

INTERIM JOINT COMMITTEE ON APPROPRIATIONS AND REVENUE

Minutes of the 3rd Meeting of the 2024 Interim

August 21, 2024

Call to Order and Roll Call

The 3rd meeting of the Interim Joint Committee on Appropriations and Revenue was held on August 21, 2024, at 1:00 PM in Room 149 of the Capitol Annex. Representative Jason Petrie, Chair, called the meeting to order, and the secretary called the roll.

Present were:

Members: Senator Christian McDaniel Co-Chair; Representative Jason Petrie Co-Chair; Senators Gary Boswell, Matthew Deneen, Shelley Funke Frommeyer, David P. Givens, and Michael J. Nemes; Representatives Kim Banta, Adam Bowling, Josh Bray, George Brown Jr., Stephanie Dietz, Myron Dossett, Patrick Flannery, Ken Fleming, Deanna Frazier Gordon, Chris Freeland, Chris Fugate, Al Gentry, Mark Hart, DJ Johnson, Shawn McPherson, Ruth Ann Palumbo, Josie Raymond, Steve Riley, and Ken Upchurch.

Guests: John T. Hicks, State Budget Director, Office of State Budget Director; Greg Harkenrider, Deputy Executive Director, Governor's Office for Economic Analysis; Bethany Atkins Rice, Executive Director, Office of Legal Services for the Department of Revenue; Richard Dobson, Executive Director, Office of Sales and Excise Taxes for the Department of Revenue; Gary Morris, Executive Director, Office of Tax Policy and Regulation for the Department of Revenue; Mike Clark, PhD, Director, Center for Business and Economic Research; Jenny Bannister, Deputy Director, Office of Budget Review (LRC); Jennifer Hays, Committee Staff Administrator, Appropriations & Revenue Committee

LRC Staff: Jennifer Hays, Cynthia Brown, Katy Jenkins, and Heather Hamilton.

Approval of Minutes

Senator McDaniel made a motion, seconded by Representative Bowling, to approve the minutes from the July 17, 2024, meeting.

Representative Fugate addressed the committee thanking all who had supported the ATV trail system. He announced the soft opening of the trail system in Martin County on September 14, 2024.

Representative Petrie addressed Greg Harkenrider about his retirement and thanked him for his years of service.

Fiscal Year 2023-2024 Close Out

John T. Hicks, State Budget Director, Office of State Budget Director began with the Fiscal Year 2024 Overview. He discussed the original FY 2024 General Fund budgeted revenue versus the revised revenue estimate. Followed by the FY 2024 General Fund revenues compared to FY 2023. He highlighted the FY 2024 General Fund revenues and the Budget Reserve Trust Fund. He will submit to the committee a report that for FY 2024 the income tax rate reduction conditions have been met. He continued with the FY 2024 Road Fund budgeted revenue versus the revised revenue estimate, the FY 2024 Road Fund budget to actual, and FY 2024 Road Fund revenues compared to FY 2023. He finished with Road Fund revenue milestones and the FY 2024 Road Fund surplus.

Responding to a question from Senator Boswell, Mr. Hicks stated it is the Department of Revenue's responsibility to audit the income taxes and sales and use taxes.

Senator Boswell made a statement regarding the loss of revenue due to the insufficient tax auditing on income taxes and sales taxes.

Department of Revenue - 2025 Legislative Initiatives

Gary Morris, Executive Director, Office of Tax Policy and Regulation for the Department of Revenue (DOR) began with DOR's legislative proposals. The first proposal is an income tax deduction for medicinal cannabis businesses on their Kentucky return. In response to a question from Representative Petrie, Mr. Morris stated he did not have a number on the impact of the deduction.

The second proposal was to clarify the minimum thresholds for being subject to sales tax. Richard Dobson, Executive Director, Office of Sales and Excise Taxes for the Department of Revenue stated that DOR proposes eliminating the 200 item transaction threshold for remote retailers. Also, taxable services should be counted toward the \$100,000 threshold, in addition to tangible personal property.

