

1 AN ACT relating to a tax credit for educator expenses.

2 *Be it enacted by the General Assembly of the Commonwealth of Kentucky:*

3 ➔SECTION 1. A NEW SECTION OF KRS CHAPTER 141 IS CREATED TO
4 READ AS FOLLOWS:

5 *(1) As used in this section:*

6 *(a) "Eligible educator" has the same meaning as in Section 62(d)(1)(A) of the*
7 *Internal Revenue Code; and*

8 *(b) "Eligible expenses" has the same meaning as "certain expenses of*
9 *elementary and secondary school teachers" in Section 62 (a)(2)(D) of the*
10 *Internal Revenue Code, except that the amount of the expenses shall not be*
11 *limited as in Section 62 (a)(2)(D) of the Internal Revenue Code.*

12 *(2) For taxable years beginning on or after January 1, 2025, but before January 1,*
13 *2029, there shall be allowed an educator expense tax credit against the tax*
14 *imposed in KRS 141.020, with the ordering of the tax credit as provided by*
15 *Section 3 of this Act.*

16 *(3) The nonrefundable credit shall be for unreimbursed eligible expenses incurred*
17 *during the taxable year by an eligible educator and the credit shall not exceed:*

18 *(a) Two thousand dollars (\$2,000) for the taxable year; or*

19 *(b) Four thousand dollars (\$4,000) for the taxable year if two (2) eligible*
20 *educators are married and file on a combined form.*

21 *(4) The educator expense tax credit shall be allowed for eligible expenses not claimed*
22 *as a deduction under Section 62 of the Internal Revenue Code in calculation of*
23 *adjusted gross income for the taxable year under Section 2 of this Act.*

24 *(5) In order for the General Assembly to evaluate the value and effectiveness of this*
25 *tax credit, the department shall report to the Interim Joint Committee on*
26 *Appropriations and Revenue on or before November 1, 2026, and on or before*
27 *each November 1 thereafter, as long as the educator expense tax credit is*

1 claimed:

2 (a) The number of returns claiming the educator expense tax credit for the
3 taxable year;

4 (b) The total cumulative amount of all tax credits claimed for the taxable year;
5 and

6 (c) Based on ranges of adjusted gross income of no larger than five thousand
7 dollars (\$5,000) for the taxable year, the total amount of tax credits claimed
8 and the number of returns claiming a tax credit for each adjusted gross
9 income range.

10 ➔Section 2. KRS 141.019 is amended to read as follows:

11 In the case of taxpayers other than corporations:

12 (1) Adjusted gross income shall be calculated by subtracting from the gross income of
13 those taxpayers the deductions allowed individuals by Section 62 of the Internal
14 Revenue Code and adjusting as follows:

15 (a) Exclude income that is exempt from state taxation by the Kentucky
16 Constitution and the Constitution and statutory laws of the United States;

17 (b) Exclude income from supplemental annuities provided by the Railroad
18 Retirement Act of 1937 as amended and which are subject to federal income
19 tax by Pub. L. No. 89-699;

20 (c) Include interest income derived from obligations of sister states and political
21 subdivisions thereof;

22 (d) Exclude employee pension contributions picked up as provided for in KRS
23 6.505, 16.545, 21.360, 61.523, 61.560, 65.155, 67A.320, 67A.510, 78.610,
24 and 161.540 upon a ruling by the Internal Revenue Service or the federal
25 courts that these contributions shall not be included as gross income until such
26 time as the contributions are distributed or made available to the employee;

27 (e) Exclude Social Security and railroad retirement benefits subject to federal

1 income tax;

2 (f) Exclude any money received because of a settlement or judgment in a lawsuit
3 brought against a manufacturer or distributor of "Agent Orange" for damages
4 resulting from exposure to Agent Orange by a member or veteran of the
5 Armed Forces of the United States or any dependent of such person who
6 served in Vietnam;

7 (g) 1. a. For taxable years beginning after December 31, 2005, but before
8 January 1, 2018, exclude up to forty-one thousand one hundred ten
9 dollars (\$41,110) of total distributions from pension plans, annuity
10 contracts, profit-sharing plans, retirement plans, or employee
11 savings plans; and

12 b. For taxable years beginning on or after January 1, 2018, exclude
13 up to thirty-one thousand one hundred ten dollars (\$31,110) of
14 total distributions from pension plans, annuity contracts, profit-
15 sharing plans, retirement plans, or employee savings plans.

