

INTERIM JOINT COMMITTEE ON APPROPRIATIONS AND REVENUE

Minutes of the 2nd Meeting of the 2024 Interim

July 17, 2024

Call to Order and Roll Call

The 2nd meeting of the Interim Joint Committee on Appropriations and Revenue was held on July 17, 2024, at 1:00 PM in Room 149 of the Capitol Annex. Senator Christian McDaniel, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Representative Jason Petrie Co-Chair; Senator Christian McDaniel Co-Chair; Senators Gary Boswell, Matthew Deneen, Donald Douglas, David P. Givens, Gerald A. Neal, and Michael J. Nemes; Representatives Kim Banta, Josh Bray, George Brown Jr., Stephanie Dietz, Myron Dossett, Ken Fleming, Deanna Frazier Gordon, Chris Freeland, Chris Fugate, Mark Hart, DJ Johnson, Bobby McCool, Shawn McPherson, Ruth Ann Palumbo, and Josie Raymond.

Guests: Barbara Quakenboss, Executive Director, Office of Income Taxation for the Department of Revenue; Bethany Atkins Rice, Executive Director, Office of Legal Service for the Department of Revenue; Greg Harkenrider, Deputy Executive Director, Office of State Budget Director; Charles Aull, Executive Director, Kentucky Chamber of Commerce, Center for Policy and Research; Kevin Fuqua, Regional Service Tax Line Lead for the Central Region, Cherry Bekaert Advisory LLC; Brett Antle, Partner, Commonwealth Economics

LRC Staff: Jennifer Hays, Cynthia Brown, Katy Jenkins, Adam Johnson, Sarah Watts, and Heather Hamilton.

Introduction of Representative Petrie's special guest, Denise Petrie.

Department of Revenue and Office of State Budget Director

Barbara Quakenboss began with a brief overview of the pass-through entity tax (PTET) and how it works.

Greg Harkenrider, Deputy Executive Director Office of State Budget Director, spoke about PTET payments and credits.

Ms. Quakenboss then continued with a brief statement about the retroactive nature of the new election of the PTET, what documents were required and what will be required going forward. She mentioned some of the issues with the administrative timing and processing of current returns and refunds related to the PTET election.

Responding to a question from Senator McDaniel, Mr. Harkenrider agreed there is no downside to taking a refundable credit now versus deferring it to another year.

Kentucky Chamber of Commerce

Charles Aull, Executive Director Kentucky Chamber of Commerce, Center for Policy and Research discussed what PTET is and its benefits. He stated the PTET was a voluntary tax option for business owners that helps to reduce their federal income tax liability. Out of the 41 states that levy personal income tax 36 have a PTET. The PTET keeps Kentucky economically competitive with other states.

Kevin Fuqua, Regional Service Tax Line Lead for the Central Region, presented an example of Pre-PTET and Post-PTET scenarios.

Charles Aull finished with additional feedback on PTET. PTET is critical for economic competitiveness with surrounding states. The law's flexibility and fully refundable credit structure is appreciated, as well with the support and guidance from the Department. He questioned the future of PTET when the state and local tax (SALT) cap expires and if Congress will address the states' PTETs.

Responding to a question from Senator McDaniel, Mr. Fuqua stated the PTET would still be advantageous even if the cap expires.

Responding to a question by Senator Boswell, Mr. Fuqua confirmed doing away with state income tax would eliminate any issue with the SALT cap relating to PTET.

Tax Increment Financing and the Individual Income Tax Rate Reduction Process

Brett Antle, Partner, Commonwealth Economics, spoke on the impact that individual income tax (IIT) rate reductions can have on government financing districts around the state and he requested that the modified new revenues approach be made permanent.

Responding to a question from Senator McDaniel, Mr. Antle stated that tax increment financing (TIF) does not have to be based on income but can also be based on other taxing sources.

Representative Petrie commented that to fully mitigate the impacts of IIT rate reductions on existing TIF districts, all the factors need to be addressed when trying to come to a permanent solution to the issue.

Responding to a question by Senator McDaniel, Mr. Antle stated that many projects are mixed use and income tax is always a component. Discounting it all together could keep some projects from going forward.

Responding to questions by Senator Givens, Mr. Antle was unsure of the number of TIFs that rely heavily on IIT revenues. Mr. Antle believed local entities do have access to performances of the TIFs they are going to use to fund the cost of the debt.

Senator Givens asked the two Chairman to write a letter to the appropriate agency, to request the number of TIFs overperforming and underperforming in order to aid in making decisions going forward.

Senator Boswell commented when it comes to previously approved TIFs, the promises made should be kept.

Approval of Minutes

Representative Brown asked about the USA Cares appropriation conversation from last month's meeting. Co-Chair Petrie said it could be revisited next month if it had not been resolved.

Representative Petrie made a motion, seconded by Representative Bray, to approve minutes from the June 5, 2024, meeting.

Correspondence for Review

Senator McDaniel encouraged members to look at the correspondence from Jenny Bannister and Jennifer Hays in the electronic packets provided. Correspondence received included Interim Appropriations Revisions First Quarter 2025, Interim Emergency Appropriation Increases for FY 2024, and Interim Budget Allotment for FY 2024 from Jenny Bannister, and Reports Received in June 2024 from Jennifer Hays.

Next Meeting - August 21, 2024 at 1:00 p.m. in Capitol Annex Room 149, chaired by Rep. Jason Petrie

Adjournment

With no further business before the committee, the meeting was adjourned at 2:15 PM.