, unless:

- 1 (a) The appropriation agreement is consummated, in which case the assessment
2 shall be four percent (4%) of each employee's gross wages subject to the
3 income tax imposed by KRS 141.020;
- 4 (b) The local government or governments in which the project is located have a
5 local occupational license fee of less than one percent (1%) and agree to forgo
6 all of their local occupational license fee, in which case the assessment shall
7 equal four percent (4%) plus the percentage of the local occupational license
8 fee that the local government or governments have agreed to forgo; or
- 9 (c) The local government or governments in which the project is located have no
10 occupational license fee, in which case the assessment shall be four percent
11 (4%).
- 12 (2) Each assessed employee shall be entitled to a credit against his Kentucky income
13 tax required to be withheld under KRS 141.310 in the form of a simultaneous
14 adjustment equal to four-fifths (4/5) of the assessment, unless:
- 15 (a) The appropriation agreement is consummated, in which case the credit shall
16 be equal to one hundred percent (100%) of the assessment;
- 17 (b) The local government or governments in which the project is located have a
18 local occupational license fee of less than one percent (1%) and agree to forgo
19 all of their local occupational license fee, in which case the credit shall be
20 equal to the total assessment less the local occupational license fee; or
- 21 (c) If the local government or governments in which the project is located have
22 no local occupational license fee, in which case the credit shall be equal to
23 one hundred percent (100%) of the assessment.
- 24 (3) Each assessed employee also shall be entitled to a credit against his local
25 occupational license fee in the form of a simultaneous adjustment of his local
26 occupational license fee withholding equal to one-fifth (1/5) of the assessment,
27 unless:

- 1 (a) The appropriation agreement is consummated; or
- 2 (b) The local occupational license fee is less than one percent (1%), in which case
- 3 the credit shall equal the same amount as the local occupational license fee.
- 4 (4) If an approved company shall elect to impose the assessment as a condition of
- 5 employment or the retention of employment, it shall deduct the assessment from
- 6 each paycheck of each employee subject to subsections (2) and (3) of this section.
- 7 (5) Any approved company collecting an assessment as provided in subsection (1) of
- 8 this section shall make its payroll books and records available to the authority at
- 9 such reasonable times as the authority shall request, and shall file with the authority
- 10 the documentation respecting the assessment the authority may require.
- 11 (6) Any assessment of the wages of the employees of an approved company pursuant to
- 12 subsection (1) of this section shall permanently lapse upon expiration or
- 13 termination of the agreement.
- 14 (7) By October 1 of each year, the Department of Revenue of the Commonwealth shall
- 15 certify to the authority, in the form of an annual report, aggregate ~~income~~ tax
- 16 credits claimed on tax returns filed during the fiscal year ending June 30 of that
- 17 year and job revitalization assessment fees taken during the prior calendar year by
- 18 approved companies with respect to their economic revitalization projects under
- 19 this subchapter, and shall certify to the authority, within ninety (90) days from the
- 20 date an approved company has filed its state ~~income~~ tax return, when an approved
- 21 company has taken ~~income~~ tax credits equal to its total inducements.

22 Section 59. KRS 154.28-010 is amended to read as follows:

23 As used in KRS 154.28-010 to 154.28-100, unless the context clearly indicates

24 otherwise:

- 25 (1) "Activation date" means a date selected by an approved company in the agreement
- 26 at any time within the two (2) year period after the date of final approval of the
- 27 agreement by the authority;

- 1 (2) "Affiliate" means the following:
- 2 (a) Members of a family, including only brothers and sisters of the whole or half
3 blood, spouse, ancestors, and lineal descendants of an individual;
- 4 (b) An individual and a corporation more than fifty percent (50%) in value of the
5 outstanding stock of which is owned, directly or indirectly, by or for that
6 individual;
- 7 (c) An individual, and a limited liability company of which more than fifty
8 percent (50%) of the capital interest or the profits interest of which is owned,
9 directly or indirectly, by or for that individual;
- 10 (d) Two (2) corporations which are members of the same controlled group, which
11 includes and is limited to:
- 12 1. One (1) or more chains of corporations connected through stock
13 ownership with a common parent corporation if:
- 14 a. Stock possessing more than fifty percent (50%) of the total
15 combined voting power of all classes of stock entitled to vote or
16 more than fifty percent (50%) of the total value of shares of all
17 classes of stock of each of the corporations, except the common
18 parent corporation, is owned by one (1) or more of the other
19 corporations; and
- 20 b. The common parent corporation owns stock possessing more than
21 fifty percent (50%) of the total combined voting power of all
22 classes of stock entitled to vote or more than fifty percent (50%) of
23 the total value of shares of all classes of stock of at least one (1) of
24 the other corporations, excluding, in computing such voting power
25 or value, stock owned directly by the other corporations; or
- 26 2. Two (2) or more corporations if five (5) or fewer persons who are
27 individuals, estates, or trusts own stock possessing more than fifty

- 1 percent (50%) of the total combined voting power of all classes of stock
 2 entitled to vote or more than fifty percent (50%) of the total value of
 3 shares of all classes of stock of each corporation, taking into account the
 4 stock ownership of each person only to the extent the stock ownership is
 5 identical with respect to each corporation;
- 6 (e) A grantor and a fiduciary of any trust;
- 7 (f) A fiduciary of a trust and a fiduciary of another trust, if the same person is a
 8 grantor of both trusts;
- 9 (g) A fiduciary of a trust and a beneficiary of that trust;
- 10 (h) A fiduciary of a trust and a beneficiary of another trust, if the same person is a
 11 grantor of both trusts;
- 12 (i) A fiduciary of a trust and a corporation more than fifty percent (50%) in value
 13 of the outstanding stock of which is owned, directly or indirectly, by or for the
 14 trust or by or for a person who is a grantor of the trust;
- 15 (j) A fiduciary of a trust and a limited liability company of which more than fifty
 16 percent (50%) of the capital interest or the profits interest of which is owned,
 17 directly or indirectly, by or for the trust or by or for a person who is a grantor
 18 of the trust;
- 19 (k) A corporation and a partnership, including a registered limited liability
 20 partnership, if the same persons own:
- 21 1. More than fifty percent (50%) in value of the outstanding stock of the
 22 corporation; and
- 23 2. More than fifty percent (50%) of the capital interest, or the profits
 24 interest, in the partnership, including a registered limited liability
 25 partnership;
- 26 (l) A corporation and a limited liability company if the same persons own:

- 1 1. More than fifty percent (50%) in value of the outstanding stock of the
2 corporation; and
- 3 2. More than fifty percent (50%) of the capital interest or the profits in the
4 limited liability company;
- 5 (m) A partnership, including a registered limited liability partnership, and a
6 limited liability company if the same persons own:
- 7 1. More than fifty percent (50%) of the capital interest or profits in the
8 partnership, including a registered limited liability partnership; and
- 9 2. More than fifty percent (50%) of the capital interest or profits in the
10 limited liability company;
- 11 (n) An S corporation and another S corporation if the same persons own more
12 than fifty percent (50%) in value of the outstanding stock of each corporation,
13 S corporation designation being the same as that designation under the
14 Internal Revenue Code of 1986, as amended; or
- 15 (o) An S corporation and a C corporation, if the same persons own more than
16 fifty percent (50%) in value of the outstanding stock of each corporation: S
17 and C corporation designations being the same as those designations under
18 the Internal Revenue Code of 1986, as amended;
- 19 (3) "Agreement" means the tax incentive agreement entered into, pursuant to KRS
20 154.28-090, between the authority and an approved company with respect to an
21 economic development project;
- 22 (4) "Agribusiness" means any activity involving the processing of raw agricultural
23 products, including timber, or the providing of value-added functions with regard to
24 raw agricultural products;
- 25 (5) "Approved company" means any eligible company, approved by the authority
26 pursuant to KRS 154.28-080, requiring an economic development project;
- 27 (6) "Approved costs" means:

