

1 AN ACT relating to the individual income tax rate.

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

3 ➔Section 1. KRS 141.020 is amended to read as follows:

4 (1) An annual tax shall be paid for each taxable year by every resident individual of  
5 this state upon his or her entire net income as defined in this chapter. The tax shall  
6 be determined by applying the rates in subsection (2) of this section to net income  
7 and subtracting allowable tax credits provided in subsection (3) of this section.

8 (2) (a) As used in this subsection:

9 1. "Balance in the BRTF at the end of a fiscal year" means the budget  
10 reserve trust fund account established in KRS 48.705 and includes the  
11 following amounts and actions resulting from the final close of the fiscal  
12 year:

13 a. The amount of moneys in the fund at the end of a fiscal year;

14 b. All close-out actions related to a budget reduction plan under KRS  
15 48.130 or as modified in a branch budget bill; and

16 c. All close-out actions related to the surplus expenditure plan under  
17 KRS 48.140 or as modified in a branch budget bill;

18 2. "GF appropriations" means the authorization by the General Assembly  
19 to expend GF moneys, excluding:

20 a. Continuing appropriations;

21 b. Any appropriation to the budget reserve trust fund;

22 c. Any lump-sum appropriation to a state-administered retirement  
23 system, as defined in KRS 7A.210, that is in excess of the  
24 appropriations specifically budgeted to meet the recurring  
25 statutorily required contributions or recurring actuarially  
26 determined contributions for a state-administered retirement  
27 system under KRS 21.525, 61.565, 61.702, 78.635, 78.5536, or

- 1                   161.550, as applicable; and
- 2                   d. Any appropriation from the budget reserve trust fund account
- 3                   established in KRS 48.705 that is:
- 4                   i. Solely supported by moneys from the budget reserve trust
- 5                   fund account; and
- 6                   ii. Specifically identified in the appropriation language as not
- 7                   being a GF appropriation for the purposes of this section;
- 8                   3. "GF moneys" means receipts deposited in the general fund defined in
- 9                   KRS 48.010, excluding tobacco moneys deposited in the fund
- 10                  established in KRS 248.654;
- 11                  4. "IIT equivalent" means the amount of reduction in GF moneys resulting
- 12                  from a one (1) percentage point reduction to the individual income tax
- 13                  rate and shall be calculated by dividing the actual individual income tax
- 14                  receipts for the fiscal year under consideration by:
- 15                  a. The sum of:
- 16                   i. The individual income tax rate, expressed as a percentage,
- 17                   for the first six (6) months of the fiscal year; and
- 18                   ii. The individual income tax rate, expressed as a percentage,
- 19                   for the second six (6) months of the fiscal year; and
- 20                  b. Dividing the sum determined in subdivision a. of this
- 21                  subparagraph by two (2);
- 22                  5. "Reduction conditions" means:
- 23                  a. The balance in the BRTF at the end of a fiscal year shall be equal
- 24                  to or greater than ten percent (10%) of the GF moneys for that
- 25                  fiscal year; and
- 26                  b. GF moneys at the end of a fiscal year shall be equal to or greater
- 27                  than GF appropriations for that fiscal year plus the IIT equivalent

1 for that fiscal year; and

2 6. "Tax rate reduction" means the current tax rate minus five-tenths of one  
3 percent (0.5%).

4 (b) For taxable years beginning on or after January 1, 2023, but prior to January  
5 1, 2024, the tax shall be four and one-half percent (4.5%) of net income.

6 (c) For taxable years beginning on or after January 1, 2024, **but before January**  
7 **1, 2026**, the tax shall be four percent (4%) of net income.

8 (d) **For taxable years beginning on or after January 1, 2026, the tax shall be**  
9 **three and one-half percent (3.5%) of net income.**

10 **(e)** 1. For taxable years beginning on or after January 1, ~~2027~~[2025], the  
11 income tax rate may be reduced according to the annual process  
12 established in subparagraphs 2. to 5. of this paragraph.

13 2. The Office of State Budget Director shall review the reduction  
14 conditions for the fiscal year ~~2024-2025~~[2022-2023] no later than  
15 September 1, ~~2025~~[2023].

16 3. After reviewing the reduction conditions under subparagraph 2. of this  
17 paragraph, the Office of State Budget Director shall, no later than  
18 September 5, ~~2025~~[2023], report to the Interim Joint Committee on  
19 Appropriations and Revenue:

20 a. Whether the reduction conditions for the fiscal year ~~2024-~~  
21 ~~2025~~[2022-2023] have been met; and

22 b. The amounts associated with each item within the reduction  
23 conditions used for making that determination.

