



TAX REFORM IN KENTUCKY: *What it Means for You*

GUEST PIECE: MARK SOMMER, FROST BROWN TODD LLC



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What a Session! After several years of expressed support, seemingly from all sides of the political spectrum, with business out front, some tax reform finally came this Spring. But in what form, and with what changes?

Plenty of voters and constituents were surprised with the General Assembly's passage of House Bill 366 on Easter Monday. Still more were surprised by Governor Bevin's veto thereof. And what happened next? House Bill 487 comes along on the

last day of the Session. These two bills make what some have characterized as the most changes to Kentucky's tax structure in over eighty years.

What changed? Many big changes in policy were enacted. Front and center with this is the beginning of the shift from a production-based tax climate to a consumption-based climate. This presents itself in

the form of taxing many services, services such as landscaping, dry cleaning, janitorial services and still more. One big corporate income tax change moves Kentucky from a traditional production platform to a services-based tax platform. More commonly known as "market sourcing," this part of the corporate tax code looks to determine taxable activity in Kentucky based on where the involved services are received, not, as for generations, from where the services were created or engineered. Another consumption-type shift is presented through taxing admissions, admissions to health facilities, swimming pools, golf courses and more. Extended warranties and service contracts are now taxable as well.

“This is the beginning of the shift from a production-based tax climate to a consumption-based climate.”

[SEE TAX REFORM, PAGE 2](#)

LEGAL LIABILITY REFORM: *Huge Missed Opportunity*

Though the 2018 session saw big wins for the business community with the passage of legislation addressing workers' compensation, essential workforce skills, and pension and tax reform, one major issue that was not tackled was true legal liability reform.

While there were steps in the right direction, including the passage of peer review legislation and transparency and guidelines when state government hires outside counsel, the legislature missed a huge opportunity by not passing Senate Bill 2, which was a constitutional amendment to give voters, via their elected representatives, the ability to limit jury awards. Filed by state Sen. Ralph Alvarado, it would have allowed the General Assembly to establish such limits. Currently, there is no limit and awards can run into the millions of dollars.

[SEE LEGAL LIABILITY, PAGE 5](#)



