Cabinet for Economic Development

Kentucky Business Incentives

Kentucky offers a number of progressive incentives for businesses. The following list should be considered as a general summary. Additional information on each business incentive is available.

I. FINANCIAL INCENTIVES/TAX CREDITS

A company approved under KIDA, KREDA, KJDA, KEOZ or KESA must meet wage and benefit standards for at least 90 percent of its full-time employees. Companies must pay an hourly wage equal to or greater than 75 percent of the average hourly wage of the county of location, or 75 percent of the state's average hourly wage, whichever is less. The base hourly wage threshold shall be at least 150 percent of the federal minimum wage level. In addition, company non-mandated employee benefits must be at least 15 percent of the base hourly wage or a combination of wages and employee benefits equivalent to 115 percent of the base hourly wage. All tax credits and wage assessments for KIDA, KREDA, KJDA, KEOZ and KIRA are subject to internal staff review and Kentucky Economic Development Finance Authority (KEDFA) approval.

Kentucky Industrial Development Act (KIDA)

Investments in new and expanding manufacturing projects may qualify for tax incentives for up to ten years. Companies must create at least 15 new full-time jobs and must make a capital investment of at least $100,000 in land, buildings, fixtures, and equipment. The project's real estate must be acquired by the approved company through either the acquisition of title or through a capital lease as defined under FASB13. Projects approved under KIDA may receive state income tax credits or collect a job development assessment fee of 3 percent of the gross wages of each employee whose job is created by the approved project and who is subject to Kentucky's individual income tax. All real estate costs are eligible; however, equipment costs are limited to $20,000 per new full-time job created by and maintained at the economic development project.

Alternatively, the project's real estate may be obtained through a minimum ten-year operating lease in which case the company will be limited to recover only the purchase and installation costs of the eligible equipment with a maximum recovery of $20,000 per new full-time job created and maintained at the project. Projects approved under the operating lease provision may only use the job assessment fee to recover the eligible equipment costs. (KRS 154.01-010; 154.28-010 to 154.28-110; 141.310; 141.350; and 141.400)

Kentucky Rural Economic Development Act (KREDA)

Larger tax incentives for up to fifteen years are available for new and expanding manufacturing projects that create at least 15 new full-time jobs in certain Kentucky counties. Companies must make a capital investment of at least $100,000 in land, buildings, fixtures, and equipment. The project's real estate must be acquired by the approved company through either the acquisition of title or through a capital lease as defined under FASB13. Projects approved under KREDA may receive state income tax credits and a job development assessment fee of 4 percent of the gross wages of each employee whose job is created by the approved project and who is subject to Kentucky's individual income tax for up to fifteen years. Once a company is operating under a KREDA agreement, the company maintains KREDA benefits, even if the county loses KREDA status.

Alternatively, the project's real estate may be obtained through a minimum fifteen-year operating lease in which case the company will be limited to recover only the purchase and installation costs of the eligible equipment with a maximum recovery of $20,000 per new full-time job created and maintained at the project. Projects approved under the operating lease provision may only use the job assessment fee to recover the eligible equipment costs. (KRS 154.01-010; 154.22-010 to 154.22-080; 141.310; 141.347; 141.350; and 141.400)

Kentucky Jobs Development Act (KJDA)

Service and technology related companies that invest in new and expanded non-manufacturing, non-retail projects that provide over 75 percent of their services as generated through revenue to users located outside of Kentucky and that create new full-time jobs for at least 15 Kentucky residents may qualify for tax credits. Projects approved under KJDA may receive state income tax credits and job assessment fees for up to 50 percent of project startup costs and 50 percent of annual facility rental costs or rental value for up to 10 years. Maximum approved start-up costs are $10,000 per new full-time job for Kentucky residents subject to Kentucky's individual income tax. The company may receive up to a 100 percent credit against the state income tax arising from the project and may collect a job assessment fee of up to 5 percent of the gross wages of each employee whose job is created by the project and who is subject to Kentucky income taxes. Job development assessment fee(s) are limited to 4 percent if the local jurisdiction does not assess a local occupational license fee. Unused credits may be carried forward for the term of the agreement. The employee receives credits for the fee(s) against state income taxes and local occupational taxes. (KRS 154.01.010; 154.24-010 to 154.24-150; 141.310; 141.350 and 141.407)

The Kentucky Economic Opportunity Zone Act (KEOZ)

The Kentucky Economic Opportunity Zone Act (KEOZ) focuses on development of areas with high unemployment and poverty levels. A qualified zone consists of 1 to 5 contiguous census tracts, meeting certain distressed criteria, located entirely within a county, urban county government, or city of the first class. KREDA-certified counties are exempt from census tract criteria and may have the entire county certified as a zone. Only 1 qualified zone is allowed per county. Eligible companies include new or expanded manufacturing, service, or technology industries, which must invest at least $100,000 in the project and create at least 10 new full-time jobs for residents of the zone. Companies with projects approved under KEOZ may receive up to 100 percent credit against the Kentucky income tax liability on taxable income generated by the project(s) for up to 10 years. Unused credits may be carried forward for the term of the agreement. The company may also collect a job development assessment fee of up to 5 percent of the gross wages of each employee whose job is created by the approved project and who is subject to Kentucky income taxes. (KRS 154.01-010; 154.23-005 to 154.23-079; 141.310; 141.350; and 141.401)

Kentucky Enterprise Initiative Act (KEIA)

The Kentucky Enterprise Initiative Act is a means to attract new or encourage expansion of businesses involved in technology, manufacturing or tourism activities. KEDFA may grant a refund of the sales and use tax paid for construction material, building fixtures and R & D equipment purchased for the use in approved projects. The initiative remains in effect for the life of the project or up to 18 months from the date an eligible company is designated an approved company. An extension of 12 months may be approved for companies requiring additional time to complete the project.