16 2. As used in this paragraph:

17 a. "Annuity contract" has the same meaning as set forth in Section
18 1035 of the Internal Revenue Code;

19 b. "Distributions" includes but is not limited to any lump-sum
20 distribution from pension or profit-sharing plans qualifying for the
21 income tax averaging provisions of Section 402 of the Internal
22 Revenue Code; any distribution from an individual retirement
23 account as defined in Section 408 of the Internal Revenue Code;
24 and any disability pension distribution; and

25 c. "Pension plans, profit-sharing plans, retirement plans, or employee
26 savings plans" means any trust or other entity created or organized
27 under a written retirement plan and forming part of a stock bonus,

- 1 pension, or profit-sharing plan of a public or private employer for
2 the exclusive benefit of employees or their beneficiaries and
3 includes plans qualified or unqualified under Section 401 of the
4 Internal Revenue Code and individual retirement accounts as
5 defined in Section 408 of the Internal Revenue Code;
- 6 (h) 1. a. Exclude the portion of the distributive share of a shareholder's net
7 income from an S corporation subject to the franchise tax imposed
8 under KRS 136.505 or the capital stock tax imposed under KRS
9 136.300; and
- 10 b. Exclude the portion of the distributive share of a shareholder's net
11 income from an S corporation related to a qualified subchapter S
12 subsidiary subject to the franchise tax imposed under KRS
13 136.505 or the capital stock tax imposed under KRS 136.300.
- 14 2. The shareholder's basis of stock held in an S corporation where the S
15 corporation or its qualified subchapter S subsidiary is subject to the
16 franchise tax imposed under KRS 136.505 or the capital stock tax
17 imposed under KRS 136.300 shall be the same as the basis for federal
18 income tax purposes;
- 19 (i) Exclude income received for services performed as a precinct worker for
20 election training or for working at election booths in state, county, and local
21 primaries or regular or special elections;
- 22 (j) Exclude any capital gains income attributable to property taken by eminent
23 domain;
- 24 (k) 1. Exclude all income from all sources for members of the Armed Forces
25 who are on active duty and who are killed in the line of duty, for the
26 year during which the death occurred and the year prior to the year
27 during which the death occurred.

- 1 2. For the purposes of this paragraph, "all income from all sources" shall
2 include all federal and state death benefits payable to the estate or any
3 beneficiaries;
- 4 (l) Exclude all military pay received by members of the Armed Forces while on
5 active duty;
- 6 (m) 1. Include the amount deducted for depreciation under 26 U.S.C. sec. 167
7 or 168; and
8 2. Exclude the amounts allowed by KRS 141.0101 for depreciation;
- 9 (n) Include the amount deducted under 26 U.S.C. sec. 199A;
- 10 (o) Ignore any change in the cost basis of the surviving spouse's share of property
11 owned by a Kentucky community property trust occurring for federal income
12 tax purposes as a result of the death of the predeceasing spouse;
- 13 (p) Allow the same treatment allowed under Pub. L. No. 116-260, secs. 276 and
14 278, related to the tax treatment of forgiven covered loans, deductions
15 attributable to those loans, and tax attributes associated with those loans for
16 taxable years ending on or after March 27, 2020, but before January 1, 2022;
17 ~~and~~
- 18 (q) For taxable years beginning on or after January 1, 2020, but before March 11,
19 2023, allow the same treatment of restaurant revitalization grants in
20 accordance with Pub. L. No. 117-2, sec. 9673 and 15 U.S.C. sec. 9009c,
21 related to the tax treatment of the grants, deductions attributable to those
22 grants, and tax attributes associated with those grants; and
- 23 *(r) For taxable years beginning on or after January 1, 2025, but before*
24 *January 1, 2029, include the amount deducted for expenses of an eligible*
25 *educator allowed under Section 62 of the Internal Revenue Code if the*
26 *educator expense tax credit is allowed; and*
- 27 (2) Net income shall be calculated by subtracting from adjusted gross income all the