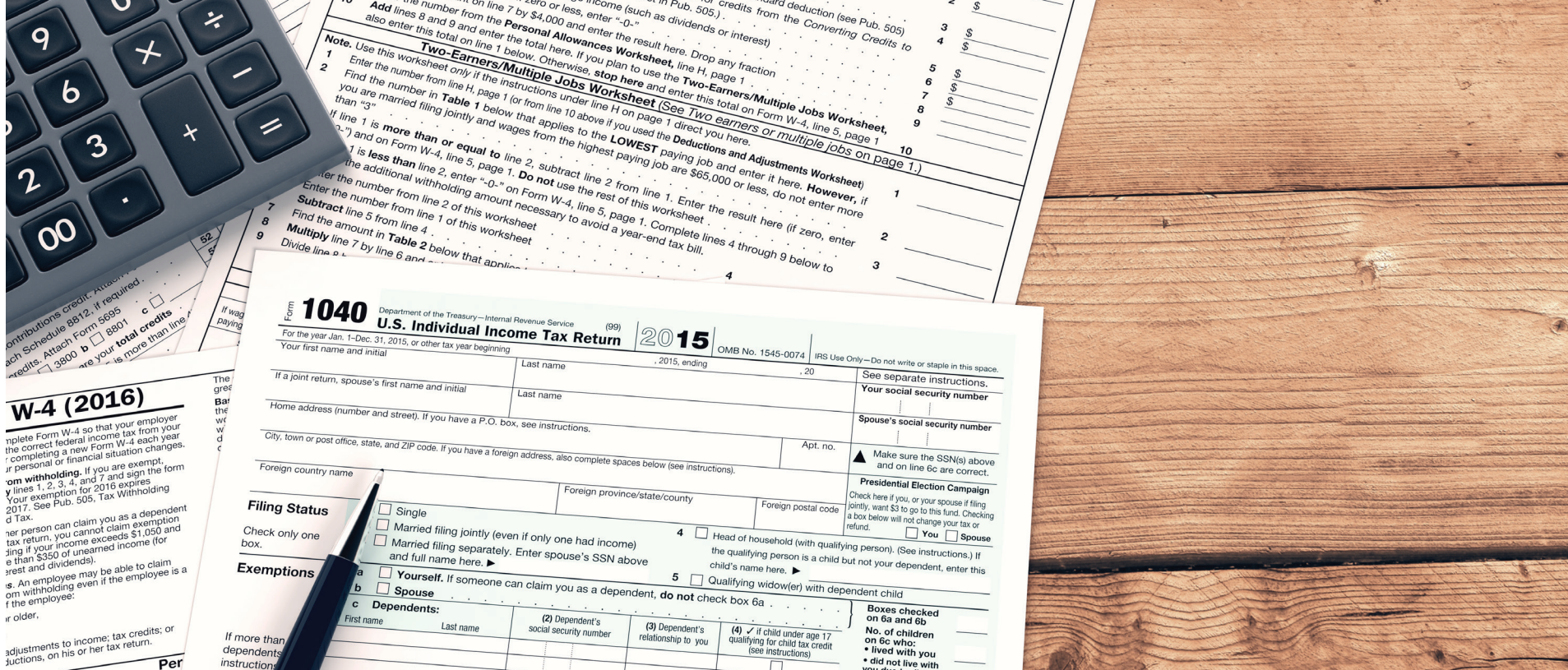
BOURBON TOURISM BILL *Becomes Law*

Legislation that will help the ever-growing bourbon industry saw final passage during the 2018 session.

House Bill 400 will allow visitors to Kentucky's Bourbon Trail to ship their bourbon purchases back to their home. This is a critical step in helping Kentucky's signature bourbon industry continue to grow.

Over 1.2 million tourists visit Kentucky's bourbon trail every year and Kentucky was losing tax revenue by barring tourists from around the world from shipping bottles back home. House Bill 400 was a bipartisan solution that fixed this lost opportunity by establishing a legal, regulated system that allows travelers to ship bottles home when visiting a licensed distillery, winery or retailer. This step will help create jobs, add much-needed revenue to local and state coffers, satisfy tourists' number one demand – and not cost taxpayers a dime.

Along with the Kentucky Chamber, House Bill 400 was championed by the Kentucky Distiller's Association.



FROM THE FRONT

Tax Reform:

As to business taxation, several policy-type changes occurred. Foremost was a reduction of the highest income tax rate (both for corporations and for individuals), down to a 5% flat tax; graduated income tax rates on individuals and corporations were all merged into one flat rate. The General Assembly also changed the method used for multi-entity corporate families from a nexus only based consolidation structure (filing one return for affiliated corporations having a certain percentage of ownership and nexus in Kentucky), to a much broader tax platform, more commonly known as the Unitary filing method. The effect of this change will significantly broaden the corporate tax base in Kentucky, and with it bring into Kentucky's tax base many businesses which heretofore were able to "structure" their way out of Kentucky's corporate income tax grasp.

While some would assert that Unitary taxation is more complex in compliance therewith, to minimize compliance burdens the General Assembly legislated an alternative, allowing corporations to file what is known as a U.S. affiliated consolidated group return, on an elected basis for eight years at a time. Finally, single sales factor apportionment was legislated for corporate taxation. SSF is generally viewed as a more favorably filing element for manufacturing and capital-intensive businesses situated in Kentucky, but it also has the effect of capturing and sourcing to Kentucky many operations outside of Kentucky that don't have a large presence in Kentucky when measured by property and payroll of the company.

Feeling a need for Taxpayer Bill of Rights reform, the General Assembly also legislated several pro-taxpayer changes in the tax dispute resolution process, including extending the time period within which any tax protest need be filed, outlawing the bad practice of requiring a taxpayer to either pay in full a taxing dispute (or bond in lieu thereof) while contesting a tax assessment through the appellate system, and also relaxed the due date for amended returns having to be filed with Kentucky after an IRS tax audit.

While the cigarette tax increased by fifty cents per pack, many other changes were made which will have a positive revenue impact on the Treasury. Changes relating to the so-called Angel Investment Tax Credit Program as well as the Kentucky Film Tax Credit Program were legislated, effectively capping and/or suspending new awards for several years. A new, four-year phased-in income tax credit as a partial solution to Kentucky's anti-business inventory tax was enacted, as were literally two dozen or more changes which space prevents discussion, including taxing more of pensions and an "Amazon" bill to tax internet sales.

