

**COMMONWEALTH OF KENTUCKY FISCAL NOTE STATEMENT  
LEGISLATIVE RESEARCH COMMISSION  
2020 REGULAR SESSION**

**MEASURE**

2020 BR NUMBER 339

HOUSE BILL NUMBER 42

**TITLE** AN ACT relating to the rural hospital tax credit.

**SPONSOR** Representative George Brown Jr.

**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>2019-2020</b>	<b>2020-2021</b>	<b>2021-2022</b>	<b>ANNUAL IMPACT AT FULL IMPLEMENTATION</b>
<b>REVENUES</b>		(\$5,000,000)	(\$15,000,000)	(\$20,000,000)
<b>EXPENDITURES</b>				
<b>NET EFFECT</b>		(\$5,000,000)	(\$15,000,000)	(\$20,000,000)

( ) indicates a decrease/negative

**PURPOSE OF MEASURE:** The proposal creates a new income tax credit for individuals and corporations making donations to a rural hospital organization, as the term is defined in the proposal. The new tax credit applies to taxable years beginning on or after January 1, 2021, but before January 1, 2025.

The tax credit is equal to the amount of donation made, except that the tax credit for a taxpayer other than a corporation shall not exceed \$5,000 in a calendar year and the tax credit for a corporation shall not exceed \$10,000 in a calendar year.

Additionally, the maximum amount of credit that may be claimed in a taxable year shall not exceed 75% of the total income tax liability, which would be otherwise due for that taxable year. Any unused tax credit shall be allowed against the succeeding 5 years of tax liability.

Finally, the aggregate tax credit awarded by the Department of Revenue in a calendar year shall not exceed \$20 million.

As defined, the rural hospital organization must be designated as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code. With that designation, the taxpayer would be allowed a charitable deduction for both federal and state tax purposes equal to the amount of donation made to the

organization. In addition to the deduction allowed, the taxpayer would also receive a tax credit for the same donation for Kentucky tax purposes.

**FISCAL EXPLANATION:** It has been the continued experience in the Commonwealth that the full amount of investments will be made by investors to consume the entire credit cap.

When considering other similar tax credits requiring investments, the estimated negative impact to the General Fund in FY 2021 is related to a reduction in estimated tax payments in anticipation of claiming the new tax credit on the Kentucky tax return.

Since only 75% of the full amount awarded for the tax credit can be taken in the first full year of implementation, the estimated impact to the General Fund during FY 2022 is a negative \$15 million. Since the remaining 25% of the first year's awarded credit may be taken in the succeeding taxable year, the second year of implementation is estimated to be a negative \$20 million.

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

**PREPARER:** Jennifer Hays **NOTE NUMBER:** 33 **REVIEW:** JAB **DATE:** 1/21/2020