Approved companies must make a minimum investment of $100,000 in a preference zone (former enterprise zone) or $500,000 in other areas in the Commonwealth. All preference zones expire December 31, 2007. The total funds available per year for all the approved projects are $20,000,000 for building and construction materials and $5,000,000 for research and development equipment. (KRS 154.20-200 to 154.20-216)

Kentucky Environmental Stewardship Act (KESA)

The “Kentucky Environmental Stewardship Act” provides for an income tax credit for up to 10 years if approved by the Kentucky Economic Development Finance Authority (KEDFA) and the following criteria are met: 1) Must have qualified eligible costs of at least $5 million. This includes 100 percent of the costs of providing the necessary skills training needed to produce the product and 25 percent of the equipment costs; 2) The costs must go towards the construction, rehabilitation or improvement of facilities necessary to produce the “Environmental Stewardship Product,” which is defined as any new or improved product that has a reduced adverse affect on human health and the environment when compared to a current product; 3) Wages and benefits must meet statutory requirements; 4) The maximum claimed for any one year is 25 percent of the total authorized inducement; and 5) An approved company under this agreement is not entitled to take a recycling tax credit. (KRS 154.48-010 to 154.48-035; KRS141.430)

Kentucky Industrial Revitalization Act (KIRA)

Investments in the rehabilitation of manufacturing or coal mining and processing operations that are in imminent danger of permanently closing or that have closed temporarily may qualify for tax credits. An eligible company shall also include one that has closed but resumes operations. Eligible entities include manufacturing companies that save or create 25 jobs and coal mining and processing companies that intend to employ a minimum of 500 persons and intend on having a raw production of at least three million tons from the economic revitalization project facility. Projects approved under KIRA, may receive state income tax credits, and job development assessment fees for up to 10 years, limited to 75 percent of the costs of the rehabilitation or construction of buildings and upgraded machinery and equipment. The approved company can receive a job assessment fee of up to five (5) percent of the gross wages of each employee subject to Kentucky individual income tax whose job is preserved or created by the approved project. The employee receives credits for the fee against state income taxes and local occupational taxes. (KRS 154.01-010; 154.26-010 to 154.26-100; 141.310; 141.350; 141.403; and 136.0704)

II. Other Income Tax Credits

Unemployment Tax Credit

An Unemployment Tax Credit of $100 dollars is allowed for each eligible person hired for at least 180 consecutive days. To qualify for the credit, the company must hire a worker who has been unemployed for at least 60 days. Credits cannot be claimed for close relatives, dependents, a person with 50 percent or more ownership in a corporation or persons for whom the company receives federal payments for on-the-job training. (KRS 141.065)

Recycling Equipment Credit

Income tax credits are allowed for up to 50 percent of the installed costs of equipment used exclusively to recycle or compost postconsumer waste (*excluding secondary and demolition wastes*) and for machinery used exclusively to manufacture products composed substantially of postconsumer waste materials. For the year the equipment is purchased, the credit is limited to 10 percent of total credit allowed and 25 percent of the taxpayer's state income tax liability. The unused portion of the total allowable recycling credits can be carried forward to succeeding tax years, with the credit claimed during any tax year limited to 25 percent of the taxpayer's state income tax liability. For equipment sold, transferred or otherwise disposed of, there is a formula for calculating an allowable tax credit for equipment with a useful life of five or more years or for equipment with a useful life of five or less years. For equipment with a useful life of five or more years the formula is as follows: 1) Less than 1 year, no credit; 2) Between 1 and 2 years, 20 percent of the allowable credit; 3) Between 2 and 3 years, 40 percent of the allowable credit; 4) Between 3 and 4 years, 60 percent of the allowable credit; 5) Between 4 and 5 years, 80 percent of the allowable credit; and 6) Over five years is 100 percent of the allowable credit. For equipment with a useful life of less than five years the formula is as follows: 1) Less than 1 year, no credit; 2) Between 1 and 2 years, 33 percent of the allowable credit; 3) Between 2 and 3 years, 66 percent of the allowable credit; and 4) Over three years is 100 percent of the allowable credit. (KRS 141.390 and 141.0205)

Corporate Income Tax Credit for Use of Kentucky Coal

A corporation income tax credit is allowed for up to 4.5 percent of the value of Kentucky coal (*excluding transportation costs*) used for industrial heating or processing. The credit is allowed for 10 years following either the installation or conversion to coal burning units. The credit in any year cannot exceed the corporation's income tax liability minus other credits. Unused credits cannot be carried forward. (KRS 141.041)

Biodiesel Fuel Tax Credit

A state income tax credit is allowed for producers or blenders of “biodiesel” fuel or “blended biodiesel” fuel with a blend of at least 2 percent. “Biodiesel” or “blended biodiesel” producers receive a $1 credit per gallon produced or blended. Unused credits cannot be carried forward. (KRS 141.423)

Kentucky Clean Coal Incentive

The “Kentucky Clean Coal Incentive Act” provides for an income, or public service corporation property tax credit for new clean coal facilities constructed at a cost exceeding $150 million and used for purposes of generating electricity. Before the credit is given, the Environmental and Public Protection Cabinet must certify that a facility is reducing emissions of pollutants released during electric generation through the use of clean coal equipment and technologies. The amount of credit will be $2.00 per ton of coal mined in Kentucky and used in the facility and not already receiving tax credit. Any unused portions of this credit shall not be carried forward. (KRS 141.428)

Certified Historic Structures Income Tax Credit

A "Certified Historic Structures" tax credit on income, or franchise tax for financial institutions for the rehabilitation of a certified historic structure. The credit is 30 percent of the qualifying expenses for an owner-occupied property and 20 percent for all other properties. There is a seven year carry forward for any unused credit. The maximum credit an owner-occupied property owner may take is $60,000. (Creates a new section of KRS151)

Voluntary Environmental Remediation Property Income Tax Credit

An income tax credit of up to $150,000 per taxpayer shall be granted for expenditures to remediate contamination on qualifying voluntary environmental remediation property. The amount of the allowable credit for any tax year is limited to 25 percent of the maximum credit approved. The credit may be carried forward for up to 10 years. (KRS 132.020(1)(c); 132.200(21); 141.418; 224.01-400; and 224.01-405)