- 1 (a) Obligations incurred for labor and to vendors, contractors, subcontractors,
2 builders, suppliers, deliverymen, and materialmen in connection with the
3 acquisition, construction, rehabilitation, and installation of an economic
4 development project;
- 5 (b) The cost of contract bonds and of insurance of all kinds that may be required
6 or necessary during the course of acquisition, construction, rehabilitation, and
7 installation of an economic project which is not paid by the vendor, supplier,
8 deliverymen, contractors, or otherwise else provided;
- 9 (c) All costs of architectural and engineering services, including estimates, plans
10 and specifications, preliminary investigations, and supervision of
11 construction, rehabilitation, and installation, as well as for the performance of
12 all the duties required by or consequent upon the acquisition, construction,
13 rehabilitation, and installation of an economic development project;
- 14 (d) All costs which shall be required to be paid under the terms of any contract
15 for the acquisition, construction, rehabilitation, and installation of an
16 economic development project;
- 17 (e) All costs which shall be required for the installation of utilities such as water,
18 sewer, sewer treatment, gas, electricity, communications, railroads, and
19 similar facilities, and including offsite construction of the facilities paid for by
20 the approved company; and
- 21 (f) All other costs comparable to those described above;
- 22 (7) "Assessment" means the job development assessment fee authorized by this section
23 to KRS 154.28-100;
- 24 (8) "Authority" means the Kentucky Economic Development Finance Authority
25 created by KRS 154.20-010;
- 26 (9) "Average hourly wage" means the wage and employment data published by the
27 Department for Employment Services in the Kentucky Cabinet for Workforce

1 Development collectively translated into wages per hour based on a two thousand
2 eighty (2,080) hour work year for the following sectors:

- 3 (a) Manufacturing;
- 4 (b) Transportation, communications, and public utilities;
- 5 (c) Wholesale and retail trade;
- 6 (d) Finance, insurance, and real estate; and
- 7 (e) Services;

8 (10) "Commonwealth" means the Commonwealth of Kentucky;

9 (11) (a) "Economic development project" or "project" means and includes:

- 10 1. The acquisition of ownership in any real estate by the approved
11 manufacturing or agribusiness company or its affiliate;
- 12 2. The present ownership of real estate by the approved manufacturing or
13 agribusiness company or its affiliate; or
- 14 3. The acquisition or present ownership of improvements or facilities, as
15 described in paragraph (b) of this subsection, on land which is possessed
16 or is to be possessed by the approved company pursuant to a ground
17 lease having a term of sixty (60) years or more.

18 (b) For purposes of subparagraphs 1. and 2. of paragraph (a) of this subsection,
19 ownership of real estate shall only include fee ownership of real estate and
20 possession of real estate pursuant to a capital lease as determined in
21 accordance with Statement of Financial Accounting Standards No. 13,
22 Accounting for Leases, issued by the Financial Accounting Standards Board,
23 November 1976. With respect to subparagraphs 1., 2., and 3. of paragraph (a)
24 of this subsection, the construction, installation, equipping, and rehabilitating
25 of improvements, including fixtures and equipment directly involved in the
26 manufacturing process, and facilities necessary or desirable for improvement
27 of the real estate shall include: surveys, site tests, and inspections; subsurface

1 site work and excavation; removal of structures, roadways, cemeteries, and
2 other site obstructions; filling, grading, provision of drainage, and storm water
3 retention; installation of utilities such as water, sewer, sewage treatment, gas,
4 electricity, communications, and similar facilities; offsite construction of
5 utility extensions to the boundaries of the real estate; and the acquisition,
6 installation, equipping, and rehabilitation of manufacturing facilities or
7 agribusiness operations on the real estate for the use of the approved company
8 or its affiliates for manufacturing or agribusiness operational purposes.
9 Pursuant to paragraphs (a)3. and (b) of this subsection, an economic
10 development project shall not include lease payments made pursuant to a
11 ground lease for purposes of the tax credits provided under the provisions of
12 KRS 154.28-010 to 154.28-100. An economic development project shall
13 include the equipping of a facility with equipment but, for purposes of the tax
14 credits provided under the provisions of KRS 154.28-010 to 154.28-090, only
15 to the extent of ten thousand dollars (\$10,000) per job created by and
16 maintained at the economic development project;

17 (12) "Eligible company" means any corporation, limited liability company, partnership,
18 registered limited liability partnership, sole proprietorship, trust, or any other entity
19 engaged in manufacturing or agribusiness operations;

20 (13) "Employee benefits" means nonmandated costs paid by an eligible company for its
21 full-time employees for health insurance, life insurance, dental insurance, vision
22 insurance, defined benefits, 401(k) or similar plans;

23 (14) "Full-time employee" means a person employed by an approved company for a
24 minimum of thirty-five (35) hours per week and subject to the state income tax
25 imposed by KRS 141.020;

26 (15) "Inducement" means the assessment or the Kentucky income tax credit as set forth
27 in KRS 154.28-090;

1 (16) "Manufacturing" means any activity involving the manufacturing, processing,
 2 assembling, or production of any property, including the processing resulting in a
 3 change in the conditions of the property, and any activity functionally related to it,
 4 together with storage, warehousing, distribution, and related office facilities;
 5 however, "manufacturing" shall not include mining, coal or mineral processing, or
 6 extraction of minerals; ~~and~~

7 (17) "State agency" shall have the meaning assigned to the term in KRS 56.440(8);

8 **(18) "Kentucky gross profits" means Kentucky gross profits as defined in Section 4 of**
 9 **this Act; and**

10 **(19) "Kentucky gross receipts" means Kentucky gross receipts as defined in Section 4**
 11 **of this Act.**

12 Section 60. KRS 154.28-090 is amended to read as follows:

13 The authority, upon adoption of an authorizing resolution, may enter into, with any
 14 approved company, an agreement with respect to its economic development project. The
 15 terms and provisions of each agreement, including the amount of approved costs, shall be
 16 determined by negotiations between the authority and the approved company, except that
 17 each agreement shall include the following provisions:

18 (1) The agreement shall set forth the maximum amount of inducements available to the
 19 approved company for recovery of the approved costs authorized by the authority
 20 and expended by the approved company.

21 (2) The approved company shall expend the authorized approved costs within three (3)
 22 years of the date of the final approval by the authority.

23 (3) The approved company shall provide the authority with documentation as to the
 24 expenditures for approved costs in a manner acceptable to the authority.