1 deductions allowed individuals by Chapter 1 of the Internal Revenue Code, as
2 modified by KRS 141.0101, except:

- 3 (a) Any deduction allowed by 26 U.S.C. sec. 164 for taxes;
- 4 (b) Any deduction allowed by 26 U.S.C. sec. 165 for losses, except wagering
5 losses allowed under Section 165(d) of the Internal Revenue Code;
- 6 (c) Any deduction allowed by 26 U.S.C. sec. 213 for medical care expenses;
- 7 (d) Any deduction allowed by 26 U.S.C. sec. 217 for moving expenses;
- 8 (e) Any deduction allowed by 26 U.S.C. sec. 67 for any other miscellaneous
9 deduction;
- 10 (f) Any deduction allowed by the Internal Revenue Code for amounts allowable
11 under KRS 140.090(1)(h) in calculating the value of the distributive shares of
12 the estate of a decedent, unless there is filed with the income return a
13 statement that the deduction has not been claimed under KRS 140.090(1)(h);
- 14 (g) Any deduction allowed by 26 U.S.C. sec. 151 for personal exemptions and
15 any other deductions in lieu thereof;
- 16 (h) Any deduction allowed for amounts paid to any club, organization, or
17 establishment which has been determined by the courts or an agency
18 established by the General Assembly and charged with enforcing the civil
19 rights laws of the Commonwealth, not to afford full and equal membership
20 and full and equal enjoyment of its goods, services, facilities, privileges,
21 advantages, or accommodations to any person because of race, color, religion,
22 national origin, or sex, except nothing shall be construed to deny a deduction
23 for amounts paid to any religious or denominational club, group, or
24 establishment or any organization operated solely for charitable or educational
25 purposes which restricts membership to persons of the same religion or
26 denomination in order to promote the religious principles for which it is
27 established and maintained; and

1 (i) A taxpayer may elect to claim the standard deduction allowed by KRS
2 141.081 instead of itemized deductions allowed pursuant to 26 U.S.C. sec. 63
3 and as modified by this section.

4 ➔Section 3. KRS 141.0205 is amended to read as follows:

5 If a taxpayer is entitled to more than one (1) of the tax credits allowed against the tax
6 imposed by KRS 141.020, 141.040, and 141.0401, the priority of application and use of
7 the credits shall be determined as follows:

- 8 (1) The nonrefundable business incentive credits against the tax imposed by KRS
9 141.020 shall be taken in the following order:
- 10 (a) The limited liability entity tax credit permitted by KRS 141.0401;
 - 11 (b) The economic development credits computed under KRS 141.347, 141.381,
12 141.384, 141.3841, 141.400, 141.403, 141.407, 141.415, 154.12-207, and
13 154.12-2088;
 - 14 (c) The qualified farming operation credit permitted by KRS 141.412;
 - 15 (d) The certified rehabilitation credit permitted by KRS 171.397(1)(a);
 - 16 (e) The health insurance credit permitted by KRS 141.062;
 - 17 (f) The tax paid to other states credit permitted by KRS 141.070;
 - 18 (g) The credit for hiring the unemployed permitted by KRS 141.065;
 - 19 (h) The recycling or composting equipment credit permitted by KRS 141.390;
 - 20 (i) The tax credit for cash contributions in investment funds permitted by KRS
21 154.20-263 in effect prior to July 15, 2002, and the credit permitted by KRS
22 154.20-258;
 - 23 (j) The research facilities credit permitted by KRS 141.395;
 - 24 (k) The employer High School Equivalency Diploma program incentive credit
25 permitted under KRS 151B.402;
 - 26 (l) The voluntary environmental remediation credit permitted by KRS 141.418;
 - 27 (m) The biodiesel and renewable diesel credit permitted by KRS 141.423;