As some have commented of late, this is not wholesale and fundamental tax reform, but is a solid first step in reforming Kentucky's tax structure to make it more competitive, more sustainable, and more pro-business, all changes of which are necessary as we move forward into the 21st Century.



Sen. Ernie Harris



Sen. Julie Raque Adams



Rep. Lynn Bechler



Rep. Donna Mayfield



Rep. Michael Meredith



Rep. Jonathan Shell

KENTUCKY CHAMBER PAC ANNOUNCES

2018 Primary Election Endorsements

The Kentucky Chamber Political Action Committee (PAC) has announced endorsements of several candidates involved in primaries which will take place on Tuesday, May 22nd.

State House and Senate race candidates who submitted answers to the Kentucky Chamber PAC's 2018 Legislative Candidate Survey and face a contested primary were considered for endorsement.

Candidates selected by the Chamber PAC for endorsement have demonstrated their support for job growth and economic development, which will lead to a higher quality of life for the citizens of their districts and the Commonwealth.



Endorsements are based on the candidate's understanding of business issues, past voting records, and answers to the Kentucky Chamber PAC's 2018 Legislative Candidate Survey.

The following candidates have received the endorsement of the Kentucky Chamber PAC for the 2018 Primary:

- S-26 Senator Ernie Harris (Prospect)
- S-36 Senator Julie Raque Adams (Louisville)
- H-4 Representative Lynn Bechler (Marion)
- H-73 Representative Donna Mayfield (Winchester)
- H-19 Representative Michael Meredith (Brownsville)
- H-71 House Majority Leader Jonathan Shell (Lancaster)

Only candidates who submitted answers to the Chamber PAC's survey were considered for endorsement. The Kentucky Chamber PAC does not endorse in districts where there is no opposition to the candidate in the primary race.

The Kentucky Chamber PAC will announce endorsements for the 2018 general election in late summer.



68 CHAMBER MEMBERS RECOGNIZED AS *Best Places to Work in Kentucky*

Booz Allen Hamilton, Inc.; Blue & Co., LLC; and Peel & Holland (pictured above) were ranked the 2018 Best Places to Work in Kentucky by the Kentucky Chamber of Commerce and the Kentucky Society for Human Resource Management (KYSHRM).

The rankings were announced on Tuesday, April 17, during the 14th Annual Best Places to Work in Kentucky awards ceremony, presented by Lifestyle Health Plans. Over 1200 attendees joined together in celebrating the 100 Kentucky companies (68 are Kentucky Chamber members) which were recognized for their commitment to focus, measure and move their workplace environments toward excellence.



2018 Best Places to Work in Kentucky RANKINGS

SMALL COMPANIES

Rank	Company
1	Peel & Holland
2	Bim Group
3	Ward, Hocker & Thornton, PLLC
4	SIS, LLC
5	ARGI Financial Group
6	Composable Systems
7	Connected Nation, Inc.
8	Delta Dental of Kentucky
9	Integrity IT
10	AMR Management Services
11	Foofi
12	Budget For The People
13	Massage Envy-Lexington
14	Edwards Moving & Rigging
15	Middleton Reutlinger
16	Diversified Automation Inc
17	Advanced Payroll Systems
18	Alpha Business Acquisitions
19	Fahe
20	Apex Engineering, PLLC
21	Town & Country Bank and Trust Co.
22	Medical Center Jewish Southwest
23	NetGain Technologies Inc.
24	Tri-Arrows Aluminum Inc.
25	Venminder, Inc.
26	Verbal Behavior Consulting Inc
27	Metro United Way
28	Kingdom Trust
29	Blue Grass Airport
30	Unified Trust Company
31	Marine Solutions, Inc.
32	Lexington Habitat for Humanity, Inc.
33	Strategic Marketing Services
34	Associations International
35	Wolf Steel USA
36	People Plus, Inc
37	McGregor & Associates, Inc.
38	Extell Financial Services, Inc.
39	STOBER Drives, Inc.

