AN ACT relating to the taxation of pension income, making an appropriation therefor, and declaring an emergency.

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

Section 1. KRS 141.019 is amended to read as follows:

For taxable years beginning on or after January 1, 2018, in the case of taxpayers other than corporations:

(1) Adjusted gross income shall be calculated by subtracting from the gross income of those taxpayers the deductions allowed individuals by Section 62 of the Internal Revenue Code and adjusting as follows:

(a) Exclude income that is exempt from state taxation by the Kentucky Constitution and the Constitution and statutory laws of the United States;

(b) Exclude income from supplemental annuities provided by the Railroad Retirement Act of 1937 as amended and which are subject to federal income tax by Pub. L. No. 89-699;

(c) Include interest income derived from obligations of sister states and political subdivisions thereof;

(d) Exclude employee pension contributions picked up as provided for in KRS 6.505, 16.545, 21.360, 61.523, 61.560, 65.155, 67A.320, 67A.510, 78.610, and 161.540 upon a ruling by the Internal Revenue Service or the federal courts that these contributions shall not be included as gross income until such time as the contributions are distributed or made available to the employee;

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

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

(g) 1. {a.—}For taxable years beginning after December 31, 2005{, but before January 1, 2018}, exclude up to forty-one thousand one hundred ten dollars ($41,110) of total distributions from pension plans, annuity contracts, profit-sharing plans, retirement plans, or employee savings plans{; and}

b. For taxable years beginning on or after January 1, 2018, exclude up to thirty-one thousand one hundred ten dollars ($31,110) of total distributions from pension plans, annuity contracts, profit-sharing plans, retirement plans, or employee savings plans.

2. As used in this paragraph:

a. "Annuity contract" has the same meaning as set forth in Section 1035 of the Internal Revenue Code;

b. "Distributions" includes but is not limited to any lump-sum distribution from pension or profit-sharing plans qualifying for the income tax averaging provisions of Section 402 of the Internal Revenue Code; any distribution from an individual retirement account as defined in Section 408 of the Internal Revenue Code; and any disability pension distribution; and

c. "Pension plans, profit-sharing plans, retirement plans, or employee savings plans" means any trust or other entity created or organized under a written retirement plan and forming part of a stock bonus, pension, or profit-sharing plan of a public or private employer for the exclusive benefit of employees or their beneficiaries and includes plans qualified or unqualified under Section 401 of the Internal Revenue Code and individual retirement accounts as defined in Section 408 of the Internal Revenue Code;
(h) 1. a. Exclude the portion of the distributive share of a shareholder's net income from an S corporation subject to the franchise tax imposed under KRS 136.505 or the capital stock tax imposed under KRS 136.300; and  

b. Exclude the portion of the distributive share of a shareholder's net income from an S corporation related to a qualified subchapter S subsidiary subject to the franchise tax imposed under KRS 136.505 or the capital stock tax imposed under KRS 136.300.

2. The shareholder's basis of stock held in an S corporation where the S corporation or its qualified subchapter S subsidiary is subject to the franchise tax imposed under KRS 136.505 or the capital stock tax imposed under KRS 136.300 shall be the same as the basis for federal income tax purposes;

(i) Exclude income received for services performed as a precinct worker for election training or for working at election booths in state, county, and local primaries or regular or special elections;

(j) Exclude any capital gains income attributable to property taken by eminent domain;

(k) 1. Exclude all income from all sources for members of the Armed Forces who are on active duty and who are killed in the line of duty, for the year during which the death occurred and the year prior to the year during which the death occurred.

2. For the purposes of this paragraph, "all income from all sources" shall include all federal and state death benefits payable to the estate or any beneficiaries;

(l) Exclude all military pay received by members of the Armed Forces while on active duty;
1. Include the amount deducted for depreciation under 26 U.S.C. sec. 167
or 168; and
2. Exclude the amounts allowed by KRS 141.0101 for depreciation; and

Include the amount deducted under 26 U.S.C. sec. 199A; and

(2) Net income shall be calculated by subtracting from adjusted gross income all the
deductions allowed individuals by Chapter 1 of the Internal Revenue Code, as
modified by KRS 141.0101, except:

(a) Any deduction allowed by 26 U.S.C. sec. 164 for taxes;
(b) Any deduction allowed by 26 U.S.C. sec. 165 for losses, except wagering
losses allowed under Section 165(d) of the Internal Revenue Code;
(c) Any deduction allowed by 26 U.S.C. sec. 213 for medical care expenses;
(d) Any deduction allowed by 26 U.S.C. sec. 217 for moving expenses;
(e) Any deduction allowed by 26 U.S.C. sec. 67 for any other miscellaneous
deduction;
(f) Any deduction allowed by the Internal Revenue Code for amounts allowable
under KRS 140.090(1)(h) in calculating the value of the distributive shares of
the estate of a decedent, unless there is filed with the income return a
statement that the deduction has not been claimed under KRS 140.090(1)(h);
(g) Any deduction allowed by 26 U.S.C. sec. 151 for personal exemptions and
any other deductions in lieu thereof;
(h) Any deduction allowed for amounts paid to any club, organization, or
establishment which has been determined by the courts or an agency
established by the General Assembly and charged with enforcing the civil
rights laws of the Commonwealth, not to afford full and equal membership
and full and equal enjoyment of its goods, services, facilities, privileges,
advantages, or accommodations to any person because of race, color, religion,
national origin, or sex, except nothing shall be construed to deny a deduction

for amounts paid to any religious or denominational club, group, or
establishment or any organization operated solely for charitable or educational
purposes which restricts membership to persons of the same religion or
denomination in order to promote the religious principles for which it is
established and maintained; and

(i) A taxpayer may elect to claim the standard deduction allowed by KRS
141.081 instead of itemized deductions allowed pursuant to 26 U.S.C. sec. 63
and as modified by this section.

Section 2. The provisions of Section 1 of this Act shall apply retroactively for
taxable years beginning on or after January 1, 2018. The Department of Revenue shall
automatically issue refunds of excess income tax paid for any individual who files an
individual income tax return before Section 1 of this Act is integrated into the tax return
form.

Section 3. Whereas relief from excessive taxation of pension income is vital to
many citizens of the Commonwealth, an emergency is declared to exist, and this Act
takes effect upon its passage and approval by the Governor or upon its otherwise
becoming a law.