

1 AN ACT relating to taxation.

2 ***Be it enacted by the General Assembly of the Commonwealth of Kentucky:***

3 ➔Section 1. KRS 141.020 is amended to read as follows:

4 (1) An annual tax shall be paid for each taxable year by every resident individual of this  
5 state upon his entire net income as defined in this chapter. The tax shall be  
6 determined by applying the rates in subsection (2) of this section to net income and  
7 subtracting allowable tax credits provided in subsection (3) of this section.

8 (2) (a) ***For taxable years beginning on or after January 1, 2019, the tax shall be***  
9 ***determined by applying the following rates to net income:***

10 ***1. Two percent (2%) of the amount of net income up to three thousand***  
11 ***dollars (\$3,000);***

12 ***2. Three percent (3%) of the amount of net income over three thousand***  
13 ***dollars (\$3,000) and up to four thousand dollars (\$4,000);***

14 ***3. Four percent (4%) of the amount of net income over four thousand***  
15 ***dollars (\$4,000) and up to five thousand dollars (\$5,000);***

16 ***4. Five percent (5%) of the amount of net income over five thousand***  
17 ***dollars (\$5,000) and up to eight thousand dollars (\$8,000);***

18 ***5. Five and eight-tenths percent (5.8%) of the amount of net income over***  
19 ***eight thousand dollars (\$8,000) and up to seventy-five thousand***  
20 ***dollars (\$75,000); and***

21 ***6. Six percent (6%) of the amount of net income over seventy-five***  
22 ***thousand dollars (\$75,000).***

23 ***(b)*** For taxable years beginning on or after January 1, 2018, ***and before January***  
24 ***1, 2019,*** the tax shall be five percent (5%) of net income.

25 ***(c)***~~***(b)***~~ For taxable years beginning after December 31, 2004, and before  
26 January 1, 2018, the tax shall be determined by applying the following rates to  
27 net income:

- 1           1. Two percent (2%) of the amount of net income up to three thousand  
2           dollars (\$3,000);
  - 3           2. Three percent (3%) of the amount of net income over three thousand  
4           dollars (\$3,000) and up to four thousand dollars (\$4,000);
  - 5           3. Four percent (4%) of the amount of net income over four thousand  
6           dollars (\$4,000) and up to five thousand dollars (\$5,000);
  - 7           4. Five percent (5%) of the amount of net income over five thousand  
8           dollars (\$5,000) and up to eight thousand dollars (\$8,000);
  - 9           5. Five and eight-tenths percent (5.8%) of the amount of net income over  
10          eight thousand dollars (\$8,000) and up to seventy-five thousand dollars  
11          (\$75,000); and
  - 12          6. Six percent (6%) of the amount of net income over seventy-five  
13          thousand dollars (\$75,000).
- 14   (3)   (a)   The following tax credits, when applicable, shall be deducted from the result  
15          obtained under subsection (2) of this section to arrive at the annual tax:
- 16          1.   a.   For taxable years beginning before January 1, 2014, twenty dollars  
17               (\$20) for an unmarried individual; and
  - 18          b.   For taxable years beginning on or after January 1, 2014, and before  
19               January 1, 2018, ten dollars (\$10) for an unmarried individual;
  - 20          2.   a.   For taxable years beginning before January 1, 2014, twenty dollars  
21               (\$20) for a married individual filing a separate return and an  
22               additional twenty dollars (\$20) for the spouse of taxpayer if a  
23               separate return is made by the taxpayer and if the spouse, for the  
24               calendar year in which the taxable year of the taxpayer begins, had  
25               no Kentucky gross income and is not the dependent of another  
26               taxpayer; or forty dollars (\$40) for married persons filing a joint  
27               return, provided neither spouse is the dependent of another

