

## **Working Group Tax Plan**

This document is the work product of a group developing the tax proposal that will be presented to the Kentucky General Assembly. While it is highly unlikely that the proposal will be voted on during the 2010 regular session, current thinking is that it will surface in a Special Session after the fall elections.

Follows the explanation of the document :

Page One – titled “Sales Tax Rate” – working group has settled on an overall sales tax rate of 6%. Ignore other columns

Section 1 - Detailed listing of services to be taxed

Section 2 – Listing of current sales tax exemptions proposed to be withdrawn

Section 3 – Net Effect line shows \$856.7 Million in new tax receipts in fiscal year 2001 and \$958.5 Million in fiscal year 2012.

Page 2 – Trade-offs page – Sections with no dollar amounts are no longer in consideration

Section 1 – 6% Gross sales tax revenue projections carried over from page 1

Section 2 – Decouples from Federal Estate Tax codes, reestablishing estate taxes

Section 3 – Corporate Income Tax rates

Muddy area – Current discussion on eliminating corporate taxes on “C,” but leaving income tax on pass through entities.

Section 4 – No longer under consideration

Section 5 – No longer under consideration

Section 6 – Limited Liability Entity Tax (AMT) - raises small business gross receipts tax exemption to \$4Million from \$3Million, with sliding proration raised to \$4Million - \$7Million from \$3M -\$6M.

Section 7 - Limited Liability Entity Tax (AMT) – raise minimum from \$175 per entity to \$200.

Section 8 – No longer under consideration

Section 9 – Middle Income Tax Relief – Lower current median rate from 5.8% to 5%

Section 10 – No longer under consideration

Section 11 – Increase Kentucky Earned Income Tax Credit

Sales Tax Rate	Gross Receipts		6.0%		5.5%		5.0%		
	FY11	FY12	FY11	FY12	FY11	FY12	FY11	FY12	
	Millions of \$	Millions of \$	Millions of \$	Millions of \$	Millions of \$	Millions of \$	Millions of \$	Millions of \$	
<b>New Services Added to the Base</b>									
Limousine service	\$369.9	\$411.2	\$21.4	\$23.8	\$19.6	\$21.8	\$17.8	\$19.8	
Lessors of nonresidential buildings (except miniwarehouses)	\$34.2	\$38.0	\$2.0	\$2.2	\$1.8	\$2.0	\$1.6	\$1.8	
Lessors of miniwarehouses & self-storage units	\$511.1	\$568.1	\$29.6	\$32.9	\$27.1	\$30.1	\$24.6	\$27.4	
Offices of real estate agents & brokers	\$354.7	\$394.3	\$20.5	\$22.8	\$18.8	\$20.9	\$17.1	\$19.0	
Activities related to real estate	\$1,713.0	\$1,904.2	\$46.2	\$51.4	\$42.4	\$47.1	\$38.5	\$42.8	
Legal services	\$799.7	\$888.9	\$33.3	\$37.1	\$30.6	\$34.0	\$27.8	\$30.9	
Accounting, tax preparation, bookkeeping, & payroll services	\$576.4	\$640.8	\$7.5	\$8.3	\$6.8	\$7.6	\$6.2	\$6.9	
Advertising & related services	\$129.1	\$143.5	\$4.7	\$5.2	\$4.3	\$4.8	\$3.9	\$4.3	
Marketing research & public opinion polling	\$80.8	\$89.9	\$4.7	\$5.2	\$4.3	\$4.8	\$3.9	\$4.3	
Photographic services	\$32.2	\$35.8	\$1.9	\$2.1	\$1.7	\$1.9	\$1.6	\$1.7	
All other professional, scientific, & technical services	\$21.8	\$24.2	\$1.3	\$1.4	\$1.2	\$1.3	\$1.0	\$1.2	
Document preparation services	\$75.5	\$83.9	\$4.4	\$4.8	\$4.0	\$4.4	\$3.6	\$4.0	
Telephone call centers	\$51.3	\$57.1	\$3.0	\$3.3	\$2.7	\$3.0	\$2.5	\$2.7	
Business service centers	\$264.7	\$294.3	\$15.3	\$17.0	\$14.0	\$15.6	\$12.8	\$14.2	
Investigation & security services	\$966.1	\$1,073.9	\$55.9	\$62.1	\$51.2	\$56.9	\$46.5	\$51.7	
Services to buildings & dwellings	\$71.5	\$79.5	\$4.1	\$4.6	\$3.8	\$4.2	\$3.4	\$3.8	
Packaging & labeling services	\$224.0	\$249.0	\$13.0	\$14.4	\$11.9	\$13.2	\$10.8	\$12.0	
All other support services	-	-	-	-	-	-	-	-	
Septic tank & related services	\$221.3	\$246.0	\$12.8	\$14.2	\$11.7	\$13.0	\$10.7	\$11.9	
All other miscellaneous waste management services	\$1,772.4	\$1,970.2	\$102.5	\$113.9	\$93.9	\$104.4	\$85.4	\$94.9	
Golf courses & country clubs	\$218.6	\$243.0	\$12.6	\$14.0	\$11.6	\$12.9	\$10.5	\$11.7	
Repair & maintenance	\$357.6	\$397.5	\$20.7	\$23.0	\$19.0	\$21.1	\$17.2	\$19.2	
Personal care services	\$100.6	\$111.9	\$5.8	\$6.5	\$5.3	\$5.9	\$4.8	\$5.4	
Dry-cleaning & laundry services	\$3,946.3	\$9,945.0	\$517.3	\$575.0	\$474.2	\$527.1	\$431.1	\$479.2	
Other personal services	-	-	-	-	-	-	-	-	
<b>Total New Collections Services Added to the Base</b>									
<b>Repealed Exemptions</b>									
Industrial supplies	\$3,727.8	\$4,146.7	\$215.5	\$239.8	\$197.6	\$219.8	\$179.6	\$199.8	
Labor or services used in property sold	\$1,141.3	\$1,260.0	\$66.0	\$72.9	\$60.5	\$66.8	\$55.0	\$60.7	
Machinery for new and expanded industry	\$427.8	\$475.0	\$24.7	\$27.5	\$22.7	\$25.2	\$20.6	\$22.9	
Energy and energy producing fuels	\$17.2	\$18.7	\$1.0	\$1.1	\$0.9	\$1.0	\$0.8	\$0.9	
Purchases by historical sites	\$17.2	\$18.7	\$1.0	\$1.1	\$0.9	\$1.0	\$0.8	\$0.9	
Occasional sales	\$572.9	\$713.3	\$33.1	\$41.2	\$30.4	\$37.8	\$27.6	\$34.4	
Pollution control facilities	\$5,904.1	\$6,632.3	\$341.4	\$383.5	\$312.9	\$351.5	\$284.5	\$319.6	
<b>Total New Collections on Repealed Exemptions</b>									
<b>Impact of Different Sales Tax Rates on Existing Sales Tax Base</b>									
	\$49,144.8	\$51,028.6	\$0.0	\$0.0	-\$243.3	-\$252.6	-\$486.5	-\$505.2	
<b>Net Effect</b>	\$658.7	\$958.5	\$543.8	\$626.1	\$229.0	\$293.6			