25 (4) The agreement shall include the activation date and will terminate upon the earlier
 26 of the full receipt of the maximum amount of inducements by the approved
 27 company or ten (10) years from the activation date. To implement the activation

1 date, the approved company shall notify the authority, the Kentucky Department of
2 Revenue, and the approved company's employees of the activation date on which
3 implementation of the inducements authorized in the agreement shall occur. The
4 activation date shall be the time when the maximum dollar value of equipment that
5 constitutes a portion of the economic development project under KRS 154.28-
6 010(11) shall be determined. If the approved company does not satisfy the
7 minimum investment and minimum employment requirements of KRS 154.28-
8 080(3) by the activation date, the approved company shall not be entitled to receive
9 inducements pursuant to this subchapter until the approved company satisfies the
10 requirements; however, the ten (10) year period for the term of the agreement shall
11 begin from the activation date. Notwithstanding the previous sentence, if the
12 approved company does not satisfy the minimum investment and minimum
13 employment requirements of KRS 154.28-080(3) within two (2) years from the date
14 of final approval of the agreement, then the approved company shall be ineligible to
15 receive inducements under this subchapter unless an extension is approved by the
16 authority.

17 (5) The tax agreement shall also state that if the total number of new full-time
18 employees at the site of the economic development project who are residents of the
19 Commonwealth and subject to the Kentucky income tax is less than fifteen (15) at
20 any time after activation, the authorized inducements shall be suspended for a
21 period of up to one (1) year. If the company does not have at least fifteen (15) new
22 full-time employees at the site who are residents of the Commonwealth and subject
23 to Kentucky income tax within one (1) year from the date of the initial suspension,
24 the inducements may be terminated at the discretion of the authority.

25 (6) The approved company shall comply with the wage criteria set forth in KRS
26 154.28-080(4) and provide documentation in connection with wages paid to its full-

- 1 time employees hired as a result of the economic development project in a manner
2 acceptable to the authority.
- 3 (7) The approved company may be permitted one of the following inducements during
4 the term of the agreement and shall select the applicable inducement at the time of
5 final approval by the authority:
- 6 (a) A one hundred percent (100%) credit against the Kentucky income tax **and**
7 **the limited liability entity tax imposed under Section 4 of this Act** that would
8 otherwise be owed in the approved company's fiscal year, as determined
9 under KRS 141.400, to the Commonwealth by the approved company on the
10 income, **Kentucky gross profits or Kentucky gross receipts** of the approved
11 company generated by or arising from the economic development project,
12 **with the ordering of credits as provided in KRS 141.0205**; or
- 13 (b) The aggregate assessments pursuant to KRS 154.28-110 withheld by the
14 approved company each year.
- 15 (8) Either the total~~[-income]~~ tax credit or assessments may not exceed authorized
16 cumulative approved costs paid by the approved company in the three (3) year
17 period commencing with the date of final approval.
- 18 (9) If the approved company elects to use the~~[-income]~~ tax credit, the income tax **and**
19 **limited liability entity tax imposed under Section 4 of this Act** credited to the
20 approved company shall be credited for the fiscal year for which the tax return of
21 the approved company is filed. The approved company shall not be required to pay
22 estimated~~[-income]~~ tax payments as prescribed in KRS 141.042 on the Kentucky
23 taxable income, **Kentucky gross profits or Kentucky gross receipts** generated by or
24 arising from the economic development project.
- 25 (10) The agreement may be assigned by the approved company only upon the prior
26 written consent of the authority following the adoption of a resolution by the
27 authority to that effect.

- 1 (11) The agreement shall provide that if an approved company fails to comply with its
 2 obligations under the agreement then the authority shall have the right, at its option,
 3 to:
- 4 (a) Suspend either the income tax credits or assessments available to the
 5 approved company, pursuant to subsection (5) of this section;
 - 6 (b) Pursue any remedy provided under the agreement, including termination
 7 thereof; and
 - 8 (c) Pursue any other remedy at law to which it may be entitled.
- 9 (12) All remedies provided in subsection (11) of this section shall be deemed to be
 10 cumulative.
- 11 (13) By October 1 of each year, the Department of Revenue shall certify to the authority,
 12 in the form of an annual report, aggregate~~income~~ tax credits claimed on tax
 13 returns filed during the fiscal year ending June 30 of that year and assessments
 14 taken during the prior calendar year by approved companies with respect to their
 15 economic development projects under this subchapter, and shall certify to the
 16 authority, within ninety (90) days from the date an approved company has filed its
 17 state income tax return, when an approved company has taken~~income~~ tax credits
 18 or assessments equal to its total inducements.

19 Section 61. KRS 154.34-010 is amended to read as follows:

20 As used in KRS 154.34-010 to 154.34-100, unless the context clearly indicates
 21 otherwise:

- 22 (1) "Approved company" means any eligible company for which the authority has
 23 granted final approval of its application pursuant to KRS 154.34-070;
- 24 (2) "Approved costs" means that portion of the eligible costs approved by the authority
 25 that an approved company may recover through the inducements authorized by
 26 KRS 154.34-010 to 154.34-100; however, approved costs shall not exceed ten
 27 percent (10%) of the eligible costs;

- 1 (3) "Authority" means the Kentucky Economic Development Finance Authority
2 created by KRS 154.20-010;
- 3 (4) "Commonwealth" means the Commonwealth of Kentucky;
- 4 (5) "Eligible company" means any corporation, limited liability company, partnership,
5 registered limited liability partnership, sole proprietorship, business trust, or any
6 other entity designated by the United States Department of Commerce, United
7 States Census Bureau North American Industry Classification System code of
8 336211, 336111, 336112, or 336120 that employs a minimum of one thousand
9 (1,000) full-time persons engaged in manufacturing at the same facility or at
10 multiple facilities located within the same county, whether owned or leased, is
11 located and operating within the Commonwealth on a permanent basis for a
12 reasonable period of time preceding the request for approval by the authority of a
13 reinvestment project which meets the standards set forth in KRS 154.34-070, and
14 has not been an approved company in an industrial revitalization project under
15 Subchapter 26 of KRS Chapter 154 for a period of at least five (5) years;
- 16 (6) "Eligible costs" means:
- 17 (a) Obligations incurred for labor and to vendors, contractors, subcontractors,
18 builders, suppliers, deliverymen, and materialmen in connection with the
19 acquisition, construction, equipping, rehabilitation, and installation of an
20 existing manufacturing reinvestment project;
- 21 (b) The cost of contract bonds and of insurance of all kinds that may be required
22 or necessary during the course of acquisition, construction, equipping,
23 rehabilitation, and installation of a reinvestment project which is not paid by
24 the vendor, supplier, deliveryman, contractor, or otherwise provided;
- 25 (c) All costs of architectural and engineering services, including estimates, plans
26 and specifications, preliminary investigations, and supervision of
27 construction, rehabilitation and installation, as well as for the performance of

- 1 all the duties required by or consequent upon the acquisition, construction,
2 equipping, rehabilitation, and installation of a reinvestment project;
- 3 (d) All costs required to be paid under the terms of any contract for the
4 acquisition, construction, equipping, rehabilitation, and installation of an
5 existing manufacturing reinvestment project; and
- 6 (e) All costs required for the installation of utilities, including but not limited to
7 water, sewer, sewer treatment, gas, electricity, communications, and access to
8 transportation, and including off-site construction of the facilities paid for by
9 the approved company;
- 10 (7) "Equipment" means manufacturing machinery installed by the approved company
11 at the project; however, equipment shall not mean accessories or appurtenances of
12 existing or new manufacturing machinery including but not limited to molds, dies,
13 or other attachments of a less permanent nature;
- 14 (8) "Final approval" means the action taken after July 1, 2004, by the authority
15 designating an eligible company that has previously received a preliminary
16 approval as an approved company and authorizing the execution of a reinvestment
17 agreement between the authority and the approved company;
- 18 (9) "Inducements" means the Kentucky tax credits as authorized by KRS 154.34-010 to
19 154.34-100;
- 20 (10) "Manufacturing" means any activity involving the manufacturing, processing,
21 assembling, or production of any property, including the processing that results in a
22 change in the condition of the property and any related activity or function, together
23 with the storage, warehousing, distribution, and related office facilities;
- 24 (11) "Preliminary approval" means the action taken by the authority designating an
25 eligible company as a preliminarily approved company, and conditioning final
26 approval by the authority upon satisfaction by the eligible company of the
27 requirements set forth in the preliminary approval;