- 1 (n) The clean coal incentive credit permitted by KRS 141.428;
- 2 (o) The ethanol credit permitted by KRS 141.4242;
- 3 (p) The cellulosic ethanol credit permitted by KRS 141.4244;
- 4 (q) The energy efficiency credits permitted by KRS 141.436;
- 5 (r) The railroad maintenance and improvement credit permitted by KRS 141.385;
- 6 (s) The Endow Kentucky credit permitted by KRS 141.438;
- 7 (t) The New Markets Development Program credit permitted by KRS 141.434;
- 8 (u) The distilled spirits credit permitted by KRS 141.389;
- 9 (v) The angel investor credit permitted by KRS 141.396;
- 10 (w) The film industry credit permitted by KRS 141.383 for applications approved
- 11 on or after April 27, 2018, but before January 1, 2022;
- 12 (x) The inventory credit permitted by KRS 141.408;~~and~~
- 13 (y) The renewable chemical production credit permitted by KRS 141.4231; **and**
- 14 **(z) The educator expense tax credit permitted by Section 1 of this Act;**
- 15 (2) After the application of the nonrefundable credits in subsection (1) of this section,
- 16 the nonrefundable personal tax credits against the tax imposed by KRS 141.020
- 17 shall be taken in the following order:
- 18 (a) The individual credits permitted by KRS 141.020(3);
- 19 (b) The credit permitted by KRS 141.066;
- 20 (c) The tuition credit permitted by KRS 141.069;
- 21 (d) The household and dependent care credit permitted by KRS 141.067;
- 22 (e) The income gap credit permitted by KRS 141.066; and
- 23 (f) The Education Opportunity Account Program tax credit permitted by KRS
- 24 141.522;
- 25 (3) After the application of the nonrefundable credits provided for in subsection (2) of
- 26 this section, the refundable credits against the tax imposed by KRS 141.020 shall be
- 27 taken in the following order:

- 1 (a) The individual withholding tax credit permitted by KRS 141.350;
- 2 (b) The individual estimated tax payment credit permitted by KRS 141.305;
- 3 (c) The certified rehabilitation credit permitted by KRS 171.3961, 171.3963, and
4 171.397(1)(b);
- 5 (d) The film industry tax credit permitted by KRS 141.383 for applications
6 approved prior to April 27, 2018, or on or after January 1, 2022;
- 7 (e) The development area tax credit permitted by KRS 141.398;
- 8 (f) The decontamination tax credit permitted by KRS 141.419; and
- 9 (g) The pass-through entity tax credit permitted by KRS 141.209;
- 10 (4) The nonrefundable credit permitted by KRS 141.0401 shall be applied against the
11 tax imposed by KRS 141.040;
- 12 (5) The following nonrefundable credits shall be applied against the sum of the tax
13 imposed by KRS 141.040 after subtracting the credit provided for in subsection (4)
14 of this section, and the tax imposed by KRS 141.0401 in the following order:
- 15 (a) The economic development credits computed under KRS 141.347, 141.381,
16 141.384, 141.3841, 141.400, 141.403, 141.407, 141.415, 154.12-207, and
17 154.12-2088;
- 18 (b) The qualified farming operation credit permitted by KRS 141.412;
- 19 (c) The certified rehabilitation credit permitted by KRS 171.397(1)(a);
- 20 (d) The health insurance credit permitted by KRS 141.062;
- 21 (e) The unemployment credit permitted by KRS 141.065;
- 22 (f) The recycling or composting equipment credit permitted by KRS 141.390;
- 23 (g) The coal conversion credit permitted by KRS 141.041;
- 24 (h) The enterprise zone credit permitted by KRS 154.45-090, for taxable periods
25 ending prior to January 1, 2008;
- 26 (i) The tax credit for cash contributions to investment funds permitted by KRS
27 154.20-263 in effect prior to July 15, 2002, and the credit permitted by KRS