- 1 taxpayer. The determination of marital status for the purpose of  
2 this section shall be made in the manner prescribed in Section 153  
3 of the Internal Revenue Code; and
- 4 b. For taxable years beginning on or after January 1, 2014, and before  
5 January 1, 2018, ten dollars (\$10) for a married individual filing a  
6 separate return and an additional ten dollars (\$10) for the spouse of  
7 a taxpayer if a separate return is made by the taxpayer and if the  
8 spouse, for the calendar year in which the taxable year of the  
9 taxpayer begins, had no Kentucky gross income and is not the  
10 dependent of another taxpayer; or twenty dollars (\$20) for married  
11 persons filing a joint return, provided neither spouse is the  
12 dependent of another taxpayer. The determination of marital status  
13 for the purpose of this section shall be made in the manner  
14 prescribed in Section 153 of the Internal Revenue Code;
- 15 3. a. For taxable years beginning before January 1, 2014, twenty dollars  
16 (\$20) credit for each dependent. No credit shall be allowed for any  
17 dependent who has made a joint return with his or her spouse; and
- 18 b. For taxable years beginning on or after January 1, 2014, and before  
19 January 1, 2018, ten dollars (\$10) credit for each dependent. No  
20 credit shall be allowed for any dependent who has made a joint  
21 return with his or her spouse;
- 22 4. An additional forty dollars (\$40) credit if the taxpayer has attained the  
23 age of sixty-five (65) before the close of the taxable year;
- 24 5. An additional forty dollars (\$40) credit for taxpayer's spouse if a  
25 separate return is made by the taxpayer and if the taxpayer's spouse has  
26 attained the age of sixty-five (65) before the close of the taxable year,  
27 and, for the calendar year in which the taxable year of the taxpayer

- 1 begins, has no Kentucky gross income and is not the dependent of  
2 another taxpayer;
- 3 6. An additional forty dollars (\$40) credit if the taxpayer is blind at the  
4 close of the taxable year;
- 5 7. An additional forty dollars (\$40) credit for taxpayer's spouse if a  
6 separate return is made by the taxpayer and if the taxpayer's spouse is  
7 blind, and, for the calendar year in which the taxable year of the taxpayer  
8 begins, has no Kentucky gross income and is not the dependent of  
9 another taxpayer;
- 10 8. In the case of a fiduciary, other than an estate, the allowable tax credit  
11 shall be two dollars (\$2);
- 12 9. In the case of an estate, the allowable tax credit shall be ten dollars  
13 (\$10); and
- 14 10. An additional twenty dollars (\$20) credit shall be allowed if the taxpayer  
15 is a member of the Kentucky National Guard at the close of the taxable  
16 year.
- 17 (b) In the case of nonresidents, the tax credits allowable under this subsection  
18 shall be the portion of the credits that are represented by the ratio of the  
19 taxpayer's Kentucky adjusted gross income as determined by KRS 141.019 to  
20 the taxpayer's adjusted gross income as defined in Section 62 of the Internal  
21 Revenue Code. However, in the case of a married nonresident taxpayer with  
22 income from Kentucky sources, whose spouse has no income from Kentucky  
23 sources, the taxpayer shall determine allowable tax credit(s) by either:
- 24 1. The method contained above applied to the taxpayer's tax credit(s),  
25 excluding credits for a spouse and dependents; or
- 26 2. Prorating the taxpayer's tax credit(s) plus the tax credits for the  
27 taxpayer's spouse and dependents by the ratio of the taxpayer's Kentucky

1 adjusted gross income as determined by KRS 141.019 to the total joint  
2 federal adjusted gross income of the taxpayer and the taxpayer's spouse.

3 (c) In the case of a part-year resident, the tax credits allowable under this  
4 subsection shall be the portion of the credits represented by the ratio of the  
5 taxpayer's Kentucky adjusted gross income as determined by KRS 141.019 to  
6 the taxpayer's adjusted gross income as defined in Section 62 of the Internal  
7 Revenue Code.

8 (4) An annual tax shall be paid for each taxable year as specified in this section upon  
9 the entire net income except as herein provided, from all tangible property located  
10 in this state, from all intangible property that has acquired a business situs in this  
11 state, and from business, trade, profession, occupation, or other activities carried on  
12 in this state, by natural persons not residents of this state. A nonresident individual  
13 shall be taxable only upon the amount of income received by the individual from  
14 labor performed, business done, or from other activities in this state, from tangible  
15 property located in this state, and from intangible property which has acquired a  
16 business situs in this state; provided, however, that the situs of intangible personal  
17 property shall be at the residence of the real or beneficial owner and not at the  
18 residence of a trustee having custody or possession thereof. The remainder of the  
19 income received by such nonresident shall be deemed nontaxable by this state.