24 4. a. If the reduction conditions have been met for fiscal year ~~2024-~~  
25 ~~2025~~[2022-2023], the General Assembly may take action to  
26 reduce the rate in paragraph ~~(d)~~[(e)] of this subsection for the  
27 taxable year beginning January 1, ~~2027~~[2025].

- 1                   b.    If the reduction conditions have not been met for fiscal year 2024-  
2                                   2025~~[2022-2023]~~ or the General Assembly does not take action to  
3                                   reduce the rate in paragraph (d)~~[(e)]~~ of this subsection, the  
4                                   department shall maintain the rate in paragraph (d)~~[(e)]~~ of this  
5                                   subsection for the taxable year beginning January 1, 2027~~[2025]~~.
- 6                   5.    a.    The Office of State Budget Director shall implement an annual  
7                                   process to review and report future reduction conditions at the  
8                                   same time and in the same manner for each fiscal year subsequent  
9                                   to the fiscal year 2024-2025~~[2022-2023]~~ and each taxable year  
10                                  subsequent to the taxable year beginning January 1, 2027~~[2025]~~.
- 11                   b.    The department shall not implement an income tax rate reduction  
12                                  without an action by the General Assembly.
- 13                   c.    The annual process shall continue until the income tax rate is zero.
- 14                   (f)~~[(e)]~~    For taxable years beginning on or after January 1, 2018, but before  
15                                  January 1, 2023, the tax shall be five percent (5%) of net income.
- 16                   (g)~~[(f)]~~    For taxable years beginning after December 31, 2004, and before  
17                                  January 1, 2018, the tax shall be determined by applying the following rates to  
18                                  net income:
- 19                   1.    Two percent (2%) of the amount of net income up to three thousand  
20                                  dollars (\$3,000);
- 21                   2.    Three percent (3%) of the amount of net income over three thousand  
22                                  dollars (\$3,000) and up to four thousand dollars (\$4,000);
- 23                   3.    Four percent (4%) of the amount of net income over four thousand  
24                                  dollars (\$4,000) and up to five thousand dollars (\$5,000);
- 25                   4.    Five percent (5%) of the amount of net income over five thousand  
26                                  dollars (\$5,000) and up to eight thousand dollars (\$8,000);
- 27                   5.    Five and eight-tenths percent (5.8%) of the amount of net income over

1                   eight thousand dollars (\$8,000) and up to seventy-five thousand dollars  
2                   (\$75,000); and

3                   6. Six percent (6%) of the amount of net income over seventy-five  
4                   thousand dollars (\$75,000).

5 (3) (a) The following tax credits, when applicable, shall be deducted from the result  
6                   obtained under subsection (2) of this section to arrive at the annual tax:

7                   1. a. For taxable years beginning before January 1, 2014, twenty dollars  
8                   (\$20) for an unmarried individual; and

9                   b. For taxable years beginning on or after January 1, 2014, and  
10                   before January 1, 2018, ten dollars (\$10) for an unmarried  
11                   individual;

12                   2. a. For taxable years beginning before January 1, 2014, twenty dollars  
13                   (\$20) for a married individual filing a separate return and an  
14                   additional twenty dollars (\$20) for the spouse of taxpayer if a  
15                   separate return is made by the taxpayer and if the spouse, for the  
16                   calendar year in which the taxable year of the taxpayer begins, had  
17                   no Kentucky gross income and is not the dependent of another  
18                   taxpayer; or forty dollars (\$40) for married persons filing a joint  
19                   return, provided neither spouse is the dependent of another  
20                   taxpayer. The determination of marital status for the purpose of  
21                   this section shall be made in the manner prescribed in Section 153  
22                   of the Internal Revenue Code; and

23                   b. For taxable years beginning on or after January 1, 2014, and  
24                   before January 1, 2018, ten dollars (\$10) for a married individual  
25                   filing a separate return and an additional ten dollars (\$10) for the  
26                   spouse of a taxpayer if a separate return is made by the taxpayer  
27                   and if the spouse, for the calendar year in which the taxable year of

