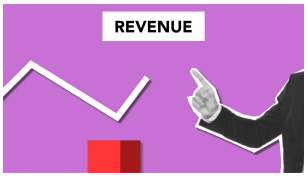

More Revenue in Kentucky Means Individual Income Tax Cut For Kentuckians

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The Kentucky General Assembly took its first big steps in eliminating the Kentucky individual income tax this Spring with the passage of House Bill 8. H.B. 8 was a comprehensive tax reform bill that accomplished a number of things, including expanding the state's sales tax base and setting forth an amnesty program; but most significantly, H.B. 8 provided a phase-out of the Kentucky individual income tax.

As discussed at length in our prior articles, the bill initially proposed automatically cutting the individual income tax rate from 5% to 4% beginning January 1, 2023, with an automated phaseout provision that over time eliminated the individual income tax altogether. While the phase out provision remained in the final version of the bill, the rate percentage decreases were moved to .5% upon the achievement of certain revenue triggers and approval by the Department of Revenue and General Assembly.

It was reported earlier this year that the Department confirmed the revenue benchmark necessary to drop the tax rate from 5% to 4.5% beginning January 1, 2023.

Although achieving the first benchmark for a rate reduction in 2023 was expected when the General Assembly passed H.B. 8 because of a $1.1 billion surplus the state closed its books with for the 2021 fiscal year, what was more unknown at that time was when/if the state would achieve the next set of benchmarks to continue to lower the rate in subsequent years. Following a recent report by the Consensus Forecasting Group (CFG), it appears that certain Kentucky taxpayers should expect to see more income tax rate reductions in the coming years.

The CFG was established by the General Assembly for the purpose of estimating state tax revenue. As the state closed its fiscal year in June of this year with higher revenue numbers than what was initially expected, the CFG amended its revenue predictions for the

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2023 and 2024 fiscal years. For FYE 2023, the CFG changed its revenue estimate from $14 billion to $15.2 billion, and for FYE 2024, the CFG changed its revenue estimate from $14.6 billion to $15.4 billion.

So, what does this mean for taxpayers? Based on these projections and the revenue reported for the 2022 fiscal year, another 0.5% reduction in the individual income tax rate is warranted beginning January 1, 2024. However, the General Assembly must approve this reduction during the 2023 Legislative Session this Spring.

Looking forward, as many economists expect the economy to at least plateau if not decline in the coming months, the rapid growth seen in the state's revenue will likely slow. However, it is anticipated that the state will see an increase in overall tax revenue from the sales and use tax expansion.

So, while it is uncertain whether taxpayers should expect .5% rate decreases every January 1st, taxpayers should at least expect reductions in the next few years.

For more information about Kentucky tax issues, visit FBT's Tax Law Defined Blog.

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