Major Recycling Project Tax Credit

A "Major Recycling Project" is one where the taxpayer: 1) Invests more than $10,000,000 in recycling or composting equipment; 2) Has 750 or more full-time employees and pays more than 300 percent of the federal minimum wage; and 3) Has plant and equipment with a total cost of over $500,000,000. A taxpayer with a "major recycling project" is entitled to an income tax credit for up to 10 years and up to 50 percent of the installed costs of the equipment. In each taxable year, the amount of credits claimed for all major recycling projects is limited to 1) 50 percent of the excess of the total of each tax liability over the baseline tax liability of the taxpayer; or 2) $2,500,000, whichever is less. A taxpayer with one or more projects will be entitled to a tax credit equal to the total for each major recycling project, but he may not take the standard recycling credit and the major project credit on the same equipment. (KRS 141.390)

G.E.D. State Income Tax Credit

A state income tax credit is provided an employer for the portion of the time given to an employee to study for the General Educational Development (G.E.D.) test. The credit is calculated by multiplying 50 percent of the hours released for study by the employee's (student's) hourly salary. The credit shall not exceed $1,250. (KRS 151B.127)

Insurance Coverage Affordability and Relief to Small Employers (ICARE)

The plan known as the Insurance Coverage Affordability and Relief to Small Employers (ICARE) Program establishes a consumer-driven health plan for small businesses. It is a four year pilot program that allows employers and small employer-organized association groups that will insure 2 – 25 employees or individuals to be eligible to participate. To qualify for the program the employer must do the following: 1) Pay wages that must be less than 300 percent of the federal poverty level wages and 2) pay at least 50 percent of the premium cost. The incentive will be $40 per month per covered employee or $60 per month per employee depending on the type of coverage the employee has. These incentives will be reduced by one fourth of the amount each year at renewal until the incentive zeros out at the end of four years.

Broadband Loan/Grant Program

The program is administered by the Kentucky Infrastructure Authority with input from ConnectKentucky, the area development districts, and other interested businesses and government entities. Public or private providers can apply for funding for broadband applications to cover areas currently unserved by a broadband provider.

Order of Use of Credits

State statutes specify the order in which Kentucky income tax credits must be taken when a taxpayer is entitled to more than one (1) business incentive tax credit for a tax year: (KRS 141.0205)

Individual Income Tax Nonrefundable Credit Order:

1. Credit for individual members of flow through entities for tax paid at corporate level.
2. Economic development credits for KIDA, KREDA, KJDA, KIRA, KEOZ, KRA, or Skills Training (*See discussion of Bluegrass State Skills Corporation);*
3. Certified rehabilitation credit;
4. Health insurance credit;
5. Credit for tax paid to other states;
6. Credits for hiring unemployed persons;
7. Recycling or composting equipment credit;
8. Kentucky Investment Fund Act (KIFA) credit;
9. Coal incentive credit;
10. Research facilities credit;
11. Employer GED incentive credit;
12. Voluntary environmental remediation credit;
13. Biodiesel credit;
14. Environmental stewardship credit; and
15. Clean coal incentive credit.

Corporation Income Tax Nonrefundable Credit Order:

1. Economic development credits for KIDA, KREDA, KJDA, KIRA, KEOZ, or Skills Training (*See discussion of Bluegrass State Skills Corporation);*
2. Certified rehabilitation credit;
3. Health insurance credit;
4. Credit for hiring unemployed persons;
5. Recycling equipment credit;
6. Coal conversion credit;
7. Kentucky Investment Fund Act (KIFA) credit;
8. Coal incentive credit;
9. Research facilities credit;
10. Employer GED incentive credit;
11. Voluntary environmental remediation credit;
12. Biodiesel credit;
13. Environmental stewardship credit; and
14. Clean coal incentive credit.

III. DIRECT LOAN PROGRAM

Kentucky Economic Development Finance Authority (KEDFA)

KEDFA encourages economic development, business expansion, and job creation by providing business loans to supplement other financing. KEDFA provides loan funds at below market interest rates. The loans are available for fixed asset financing (land, buildings, and equipment) for business startup, locations, and expansions that create new jobs in Kentucky or have a significant impact on the economic growth of a community. The loans must be used to finance projects in agribusiness, tourism, industrial ventures, or the service industry. No retail projects are eligible.

KEDFA may participate in the financing of qualified projects with a secured loan based on a percent of a project's fixed asset cost. The maximum loan amount is $500,000 and the minimum is $25,000. Small businesses with projects of less than $200,000 may receive loans on fixed assets for up to 50 percent of the project costs if enough jobs are created. Interest rates are fixed for the life of the loan and are determined by the length of the loan term. Rates range from 1 to 5 percent depending upon the term and are amortized monthly, quarterly, or semi-annually. Project owners must inject a minimum of 10 percent towards the fixed assets. KEDFA loan funds are disbursed at the completion of the project, so the business must obtain interim financing. The KEDFA loan commitment can assist in securing the interim financing. (KRS 154.20-010 to 154.20-180)

Small Business Direct Loans

The Small Business Loan Program is designed to helps small businesses acquire funding needed to start or grow their small business. A small business must be engaged in manufacturing, agribusiness, or service and technology. Loan funds may be used to acquire land and buildings, purchase and install equipment, or for working capital. The minimum loan amount of $15,000 and the maximum is $100,000. The approved company must create one new full-time job within one year of the loan closing. The Kentucky Economic Development Finance Authority (KEDFA) can fund up to 100% of the project costs and the loan can be used in conjunction with other lenders. The term of the loan can range from 3-10 years. (KRS 154.12-325 and 154.12-330)

Community Development Block Grant (CDBG) Loans

Businesses in Kentucky can obtain low-interest loans through the federally funded CDBG system. Cities and counties lend the grant funds to businesses for the creation or retention of jobs. Terms of the loans are based upon the financial analysis of the borrower. Interest rates usually are below the market rate and usually are fixed for the life of the loans. Security for CDBG loans can be subordinate to that of other lenders.

