

**COMMONWEALTH OF KENTUCKY FISCAL NOTE STATEMENT
LEGISLATIVE RESEARCH COMMISSION
2025 REGULAR SESSION**

MEASURE

2025 BR NUMBER 195

HOUSE BILL NUMBER 1

TITLE AN ACT relating to the individual income tax rate.

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 _____

FISCAL ESTIMATES	2024-2025	2025-2026	ANNUAL IMPACT AT FULL IMPLEMENTATION
REVENUES		(\$359 million)	(\$718 million)
EXPENDITURES			
NET EFFECT		(\$359 million)	(\$718 million)

() indicates a decrease/negative

PURPOSE OF MEASURE: House Bill 1 proposes to reduce the individual income tax rate to 3.5% for taxable years beginning on or after January 1, 2026. The current individual income tax rate is 4%, effective for taxable years beginning on or after January 1, 2024. The Office of the State Budget Director verified in correspondence dated August 21, 2024, that the statutory reduction conditions have been met for fiscal year 2023-2024. For the rate to be reduced, KRS 141.020 requires that the reduction conditions be met and action be taken by the General Assembly.

FISCAL EXPLANATION: It is estimated that the reduction to the individual income tax rate to 3.5% will reduce General Fund revenues in fiscal year 2025-2026 by approximately \$359 million. This estimate reflects reduced withholding and declaration payments in the last two quarters of fiscal year 2025-2026 due to the rate change.

DATA SOURCE(S): LRC Staff

PREPARER: Sarah Watts **NOTE NUMBER:** 1 **REVIEW:** JR **DATE:** 1/7/2025