

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) For taxable years beginning on or after January 1, 2027, the tax shall be
9 determined by:

10 1. Applying the following rates, based on net incomes of up to three
11 hundred thousand dollars (\$300,000):

12 a. Three and one-half percent (3.5%) of the amount of net income,
13 up to two hundred fifty thousand dollars (\$250,000); and

14 b. Six percent (6%) of the amount of net income over two hundred
15 fifty thousand dollars (\$250,000) and up to three hundred
16 thousand dollars (\$300,000); or

17 2. Applying a rate of six percent (6%) of net income, if the total amount
18 of net income exceeds three hundred thousand dollars (\$300,000).

19 (b) For taxable years beginning on or after January 1, 2026, but before
20 January 1, 2027, the tax shall be three and one-half percent (3.5%) of net
21 income.

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

24 (d) For taxable years beginning on or after January 1, 2023, but before
25 January 1, 2024, the tax shall be four and one-half percent (4.5%) of net
26 income~~[As used in this subsection:~~

27 1. "Balance in the BRTF at the end of a fiscal year" means the budget

1 ~~reserve trust fund account established in KRS 48.705 and includes the~~
2 ~~following amounts and actions resulting from the final close of the fiscal~~
3 ~~year:~~

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

5 ~~b. All close-out actions related to a budget reduction plan under KRS~~
6 ~~48.130 or as modified in a branch budget bill; and~~

7 ~~c. All close-out actions related to the surplus expenditure plan under KRS~~
8 ~~48.140 or as modified in a branch budget bill;~~

9 ~~2. "GF appropriations" means the authorization by the General Assembly~~
10 ~~to expend GF moneys, excluding:~~

11 ~~a. Continuing appropriations;~~

12 ~~b. Any appropriation to the budget reserve trust fund;~~

13 ~~c. Any lump sum appropriation to a state administered retirement system,~~
14 ~~as defined in KRS 7A.210, that is in excess of the appropriations~~
15 ~~specifically budgeted to meet the recurring statutorily required~~
16 ~~contributions or recurring actuarially determined contributions for a~~
17 ~~state administered retirement system under KRS 21.525, 61.565,~~
18 ~~61.702, 78.635, 78.5536, or 161.550, as applicable; and~~

19 ~~d. Any appropriation from the budget reserve trust fund account~~
20 ~~established in KRS 48.705 that is:~~

21 ~~i. Solely supported by moneys from the budget reserve trust fund account;~~
22 ~~and~~

23 ~~ii. Specifically identified in the appropriation language as not being a GF~~
24 ~~appropriation for the purposes of this section;~~

25 ~~3. "GF moneys" means receipts deposited in the general fund defined in~~
26 ~~KRS 48.010, excluding tobacco moneys deposited in the fund~~
27 ~~established in KRS 248.654;~~

1 4. ~~"IIT equivalent" means the amount of reduction in GF moneys resulting~~
2 ~~from a one (1) percentage point reduction to the individual income tax~~
3 ~~rate and shall be calculated by dividing the actual individual income tax~~
4 ~~receipts for the fiscal year under consideration by:~~

5 a. ~~The sum of:~~

6 i. ~~The individual income tax rate, expressed as a percentage, for the first~~
7 ~~six (6) months of the fiscal year; and~~

8 ii. ~~The individual income tax rate, expressed as a percentage, for the~~
9 ~~second six (6) months of the fiscal year; and~~

10 b. ~~Dividing the sum determined in subdivision a. of this subparagraph by~~
11 ~~two (2); and~~

12 5. ~~For analysis through fiscal year 2024 2025 and for reporting through~~
13 ~~September 5, 2025:~~

14 a. ~~"Reduction conditions" means:~~

15 i. ~~The balance in the BRTF at the end of a fiscal year shall be equal to or~~
16 ~~greater than ten percent (10%) of the GF moneys for that fiscal year; and~~

17 ii. ~~GF moneys at the end of a fiscal year shall be equal to or greater than~~
18 ~~GF appropriations for that fiscal year plus the IIT equivalent for that~~
19 ~~fiscal year; and~~

20 b. ~~"Tax rate reduction" means the current tax rate minus five tenths of one~~
21 ~~percent (0.5%).~~

22 (b) 1. ~~For the analysis for fiscal year 2025 2026 and fiscal year 2026~~
23 ~~2027, and for reporting on or before September 5, 2026, and September~~
24 ~~5, 2027, "tax rate reduction conditions" means the greatest reduction~~
25 ~~achieved under subparagraphs 2. and 3. of this paragraph.~~