Federal regulations require that at least 51 percent of those hired for projects that use CDBG loans be low and moderate-income individuals. The use of federal funds for construction activities will trigger payment of prevailing wages under the provisions of the Davis-Bacon Act, and borrowers must comply with federal procurement and environmental review requirements.

Linked Deposit Program

The linked deposit program provides loans up to $100,000 for small businesses and agribusinesses. Credit decisions are the responsibility of the lender making the loan. The state will purchase certificates of deposit from participating lenders through the State Investment Commission, at the New York prime interest rate less 4 percent, but never less than 2 percent. Lenders will make loans to eligible companies at a rate equal to New York prime and never greater than 5 percent. Loan terms are for up to 7 years. Loans will be reviewed by the Kentucky Agriculture Finance Corporation (for agribusiness loans) and the Cabinet for Economic Development (for small business loans) to assure loans comply with the statute.

Local Financial Assistance

Several local governments and area development districts offer loans and other financial incentives for economic development projects. The levels and terms of financial assistance provided generally are negotiable and are based upon the availability of funds, jobs created, economic viability of the project, and other locally determined criteria.

IV. KNOWLEDGE-BASED ECONOMY

High-Tech Construction and Investment Pool

The Department of Commercialization and Innovation (DCI), in the Cabinet for Economic Development, administers two pools of funds:

1. The High-Tech Construction Pool is used for projects with special emphasis on the creation of high-tech jobs and knowledge-based companies. The commissioner recommends funding of companies to KEDFA for approval; and
2. The High-Tech Investment Pool is used to build and promote technology-driven industries and research-intensive industries with the goal of creating clusters of innovation-driven industries in Kentucky. The commissioner recommends funds to be used to support loans and grants, or secure an equity or related position to KEDFA for approval. (KRS 154.12-278)

Kentucky Innovation and Commercialization Centers

The Kentucky Innovation and Commercialization Centers (ICCs) are public-private partnerships dedicated to creating and growing high-growth, knowledge driven companies that are primarily seeking private investments through angels and venture capitalists. Six regional ICCs and 7 local Innovation Centers (ICs) comprise the main network, which is administered by the Kentucky Science and Technology Corporation (KSTC) under contract with DCI in the Cabinet for Economic Development. See www.startupkentucky.com to locate the offices serving each region.

The ICC and IC network is the statewide infrastructure that provides business-building talent and related services to Kentucky's entrepreneurs, faculty and scientists using a best practices model. The centers also link scientists and entrepreneurs with the innovation–related funding tools created under the Kentucky Innovation Act. See discussion above on funds.

Commonwealth Seed Capital LLC

The Commonwealth Seed Capital LLC (CSC) provides early-stage seed funds to facilitate the commercialization of innovative ideas and technologies developed in Kentucky. CSC will invest state capital in Kentucky technology companies.

Small Business Innovation Research Incentive Program

The Department of Commercialization and Innovation will match all Phase I and Phase II federal SBIR and STTR awards received by Kentucky businesses. This would include matching awards of up to $100,000 to support Phase I exploration of the technical merit or feasibility of an idea or technology. Starting in July 2007, Phase II federal awards, which support full-scale research and development, can be up to $750,000, and will be matched by the Commonwealth up to the first $500,000 in each year of the federal award.

Statewide Business Plan Competition and Awards Program

The program will encourage entrepreneurship and develop new high-growth ventures in the Commonwealth. The winner will receive a cash award of up to $100,000.

Research Facilities State Income Tax Credit

A state income tax credit is provided for investment in facilities used to pursue research. The income tax credit is equal to 5 percent of the qualified cost for "construction of research facilities" for “qualified research” as defined in Internal Revenue Code Section 41. The credit is available to new and existing businesses that construct, remodel, expand, or equip research facilities, but does not include replacement property. Any unused credit may be carried forward for 10 years. (KRS Chapter 141.395)

Research, Innovation & Technology Businesses

The Council on Postsecondary Education (CPE) plays a major role in attracting research and development work and in supporting innovation and inventions through the following four programs, collectively called the Kentucky Enterprise Fund:

1. The Kentucky Research and Development Voucher Program provides state funds on a match basis to small and medium-size companies to undertake research and development work with a Kentucky university, with a maximum voucher award of $200,000 over two years. (KRS 164.6019 and 164.6021)
2. The Kentucky Rural Innovation Program provides seed funds to small rural Kentucky-based businesses to undertake research and development and entrepreneurial innovation in partnership with a Kentucky postsecondary institution or unaffiliated third party, with a maximum voucher award of $100,000 over two years (KRS 164.6027 and 164.6029). This program is generally divided into 2 phases - $25,000 and a follow-on of $75,000.
3. The ICC Concept pool provides grants up to $25,000 to assist businesses and individuals at the earliest stages of project feasibility and concept development. (KRS 154.12-300 to 154.12-315)
4. The Gap Fund/Executive in Residence Program provides follow-up funding of up to $400,000 for previously funded high-performing qualified companies within KSTC’s investment portfolio

(via CPE-funded programs 1 through 3 above) and must be matched by the company, which occurs generally as part of a new, minimum $1 million round.

The Kentucky Science and Technology Corporation manages these funds under contract with the CPE. For more information on funding guidelines, see www.startupkentucky.com.

Kentucky Science and Engineering Foundation

Small businesses having their principal business located in Kentucky are eligible to apply for R&D Excellence Program awards under the "emerging technologies" category, with awards ranging from $20,000 to $50,000 per year. The R&D Excellence Program makes proactive investments in existing and emerging areas of research leading to innovation and technology development in five state-identified focus areas through a peer-review system. Emerging technologies are the subject of research and development activities, which are conducted to help the company further define and develop a new product or process technology. (KRS 154.12-320)

The foundation also administers the SBIR/STTR Phase 0 and Phase 00 program. This is a seed grant program to assist Kentucky's small companies in developing competitive, high quality Phase I and Phase II proposals to any of the federal agencies participating in the Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs. Companies are eligible to apply for up to $4,000 to assist the preparation of a federal proposal. The goal of the Phase 0 and Phase 00 program is to increase the number of winning proposals funded for Kentucky companies. Each year the foundation offers SBIR conferences with panels from participating federal agencies and workshops on SBIR/STTR proposal writing for interested companies.