Note: Categories with a "-" represent items that cannot currently be estimated. This table shows the potential base and assumes 100 percent compliance with an effective date of July 1, 2010.

All numbers are millions of dollars

FY 11 FY 12 FY 13

		FY 11	FY 12	FY 13
<b>1</b>	<b>Sales Tax on selected services (attached sheet)</b>			
	Effective July 1, 2010			
	A. 6% rate - Net Effect	+858.7	+958.5	
	B. 5.5% rate - Net Effect	+543.8	+626.1	
	C. 5% rate - Net Effect	+229.0	+293.6	
<b>2</b>	<b>Decouple from the Federal Estate Tax</b>	0	+22.2	
<b>3</b>	<b>Rate Reduction for Corporation Income Tax</b> Effective January 1, 2011 Current rates are: \$0 - \$50,000 = 4%; \$50,001 - \$100,000 = 5%; Over \$100,000 = 6%			
	A. Reduce all rates: 3.5%/4.5%/5.5%	-8.2	-19.1	
	B. Reduce all rates: 3%/4%/5%	-15.9	-37.0	
	C. Reduce top rates: 5.5%/5%/4%	-7.2	-18.4	
	D. Eliminate top rate	-15.0	-34.9	
<b>4</b>	<b>Disallow the Domestic Production Deduction</b>			
	Effective January 1, 2010			
<b>5</b>	<b>Repeal all income tax on business activity</b>			
<b>6</b>	<b>Limited Liability Entity Tax - Effective January 1, 2011</b>			
	A. Expand small business tax relief (\$4 - \$7 M)	-4.5	-9.6	
	B. Reduce small business relief			
	C. Eliminate small business relief			
<b>7</b>	<b>Increase the minimum tax due for Limited Liability Entity Tax (Currently \$175)</b>			
	Effective January 1, 2010			
	A. \$200 Minimum Tax	+5.0	+5.0	
	B. \$225 Minimum Tax	+10.0	+10.0	
	C. \$250 Minimum Tax	+15.0	+15.0	
	D. \$275 Minimum Tax	+20.0	+20.0	
<b>8</b>	<b>Decrease the Limited Liability Entity Tax rate</b>			
<b>9</b>	<b>Individual Income Tax - middle income tax relief</b>			
	(5.8% bracket) Effective January 1, 2010, without adjustment to Withholding Tables			
	A. Reduce bracket by .1%	-32.9	-34.6	
	B. Eliminate the bracket (5.8% to 5%)	-262.8	-276.4	
<b>10</b>	<b>Phase out the tax bracket benefits for taxpayers over \$75,000</b>			
	A. Reduce bracket by .1%			
	B. Eliminate the bracket (5.8% to 5%)			
<b>11</b>	<b>Kentucky Earned Income Tax Credit (15% of Federal)</b>			
	Effective January 1, 2011	-18.3	-93.1	-97.2