- 1 (12) "Reinvestment agreement" or "agreement" means the agreement entered into
 2 pursuant to KRS 154.34-080 on behalf of the authority and an approved company
 3 with respect to a reinvestment project;
- 4 (13) "Reinvestment project" or "project" means the acquisition, construction, and
 5 installation of new equipment and, with respect thereto, the construction,
 6 rehabilitation, and installation of improvements to facilities necessary to house the
 7 acquisition, construction, and installation of new equipment, including surveys;
 8 installation of utilities including water, sewer, sewage treatment, gas, electricity,
 9 communications, and similar facilities; off-site construction of utility extensions to
 10 the boundaries of the real estate on which the facilities are located; and shall
 11 contain eligible costs of not less than one hundred million dollars (\$100,000,000),
 12 all of which are utilized to improve the economic and operational situation of an
 13 approved company to allow the approved company to reinvest in its operations and
 14 retain or create jobs within the Commonwealth; ~~and~~
- 15 (14) "State agency" means any state administrative body, agency, department, or
 16 division as defined in KRS 42.010, or any board, commission, institution, or
 17 division exercising any function of the state which is not an independent municipal
 18 corporation or political subdivision;
- 19 **(15) "Kentucky gross profits" means Kentucky gross profits as defined in Section 4 of**
 20 **this Act; and**
- 21 **(16) "Kentucky gross receipts" means Kentucky gross receipts as defined in Section 4**
 22 **of this Act.**

23 Section 62. KRS 154.34-080 is amended to read as follows:

24 The authority, upon adoption of its final approval, may enter into with any approved
 25 company a reinvestment agreement with respect to its project. The terms and provisions
 26 of each agreement, including the amount of approved costs, shall be determined by

1 negotiations between the authority and the approved company, except that each
2 reinvestment agreement shall include the following provisions:

- 3 (1) The agreement shall set a date by which the approved company will have
4 completed the project. Within three (3) months of the completion date, the
5 approved company shall document its expenditures of the eligible costs attributable
6 to the project in a manner acceptable to the authority. The authority may employ an
7 independent consultant or utilize technical resources to verify the cost of the
8 project. The approved company shall reimburse the authority for the cost of a
9 consultant or other technical resources employed by the authority;
- 10 (2) In consideration of the execution of the agreement between the authority and
11 approved company, the approved company may be permitted one (1) or both of the
12 following inducements:
- 13 (a) A credit against the Kentucky~~[income]~~ tax imposed by KRS 141.020 or
14 141.040 on the income of the approved company generated by or arising out
15 of the reinvestment project as determined under KRS 141.415, **and a credit**
16 **against the limited liability entity tax imposed by Section 4 of this Act, with**
17 **the ordering of credits as provided in KRS 141.0205;**
- 18 (b) A credit against the Kentucky license tax imposed by KRS 136.070 on the
19 approved company as determined under KRS 141.416;
- 20 (3) The total inducements authorized in the agreement for the benefits of the approved
21 company shall be equal to the lesser of the total amount of the tax liability or the
22 approved costs that have not yet been recovered. The inducements shall be allowed
23 for each fiscal year of the approved company during the term of the agreement and
24 for which a tax return of the approved company is filed. The approved company
25 shall not be required to pay estimated~~[income]~~ tax payments as prescribed under
26 KRS 141.044 or 141.305 on income, **Kentucky gross profits or Kentucky gross**
27 **receipts** from the project;

- 1 (4) The agreement shall provide that the term shall not be longer than the earlier of:
- 2 (a) The date on which the approved company has received inducements equal to
- 3 the approved costs of its reinvestment project; or
- 4 (b) Ten (10) years from the date of final approval granted by the authority;
- 5 (5) All eligible costs of the project shall be expended by the approved company within
- 6 three (3) years from the date of final approval by the authority. In the event that all
- 7 eligible costs of the project are not fully expended by the approved company within
- 8 the three (3) year period, the authority is authorized to:
- 9 (a) Reduce the inducements; or
- 10 (b) Suspend the inducements; or
- 11 (c) Terminate the agreement;
- 12 (6) If the agreement is terminated, the authority may require the approved company to
- 13 repay the Department of Revenue of the Commonwealth all or part of any
- 14 inducements received by the approved company prior to the termination of the
- 15 agreement;
- 16 (7) The agreement shall specify that the approved company shall make available all of
- 17 its records pertaining to the project, including but not limited to payroll records,
- 18 records relating to the expenditure of eligible costs and approved costs, and any
- 19 other records pertaining to the project as the authority may require; and
- 20 (8) The agreement shall not be transferred or assigned by the approved company
- 21 without the expressed written consent of the authority.

22 Section 63. KRS 154.34-090 is amended to read as follows:

23 By October 1 of each year, the Department of Revenue of the Commonwealth shall

24 certify to the authority, in the form of an annual report, aggregate ~~income~~ tax credits

25 claimed on tax returns filed during the fiscal year ending June 30 of that year by

26 approved companies with respect to their reinvestment projects under KRS 154.34-010 to

27 154.34-100, 141.415, and 141.416, and shall certify to the authority, within ninety (90)

1 days from the date an approved company has filed its state~~income~~ tax return, when an
2 approved company has taken inducements equal to its approved costs.

3 Section 64. KRS 154.48-010 is amended to read as follows:

4 As used in KRS 154.48-010 to 154.48-035, unless the context clearly indicates
5 otherwise:

6 (1) "Activation date" means a date selected by an approved company in the tax
7 incentive agreement at any time within a two (2) year period after the date of final
8 approval of the tax incentive agreement by the authority;

9 (2) "Affiliate" means the following:

10 (a) Members of a family, including only brothers and sisters of the whole or half
11 blood, spouse, ancestors, and lineal descendants of an individual;

12 (b) An individual, and a corporation more than fifty percent (50%) in value of the
13 outstanding stock of which is owned, directly or indirectly, by or for that
14 individual;

15 (c) An individual, and a limited liability company of which more than fifty
16 percent (50%) of the capital interest or profits are owned or controlled,
17 directly or indirectly, by or for that individual;

18 (d) Two (2) corporations which are members of the same controlled group, which
19 includes and is limited to:

20 1. One (1) or more chains of corporations connected through stock
21 ownership with a common parent corporation if:

22 a. Stock possessing more than fifty percent (50%) of the total
23 combined voting power of all classes of stock entitled to vote or
24 more than fifty percent (50%) of the total value of shares of all
25 classes of stock of each of the corporations, except the common
26 parent corporation, is owned by one (1) or more of the other
27 corporations; and