The foundation also administers the Kentucky Commercialization Fund Program which provides seed funds to Kentucky university's faculty members for commercializing products, processes, or services developed through research and development work undertaken at a Kentucky university, with a maximum grant of $225,000 over three years. (KRS 164.6035 and 164.6037)

The foundation is managed by the Kentucky Science and Technology Corporation under a contract with the Council on Postsecondary Education. For more information go to http://ksef.kstc.com.

V. TAX INCREMENT FINANCING (TIF)

There are two types of TIF districts allowed by statute: Local Development Areas and Development Areas. (New Section of KRS Chapter 65)

Local Development Areas:

Local Development Areas can be established for up to 1,000 acres per year on previously undeveloped land. TIF revenues can be pledged to support development of residential, commercial, industrial and recreational projects for up to 20 years using local tax revenues only.
The assessed value of the land in the proposed local development area and any other existing local development areas or development areas may not exceed 20 percent of the total assessed value of the political subdivision establishing the district. Taxing authorities (except schools and fire districts) within the local development area can pledge up to 100 percent of the incremental tax revenues (real property, ad valorem taxes and occupational taxes) that result from development in the local development area to pay for approved public infrastructure costs.

Development Areas:

Development Areas are for downtown redevelopment projects to encourage the reinvestment, redevelopment and reuse of previously developed areas using local, and in certain cases, state incremental tax revenues for up to 20 years. For large “Signature” investments over $200 million the TIF revenues can be used for up to 30 years. The size of the development district can be no more than 3 square contiguous miles. The assessed value of the real property in the proposed development area and all other local development areas and development areas must not exceed 20 percent of the total property in the jurisdiction establishing the TIF. Taxing authorities (except schools and fire districts) within the development area can pledge a maximum of either 80 percent or 100 percent of the incremental tax revenues that result from development in the development area to pay for approved public infrastructure and other costs, based on type and amount of investment.

Development Areas must meet at least 2 of the following Required Findings:

1. It must have had a substantial loss of residential, commercial or industrial activity or use;
2. 40 percent or more of the households are low income households (defined as a household where gross income is not greater than 200 percent of the poverty guidelines published by the U.S. Department of Health and Human Services);
3. More than 50 percent of the residential, commercial or industrial structures are deteriorating or deteriorated;
4. There is a substantial abandonment of residential, commercial or industrial structures;
5. There is a substantial presence of environmentally contaminated land;
6. There is inadequate public improvements or substantial deterioration in the public infrastructure; or
7. There are any combinations of factors that substantially impair or arrest the growth and economic development of the city or county; impedes the provision of adequate housing; impedes the development of commercial or industrial property; or adversely affects public health, safety, or general welfare due to the area’s present condition or use.

VI. INDUSTRIAL REVENUE BONDS (IRBs)

Industrial Revenue Bonds (IRBs) issued by state and local governments in Kentucky can be used to finance manufacturing projects and their warehousing areas, major transportation and communication facilities, most health care facilities, and mineral extraction and processing projects. Bonds issued under United States Internal Revenue Code (I.R.C.) contain more restrictions than those issued under Kentucky statutes. Bond funds may be used to finance the total project costs including engineering, site preparation, land, buildings, machinery and equipment, and bond issuance costs. Any portions of such projects financed by private capital are subject to the full state and local property taxes applicable to private ownership. Communities may negotiate for payments by industrial tenants to replace portions of local property taxes lost through public title to the property.

Private leasehold interests in property owned and financed by a governmental unit through industrial revenue bonds, under the provisions of KRS Chapter 103, are taxed by the state at $0.015 per $100 of leasehold value with approval from KEDFA. Reduction of local property taxes only on projects financed through IRBs does not require KEDFA approval. Communities may negotiate for payments by industrial tenants to replace portions of local property taxes lost through public title to the property. Any portions of such projects financed by private capital are subject to the full state and local taxes applicable to private ownership. (KRS 132.020; 132.195; 132.200)

The Kentucky Private Activity Bond Allocation Committee (KPABAC) approves the private activity cap for the issuance of industrial revenue bonds with tax-free interest earnings (to bond buyers), for qualifying projects within annual ceiling amounts authorized by the I.R.C. For more information see Kentucky Private Activity Bond Allocation Committee.

VII. BLUEGRASS STATE SKILLS CORPORATION (BSSC)

Bluegrass State Skills Corporation (BSSC) is an independent dejure corporation within the Cabinet for Economic Development. BSSC's basic purpose is to improve and promote employment opportunities for the residents of the Commonwealth through training grants and investment credits for skills training programs which create partnerships with business and industry who absorb a share of program costs.

The Grant-in-Aid Program allows BSSC to administer and fund Kentucky's industry-specific training efforts through grants approved by the Board of Directors of the BSSC; to act as a broker of skills training and employment services; to facilitate and fund new training programs; to administer any special state appropriations for industry specific training; and to fund train-the-trainer initiatives. The program allows for a 50 percent reimbursement for eligible training costs. (KRS 154.12-204 to 154.12-208)

The Skills Training Investment Credit Act is an economic development initiative, which aids existing companies in their efforts to develop a skilled workforce. It allows companies to recover 50 percent of their approved costs for occupational and skills upgrade training costs through an income tax credit limited to $500 per Kentucky resident employed not to exceed $100,000 per company per biennium. (KRS 154.12-2084 to 154.12-2089; and 141.405)

For additional information about BSSC go to www.thinkkentucky.com/bssc.

