

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

**MEASURE**

2025 BR NUMBER 276

HOUSE BILL NUMBER 26

**TITLE** AN ACT relating to individual income tax exclusions.

**SPONSOR** Representative Patrick Flannery

**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 \_\_\_\_\_

<b>FISCAL ESTIMATES</b>	<b>2024-2025</b>	<b>2025-2026</b>	<b>ANNUAL IMPACT AT FULL IMPLEMENTATION</b>
<b>REVENUES</b>			(indeterminable)
<b>EXPENDITURES</b>			
<b>NET EFFECT</b>			(indeterminable)

( ) indicates a decrease/negative

**PURPOSE OF MEASURE:** House Bill 26 proposes to allow an exclusion from individual income tax for tips and overtime compensation. Currently, employees are required to report tips to their employer and these amounts are included as wages and subject to income tax. Overtime compensation is also included as wages and subject to taxation. This proposal would require employers to separately state the amount earned as tips and overtime compensation on the state portion of the W-2 statement. Employers, in turn, would not be required to withhold tax on this income, and employees would be able to exclude these amounts from individual income tax.

**FISCAL EXPLANATION:** There would be a negative fiscal impact to the General Fund as a result of this measure. However, the impact cannot be determined since under current statute and the Internal Revenue Code it is not a requirement to separately account for income derived from overtime compensation and most tips.

**DATA SOURCE(S):** LRC Staff

**PREPARER:** Sarah Watts **NOTE NUMBER:** 29 **REVIEW:** JMR **DATE:** 2/19/2025