

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.