



Taxpayers in the Commonwealth likely have many questions about how the recently enacted federal tax reform will affect state income taxation. For simplicity, this information is presented assuming calendar year filing periods.

Kentucky and Federal Law Intersection

Per KRS 141.010(3), the most recently enacted Internal Revenue Code (“IRC”) reference date is December 31, 2015. This means that, except to the extent required by differences between Kentucky income tax law and the IRC in effect on December 31, 2015, and their application, Kentucky income tax law is nearly as practicable identical to the IRC in effect on December 31, 2015, per KRS 141.050(1).

Q: Has Kentucky updated its statutes to include the new federal tax reform provisions?

A: As of early January 2018, the Kentucky Legislature has not amended Kentucky tax law to include the new federal tax reform provisions. Therefore, the IRC reference date remains December 31, 2015.

Q: Will Kentucky update its tax laws to include some or all of the new federal tax reform provisions?

A: The decision to update Kentucky’s tax laws is the responsibility of the General Assembly of the Commonwealth. It is not known if or when this may be considered.

2017 Tax Year (2018 Filing Season)

As noted above, Kentucky has not updated its IRC reference date. As such, none of the changes in the new federal tax reform are applicable to 2017 Kentucky tax returns.

Q: What are some examples of *major* differences between Kentucky and federal tax law for 2017?

A: Although most changes included in federal tax reform do not become effective until January 1, 2018 or later, many changes have an effective date before January 1, 2018. A short list of the more significant differences follows.



- **Medical Expenses** – The itemized deduction for medical expenses is limited by 7.5% of adjusted gross income for federal purposes, but the Kentucky limitation is 10% based on federal law as of December 31, 2015.
- **Disaster Relief Provisions** – Several federal changes to provide tax relief for natural disasters in 2016 and 2017 are not included in Kentucky law. These provisions affect retirement plan distributions and casualty loss deductions.
- **Depreciation Differences** – New accelerated depreciation benefits effective after September 27, 2017, are not applicable to Kentucky.
- **Energy Efficient HVAC Property** – Energy efficient heating and air-conditioning property placed in service after November 2, 2017, is now eligible to be expensed under IRC Section 179. This does not apply to Kentucky.

Q: What are some examples of *minor* differences between Kentucky and federal tax law for 2017?

A: A list of examples of new federal tax provisions that do not apply to Kentucky for 2017 follows. All the changes listed below are effective on the enactment date of the federal tax reform unless otherwise noted.

- Section 529A roll-overs are permitted to ABLE accounts
- Increased contributions to ABLE accounts and a saver's credit for ABLE contributions
- Deductions for casualty losses for replanting citrus plants is expanded to taxpayers with an economic interest in the crops
- Certain distributions by terminated S corporations are allocated using a new formula
- Certain donations of capital are now included in a corporation's gross income
- Rules disallowing deductions for lobbying expenses now apply to local government lobbying
Government-imposed penalties may now be partially deductible if they fit certain rules and definitions
- Deductions for sexual harassment or sexual abuse settlements are not permitted if the settlement is subject to a nondisclosure agreement
- Gains or losses on the sale of a partnership interest is treated as "effectively connected income" for sales, exchanges, and dispositions after November 26, 2017
- Modifications to the tax treatment of Alaska Native Corporations and Settlement Trusts effective after December 31, 2016
- Certain dividends from surrogate foreign corporations are no longer "qualified"



Q: Do the new federal tax rates apply to Kentucky?

A: Changes to federal tax rates, like the changes in the individual income tax rates and brackets and the reduction of the top corporate tax rate, do not apply to Kentucky. Kentucky uses its own income tax rates and brackets.

2018 Tax Year (2019 Filing Season)

Most of the provisions of the federal tax reform become effective on January 1, 2018. Therefore, tax planning in Kentucky (and many other states) will need to take into account the IRC reference date.

Q: Can I consider the recent federal tax law changes when planning for Kentucky in 2018 or filing my taxes in 2019?

A: Until the Commonwealth updates its IRC reference date and determines which, if any, of the federal tax law changes will apply in Kentucky, taxpayers must follow KRS 141.050(1) using the IRC in effect on December 31, 2015.