MEASURE

2023 BR NUMBER 225  HOUSE BILL NUMBER 1

TITLE  AN ACT relating to income taxation.

SPONSOR  Representative Jason Petrie

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 ____

<table>
<thead>
<tr>
<th>FISCAL ESTIMATES</th>
<th>2022-2023</th>
<th>2023-2024</th>
<th>ANNUAL IMPACT AT FULL IMPLEMENTATION</th>
</tr>
</thead>
<tbody>
<tr>
<td>REVENUES</td>
<td></td>
<td>($315.8 M)</td>
<td>(Indeterminable)</td>
</tr>
<tr>
<td>EXPENDITURES</td>
<td></td>
<td>($315.8 M)</td>
<td>(Indeterminable)</td>
</tr>
<tr>
<td>NET EFFECT</td>
<td></td>
<td>($315.8 M)</td>
<td>(Indeterminable)</td>
</tr>
</tbody>
</table>

( ) indicates a decrease/negative

PURPOSE OF MEASURE: The purpose of HB 1 is to codify the individual income tax rate reductions for taxable years beginning January 1, 2023, and January 1, 2024.

FISCAL EXPLANATION: During the 2022 Regular Session of the General Assembly, KRS 141.020 was amended to define the individual income tax rate reduction conditions and require the Department of Revenue to report on those conditions for fiscal year 2020-2021 and fiscal year 2021-2022. The Department was required to report to the Interim Joint Committee on Appropriations and Revenue no later than September 5, 2022, whether the reduction conditions had been met for the two fiscal years. In a memorandum dated August 30, 2022, Thomas B. Miller, Commissioner of the Department of Revenue, reported that the reduction conditions had been met for each of the two fiscal years.

According to the language enacted in 2022 RS HB 8, the individual income tax rate change from 5.0 percent to 4.5 percent for taxable years beginning on or after January 1, 2023, was automatic, and the Department immediately began to implement the first rate reduction. The second individual income tax rate change from 4.5 percent to 4.0 percent for taxable years beginning on or after January 1, 2024, required action by the General Assembly. HB 1 contains that action.
The Consensus Forecasting Group (CFG) met on December 14, 2022, to revise General Fund (GF) estimates for fiscal year 2022-2023 and fiscal year 2023-2024. The revised GF estimates are reflective of the first rate reduction but not the second, as the CFG could not presume to know the actions of a future General Assembly.

It is estimated that the second rate reduction, from 4.5 percent to 4.0 percent, will reduce GF revenues in fiscal year 2023-2024 by approximately $315.8 million. This estimate is reflective of both reduced withholding and declaration payments in the last two quarters of fiscal year 2023-2024 due to the proposed second rate change.

**DATA SOURCE(S):** LRC Office of Economic Analysis, Consensus Forecasting Group

**PREPARER:** Jennifer Hays **NOTE NUMBER:** 1 **REVIEW:** JAB **DATE:** 1/4/2023