- 1 b. The common parent corporation owns stock possessing more than
2 fifty percent (50%) of the total combined voting power of all
3 classes of stock entitled to vote or more than fifty percent (50%) of
4 the total value of shares of all classes of stock of at least one (1) of
5 the other corporations, excluding, in computing the voting power
6 or value, stock owned directly by the other corporations; or
- 7 2. Two (2) or more corporations if five (5) or fewer persons who are
8 individuals, estates, or trusts own stock possessing more than fifty
9 percent (50%) of the total combined voting power of all classes of stock
10 entitled to vote or more than fifty percent (50%) of the total value of
11 shares of all classes of stock of each corporation, taking into account the
12 stock ownership of each person only to the extent the stock ownership is
13 identical with respect to each corporation;
- 14 (e) A grantor and a fiduciary of any trust;
- 15 (f) A fiduciary of a trust and a fiduciary of another trust, if the same person is a
16 grantor of both trusts;
- 17 (g) A fiduciary of a trust and a beneficiary of that trust;
- 18 (h) A fiduciary of a trust and a beneficiary of another trust, if the same person is a
19 grantor of both trusts;
- 20 (i) A fiduciary of a trust and a corporation more than fifty percent (50%) in value
21 of the outstanding stock of which is owned, directly or indirectly, by or for the
22 trust or by or for a person who is a grantor of the trust;
- 23 (j) A fiduciary of a trust and a limited liability company more than fifty percent
24 (50%) of the capital interest, or the interest in profits, of which is owned
25 directly or indirectly, by or for the trust or by or for a person who is a grantor
26 of the trust;

- 1 (k) A corporation and a partnership, including a registered limited liability
2 partnership, if the same persons own:
- 3 1. More than fifty percent (50%) in value of the outstanding stock of the
4 corporation; and
 - 5 2. More than fifty percent (50%) of the capital interest, or the profits
6 interest, in the partnership, including a registered limited liability
7 partnership;
- 8 (l) A corporation and a limited liability company if the same persons own:
- 9 1. More than fifty percent (50%) in value of the outstanding stock of the
10 corporation; and
 - 11 2. More than fifty percent (50%) of the capital interest or the profits in the
12 limited liability company;
- 13 (m) A partnership, including a registered limited liability partnership, and a
14 limited liability company if the same persons own:
- 15 1. More than fifty percent (50%) of the capital interest or profits in the
16 partnership, including a registered limited liability partnership; and
 - 17 2. More than fifty percent (50%) of the capital interest or the profits in the
18 limited liability company;
- 19 (n) An S corporation and another S corporation if the same persons own more
20 than fifty percent (50%) in value of the outstanding stock of each corporation,
21 S corporation designation being the same as that designation under the
22 Internal Revenue Code of 1986, as amended; or
- 23 (o) An S corporation and a C corporation, if the same persons own more than
24 fifty percent (50%) in value of the outstanding stock of each corporation; S
25 and C corporation designations being the same as those designations under
26 the Internal Revenue Code of 1986, as amended;

- 1 (3) "Approved company" means any eligible company for which the authority has
2 granted final approval of its application pursuant to KRS 154.48-025;
- 3 (4) "Approved costs" means one hundred percent (100%) of the eligible skills upgrade
4 training costs and up to twenty-five percent (25%) of the eligible equipment costs
5 approved by the authority that an approved company may recover through the
6 inducements authorized by KRS 154.48-010 to 154.48-035;
- 7 (5) "Authority" means the Kentucky Economic Development Finance Authority
8 created by KRS 154.20-010;
- 9 (6) "Average hourly wage" means the wage and employment data published by the
10 Office of Employment and Training Services in the Department for Workforce
11 Investment within the Education Cabinet collectively translated into wages per hour
12 based on a two thousand eighty (2,080) hour work year for the following sectors:
- 13 (a) Manufacturing;
- 14 (b) Transportation, communications, and public utilities;
- 15 (c) Wholesale and retail trade;
- 16 (d) Finance, insurance, and real estate; and
- 17 (e) Services;
- 18 (7) "Commonwealth" means the Commonwealth of Kentucky;
- 19 (8) "Eligible company" means any entity that undertakes an environmental stewardship
20 project;
- 21 (9) "Eligible costs" means eligible equipment costs plus eligible skills upgrade training
22 costs expended after preliminary approval of the environmental stewardship
23 project;
- 24 (10) "Eligible equipment costs" means:
- 25 (a) Obligations incurred for labor and to vendors, contractors, subcontractors,
26 builders, suppliers, deliverymen, and materialmen in connection with the

- 1 acquisition, construction, equipping, and installation of an environmental
2 stewardship project;
- 3 (b) The cost of contract bonds and of insurance of all kinds that may be required
4 or necessary during the course of acquisition, construction, equipping, and
5 installation of an environmental stewardship project which is not paid by the
6 vendor, supplier, deliveryman, contractor, or otherwise provided;
- 7 (c) All costs of architectural and engineering services, including estimates, plans
8 and specifications, preliminary investigations, and supervision of
9 construction, rehabilitation and installation, as well as for the performance of
10 all the duties required by or consequent upon the acquisition, construction,
11 equipping, and installation of an environmental stewardship project;
- 12 (d) All costs required to be paid under the terms of any contract for the
13 acquisition, construction, equipping, and installation of an environmental
14 stewardship project;
- 15 (e) All costs paid for by the approved company that are required for the
16 installation of utilities, including but not limited to water, sewer, sewer
17 treatment, gas, electricity, communications, and access to transportation, and
18 including off-site construction of the facilities necessary for implementation
19 of an environmental stewardship project; and
- 20 (f) All other costs of a nature comparable to those described in this subsection.
- 21 (11) "Eligible skills upgrade training costs" means:
- 22 (a) Fees or salaries required to be paid to instructors who are employees of the
23 approved company, instructors who are full-time, part-time, or adjunct
24 instructors with an educational institution, and instructors who are consultants
25 on contract with an approved company in connection with an occupational
26 training program sponsored by an approved company for its full-time
27 employees and specifically relating to an environmental stewardship project;

- 1 (b) Administrative fees charged by educational institutions in connection with an
2 occupational training program sponsored by an approved company for its full-
3 time employees and specifically relating to an environmental stewardship
4 project;
- 5 (c) The cost of supplies, materials, and equipment used exclusively in an
6 occupational training program sponsored by an approved company for its full-
7 time employees and specifically relating to an environmental stewardship
8 project;
- 9 (d) The cost of leasing a training facility where space is unavailable at an
10 educational institution or at the premises of an approved company in
11 connection with an occupational training program sponsored by an approved
12 company for its full-time employees and specifically relating to an
13 environmental stewardship project;
- 14 (e) Employee wages to be paid in connection with an occupational training
15 program sponsored by an approved company for its full-time employees and
16 specifically relating to an environmental stewardship project;
- 17 (f) Travel expenses paid by the approved company as incurred by its full-time
18 employees resulting directly from the costs of transportation, lodging and
19 meals that are directly related to an occupational training program necessary
20 for the implementation of an environmental stewardship project; and
- 21 (g) All other costs of a nature comparable to those described in this subsection;
- 22 (12) "Employee benefits" means nonmandated costs paid by an eligible company for its
23 full-time employees for health insurance, life insurance, dental insurance, vision
24 insurance, defined benefits, 401(k) or similar plans;
- 25 (13) "Environmental stewardship product" means any new manufactured product or
26 substantially improved existing manufactured product that has a lesser or reduced
27 adverse effect on human health and the environment or provides for improvement