VIII. KENTUCKY INVESTMENT FUND ACT

The Kentucky Investment Fund Act encourages venture capital formation by certifying privately operated venture funds. Certified funds entitle their investors to tax credits equal to 40 percent of their capital contributions to the fund, not to exceed 50 percent of the initial approved aggregate credit amount proportionally available to an investor for any one tax year. Unused credits may be carried forward for up to 15 years. Tax credits may be taken against state income, corporation license, insurance premiums, bank franchise, and savings and loan association taxes. Nonprofit entities may transfer tax credits for some or no consideration. Criteria for certification includes an evaluation of the business plan, analysis of the investment strategy, and past experience of the fund manager. Separate requirements exist for initial fund capitalization, as well as ceilings on cash contributions and total credits authorized. Total qualified investments made by each fund in any single small business may not exceed 25 percent of that fund. Investment funds may be approved by KEDFA allowing investments up to 100 percent in a single knowledge-based entity. To qualify a small business must have:

- a net worth of less than $5 million ($10 million for knowledge-based businesses) or its net income in each of the prior two years is less than $3 million; and
- 100 or fewer employees; and
- more than 50 percent of its assets, operations, and employees must be located in Kentucky. (KRS 154.20-250 to 154.20-284)

Any investment not in a qualified small business may be made by a fund, but shall not be eligible for the tax credits.

IX. ECONOMIC DEVELOPMENT GRANT PROGRAMS

Local Government Economic Development Fund (LGEDF)

The program is funded through an allocation of coal severance tax receipts. Grants are provided to eligible coal producing counties to assist in diversifying local economies beyond a dependence on coal. Funds may be used to support nonrecurring investments in public health and safety, economic development, public infrastructure, information technology development and access, and public water and wastewater development.

Regional Business Park Program

The Regional Business Park Program is funded under the LGEDF program and designed to develop large blocks of available, accessible, and marketable land as regional business parks. The participating counties share in the tax revenues, and all other proceeds generated from the project, through interlocal agreements between the participating counties and the formation of regional authorities. These legally established authorities own, maintain, and market the available acreage with guidance from the Cabinet for Economic Development.

Eligible Activities

Costs associated with the purchase and development of real estate, are eligible under the LGEDF program including:

- the acquisition of real property and related expenses:
- infrastructure development costs including water and sewer line extensions, treatment plant construction and/or upgrades, and access roads;
- building construction costs; and
- engineering expenses related to the development.

Workforce training costs under grants are available to companies locating in one of the Regional Business Parks that hire residents from participating counties. The company must meet eligibility criteria under the LGEDF Program and one of the KEDFA administered tax credit programs, *id est.*, KREDA, KJDA, KEOZ, or KIDA. The training funds are available on a 48-week basis and pay a percentage of wages paid above the federal minimum wage. Final grant awards are made by KEDFA. (KRS 42.4588)

X. SPECIAL ECONOMIC DEVELOPMENT PROJECT INCENTIVES

For economic development projects that will result in the creation of at least 500 new jobs, county fiscal courts may organize a district for purposes of levying taxes. The additional taxes may pay for the establishment, operation, and maintenance of governmental services provided to the district that exceeds the level of services provided to other areas of the county. The additional taxes that may be imposed in the district are a special ad valorem tax not to exceed $0.10 per $100 of assessed value and an occupational license tax. (KRS 68.600 to 68.606)

XI. KENTUCKY'S TAX ADVANTAGES

Kentucky Department of Revenue

Kentucky's combined state and local own source revenue per capita for 2002 was below the national average and ranked as the 7th lowest among the 50 states. The 2005 Kentucky General Assembly passed major tax modernization legislation, which lowered corporation income tax rates, eliminated state license taxes, eliminated most intangible property taxes, introduced several new tax credit incentives, and improved Kentucky's overall business tax climate.

Kentucky ranked 22nd in the nation and below the national average for having the lowest "Business Taxes as a Share of State, Local, and Total and Private Sector GSP - FY 2006" according to a study released in February 2007 by Ernst & Young (http://www.ernst-young.com) and titled: "Total State and Local Business Taxes, 50-State Estimates for Fiscal Year 2006.)

Corporation Taxation

- Net operating losses can be carried forward for up to 20 years. (KRS 141.010 and 141.011)
- A multi-state corporation sustaining a tax loss only at its Kentucky facility during its first year of operation can carry the loss forward as a deduction from its second year Kentucky taxable income, provided separate accounting can be used for the Kentucky activity. (KRS 141.012)
- The top corporation income tax rate is 6% beginning January 1, 2007
- The corporation license tax was eliminated beginning January 1, 2006.

City Occupational/Net Profits Tax

- Cities can exempt new manufacturing facilities from city occupational (income) taxes for up to 5 years. (KRS 91.260 and 92.300)
- Counties having a population of 30,000 or more and cities of all classes are prohibited from collecting license fees or occupational taxes on investment partnerships if that investment would not be taxable if individually held. (KRS 68.180, 68.197, 91.200 and 92.281)

Property Taxes

- Exemption of manufacturing machinery from all local property taxes. The state rate is only 15 cents per $100 of assessed value. (KRS 132.020 and 132.200)
- Exemption of certified pollution control facilities and equipment from all local property taxes. The state rate is only 15 cents per $100 of assessed value. (KRS 132.020; 132.200 and 224.01-300)
- A brownfield incentives program provides a state property tax rate of $0.015 per $100 value assessed on all qualifying voluntary environmental remediation property provided the purchaser has obtained a covenant not to sue from the Environmental and Public Protection Cabinet. The rate shall apply for 3 years following the issuance of the covenant not to sue; after which the regular rate will apply. The local property taxes are exempt for the 3-year period. (New Chapter of KRS 132)