MEDIUM COMPANIES

Rank	Company
1	Blue & Co., LLC
2	Brooksource
3	L&N Federal Credit Union
4	MCM CPAs & Advisors LLP
5	Independence Bank
6	Harrison Memorial Hospital
7	Columbia Gas of Kentucky
8	Louisville Tile Distributors
9	Park Community Credit Union
10	Winterwood, Inc.
11	Houchens Insurance Group
12	Musselman Hotels
13	US WorldMeds
14	Kentucky Bank
15	Air Hydro Power
16	ISCO Industries, Inc.
17	Harshaw Trane
18	Limestone Bank, Inc.
19	WDRB Media
20	Forcht Bank
21	Dean Dorton
22	Associates in Pediatric Therapy LLC
23	Bourbon Community Hospital
24	University of Kentucky Federal Credit Union
25	Balluff, Inc.
26	Flaget Memorial Hospital, KentuckyOne Health
27	Plumbers Supply Co.
28	Heritage Bank USA, Inc.
29	Bottom Line Systems

LARGE COMPANIES

Rank	Company
1	Booz Allen Hamilton, Inc.
2	Edward Jones
3	Aerotek
4	Comcast Cable
5	Envoy Mortgage, Ltd
6	Genentech
7	Crowe Horwath LLP
8	Valvoline Inc.
9	CSI
10	WellCare of Kentucky, Inc.
11	Long John Silver's, LLC
12	Jack Henry & Associates, Inc.®
13	Neustar
14	Central Bank & Trust Co.
15	Frankfort Regional Medical Center
16	Republic Bank
17	Total Quality Logistics
18	Corning Incorporated
19	Papa John's Corporate
20	Hilliard Lyons
21	Hosparus Health
22	Appriss
23	Our Lady of Bellefonte Hospital
24	Galen College of Nursing
25	Farm Credit Mid-America
26	Senture, LLC
27	Rockcastle Regional Hospital and Respiratory Care Center
28	AssuredPartners
29	Stock Yards Bank and Trust Co.
30	KORT
31	Our Lady of Peace, KentuckyOne Health
32	The Sullivan University System

READ MORE

For a complete list of winners and their rankings visit bestplacestoworkky.com.



Keynote Speaker

ARTHUR BROOKS

President,
American Enterprise Institute



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Business Summit — July 19-20

The Kentucky Chamber's Business Summit brings together diverse ideas to answer the question: **What decisions do we have to make to move Kentucky forward?** The Summit features presentations by corporate leaders and representatives from other sectors focusing on an array of topics ranging from business innovations to education, energy and workforce development. Be a part of the conversation to shape the course of our state. Join your peers and business, political and policy leaders for a dialogue that explores solutions and inspires change.

Annual Meeting Dinner — July 19

The Kentucky Chamber's annual meeting **brings nearly 1,000 leaders together** to hear from a national speaker on current developments in pertinent areas such as government, politics, policy and journalism. This year's keynote speaker is Arthur Brooks, president of the American Enterprise Institute. He is the bestselling author of 11 books on topics including the role of government, economic opportunity, happiness and the morality of free enterprise. His latest is the New York Times bestseller *The Conservative Heart: How to Build a Fairer, Happier, and More Prosperous America*. He is also a contributing New York Times opinion writer.

Register

kychamber.com/business-summit
p: (502) 848-8727
e: lgoff@kychamber.com

Sponsorship Opportunities

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FROM THE FRONT

Legal Liability

Often, it's not an outrageous jury award that threatens Kentucky employers; it's the risk that drives employers and insurance companies to pay expensive settlements.

Senate Bill 2 passed out of the Senate State and Local Government committee early in the 2018 session, but never received a vote by the full Senate. Because it called for a constitutional amendment, it would require 23 votes to pass the Senate, and 60 in the House.

The Kentucky Chamber has been the leading voice on commonsense legal liability reform and leads an impressive coalition of support for Senate Bill 2 including the Kentucky Medical Association, Kentucky Hospital Association, Kentucky Coal Association, Associated General Contractors, National Federation of Independent Business, Kentucky Retail Federation, Kentucky Association of Manufacturing and many more.

Moving forward, the Kentucky Chamber will continue to beat the drum for tort reform. Currently, the U.S. Chamber ranks Kentucky's legal liability climate at 42nd, one of the worst in the nation, driving many businesses to operate elsewhere to avoid our sky-high insurance costs and unlimited risks.

With the transformational policy decisions made in the legislature over the last two years and record level of investment, to truly write the next chapter of success the legislature must tackle tort reform and ensure a fair judicial system for our business community.



Nominations: FOR KENTUCKY ENTREPRENEUR HALL OF FAME BEING ACCEPTED

The Kentucky Chamber is excited to partner with Awesome, