

HB 518/GA would require the Secretary of State to establish a statewide electronic system for filing and paying local occupational license taxes by developing standardized electronic forms and instructions through administrative regulation, along with a formal advisory committee and implementation timeline.

Prior to July 1, 2029, tax districts would be required to adopt or accept the standardized electronic forms as their exclusive electronic return forms unless they opt out under specified conditions. A tax district could opt out if it had an online filing and payment system in use on or before January 1, 2025, or had entered into a binding contract for the implementation of such a system on or before July 1, 2026. A tax district that opts out would be required to provide an electronic link to its online filing and payment system to the Secretary of State for inclusion on the one-stop business portal or another public website maintained by that office, provide a copy of the written order specifying that it has a qualifying system and will not accept the standard forms within thirty days of adoption, and provide copies of the occupational license tax forms it accepts, any accompanying instructions, and any amendments and electronic links within thirty days of any change.

A tax district that accepts the standard forms would have nine months from the final approval date of an administrative regulation establishing any new or amended standard forms to comply with the applicable provisions.

After July 1, 2029, tax districts would be required to adopt the standard forms as their exclusive electronic forms unless the tax district submits a written request approved by its governing body to the Secretary of State for an exemption based on documented information that acceptance of the form would impose an undue financial hardship or that the tax district is part of an interlocal agreement providing for a single tax collection process for multiple jurisdictions. The Secretary of State would be required to approve the request for exemption and obtain the return forms and any applicable instructions for inclusion on the one-stop business portal or another public website maintained by that office. In exercising discretion to grant an exemption, the Secretary of State may impose reasonable terms and limitations.

After July 1, 2029, tax districts would be required to provide on their official website, or by other means, access for business entities to download forms, returns, instructions, and methods of acceptable electronic payment in a manner that allows the forms and returns to be electronically completed and submitted. Tax districts would be required to allow electronic payment by automated clearinghouse electronic funds transfer directly to the tax district's designated depository account or by another approved electronic method, may charge an additional electronic processing fee to recover actual costs incurred in connection with electronic filing and payment, and must provide an electronic receipt upon successful filing and payment.

A tax district would not be subject to certain electronic filing and payment requirements if approved by annual application to the Secretary of State and if it collected less than \$200,000 in the immediately preceding fiscal year from the combined levy of all types of

occupational license taxes or submits reasonable evidence that the cost of compliance would exceed five percent of the taxing district’s total annual budget.

The Secretary of State would be required to include electronic links for downloading forms and accessing online tax filing and payment systems on the one-stop business portal or another website maintained by that office within thirty days of receipt from a tax district.

The fiscal impact of HB 518/GA is indeterminable, but is likely to be minimal.

Under Section 181 of the Kentucky Constitution and KRS 67.083, KRS 68.180, and KRS 68.197, Kentucky counties are authorized to impose occupational license taxes, subject to population-based rate limits. According to a 2025 publication by the Kentucky Association of Counties (KACo), as of January 2025, 87 counties levied an occupational license tax, with all 87 taxing payroll and 70 taxing net profits, at rates ranging from 0.50 percent to 2.5 percent, with a median rate of 1 percent. Similarly, cities may impose occupational license taxes under Section 181 of the Kentucky Constitution and KRS 92.281 and are not subject to statutory rate limits. According to a 2023 publication from the Kentucky League of Cities (KLC), approximately 173 Kentucky cities imposed an occupational license tax in FY 2023, with median rates of 1.375 percent on payroll, 1.5 percent on net profits, and 0.075 percent on gross receipts.

The fiscal impact of HB 518/GA would vary across jurisdictions. Not all cities and counties levy occupational license taxes, and for those that do, it is unknown which jurisdictions would be eligible to opt out of the standardized system or would choose to do so. For jurisdictions that adopt the standardized forms, there may be modest administrative savings associated with standardization, as well as transitional costs related to staff training and system changes. Jurisdictions that opt out would avoid these transition costs but may incur minor administrative expenses associated with reporting, publication, and ongoing compliance requirements. For those that opt out after July 1, 2029, preparing documentation to demonstrate undue financial hardship or participation in an interlocal agreement could require staff time or legal review, particularly for smaller jurisdictions with limited administrative capacity. Overall, these impacts are expected to be minimal.

Data Source(s): Kentucky League of Cities; Kentucky Association of Counties; LRC staff

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