- Exemption of raw materials and products in the course of manufacture from all local property taxes. The state rate on these inventories is only 5 cents per $100 of assessed value. (KRS 132.020 and 132.200)
- Exemption of tangible personal property located in a federally designated and activated foreign trade zone (or sub-zone) from all local property taxes. The state rate is only 1/10 of 1 cent per $100 of assessed value. (KRS 132.020 and 132.200)
- Exemption of intangible property (money in hand, notes, bonds, accounts receivable, mortgage receivables, intercompany intangible personal property due from affiliates, patents, copyrights, trademarks and other credits) from state and local taxation, except for financial institutions and life insurance companies. (KRS 132.208)
- Favorable tax treatment for finished goods inventories. The state rate on these inventories is only 5 cents per $100 of assessed value. Cities, counties, and urban-county governments may levy rates on these business inventories that are less than the prevailing rate of taxation on other tangible personal property in their respective jurisdictions. (KRS 132.020; 68.246; and 132.028)
- Favorable tax treatment for finished goods in a transit status may occur if the goods are located in a warehouse or distribution center pending subsequent shipment out-of-state. These goods shall be exempt from state, city, county (general levy), urban county, and school district property taxation. Fire and special taxing districts may exempt these goods at their discretion. (KRS 132.020; 132.095)
- Private leasehold interest in industrial buildings owned and financed by a governmental unit through industrial revenue bonds, approved by KEDFA under the provisions of KRS Chapter 103, are taxed by the state at $0.015 per $100 of leasehold value and are exempt from local property taxes. (KRS 132.020; 132.195 and 132.200)
- Cities may exempt the property of a new manufacturing facility from city taxes for up to 5 years. (KRS 91.260 and 92.300)
- Exemption of machinery and equipment owned by a business and used to collect, separate, compress, bale, shred, or handle waste materials for recycling from all local property taxes. The state rate is $0.45 per $100 of assessed value. (KRS 132.020; 132.200(16); and 139.095)
- State laws limit the increase in local property tax revenues from real estate, exclusive of new property, to 4 percent annually for each local taxing jurisdiction (county, city, and school district). Increases larger than 4 percent must be approved by voters. (KRS 132.023 and 132.027)
- State laws limit the increase in state property tax revenues from real estate, exclusive of new property, property approved for tax increment financing and KRS Chapter 103 industrial revenue bond property receiving the reduced state rate of $0.15 per $100 of leasehold value, to 4 percent annually. (KRS 132.020)
- Cities and counties may grant a 5 year moratorium from increases in property assessment values on business commercial facilities 25 years old or older and undergoing rehabilitation. (KRS 99.600 and 132.452)
- Assessment of property for taxation is made only once annually on January 1, allowing businesses to plan purchases or assets and levels of inventories to their best tax advantages. (KRS 132.220)
- State property tax rate of $0.015 per $100 of value is used for aircraft not used in the business of transporting persons or property for compensation or hire. Local taxing districts may exempt or adopt tax rates lower than other tangible property for above classification of aircraft. (KRS 132.020; 132.200)

State Sales and Use Tax

Major exemptions for businesses include (state taxes only):

- Items purchased for resale. (KRS 139.260)
- Machinery for new and expanded industry (manufacturing, extraction of minerals, ores, coal, clay, stone, and natural gas). Replacement machinery for manufacturing is exempt when it increases consumption of recycled materials not less than 10 percent, performs a different function, manufactures a different product, or has a greater productive capacity. Repair parts, replacement parts, and spare parts are taxable. (KRS 139.480; 139.170; and 103 KAR 30:120)
- Raw materials which enter into and become a part of the manufactured product. (KRS 139.470)
- Supplies used directly in manufacturing which have a useful life of less than one year (lubricating and compounding oils, grease, machine waste, abrasives, chemicals, solvents, fluxes, anodes, filtering materials, fire brick, catalysts, dyes, refrigerants, explosives, etc.), excluding repair, replacement, or spare parts of any kind. (KRS 139.470)
- Industrial tools that have a useful life of less than one year, limited to hand tools (such as jigs, dies, drills, cutters, rolls, reamers, chucks, saws, spray guns, etc.) and tools attached to a machine (such as molds, grinding balls, grinding wheels, dies, bits, cutting blades, etc.), excluding repair, replacement, or spare parts of any kind. (KRS 139.470)
- Materials and supplies that are not reusable after one manufacturing cycle, excluding repair, replacement, or spare parts of any kind. (KRS 139.470)
- Energy and energy-producing fuels used in manufacturing, industrial processing, mining, or refining to the extent that they exceed 3 percent of the cost of production. "Cost of production" is the total of all costs as defined according to accepted accounting principles and includes direct and indirect materials and labor, overhead expenses, depreciation on plant equipment and plant buildings, insurance and taxes on plant equipment, compensation insurance, rent on plant buildings, miscellaneous factory expenses, and office and administrative expenses allocated to the cost of production. (KRS 139.480 and 103 KAR 30:140)
- Pollution control equipment and facilities approved by the Kentucky Department of Revenue. Included is equipment for air pollution control, water pollution control, disposal or reclaiming of solid or hazardous wastes, sound emission control, and pretreatment of raw materials for environmental protection. (KRS 139.480 and 224.01-300)
- Refund for approved manufacturing, technology and tourism projects on building construction materials, building fixtures and research and development (R&D) equipment. See section on Kentucky Enterprise Initiative Act. (KRS 154.020)

XII. MISCELLANEOUS BUSINESS INCENTIVES

Utility Incentive Rates

Electric and gas utility companies regulated by the Kentucky Public Service Commission (excluding municipal systems) can offer economic incentive rates for certain large industrial and commercial customers. The special discount rates can be granted for up to 5 years for both new and expanding operations. Gas utility companies also can offer a discount or waiver of gas main extension costs. The specific discount terms are set by contracts negotiated with the utility companies, subject to approval by the Public Service Commission.

