COMMONWEALTH OF KENTUCKY FISCAL NOTE STATEMENT
LEGISLATIVE RESEARCH COMMISSION
2022 REGULAR SESSION

MEASURE

2022 BR NUMBER 897 HOUSE BILL NUMBER 445

TITLE AN ACT relating to limited liability entity tax.

SPONSOR Representative David Hale

FISCAL SUMMARY

STATE FISCAL IMPACT: ☒ YES ☐ NO ☐ UNCERTAIN

OTHER FISCAL STATEMENT(S) THAT MAY APPLY: ☐ ACTUARIAL ANALYSIS
☐ LOCAL MANDATE ☐ CORRECTIONS IMPACT ☐ HEALTH BENEFIT MANDATE

APPROPRIATION UNIT(S) IMPACTED: _____

FUND(S) IMPACTED: ☒ GENERAL ☐ ROAD ☐ FEDERAL ☐ RESTRICTED _____

FISCAL ESTIMATES	2021-2022	2022-2023	2023-2024	ANNUAL IMPACT AT FULL IMPLEMENTATION
REVENUES		(indeterminable)	(indeterminable)	(indeterminable)
EXPENDITURES				
NET EFFECT		(indeterminable)	(indeterminable)	(indeterminable)

( ) indicates a decrease/negative

PURPOSE OF MEASURE: This proposed legislation allows the deduction of cost of goods sold to be taken for all entities for purposes of the Limited Liability Entity Tax (LLET). Currently, LLET has two formulas for computing the tax due which are based on either gross receipts or gross profits, which allows as a deduction against gross receipts the cost of goods sold. Only taxpayers in the manufacturing, producing, reselling, retailing, or wholesaling industries may deduct cost of goods sold. By updating the definition and removing the specific industries that can currently deduct cost of goods sold, all businesses will be allowed to take the deduction. By amending KRS 141.0401, Kentucky's LLET cost of goods sold definition will align with the Internal Revenue Service definition.

FISCAL EXPLANATION: The fiscal impact of this legislation is indeterminable; however, there will be a negative impact to the General Fund. It is impossible to estimate an overall amount. Data is not available to determine: (1) The impact on taxpayers that are currently using the gross profits calculation or (2) The impact on businesses that will switch from the gross receipts to the gross profits calculation. It could be assumed that all businesses will now opt to compute their LLET via the gross profits method and not the gross receipts method. Also, this change could potentially decrease the amount of LLET credit that is taken on the individual and corporate tax returns. There is allowed a nonrefundable LLET credit based on the amount of LLET due in excess of the minimum amount of $175.00. To determine the impact on the income taxes, specific taxpayer data related to income tax liability is required. LRC does not have that specific data. A lower income tax credit would result in a positive impact on revenue. Due to these unknown factors, a determination cannot be made on the total fiscal impact.

DATA SOURCE(S): **LRC Staff**
PREPARER: **Sarah Watts** **NOTE NUMBER**: **54** **REVIEW**: **JAB** **DATE**: **2/14/2022**