The third proposal relates to income tax estimated payments and requests for refunds from taxpayers. Mr. Morris stated that to expedite the refund process, DOR needs the capability to refund money overpaid sooner than having to wait until after the filing of taxes due on April 15th.

Next, Mr. Dobson proposed the operators of the charging stations should be added to the definition of a "electric vehicle power dealer" in addition to owners and lessees.

Mr. Dobson proposed allowing a resale provision to admission purchases, and provided an example of the taxpayers this would impact.

Mr. Dobson proposed to provide a sales tax exclusion for extended warranty service contracts for small utilities and commercial mobile radio service providers.

DOR proposed reporting alcohol that is blended with gasoline upon on its first import into Kentucky.

The next proposal would require operators of tobacco and vaping product vending machines to be licensed the same as cigarette vending machine operators.

Mr. Morris suggested to increase the funeral expense deduction from \$5,000 to \$12,000. In response to a question from Representative Petrie, Mr. Morris said he did not have an idea of the impact on the increasing of the funeral deduction but would try to get it.

The last proposal is to eliminate motor fuel tax exemption for taxi cab companies.

Responding to a question from Senator McDaniels, Mr. Dobson stated if a provider of a service is out of state and the party receiving is a Kentucky customer, then it is subject to Kentucky tax.

Responding to a question from Senator Boswell, Mrs. Bethany Atkins Rice, Executive Director, Office of Legal Service for the Department of Revenue stated the DOR is not implementing the tax exemption on currency and bullion sales.

Responding to a question from Senator Boswell, Mr. Dobson stated that the currency and bullion exemption would require legislative action to address the issue.

Responding to a question from Representative Johnson, Mr. Morris clarified that the proposal relating to medical cannabis was an income tax deduction for businesses selling medical cannabis and not a sales tax increase.

Responding to a question from Representative McPherson, Mr. Dobson stated the threshold that he was referring to is under KRS chapter 139, which only applies to sales and use taxes. KRS chapter 139 does not apply to other thresholds like vaping and tobacco products that are regulated in a different chapter.

In response to a question from Senator Givens, Mrs. Rice stated she and her legal staff have agreed the Governor lawfully exercised his veto right on House Bill 8.

Senator Givens commented that there is a question whether the enacted bill is a revenue measure or an appropriation and that this matter is not decided at this time.

Representative Petrie commented that revenue raising, within the context of constitutional language, does not exclusively mean increasing revenue. The case law includes both increases and decreases to revenue as part of the function of “revenue raising.”

In response to a question from Senator Givens, Mrs. Rice stated the DOR is still working on providing the requested information on tax increment financing agreements. The information should be available in the next week.

2024 Annual Economic Report

Mike Clark, PhD, Director Center for Business and Economic Research, began with the annual economic report and an overview of expectations for the economy in 2024. He discussed unemployment numbers, inflation rates, and the percentage change in gross domestic products, unemployment, and labor force rates in Kentucky and the United States. He discussed the distribution of nonfarm employment and trends. He highlighted changes in employment percentages in manufacturing and construction. Mr. Clark shared the U.S. employment cost index for private workers. He concluded with what to expect looking forward with the economy.

Senator Nemes commented inflation rate is down but the prices have not come down. Mr. Clark commented that it is unlikely prices would come down to what they were prior to the pandemic.

In response to a question from Senator Funke Frommeyer, Mr. Clark stated he did not have the numbers available today regarding those who want to work, and are not considered unemployed, but he would provide that to the committee.

Correspondence Received

Co-Chair Petrie made the committee aware of the additional materials provided prior to the meeting. Correspondence received included Interim Allotment Adjustments for FY 2024 & FY 2025 and Interim Emergency Appropriation Increases for FY 2024 & FY 2025 from Jenny Bannister, and Reports Received in July 2024 from Jennifer Hays.

Next Meeting - September 18, 2024, at 1:00 pm chaired by Sen. McDaniel

Adjournment

With no further business the meeting was adjourned at 2:38 PM.