Coal Incentive Tax Credit

An electric power company or a company that owns and operates a coal-fired electric generating plant may be entitled to a coal incentive tax credit. Only coal that is subject to Kentucky's coal severance tax qualifies for the credit. The credit is equal to $2 per ton of Kentucky coal purchased by the company that is above the amount of Kentucky coal purchased during the base year. The base year amount is the amount of coal purchased in 1999 for existing companies. For new entities, the base year amount will be zero. The nonrefundable credit may be taken against corporation income tax, individual income tax, corporation license tax and public service company property tax. (KRS 141.0405)

Kentucky Community and Technical College System (KCTCS)

Kentucky Community and Technical College System serves as the Commonwealth's primary provider of postsecondary education programs, training and services. KCTCS provides statewide access to quality, affordable postsecondary education and training through a system of 16 college districts with more than 60 campuses. KCTCS supplies employers and employees with the following services to enhance the skills of Kentucky's workforce:

- Certificate, diploma, technical degree, associate degree and transfer programs.
- KY WINS (Workforce Investment Network System)—high-level academic and technical skills training for employees of new and existing business. KY WINS provides business and industry access to customized training programs, pre- and post-employment training and employee assessment.
- Customized workforce training on the local level. Coordinators at the system level assist the colleges in developing programs that deliver specialized training when and where it is needed.
- IT Fast Track program partners with computer industry leaders to deliver training designed to improve the information technology literacy of Kentucky's workforce. Partnerships include Microsoft, Oracle, Cisco and Nortel.
- Kentucky Manufacturing Skills Standards (KMSS), developed in conjunction with manufacturers throughout the state, provides skills standards certification. KCTCS administers the KMSS assessment and provides targeted instruction to assist individuals in achieving certification.
- WorkKeys—system of job profiling, assessment and targeted instruction that focuses on the foundational skills found in all jobs in the workplace. These skills include reading, math, applied technology, critical thinking skills, teamwork and problem solving.
- The Center for Excellence in Automotive Manufacturing is a multi-faceted partnership between KCTCS and Toyota Motor Manufacturing North America, Inc. that will help create a nationally recognized model for workforce education and training in the automotive industry.
- The North American Racing Academy (NARA) the first horse-racing academy in the United States – will open September 2006 at the Kentucky Horse Park. The racing academy has a long-term goal of establishing career pathways for individuals interested in working in all aspects of the horse racing industry.
- The Kentucky Coal Academy trains students in all aspects of the coal mining industry.
- On-line degrees and courses available to provide anytime, anywhere learning.
- Assessment centers at the colleges offer a wide array of workplace assessments to assist business and industry in identifying skill levels of existing and potential employees.

Kentucky Information Highway (KIH)

Companies approved for economic development incentives administered by KEDFA may receive access and use of the Kentucky Information Highway on the same terms as state agencies. (KRS 45A.605)

Kentucky Captive Insurer Law (KRS 304.49-010 to 304.49-230)

Permits companies to establish wholly-owned insurance subsidiaries to insure some or all of their own risks. As part of an overall risk-management program, a Captive offers a multitude of potential advantages over the commercial insurance market including:

- Potential to lower insurance premium costs by as much as 30-40 percent, by eliminating overhead and profit for the commercial insurer.
- Possible tax advantages through either reduction or deferral.
- Ability to increase profits and cash flow by permitting premiums and investment earnings from the Captive to accrue to the group, not an outside entity.
- Flexible premium plans may offer cash flow flexibility.
- Custom-tailored insurance coverage to fit the unique needs of the parent company, rather than "one-size-fits-all" commercial coverage.
- Provides direct access to the reinsurance market allowing favorable terms structuring and flexibility.
- Allows for stabilizing of insurance costs.
- Provides coverage alternative in cases where the commercial market is unable or unwilling to write certain coverage.
- Regulatory requirements are less than in the traditional commercial insurer market.
- Exemption from all state and local insurance premium taxes.
- Not required to join a ratings organization.

The information provided herein by the Division of Research and Site Evaluation --Kentucky Cabinet for Economic Development is believed to be accurate but is not warranted and is for informational purposes only. Any estimates, projections, or information provided to make estimates or projections are provided without assurances or warranties and should not be relied upon as fact. Users of the information should perform their own due diligence in drawing conclusions from the information provided.

May, 2007

KENTUCKY INCOME TAX CREDIT PROGRAMS FOR JOB CREATION/RETENTION

Terms And Requirements	Kentucky Jobs Development Act (KJDA)	Kentucky Rural Development Act (KREDA)	Kentucky Economic Opportunity Zone (KEOZ)	Kentucky Industrial Development Act (KIDA)
Qualifying Business	New or expanding non-mfg. and non-retail	New or expanding mfg.	New or expanding mfg. or service/technology	New or expanding mfg.
Company Investment		$100,000	$100,000	$100,000
Jobs Created	15 full-time	15 full-time	10 full-time jobs for qualified employees from the zone	15 full-time
Special Qualifications	Over 75% of services as generated through revenue to out-of-state customers	Counties with long-term high unemployment, acute unemployment, or economically distressed	Located in a qualified zone or KREDA county	Located in non-KREDA county.
Tax Credit Level	State only	State only	State only	State only
Basis for Credits	Up to 50% of startup costs limited to $10,000 per new job and up to 50% of annual rental value of facility	Capital investment for land, buildings, fixtures, and equipment or a capital lease for equipment and installation costs.	Manufacturing: Capital investment for land, buildings, fixtures, and equipment; leasing of buildings from county purchased through KEOZ grant component Service/Technology: Up to 50% of startup cost and up to 50% of annual rental value of facility	Capital investment for land, buildings, fixtures, and equipment or a capital lease for equipment and installation costs. Equipment and installation costs are limited to $20,000 per new job.
Maximum Duration	10 years	15 years	10 years	10 years
Job Development Assessment Fees (JDAF)	Up to 5% of payroll from state and/or local	4% of payroll from state	Up to 5% of payroll from state and/or local	May choose 3% of payroll in lieu of state income tax credit
Special Provisions	Local government may provide services in lieu of local job assessment credit. Must meet minimum wage and benefit thresholds.	Companies approved under operating leases are limited to 4% of JDAF and equipment and installation costs are limited to $20,000 per new job. Must meet minimum wage and benefit thresholds.	Once a company is approved under KEOZ benefits are maintained. Must meet minimum wage and benefit thresholds.	Companies approved under operating leases are limited to 3% of JDAF. Must meet minimum wage and benefit thresholds.