- 1 the taxpayer begins, had no Kentucky gross income and is not the  
2 dependent of another taxpayer; or twenty dollars (\$20) for married  
3 persons filing a joint return, provided neither spouse is the  
4 dependent of another taxpayer. The determination of marital status  
5 for the purpose of this section shall be made in the manner  
6 prescribed in Section 153 of the Internal Revenue Code;
- 7 3. a. For taxable years beginning before January 1, 2014, twenty dollars  
8 (\$20) credit for each dependent. No credit shall be allowed for any  
9 dependent who has made a joint return with his or her spouse; and  
10 b. For taxable years beginning on or after January 1, 2014, and  
11 before January 1, 2018, ten dollars (\$10) credit for each  
12 dependent. No credit shall be allowed for any dependent who has  
13 made a joint return with his or her spouse;
- 14 4. An additional forty dollars (\$40) credit if the taxpayer has attained the  
15 age of sixty-five (65) before the close of the taxable year;
- 16 5. An additional forty dollars (\$40) credit for taxpayer's spouse if a  
17 separate return is made by the taxpayer and if the taxpayer's spouse has  
18 attained the age of sixty-five (65) before the close of the taxable year,  
19 and, for the calendar year in which the taxable year of the taxpayer  
20 begins, has no Kentucky gross income and is not the dependent of  
21 another taxpayer;
- 22 6. An additional forty dollars (\$40) credit if the taxpayer is blind at the  
23 close of the taxable year;
- 24 7. An additional forty dollars (\$40) credit for taxpayer's spouse if a  
25 separate return is made by the taxpayer and if the taxpayer's spouse is  
26 blind, and, for the calendar year in which the taxable year of the  
27 taxpayer begins, has no Kentucky gross income and is not the dependent

1                   of another taxpayer; and

2           8.    An additional twenty dollars (\$20) credit shall be allowed if the taxpayer  
3                   is a member of the Kentucky National Guard at the close of the taxable  
4                   year.

5           (b)   In the case of nonresidents, the tax credits allowable under this subsection  
6                   shall be the portion of the credits that are represented by the ratio of the  
7                   taxpayer's Kentucky adjusted gross income as determined by KRS 141.019 to  
8                   the taxpayer's adjusted gross income as defined in Section 62 of the Internal  
9                   Revenue Code. However, in the case of a married nonresident taxpayer with  
10                  income from Kentucky sources, whose spouse has no income from Kentucky  
11                  sources, the taxpayer shall determine allowable tax credit(s) by either:

12                  1.    The method contained above applied to the taxpayer's tax credit(s),  
13                          excluding credits for a spouse and dependents; or

14                  2.    Prorating the taxpayer's tax credit(s) plus the tax credits for the  
15                          taxpayer's spouse and dependents by the ratio of the taxpayer's  
16                          Kentucky adjusted gross income as determined by KRS 141.019 to the  
17                          total joint federal adjusted gross income of the taxpayer and the  
18                          taxpayer's spouse.

19           (c)   In the case of a part-year resident, the tax credits allowable under this  
20                   subsection shall be the portion of the credits represented by the ratio of the  
21                   taxpayer's Kentucky adjusted gross income as determined by KRS 141.019 to  
22                   the taxpayer's adjusted gross income as defined in Section 62 of the Internal  
23                   Revenue Code.

24           (4)   An annual tax shall be paid for each taxable year as specified in this section upon  
25                   the entire net income except as herein provided, from all tangible property located  
26                   in this state, from all intangible property that has acquired a business situs in this  
27                   state, and from business, trade, profession, occupation, or other activities carried on

1 in this state, by natural persons not residents of this state. A nonresident individual  
2 shall be taxable only upon the amount of income received by the individual from  
3 labor performed, business done, or from other activities in this state, from tangible  
4 property located in this state, and from intangible property which has acquired a  
5 business situs in this state; provided, however, that the situs of intangible personal  
6 property shall be at the residence of the real or beneficial owner and not at the  
7 residence of a trustee having custody or possession thereof. For taxable years  
8 beginning on or after January 1, 2021, but before January 1, 2027, the tax imposed  
9 by this section shall not apply to a disaster response employee or to a disaster  
10 response business. The remainder of the income received by such nonresident shall  
11 be deemed nontaxable by this state.

12 (5) Subject to the provisions of KRS 141.081, any individual may elect to pay the  
13 annual tax imposed by KRS 141.023 in lieu of the tax levied under this section.

14 (6) A part-year resident is subject to taxation, as prescribed in subsection (1) of this  
15 section, during that portion of the taxable year that the individual is a resident and,  
16 as prescribed in subsection (4) of this section, during that portion of the taxable year  
17 when the individual is a nonresident.