

What's New

STANDARD DEDUCTION—For 2021, the standard deduction is \$2,690.

FAMILY SIZE TAX CREDIT—This credit provides benefits to individuals and families at incomes up to 133 percent of the threshold amount based on the federal poverty level. The 2021 threshold amount is \$12,880 for a family size of one, \$17,420 for a family of two, \$21,960 for a family of three, and \$26,500 for a family of four or more.

INCOME GAP TAX CREDIT—This credit has expired. It was only available for tax years 2019 and 2020.

PPP LOANS AND EIDL GRANTS AND ADVANCES—Expenses paid with proceeds from forgiven Paycheck Protection Program (PPP) loans or Economic Injury Disaster Loans (EIDL) grants and advances are authorized to be deducted for Kentucky income tax purposes. 2021 House Bill 278 updated KRS 141.019 to allow the same treatment afforded by Pub. L. No. 116-260, sec. 276 and sec. 278, related to the tax treatment of forgiven covered loans, deductions attributable to those loans, and tax attributes associated with those loans for taxable years ending on or after March 27, 2020, but before January 1, 2022. Loans forgiven under the CARES Act Paycheck Protection Program and EIDL grants and advances that are excluded from gross income for federal income tax purposes are also excluded for Kentucky income tax purposes.

DISASTER RESPONSE EMPLOYEES/BUSINESSES—2021 House Bill 84 provides an exemption for qualified disaster response employees and disaster response businesses from income tax for tax years beginning on or after January 1, 2021 but before January 1, 2025. A disaster response business is exempt from income tax under KRS 141.040 (corporations) and KRS 141.020 (sole proprietorships) if the disaster response business has no presence in Kentucky and conducts no business in the state, except for disaster or emergency-related work during a disaster response period and the disaster or emergency-related work was requested by a registered business or a state and local government. Disaster response employees are exempt from individual income tax if they do not work or reside in Kentucky, except for disaster or emergency-related work during the disaster response period. Disaster or emergency-related work means repairing, renovating, installing, building, or rendering services that are essential to the restoration of critical infrastructure that has been damaged, impaired, or destroyed by a declared state disaster or emergency. The work must take place up to 10 days prior and up to 30 days after the declared disaster or emergency (“the disaster response period”). NOTE: This exemption does not apply to the LLET or to taxes imposed under KRS 141.206 on pass-through entities, such as nonresident withholding.

RENEWABLE CHEMICAL PRODUCTION TAX CREDIT—For taxable years beginning on or after January 1, 2021, and ending on or before December 31, 2024, a nonrefundable and nontransferable credit allowed against the taxes imposed by KRS 141.020 or KRS 141.040 and KRS 141.0401 is available for taxpayers that produce renewable chemicals. Preliminary approval is obtained through the Department of Agriculture. Schedule CHEM is due to the Department of Revenue by March 1 each year. The Department of Revenue will issue the credit certificate (Schedule CHEM) by April 15 each year. The annual biodiesel, renewable diesel, and renewable chemical production tax credit cap is \$10,000,000 annually. There is a carryforward of three (3) years for any unused credit. The credit certificate must be attached to the tax return claiming the credit per KRS 141.4231, KRS 246.700(8), and 103 KAR 15:140.

EDUCATION OPPORTUNITY ACCOUNT PROGRAM—For taxable years beginning on or after January 1, 2021, but before January 1, 2026, a nonrefundable and nontransferable credit is allowed against the taxes imposed by KRS 141.020 or KRS 141.040 and KRS 141.0401 for contributions made during a taxable year to one or more Account-Granting Organizations (AGO) in accordance with the Education Opportunity Account Program. The credit amount awarded per taxpayer per taxable year shall be no more than the lesser of: ninety-five percent (95%) of the total contributions made to an AGO, except for multi-year pledges described below; or one million dollars (\$1,000,000). If a multi-year pledge is made by the taxpayer and the amount of the contributions for each of the multiple taxable years is equal to or more than the amount of contributions made to the AGO in the taxable year within which the pledge is made, the amount of allowable credit shall be increased to ninety-seven percent (97%) in the taxable year within which the pledge is made and for each pledged year. If the taxpayer does not remit the pledged amount of contributions during any taxable year for which a multi-year pledge is made, the taxpayer shall repay the portion of the credit resulting from this increase. The multi-year pledge cannot exceed a total of four taxable years. This credit may be carried forward up to five succeeding taxable years. Schedule EOA must be attached to the taxpayer’s tax return each year to claim the credit. A partner, member, or shareholder of a pass-through entity must attach a copy of Schedule K-1 to the partner’s, member’s, or shareholder’s tax return each year.

Reminders

INTERNAL REVENUE CODE DATE—Kentucky’s Internal Revenue Code (IRC) reference date is December 31, 2018, exclusive of any amendments made subsequent to that date, other than amendments that extend provisions in effect on December 31, 2018, that would otherwise terminate, for purposes of computing individual income tax, except for depreciation differences per KRS 141.0101.

INVENTORY TAX CREDIT—The inventory tax credit increases to 100% of the ad valorem tax described in KRS 132.020(1)(e) or 132.099 timely paid in 2021.

KY FILE—Kentucky also offers another option for filing your state return electronically, free of charge. If you would like to fill out your Kentucky forms and schedules without software help or assistance you may use the KY File website. KY File allows you to file current year Kentucky individual income tax returns and is designed to be the simple electronic equivalent of a paper form. It will provide basic mathematical and error checks but unlike most other software it does not ask about or explain tax situations. Your federal forms should be completed before accessing the KY File website. You can access the KY File website at **[Filetaxes.ky.gov](https://filetaxes.ky.gov)**.