1 to human health and the environment when compared with existing products or
2 competing products that serve the same purpose. Such products may include, but
3 are not limited to, those which contain recycled content, minimize waste, conserve
4 energy or water, and reduce the amount of toxics disposed or consumed, but shall
5 not include products that are the result of the production of energy or energy
6 producing fuels;

7 (14) "Environmental stewardship project" or "project" means:

8 (a) The acquisition, construction, and installation of new equipment and, with
9 respect thereto:

- 10 1. The construction, rehabilitation, and installation of improvements to
11 facilities necessary to house the new equipment, including surveys;
- 12 2. Installation of utilities including water, sewer, sewage treatment, gas,
13 electricity, communications, and similar facilities;
- 14 3. Off-site construction of utility extensions to the boundaries of the real
15 estate on which the facilities are located;

16 All of which are utilized by an approved company or its affiliate to
17 manufacture an environmental stewardship product as reviewed and
18 recommended to the authority by the Environmental and Public Protection
19 Cabinet; and

20 (b) The provision of an occupational training program to provide the employees
21 of an approved company or its affiliate with the knowledge and skills
22 necessary to manufacture the new product;

23 (15) "Final approval" means the action taken by the authority designating an
24 eligible company that has previously received a preliminary approval as an
25 approved company and authorizing the execution of an environmental
26 stewardship agreement between the authority and the approved company;

- 1 (16) "Full-time employee" means a person employed by an approved company for a
 2 minimum of thirty-five (35) hours per week and subject to the state income tax
 3 imposed by KRS 141.020;
- 4 (17) "Inducement" means the Kentucky tax credit as authorized by KRS 154.48-010 to
 5 154.48-035;
- 6 (18) "Manufacturing" means any activity involving the manufacturing, processing,
 7 assembling, or production of any property, including the processing that results in a
 8 change in the condition of the property and any related activity or function, together
 9 with the storage, warehousing, distribution, and related office facilities;
- 10 (19) "Preliminary approval" means the action taken by the authority designating an
 11 eligible company as a preliminarily approved company, and conditioning final
 12 approval by the authority upon satisfaction by the eligible company of the
 13 requirements set forth in the preliminary approval;
- 14 **(20) "Kentucky gross receipts" means Kentucky gross receipts as defined in Section 4**
 15 **of this Act; and**
- 16 **(21) "Kentucky gross profits" means Kentucky gross profits as defined in Section 4 of**
 17 **this Act.**

18 Section 65. KRS 154.48-025 is amended to read as follows:

19 The authority, upon adoption of its final approval, may enter into with any approved
 20 company an environmental stewardship agreement with respect to its project. The terms
 21 and provisions of each agreement, including the amount of approved costs, shall be
 22 determined by negotiations between the authority and the approved company, except that
 23 each agreement shall include the following provisions:

- 24 (1) The agreement shall set forth an activation date chosen by the approved company;
- 25 (2) The agreement shall contain a completion date within the provisions of subsection
 26 (5) of this section by which the approved company will have completed the project.

27 Within three (3) months after the completion date, the approved company shall

1 document its expenditures of the eligible costs attributable to the project in a
2 manner acceptable to the authority. The authority may employ an independent
3 consultant or utilize technical resources to verify the cost of the project. The
4 approved company shall reimburse the authority for the cost of a consultant or other
5 technical resources employed by the authority;

6 (3) In consideration of the execution of the agreement between the authority and
7 approved company, the approved company may be permitted a credit against the
8 Kentucky income tax imposed by KRS 141.020 or KRS 141.040 on the income of
9 the approved company generated by or arising out of the project, **and the limited**
10 **liability entity tax imposed by Section 4 of this Act on the Kentucky gross profits**
11 **or Kentucky gross receipts of the approved company generated by or arising out**
12 **of the project** as determined under KRS 154.48-020, **The ordering of the credits**
13 **shall be as provided in KRS 141.0205;**

14 (4) The total inducement authorized in the agreement for the benefit of the approved
15 company shall be equal to the lesser of the total amount of the tax credit against the
16 income as determined under this section through the term of the agreement or the
17 approved costs that have not yet been recovered. The inducement shall be allowed
18 for each taxable year of the approved company during the term of the agreement
19 and for which a tax return of the approved company is filed; however, the
20 maximum amount of inducement claimed by the approved company for any single
21 taxable year of the approved company may be up to twenty-five percent (25%) of
22 the total authorized inducement. An approved company under the Environmental
23 Stewardship Act shall not be entitled to the recycling credit provided under the
24 provisions of KRS 141.390 for equipment used in the production of an
25 environmental stewardship product;

26 (5) The agreement shall provide that the term shall not be longer than the earlier of:

- 1 (a) The date on which the approved company has received inducements equal to
 2 the approved costs of its project; or
 3 (b) Ten (10) years from the activation date;
- 4 (6) All eligible costs of the project shall be expended by the approved company within
 5 three (3) years from the date of final approval by the authority. In the event that all
 6 eligible costs of the project are not fully expended by the approved company within
 7 the three (3) year period, the authority is authorized to:
- 8 (a) Reduce the inducements; or
 9 (b) Suspend the inducements; or
 10 (c) Terminate the agreement;
- 11 (7) If the agreement is terminated, the authority may require the approved company to
 12 repay the Department of Revenue all or part of any inducements received by the
 13 approved company prior to the termination of the agreement;
- 14 (8) The agreement shall specify that the approved company shall make available all of
 15 its records pertaining to the project including but not limited to records relating to
 16 the expenditure of eligible costs, payroll records and any other records pertaining to
 17 the project as the authority may require; and
- 18 (9) The agreement shall not be transferred or assigned by the approved company
 19 without the expressed written consent of the authority.

20 Section 66. KRS 154.48-030 is amended to read as follows:

21 By October 1 of each year, the Department of Revenue shall certify to the authority, in
 22 the form of an annual report, aggregate~~[-income]~~ tax credits claimed on tax returns filed
 23 during the fiscal year ending June 30 of that year by approved companies with respect to
 24 their projects under KRS 154.48-010 to 154.48-035, and shall certify to the authority,
 25 within ninety (90) days from the date an approved company has filed its state~~[-income]~~
 26 tax return, when an approved company has taken inducements equal to its approved
 27 costs.