26 2. ~~If:~~

27 a. ~~The balance in the BRTF at the end of a fiscal year is equal to or greater~~

1 than ten percent (10%) of the GF moneys for that fiscal year; and

2 b. ~~GF moneys at the end of a fiscal year are equal to or greater than GF~~
3 ~~appropriations for that fiscal year plus an amount that falls within a~~
4 ~~range of greater than fifty percent (50%) but less than one hundred~~
5 ~~percent (100%) of the IIT equivalent for that fiscal year;~~

6 ~~then the tax rate reduction may be the current tax rate minus twenty-five~~
7 ~~one-hundredths of one percent (0.25%).~~

8 3. ~~If:~~

9 a. ~~The balance in the BRTF at the end of a fiscal year is equal to or greater~~
10 ~~than ten percent (10%) of the GF moneys for that fiscal year; and~~

11 b. ~~GF moneys at the end of a fiscal year are equal to or greater than GF~~
12 ~~appropriations for that fiscal year plus the IIT equivalent for that fiscal~~
13 ~~year;~~

14 ~~then the tax rate reduction may be the current tax rate minus five-tenths~~
15 ~~of one percent (0.5%).~~

16 (c) 1. ~~For the analysis for fiscal year 2027-2028 and each fiscal year~~
17 ~~thereafter and for reporting on or before September 5, 2028, and each~~
18 ~~September 5 thereafter, "tax rate reduction conditions" means the~~
19 ~~greatest reduction achieved under subparagraphs 2. to 6. of this~~
20 ~~paragraph.~~

21 2. ~~If:~~

22 a. ~~The balance in the BRTF at the end of a fiscal year is equal to or greater~~
23 ~~than ten percent (10%) of the GF moneys for that fiscal year; and~~

24 b. ~~GF moneys at the end of a fiscal year are equal to or greater than GF~~
25 ~~appropriations for that fiscal year plus an amount that falls within a~~
26 ~~range of equal to or greater than twenty percent (20%) but not greater~~
27 ~~than thirty-nine percent (39%) of the IIT equivalent for that fiscal year;~~

1 ~~—then the tax rate reduction may be the current tax rate minus one-tenth~~
2 ~~of one percent (0.1%).~~

3 ~~3.—If:~~

4 ~~a.—The balance in the BRTF at the end of a fiscal year is equal to or greater~~
5 ~~than ten percent (10%) of the GF moneys for that fiscal year; and~~

6 ~~b.—GF moneys at the end of a fiscal year are equal to or greater than GF~~
7 ~~appropriations for that fiscal year plus an amount that falls within a~~
8 ~~range of equal to or greater than forty percent (40%) but not greater than~~
9 ~~fifty nine percent (59%) of the IIT equivalent for that fiscal year;~~

10 ~~—then the tax rate reduction may be the current tax rate minus two-tenths~~
11 ~~of one percent (0.2%).~~

12 ~~4.—If:~~

13 ~~a.—The balance in the BRTF at the end of a fiscal year is equal to or greater~~
14 ~~than ten percent (10%) of the GF moneys for that fiscal year; and~~

15 ~~b.—GF moneys at the end of a fiscal year are equal to or greater than GF~~
16 ~~appropriations for that fiscal year plus an amount that falls within a~~
17 ~~range of equal to or greater than sixty percent (60%) but not greater than~~
18 ~~seventy nine percent (79%) of the IIT equivalent for that fiscal year;~~

19 ~~—then the tax rate reduction may be the current tax rate minus three-tenths~~
20 ~~of one percent (0.3%).~~

21 ~~5.—If:~~

22 ~~a.—The balance in the BRTF at the end of a fiscal year is equal to or greater~~
23 ~~than ten percent (10%) of the GF moneys for that fiscal year; and~~

24 ~~b.—GF moneys at the end of a fiscal year are equal to or greater than GF~~
25 ~~appropriations for that fiscal year plus an amount that falls within a~~
26 ~~range of equal to or greater than eighty percent (80%) but not greater~~
27 ~~than ninety nine percent (99%) of the IIT equivalent for that fiscal year;~~

1 ~~—then the tax rate reduction may be the current tax rate minus four tenths~~
2 ~~of one percent (0.4%).~~

3 ~~6.—If:~~

4 ~~a.—The balance in the BRTF at the end of a fiscal year is equal to or greater~~
5 ~~than ten percent (10%) of the GF moneys for that fiscal year; and~~

6 ~~b.—GF moneys at the end of a fiscal year are equal to or greater than GF~~
7 ~~appropriations for that fiscal year plus the HT equivalent for that fiscal~~
8 ~~year;~~

