

**COMMONWEALTH OF KENTUCKY STATE FISCAL NOTE STATEMENT
LEGISLATIVE RESEARCH COMMISSION
2015 REGULAR SESSION**

MEASURE

2015 BR NUMBER 1114
RESOLUTION NUMBER _____

HOUSE BILL NUMBER 331
AMENDMENT NUMBER _____

SUBJECT/TITLE An ACT relating to the limited liability entity tax.

SPONSOR Representative Yonts

NOTE SUMMARY

FISCAL ANALYSIS: IMPACT NO IMPACT INDETERMINABLE IMPACT

LEVEL(S) OF IMPACT: STATE LOCAL FEDERAL

BUDGET UNIT(S) IMPACT: _____

FUND(S) IMPACT: GENERAL ROAD FEDERAL RESTRICTED AGENCY _____ OTHER

FISCAL SUMMARY

| FISCAL ESTIMATES | 2014-2015 | 2015-2016 | ANNUAL IMPACT AT FULL IMPLEMENTATION |
|-------------------------|------------------|------------------|---|
| REVENUES | | (\$15,000,000) | (\$20,000,000) |
| EXPENDITURES | | | |
| NET EFFECT | | (\$15,000,000) | (\$20,000,000) |

() indicates a decrease/negative

MEASURE’S PURPOSE: The proposal makes the Kentucky definition of “cost of goods sold” for purposes of the limited liability entity tax the same definition that is used for federal income tax purposes.

PROVISIONS/MECHANICS: The proposal amends KRS 141.0401 to change the definition of “cost of goods sold” to mean amounts that are allowable as cost of goods sold pursuant to the Internal Revenue Code and any guidelines issued by the Internal Revenue Service. The definitions for “direct labor” and “bulk delivery costs” are deleted from the statutory language, allowing costs for indirect labor and other indirect expenses related to manufacturing, producing, reselling, retailing, or wholesaling to be included within the computation of “costs of goods sold”. The amended definition applies to taxable years beginning on or after January 1, 2015.

FISCAL EXPLANATION: The Department of Revenue and the Office of State Budget Director estimate that at full implementation the proposal would have a negative fiscal impact of \$20 million annually. Because of the difference in timing of filing returns for calendar-year and fiscal-year taxpayers, a negative impact of \$15 million is estimated to occur in fiscal year 2015-2016 and full implementation is estimated to occur in fiscal year 2016-2017.

DATA SOURCE(S): Department of Revenue and Office of State Budget Director

PREPARER: Jennifer Hays **NOTE NUMBER:** 48 **REVIEW:** GMR **DATE:** 3/2/2015