- 1 154.20-258;
- 2 (j) The research facilities credit permitted by KRS 141.395;
- 3 (k) The employer High School Equivalency Diploma program incentive credit
- 4 permitted by KRS 151B.402;
- 5 (l) The voluntary environmental remediation credit permitted by KRS 141.418;
- 6 (m) The biodiesel and renewable diesel credit permitted by KRS 141.423;
- 7 (n) The clean coal incentive credit permitted by KRS 141.428;
- 8 (o) The ethanol credit permitted by KRS 141.4242;
- 9 (p) The cellulosic ethanol credit permitted by KRS 141.4244;
- 10 (q) The energy efficiency credits permitted by KRS 141.436;
- 11 (r) The ENERGY STAR home or ENERGY STAR manufactured home credit
- 12 permitted by KRS 141.437;
- 13 (s) The railroad maintenance and improvement credit permitted by KRS 141.385;
- 14 (t) The railroad expansion credit permitted by KRS 141.386;
- 15 (u) The Endow Kentucky credit permitted by KRS 141.438;
- 16 (v) The New Markets Development Program credit permitted by KRS 141.434;
- 17 (w) The distilled spirits credit permitted by KRS 141.389;
- 18 (x) The film industry credit permitted by KRS 141.383 for applications approved
- 19 on or after April 27, 2018, but before January 1, 2022;
- 20 (y) The inventory credit permitted by KRS 141.408;
- 21 (z) The renewable chemical production tax credit permitted by KRS 141.4231;
- 22 and
- 23 (aa) The Education Opportunity Account Program tax credit permitted by KRS
- 24 141.522; and
- 25 (6) After the application of the nonrefundable credits in subsection (5) of this section,
- 26 the refundable credits shall be taken in the following order:
- 27 (a) The corporation estimated tax payment credit permitted by KRS 141.044;

- 1 (b) The certified rehabilitation credit permitted by KRS 171.3961, 171.3963, and
2 171.397(1)(b);
- 3 (c) The film industry tax credit permitted by KRS 141.383 for applications
4 approved prior to April 27, 2018, or on or after January 1, 2022;
- 5 (d) The decontamination tax credit permitted by KRS 141.419; and
- 6 (e) The pass-through entity tax credit permitted by KRS 141.209.

7 ➔Section 4. KRS 131.190 is amended to read as follows:

8 (1) No present or former commissioner or employee of the department, present or
9 former member of a county board of assessment appeals, present or former property
10 valuation administrator or employee, present or former secretary or employee of the
11 Finance and Administration Cabinet, former secretary or employee of the Revenue
12 Cabinet, or any other person, shall intentionally and without authorization inspect or
13 divulge any information acquired by him or her of the affairs of any person, or
14 information regarding the tax schedules, returns, or reports required to be filed with the
15 department or other proper officer, or any information produced by a hearing or
16 investigation, insofar as the information may have to do with the affairs of the person's
17 business.

18 (2) The prohibition established by subsection (1) of this section shall not extend to:

- 19 (a) Information required in prosecutions for making false reports or returns of
20 property for taxation, or any other infraction of the tax laws;
- 21 (b) Any matter properly entered upon any assessment record, or in any way made
22 a matter of public record;
- 23 (c) Furnishing any taxpayer or his or her properly authorized agent with
24 information respecting his or her own return;
- 25 (d) Testimony provided by the commissioner or any employee of the department
26 in any court, or the introduction as evidence of returns or reports filed with the
27 department, in an action for violation of state or federal tax laws or in any

- 1 action challenging state or federal tax laws;
- 2 (e) Providing an owner of unmined coal, oil or gas reserves, and other mineral or
3 energy resources assessed under KRS 132.820, or owners of surface land
4 under which the unmined minerals lie, factual information about the owner's
5 property derived from third-party returns filed for that owner's property, under
6 the provisions of KRS 132.820, that is used to determine the owner's
7 assessment. This information shall be provided to the owner on a confidential
8 basis, and the owner shall be subject to the penalties provided in KRS
9 131.990(2). The third-party filer shall be given prior notice of any disclosure
10 of information to the owner that was provided by the third-party filer;
- 11 (f) Providing to a third-party purchaser pursuant to an order entered in a
12 foreclosure action filed in a court of competent jurisdiction, factual
13 information related to the owner or lessee of coal, oil, gas reserves, or any
14 other mineral resources assessed under KRS 132.820. The department may
15 promulgate an administrative regulation establishing a fee schedule for the
16 provision of the information described in this paragraph. Any fee imposed
17 shall not exceed the greater of the actual cost of providing the information or
18 ten dollars (\$10);
- 19 (g) Providing information to a licensing agency, the Transportation Cabinet, or
20 the Kentucky Supreme Court under KRS 131.1817;
- 21 (h) Statistics of gasoline and special fuels gallonage reported to the department
22 under KRS 138.210 to 138.448;
- 23 (i) Providing any utility gross receipts license tax return information that is
24 necessary to administer the provisions of KRS 160.613 to 160.617 to
25 applicable school districts on a confidential basis;
- 26 (j) Providing documents, data, or other information to a third party pursuant to an
27 order issued by a court of competent jurisdiction; or