9 ~~—then the tax rate reduction may be the current tax rate minus five tenths~~
10 ~~of one percent (0.5%).~~

11 ~~(d)—For taxable years beginning on or after January 1, 2023, but [prior] to January~~
12 ~~1, 2024, the tax shall be four and one half percent (4.5%) of net income.~~

13 ~~(e)—For taxable years beginning on or after January 1, 2024, but before January 1,~~
14 ~~2026, the tax shall be four percent (4%) of net income.~~

15 ~~(f)—For taxable years beginning on or after January 1, 2026, the tax shall be three~~
16 ~~and one half percent (3.5%) of net income.~~

17 ~~(g)—1. For taxable years beginning on or after January 1, 2027, the income tax~~
18 ~~rate may be reduced according to the annual process established in:~~

19 ~~a.—subparagraph 2. or 3. of this paragraph; and~~

20 ~~b.—Subparagraph 4. of this paragraph.~~

21 ~~2.—a.—The Office of State Budget Director shall review the reduction~~
22 ~~conditions for the fiscal year 2024-2025 no later than September 1,~~
23 ~~2025.~~

24 ~~b.—After reviewing the reduction conditions under subdivision a. of this~~
25 ~~subparagraph, the Office of State Budget Director shall, no later~~
26 ~~than September 5, 2025, report to the Interim Joint Committee on~~
27 ~~Appropriations and Revenue:~~

- 1 i. ~~Whether the reduction conditions for the fiscal year 2024-2025 have~~
2 ~~been met; and~~
- 3 ii. ~~The amounts associated with each item within the reduction conditions~~
4 ~~used for making that determination.~~
- 5 e. i. ~~If the reduction conditions have been met for fiscal year 2024-~~
6 ~~2025, the General Assembly may take action to reduce the rate in~~
7 ~~paragraph (f) of this subsection for the taxable year beginning~~
8 ~~January 1, 2027.~~
- 9 ii. ~~If the reduction conditions have not been met for fiscal year 2024-2025~~
10 ~~or the General Assembly does not take action to reduce the rate in~~
11 ~~paragraph (f) of this subsection, the department shall maintain the~~
12 ~~rate in paragraph (f) of this subsection for the taxable year~~
13 ~~beginning January 1, 2027.~~
- 14 3. a. ~~The Office of State Budget Director shall review the tax rate~~
15 ~~reduction conditions for the fiscal year 2025-2026 no later than~~
16 ~~September 1, 2026.~~
- 17 b. ~~After reviewing the tax rate reduction conditions under~~
18 ~~subdivision a. of this subparagraph, the Office of State Budget~~
19 ~~Director shall, no later than September 5, 2026, report to the~~
20 ~~Interim Joint Committee on Appropriations and Revenue:~~
- 21 i. ~~Whether the tax rate reduction conditions for the fiscal year~~
22 ~~2025-2026 have been met; and~~
- 23 ii. ~~The amounts associated with each item within the tax rate~~
24 ~~reduction conditions used for making that determination.~~
- 25 c. i. ~~If the tax rate reduction conditions have been met for fiscal~~
26 ~~year 2025-2026, the General Assembly may take action to~~
27 ~~reduce the rate in paragraph (f) of this subsection for the~~

1 taxable year beginning January 1, 2028.

2 ii. ~~If the tax rate reduction conditions have not been met for~~
3 ~~fiscal year 2025-2026 or the General Assembly does not take~~
4 ~~action to reduce the rate in paragraph (f) of this subsection,~~
5 ~~the department shall maintain the rate in paragraph (f) of this~~
6 ~~subsection for the taxable year beginning January 1, 2028.~~

7 4. ~~a. The Office of State Budget Director shall implement an annual~~
8 ~~process to review and report future reduction conditions or tax rate~~
9 ~~reduction conditions at the same time and in the same manner for~~
10 ~~each fiscal year subsequent to the fiscal year 2024-2025 and each~~
11 ~~taxable year subsequent to the taxable year beginning January 1,~~
12 ~~2027.~~

13 b. ~~The department shall not implement an income tax rate reduction~~
14 ~~without an action by the General Assembly.~~

15 c. ~~The annual process shall continue until the income tax rate is~~
16 ~~zero}.~~

17 ~~(e)(h)}~~ For taxable years beginning on or after January 1, 2018, but before
18 January 1, 2023, the tax shall be five percent (5%) of net income.

