

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

MEASURE

2025 BR NUMBER _____

HOUSE BILL NUMBER 1 – HFA #3 – Doc ID. 1933

TITLE AN ACT relating to the individual income tax rate.

SPONSOR Representative Erika Hancock

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		(\$47.3 million)	(\$94.7 million)
EXPENDITURES			
NET EFFECT		(\$47.3 million)	(\$94.7 million)

() indicates a decrease/negative

PURPOSE OF MEASURE: House Floor Amendment #3 to HB 1 retains the original provisions of the bill. Additionally, the amendment proposes to exclude from individual income tax all wages earned by a state service employee. A state service employee is defined to mean a person regularly appointed to a position in the executive, legislative, or judicial branch of government for which he or she is compensated on a full-time, part-time, or interim basis, but does not include members of the General Assembly.

FISCAL EXPLANATION: To determine the fiscal impact of the amendment, staff used the current annualized amount of state payroll, totaling approximately \$2,298.5 billion for approximately 40,000 employees. Since the number of hours worked for the approximate 500 part-time employees is not known, those employees’ wages were annualized and included in the total state service employee wages. Total wages were then increased by 3 percent to account for the budgeted raise for state employees on July 1, 2025. This payroll figure was then multiplied by the current 4 percent tax rate. Because the beginning of tax year 2026 aligns with only the second half of FY 2026, one-half a full year's impact is realized. The full implementation will be realized in FY 2027.

DATA SOURCE(S): LRC Staff and American Community Survey (ACS)

PREPARER: Jennifer Hays **NOTE NUMBER:** JR **REVIEW:** JH **DATE:** 1/9/2025