- 1 (k) Providing information to the Legislative Research Commission under:
- 2 1. KRS 139.519 for purposes of the sales and use tax refund on building
- 3 materials used for disaster recovery;
- 4 2. KRS 141.436 for purposes of the energy efficiency products credits;
- 5 3. KRS 141.437 for purposes of the ENERGY STAR home and the
- 6 ENERGY STAR manufactured home credits;
- 7 4. KRS 141.383 for purposes of the film industry incentives;
- 8 5. KRS 154.26-095 for purposes of the Kentucky industrial revitalization
- 9 tax credits and the job assessment fees;
- 10 6. KRS 141.068 for purposes of the Kentucky investment fund;
- 11 7. KRS 141.396 for purposes of the angel investor tax credit;
- 12 8. KRS 141.389 for purposes of the distilled spirits credit;
- 13 9. KRS 141.408 for purposes of the inventory credit;
- 14 10. KRS 141.390 for purposes of the recycling and composting credit;
- 15 11. KRS 141.3841 for purposes of the selling farmer tax credit;
- 16 12. KRS 141.4231 for purposes of the renewable chemical production tax
- 17 credit;
- 18 13. KRS 141.524 for purposes of the Education Opportunity Account
- 19 Program tax credit;
- 20 14. KRS 141.398 for purposes of the development area tax credit;
- 21 15. KRS 139.516 for the purposes of the sales and use tax exemption on the
- 22 commercial mining of cryptocurrency;~~and~~
- 23 16. KRS 141.419 for purposes of the decontamination tax credit; and
- 24 17. Section 1 of this Act for purposes of the educator expense tax credit.
- 25 (3) The commissioner shall make available any information for official use only and on
- 26 a confidential basis to the proper officer, agency, board or commission of this state,
- 27 any Kentucky county, any Kentucky city, any other state, or the federal

1 government, under reciprocal agreements whereby the department shall receive
2 similar or useful information in return.

3 (4) Access to and inspection of information received from the Internal Revenue Service
4 is for department use only, and is restricted to tax administration purposes.
5 Information received from the Internal Revenue Service shall not be made available
6 to any other agency of state government, or any county, city, or other state, and
7 shall not be inspected intentionally and without authorization by any present
8 secretary or employee of the Finance and Administration Cabinet, commissioner or
9 employee of the department, or any other person.

10 (5) Statistics of crude oil as reported to the department under the crude oil excise tax
11 requirements of KRS Chapter 137 and statistics of natural gas production as
12 reported to the department under the natural resources severance tax requirements
13 of KRS Chapter 143A may be made public by the department by release to the
14 Energy and Environment Cabinet, Department for Natural Resources.

15 (6) Notwithstanding any provision of law to the contrary, beginning with mine-map
16 submissions for the 1989 tax year, the department may make public or divulge only
17 those portions of mine maps submitted by taxpayers to the department pursuant to
18 KRS Chapter 132 for ad valorem tax purposes that depict the boundaries of mined-
19 out parcel areas. These electronic maps shall not be relied upon to determine actual
20 boundaries of mined-out parcel areas. Property boundaries contained in mine maps
21 required under KRS Chapters 350 and 352 shall not be construed to constitute land
22 surveying or boundary surveys as defined by KRS 322.010 and any administrative
23 regulations promulgated thereto.