19 ~~(f)(i)}~~ For taxable years beginning after December 31, 2004, and before
20 January 1, 2018, the tax shall be determined by applying the following rates to
21 net income:

- 22 1. Two percent (2%) of the amount of net income up to three thousand
23 dollars (\$3,000);
- 24 2. Three percent (3%) of the amount of net income over three thousand
25 dollars (\$3,000) and up to four thousand dollars (\$4,000);
- 26 3. Four percent (4%) of the amount of net income over four thousand
27 dollars (\$4,000) and up to five thousand dollars (\$5,000);

- 1 4. Five percent (5%) of the amount of net income over five thousand
2 dollars (\$5,000) and up to eight thousand dollars (\$8,000);
 - 3 5. Five and eight-tenths percent (5.8%) of the amount of net income over
4 eight thousand dollars (\$8,000) and up to seventy-five thousand dollars
5 (\$75,000); and
 - 6 6. Six percent (6%) of the amount of net income over seventy-five
7 thousand dollars (\$75,000).
- 8 (3) (a) The following tax credits, when applicable, shall be deducted from the result
9 obtained under subsection (2) of this section to arrive at the annual tax:
- 10 1. a. For taxable years beginning before January 1, 2014, twenty dollars
11 (\$20) for an unmarried individual; and
 - 12 b. For taxable years beginning on or after January 1, 2014, and
13 before January 1, 2018, ten dollars (\$10) for an unmarried
14 individual;
 - 15 2. a. For taxable years beginning before January 1, 2014, twenty dollars
16 (\$20) for a married individual filing a separate return and an
17 additional twenty dollars (\$20) for the spouse of taxpayer if a
18 separate return is made by the taxpayer and if the spouse, for the
19 calendar year in which the taxable year of the taxpayer begins, had
20 no Kentucky gross income and is not the dependent of another
21 taxpayer; or forty dollars (\$40) for married persons filing a joint
22 return, provided neither spouse is the dependent of another
23 taxpayer. The determination of marital status for the purpose of
24 this section shall be made in the manner prescribed in Section 153
25 of the Internal Revenue Code; and
 - 26 b. For taxable years beginning on or after January 1, 2014, and
27 before January 1, 2018, ten dollars (\$10) for a married individual

1 filing a separate return and an additional ten dollars (\$10) for the
2 spouse of a taxpayer if a separate return is made by the taxpayer
3 and if the spouse, for the calendar year in which the taxable year of
4 the taxpayer begins, had no Kentucky gross income and is not the
5 dependent of another taxpayer; or twenty dollars (\$20) for married
6 persons filing a joint return, provided neither spouse is the
7 dependent of another taxpayer. The determination of marital status
8 for the purpose of this section shall be made in the manner
9 prescribed in Section 153 of the Internal Revenue Code;

- 10 3. a. For taxable years beginning before January 1, 2014, twenty dollars
11 (\$20) credit for each dependent. No credit shall be allowed for any
12 dependent who has made a joint return with his or her spouse; and
13 b. For taxable years beginning on or after January 1, 2014, and
14 before January 1, 2018, ten dollars (\$10) credit for each
15 dependent. No credit shall be allowed for any dependent who has
16 made a joint return with his or her spouse;
- 17 4. An additional forty dollars (\$40) credit if the taxpayer has attained the
18 age of sixty-five (65) before the close of the taxable year;
- 19 5. An additional forty dollars (\$40) credit for taxpayer's spouse if a
20 separate return is made by the taxpayer and if the taxpayer's spouse has
21 attained the age of sixty-five (65) before the close of the taxable year,
22 and, for the calendar year in which the taxable year of the taxpayer
23 begins, has no Kentucky gross income and is not the dependent of
24 another taxpayer;
- 25 6. An additional forty dollars (\$40) credit if the taxpayer is blind at the
26 close of the taxable year;
- 27 7. An additional forty dollars (\$40) credit for taxpayer's spouse if a

1 separate return is made by the taxpayer and if the taxpayer's spouse is
2 blind, and, for the calendar year in which the taxable year of the
3 taxpayer begins, has no Kentucky gross income and is not the dependent
4 of another taxpayer; and

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

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

15 1. The method contained above applied to the taxpayer's tax credit(s),
16 excluding credits for a spouse and dependents; or
17 2. Prorating the taxpayer's tax credit(s) plus the tax credits for the
18 taxpayer's spouse and dependents by the ratio of the taxpayer's
19 Kentucky adjusted gross income as determined by KRS 141.019 to the
20 total joint federal adjusted gross income of the taxpayer and the
21 taxpayer's spouse.

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

27 (4) An annual tax shall be paid for each taxable year as specified in this section upon

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

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

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