20 (5) Subject to the provisions of KRS 141.081, any individual may elect to pay the  
21 annual tax imposed by KRS 141.023 in lieu of the tax levied under this section.

22 (6) A part-year resident is subject to taxation, as prescribed in subsection (1) of this  
23 section, during that portion of the taxable year that the individual is a resident and,  
24 as prescribed in subsection (4) of this section, during that portion of the taxable year  
25 when the individual is a nonresident.

26 ➔Section 2. KRS 141.040 is amended to read as follows:

27 (1) Every corporation doing business in this state, except those corporations listed in

1 paragraphs (a) to (h) of this subsection, shall pay for each taxable year a tax to be  
2 computed by the taxpayer on taxable net income at the rates specified in this  
3 section:

- 4 (a) Financial institutions, as defined in KRS 136.500, except bankers banks  
5 organized under KRS 286.3-135;
- 6 (b) Savings and loan associations organized under the laws of this state and under  
7 the laws of the United States and making loans to members only;
- 8 (c) Banks for cooperatives;
- 9 (d) Production credit associations;
- 10 (e) Insurance companies, including farmers or other mutual hail, cyclone,  
11 windstorm, or fire insurance companies, insurers, and reciprocal underwriters;
- 12 (f) Corporations or other entities exempt under Section 501 of the Internal  
13 Revenue Code;
- 14 (g) Religious, educational, charitable, or like corporations not organized or  
15 conducted for pecuniary profit; and
- 16 (h) Corporations whose only owned or leased property located in this state is  
17 located at the premises of a printer with which it has contracted for printing,  
18 provided that:
- 19 1. The property consists of the final printed product, or copy from which  
20 the printed product is produced; and
  - 21 2. The corporation has no individuals receiving compensation in this state  
22 as provided in KRS 141.120(8)(b).

23 (2) **For taxable years beginning on or after January 1, 2019, the following rates shall**  
24 **apply:**

25 **(a) Four percent (4%) of the first fifty thousand dollars (\$50,000) of taxable net**  
26 **income;**

27 **(b) Five percent (5%) of taxable net income over fifty thousand dollars**

1                   *(\$50,000) up to one hundred thousand dollars (\$100,000); and*  
2                   *(c) Six percent (6%) of taxable net income over one hundred thousand dollars*  
3                   *(\$100,000).*

4     **(3)** For taxable years beginning on or after January 1, 2018, *and before January 1,*  
5                   *2019,* the rate of five percent (5%) of taxable net income shall apply.

6     ~~**(4)**~~ For taxable years beginning on or after January 1, 2007, and before January 1,  
7                   2018, the following rates shall apply:

8                   (a) Four percent (4%) of the first fifty thousand dollars (\$50,000) of taxable net  
9                   income;

10                  (b) Five percent (5%) of taxable net income over fifty thousand dollars (\$50,000)  
11                  up to one hundred thousand dollars (\$100,000); and

12                  (c) Six percent (6%) of taxable net income over one hundred thousand dollars  
13                  (\$100,000).

14     ~~**(5)**~~ (a) An S corporation shall pay income tax on the same items of income and  
15                  in the same manner as required for federal purposes, except to the extent  
16                  required by differences between this chapter and the federal income tax law  
17                  and regulations.

18                  (b) 1. If the S corporation is required under Section 1363(d) of the Internal  
19                  Revenue Code to submit installments of tax on the recapture of LIFO  
20                  benefits, installments to pay the Kentucky tax due shall be paid on or  
21                  before the due date of the S corporation's return, as extended, if  
22                  applicable.

23                  2. Notwithstanding KRS 141.170(3), no interest shall be assessed on the  
24                  installment payment for the period of extension.

25                  (c) If the S corporation is required under Section 1374 or 1375 of the Internal  
26                  Revenue Code to pay tax on built-in gains or on passive investment income,  
27                  the amount of tax imposed by this subsection shall be computed by applying

- 1                   the highest rate of tax for the taxable year.
- 2                   ➔Section 3. This Act may be cited as the Kentucky Taxpayer Fairness Act.