

## KENTUCKY DEPARTMENT OF REVENUE

Kentucky has some of the most competitive tax rates in the country. Below is an outline of state taxes impacting Kentucky business.

### CORPORATION NET INCOME TAX

Kentucky corporations and foreign corporations are subject to income tax due to a “doing business” standard. The tax rate is as follows:

Net Taxable Income	Tax Rate	Per Taxable Income Level
\$0 – \$50,000	4%	
\$50,001 – \$100,000	5%	
\$100,001 +	6%	

Corporations having business income taxable in Kentucky and elsewhere pay Kentucky income tax on the portion of business income earned in Kentucky as determined by the state’s apportionment formula. The formula is based upon the Uniform Division of Income for Tax Purpose Act (UDITPA), which has been adopted by many states, and uses a three-factor formula (sales, property, and payroll) with sales being double weighted.

A Limited Liability Entity Tax (LLET) applies to both C corporations and Limited Liability Pass-Through Entities (LLPTEs) and is not an alternative to another tax. However, corporations paying the LLET are allowed to apply that amount as a credit towards its regular corporate income tax. The LLET may be calculated using the lesser of \$0.095/\$100 of Kentucky gross receipts or \$0.75/\$100 of Kentucky gross profits. A minimum tax of \$175 applies regardless of the method used.

### INCOME TAX: PROPRIETORSHIPS AND PASS-THRU ENTITIES

Sole proprietorships and pass-through entities are exempt from state corporate income taxes. Instead, owners pay state individual income taxes on their share of earnings from the business, regardless of whether the income is used for personal use or reinvested in the business. Corporate partners involved with a pass-through entity doing business in Kentucky are taxed on the distributive share of the pass-through entities’ income. If the corporate partner’s only business activity in Kentucky is the pass-through entity interest, then the corporate partner is subject to Kentucky’s corporation income tax on its distributive share income multiplied by the three-factor apportionment formula.

### LOCAL OCCUPATIONAL LICENSE TAX ON NET PROFITS

Kentucky statutes allow cities, counties and school districts to levy occupational license taxes on the net profits of businesses, including corporations, proprietorships, partnerships and self-employed individuals. The taxes may be levied either on a flat-rate schedule (based on type of business or employment size) or as a percentage of local net profits or gross receipts. For businesses with payroll and sales in more than one tax jurisdiction, net profits or gross receipts are apportioned using an equal weight of a payroll factor and a sales factor. For businesses with just sales in more than one tax jurisdiction, net profits or gross receipts are apportioned using a sales factor only. A few cities and counties place a cap on the tax payable annually by an individual business or exempt the lower amounts of profits. Some communities exempt income from sales to points outside of the local area.

For current occupational license tax rates & forms visit <http://app.sos.ky.gov/occupationaltax/>.

### STATE AND LOCAL PROPERTY TAX

Kentucky taxes all property which is not specifically exempted by the state constitution or personal property exempted by the legislature. Local taxing jurisdictions in Kentucky include counties, cities, school districts, and special taxing districts (fire protection districts, sanitation districts, watershed districts, etc.) Local governments are prohibited from taxing certain classes of property, such as manufacturing machinery, raw materials and goods in process.



## PROPERTY TAX RATES

Manufacturing Machinery: Rates based on a state-only rate of \$0.15 per \$100 valuation.

Raw Materials: Rates are based on a state-only rate of \$0.05 per \$100 valuation.

Goods-in-Transit (GIT): Personal property placed in a warehouse or distribution center to be permanently shipped out of state within six months is considered goods in transit and is exempt from state, city, county, and school district personal property taxes. Fire districts or other special districts may exempt such property.

\*Real property (land & buildings), Tangible property (other, including office & computer equipment & furniture) and Finished Goods may be taxed by the following jurisdictions:

State County; School District City\*; Fire District\* Special district\* \*

Real (land & buildings): State rate of \$0.122 per \$100 value. All 120 counties levy a local property tax averaging \$0.3064 per \$100 of value in 2014. More than 400 cities in Kentucky also levy a property tax which averaged \$0.2240 in 2014.

Tangible: State rates vary based on type of property. For example, business furniture and computer equipment are taxed by the state at \$0.45 per \$100 of value. Local rates vary averaging \$0.3757 per \$100 of value among the 120 counties and \$0.2863 per \$100 of value in the 299 cities that levy the tax.

Finished Goods: Taxed by the state at \$0.05 per \$100 value. Local rates vary.

## KENTUCKY SALES TAX

The state rate is 6 percent. There are no local sales taxes in Kentucky. Major exemptions from the state sales tax important to business and industry in Kentucky include:

- Machinery for new and expanded industry.
- Raw materials, industrial supplies, and industrial tools.
- Items purchased for resale.
- Certified pollution control equipment.
- Containers, packaging, and wrapping materials used in manufacturing.
- Energy and energy producing fuels, to the extent that they exceed 3 percent of the cost of production in manufacturing.
- Industrial supplies and tools used to perform a manufacturing process on another entity's property.

## UNEMPLOYMENT INSURANCE

For new employers, the rate is 2.7 percent on the first \$9,900 in wages per employee (in 2015) and will increase \$300 each year until 2022. Unemployment Insurance tax rates for Kentucky's employers are set annually from statutory tables of rates. The balance in the state unemployment insurance trust fund determines the rate table in effect during a calendar year. An individual employer's contribution rate within the table is determined by its reserve account balance ratio.

## UTILITIES GROSS RECEIPTS LICENSE TAX

Kentucky statutes allow the imposition of a utility gross receipts license tax for schools:

- Imposed by over 100 counties to fund local schools.
- The tax is levied on telephone service, water/sewer, gas and electric and cable services.
- The rate is 3 percent.

## INDIVIDUAL INCOME TAX

Kentucky has a graduated income tax rate. Rates are as follows:

\$0 - \$3,000 is taxed at 2%;  
 \$3,001 - \$4,000 is taxed at 3%;  
 \$4,001 - \$5,000 is taxed at 4%;  
 \$5,001 - \$8,000 is taxed at 5%;  
 \$8,001 - \$75,000 is taxed at 5.8%;  
 More than \$75,000 is taxed at 6.0%.

Visit the Kentucky Department of Revenue at [www.revenue.ky.gov](http://www.revenue.ky.gov) to learn more.