1 Section 67. KRS 155.170 is amended to read as follows:

- 2 (1) An annual excise tax is hereby levied on every corporation organized under this
3 chapter for the privilege of transacting business in this Commonwealth during the
4 calendar year, according to or measured by its entire net income, as defined herein,
5 received or accrued from all sources during the preceding calendar year, hereinafter
6 referred to as taxable year, at the rate of four and one-half percent (4.5%) of such
7 entire net income. The minimum tax assessable to any one (1) such corporation
8 shall be ten dollars (\$10). The liability for the tax imposed by this section shall
9 arise upon the first day of each calendar year, and shall be based upon and
10 measured by the entire net income of each such corporation for the preceding
11 calendar year, including all income received from government securities in such
12 year. As used in this section the words "taxable year" mean the calendar year next
13 preceding the calendar year for which and during which the excise tax is levied.
- 14 (2) The excise tax levied under subsection (1) of this section shall be in lieu of the
15 corporation license tax imposed by KRS 136.070, ~~and~~ the taxes imposed by KRS
16 141.040, **and the taxes imposed by Section 4 of this Act.** It is the purpose and
17 intent of the General Assembly to levy taxes on corporations organized pursuant to
18 this chapter so that all such corporations will be taxed uniformly in a just and
19 equitable manner in accordance with the provisions of the Constitution of the
20 Commonwealth of Kentucky. The intent of this section is for the General Assembly
21 to exercise the powers of classification and of taxation on property, franchises, and
22 trades conferred by Section 171 of the Constitution of the Commonwealth.
- 23 (3) On or before June 1 of each year, the executive officer or officers of each
24 corporation shall file with the commissioner of the Department of Revenue a full
25 and accurate report of all income received or accrued during the taxable year, and
26 also an accurate record of the legal deductions in the same calendar year to the end
27 that the correct entire net income of the corporation may be determined. This report

1 shall be in such form and contain such information as the commissioner of the
 2 Department of Revenue may specify. At the time of making such report by each
 3 corporation, the taxes levied by this section with respect to an excise tax on
 4 corporations organized pursuant to this chapter shall be paid to the commissioner of
 5 the Department of Revenue.

6 (4) The securities, evidences of indebtedness, and shares of the capital stock issued by
 7 the corporation established under the provisions of this chapter, their transfer, and
 8 income therefrom and deposits of financial institutions invested therein, shall at all
 9 times be free from taxation within the Commonwealth.

10 (5) Any stockholder, member, or other holder of any securities, evidences of
 11 indebtedness, or shares of the capital stock of the corporation who realizes a loss
 12 from the sale, redemption, or other disposition of any securities, evidences of
 13 indebtedness, or shares of the capital stock of the corporation, including any such
 14 loss realized on a partial or complete liquidation of the corporation, and who is not
 15 entitled to deduct such loss in computing any of such stockholder's, member's, or
 16 other holder's taxes to the Commonwealth shall be entitled to credit against any
 17 taxes subsequently becoming due to the Commonwealth from such stockholder,
 18 member, or other holder, a percentage of such loss equivalent to the highest rate of
 19 tax assessed for the year in which the loss occurs upon mercantile and business
 20 corporations.

21 Section 68. KRS 171.397 is amended to read as follows:

- 22 (1) There shall be allowed as a credit against the taxes imposed by KRS 141.020,
 23 141.040, **Section 4 of this Act**, 136.070, or 136.505, an amount equal to:
- 24 (a) Thirty percent (30%) of the qualified rehabilitation expenses, in the case of
 25 owner-occupied residential property; and
 - 26 (b) Twenty percent (20%) of the qualified rehabilitation expenses, in the case of
 27 all other property.

1 In the case of an exempt entity that has incurred qualified rehabilitation expenses,
 2 the credit provided in this subsection shall be available to transfer or assign as
 3 provided under subsection (8) or (9) of this section.

4 (2) An application for credit must be submitted to the council within thirty (30) days
 5 following the close of a calendar year. The council shall determine the amount of
 6 credit approved for each taxpayer and notify the taxpayer and Department of
 7 Revenue of the approved credit amount by the thirty first day of the third month
 8 following the close of the calendar year.

9 (3) The maximum credit which may be claimed with regard to owner-occupied
 10 residential property shall be sixty thousand dollars (\$60,000) subject to the
 11 provisions of subsection (5) of this section. The credit in this section shall be
 12 claimed for the taxable year in which the certified rehabilitation is completed.

13 (4) In the case of a husband and wife filing separate returns or filing separately on a
 14 joint return, the credit may be taken by either or divided equally, but the combined
 15 credit shall not exceed sixty thousand dollars (\$60,000) subject to the provisions of
 16 subsection (5) of this section.

17 (5) The credit amount approved for a calendar year for all taxpayers under this section
 18 shall be limited to the certified rehabilitation credit cap. The council shall notify the
 19 taxpayer and the Department of Revenue when the total credit amount approved
 20 exceeds the certified rehabilitation credit cap. The council shall apportion the
 21 certified rehabilitation credit cap as follows: Three million dollars (\$3,000,000)
 22 multiplied by a fraction, the numerator which is the approved credit amount for an
 23 individual taxpayer for a calendar year and the denominator which is the total
 24 approved credits for all taxpayers for a calendar year.

25 (6) If the credit amount that may be claimed in any tax year as determined under
 26 subsections (3) to (5) of this section exceeds the taxpayer's total tax liabilities under
 27 KRS 136.070, 136.505, 141.020, ~~141.040~~, or Section 4 of this Act, the

1 taxpayer may carry the excess tax credit forward until the tax credit is used,
 2 provided that any tax credits not used within seven (7) years of the taxable year the
 3 certified rehabilitation was complete shall be lost.

4 (7) **(a) The credit shall apply against both the tax imposed by KRS 141.020 or**
 5 **141.040 and the limited liability entity tax imposed by Section 4 of this Act,**
 6 **with the ordering of credits as provided in KRS 141.0205.**

7 **(b)** If the taxpayer is a pass-through entity not subject to the tax imposed by KRS
 8 141.040, **the taxpayer shall apply the credit at the entity level against the**
 9 **limited liability tax entity imposed by Section 4 of this Act, and shall**
 10 **also**~~the credit shall~~ pass **the credit** through in the same proportion as the
 11 distributive share of income or loss is passed through.

12 (8) Credits received under this section may be transferred or assigned, for some or no
 13 consideration, along with any related benefits, rights, responsibilities, and liabilities
 14 to any entity subject to the tax imposed by KRS 136.505. Within thirty (30) days of
 15 the date of any transfer of credits, the party transferring the credits shall notify the
 16 Department of Revenue of:

- 17 (a) The name, address, employer identification number, and bank routing and
 18 transfer number, of the party to which the credits are transferred;
- 19 (b) The amount of credits transferred; and
- 20 (c) Any additional information the Department of Revenue deems necessary.

21 The provisions of this subsection shall apply to any credits that pass through to a
 22 successor or beneficiary of a taxpayer.

23 (9) For purposes of this section, a lessee of a certified historic structure shall be treated
 24 as the owner of the structure if the remaining term of the lease is not less than the
 25 minimum period promulgated by administrative regulation by the council.

- 1 (10) The taxes imposed in KRS 141.020,~~[and]~~ 141.040, and Section 4 of this Act shall
2 not apply to any consideration received for the transfer, sale, assignment, or use of
3 a tax credit approved under this section.
- 4 (11) The Department of Revenue shall assess a penalty on any taxpayer or exempt entity
5 that performs disqualifying work on a certified historic structure for which a
6 rehabilitation has been certified under this section in an amount equal to one
7 hundred percent (100%) of the tax credit allowed on the rehabilitation.
- 8 (12) The council may impose fees for processing applications for tax credits, not to
9 exceed the actual cost associated with processing the applications.
- 10 (13) The council may authorize a local government to perform an initial review of
11 applications for the credit allowed under this section and forward the applications to
12 the council with its recommendations.
- 13 (14) The council and the Department of Revenue may promulgate administrative
14 regulations in accordance with the provisions of KRS Chapter 13A to establish
15 policies and procedures to implement the provisions of subsections (1) to (13) of
16 this section.
- 17 (15) The tax credit authorized by this section shall apply to tax periods ending on or
18 after December 31, 2005.
- 19 Section 69. KRS 65.495 is amended to read as follows:
- 20 (1) In connection with the establishment of any development area, an agency may enter
21 into contracts with one (1) or more taxing districts for the release to the agency of
22 increments expected to be derived by a taxing district within a development area
23 with an existing development asset as leveraged in part by the undertaking of a
24 project.
- 25 (2) No contract shall require the release of less than fifty percent (50%) of the
26 increments, or more than ninety-five percent (95%) of the increments where the
27 revenue is derived solely from ad valorem taxation or solely from occupational

1 license fees, or more than eighty percent (80%) of the increments where the
2 revenue is derived from ad valorem taxes and occupational license fees.

- 3 (3) An agency may enter into a contract with the state, acting by and through the
4 Governor, for an annual grant to the agency in an amount equal to not less than fifty
5 percent (50%) nor more than eighty percent (80%) of the increment in ad valorem
6 taxes, sales taxes, ~~and~~ income taxes, and limited liability entity taxes derived by
7 the state within the development area with an existing economic development asset
8 as leveraged in part by the undertaking of a project.
- 9 (4) Any amount derived by the agency under the terms of a release shall be used solely
10 for the purposes of the project and in the development area.

11 Section 70. KRS 141.018 is amended to read as follows:

12 Consistent with the provisions of 2005 Ky. Acts ch. 168 and the provisions of this Act,
13 the Department of Revenue shall have the authority to interpret and carry out the
14 provisions and intent of amendments made by the 2005 Regular Session of the General
15 Assembly and the 2006 First Extraordinary Session of the General Assembly relative to
16 the imposition of the tax assessed under this chapter on individuals, entities taxable as
17 individuals, entities taxable under KRS 141.040 and Section 4 of this Act, the passed-
18 through income of entities taxable under KRS 141.040 and Section 4 of this Act, entities
19 considered not taxable or exempt from tax, any other entity or taxable unit, and any
20 related item of income, deduction, or credit, and shall promulgate administrative
21 regulations necessary to explain or implement this section.

22 Section 71. KRS 141.990 is amended to read as follows:

- 23 (1) Any individual, fiduciary, corporation, employer, or other person who violates any
24 of the provisions of this chapter shall be subject to the uniform civil penalties
25 imposed pursuant to KRS 131.180.
- 26 (2) Any individual required by KRS 141.300 to file a declaration of estimated tax and
27 required by KRS 141.305 to pay the declaration of estimated tax shall be subject to

1 a penalty as provided in KRS 131.180 for any declaration underpayment or any late
2 payment. Underpayment, for purposes of this subsection, is determined by
3 subtracting declaration credits allowed by KRS 141.070, declaration installment
4 payments actually made, and credit for tax withheld as allowed by KRS 141.350
5 from seventy percent (70%) of the total income tax liability computed by the
6 taxpayer as shown on the return filed for the tax year. This subsection shall not
7 apply to the tax year in which the death of the taxpayer occurs, nor in the case of a
8 farmer exercising an election under subsection (5) of KRS 141.305, nor in the case
9 of any person having a tax liability of five hundred dollars (\$500) or less.

10 (3) Any corporation or limited liability pass-through entity required by KRS 141.042
11 to file a declaration of estimated tax and required to pay the declaration of
12 estimated tax by the installment method prescribed by subsection (1) of KRS
13 141.044 shall be subject to a penalty as provided in KRS 131.180 for any
14 declaration underpayment or any installment not paid on time. Declaration
15 underpayment, for purposes of this subsection, is determined by subtracting five
16 thousand dollars (\$5,000) and declaration payments actually made from seventy
17 percent (70%) of the total tax liability due under KRS 141.040 and computed by the
18 taxpayer on the return filed for the tax year. For taxable years beginning on or after
19 January 1, 2006, the penalty imposed by this subsection shall not apply if estimated
20 payments made under subsection (1) of KRS 141.044 are equal to the amount of tax
21 due under KRS 141.040 for the previous taxable year, and the amount of tax due
22 under KRS 141.040 for the previous year was equal to or less than twenty-five
23 thousand dollars (\$25,000).

24 (4) Every tax imposed by this chapter, and all increases, interest, and penalties thereon,
25 shall become, from the time it is due and payable, a personal debt to the state from
26 the taxpayer or other person liable therefor.

- 1 (5) In addition to the penalties herein prescribed, any taxpayer or employer, who
 2 willfully fails to make a return or willfully makes a false return, or who willfully
 3 fails to pay taxes owing or collected, with intent to evade payment of the tax or
 4 amount collected, or any part thereof, shall be guilty of a Class D felony.
- 5 (6) Any person who willfully aids or assists in, or procures, counsels, or advises the
 6 preparation or presentation under, or in connection with any matter arising under
 7 this chapter of a return, affidavit, claim, or other document, which is fraudulent or
 8 is false as to any material matter, whether or not the falsity or fraud is with the
 9 knowledge or consent of the person authorized or required to present such return,
 10 affidavit, claim, or document, shall be guilty of a Class D felony.
- 11 (7) A return for the purpose of this section shall mean and include any return,
 12 declaration, or form prescribed by the department and required to be filed with the
 13 department by the provisions of this chapter, or by the rules and regulations of the
 14 department or by written request for information to the taxpayer by the department.

15 SECTION 72. A NEW SECTION OF KRS CHAPTER 139 IS CREATED TO
 16 READ AS FOLLOWS:

- 17 (1) As used in this section, "coal-based near zero emission power plant" means a
 18 facility designed to achieve minimum emissions, built in Kentucky for
 19 demonstrating the feasibility of producing electricity and hydrogen from coal,
 20 whose site has been determined acceptable from an environmental impact
 21 perspective in a record of decision published by the United States Department of
 22 Energy after January 1, 2006, and that has received all applicable local planning
 23 and zoning approvals.
- 24 (2) Notwithstanding all other provisions of this chapter, effective July 1, 2006, the
 25 taxes imposed by this chapter shall not apply to the sale, rental, storage, use or
 26 other consumption of tangible personal property used to construct, repair,

1 renovate, or upgrade a coal-based near zero emission power plant including
 2 repair and replacement parts purchased for the plant.

3 (3) The Commerce Cabinet shall establish standards for making applications for the
 4 exemptions provided in this section. Prior to the Commerce Cabinet granting
 5 approval, the Office of the Budget Director shall determine if the power plant
 6 results in a net positive economic impact to the Commonwealth and shall provide
 7 a certification in writing to the Commerce Cabinet. The Commerce Cabinet shall
 8 notify the department in writing that a power plant has qualified for the
 9 exemptions.

10 (4) The Commerce Cabinet may promulgate administrative regulations necessary to
 11 administer the application and certification process of this section.

12 (5) The department may promulgate administrative regulations necessary to
 13 administer the exemptions provided in this section.

14 (6) The provisions of this section shall not apply to sales or purchases made after
 15 December 31, 2030.

16 Section 73. Unless a provision of this Act specifically applies to an earlier tax
 17 year, the provisions of this Act shall apply to taxable years beginning on or after January
 18 1, 2007.

19 Section 74. Whereas certain provisions of this Act relate to the current taxable
 20 year, an emergency is declared to exist, and this Act takes effect upon its passage and
 21 approval by the Governor or upon its otherwise becoming law.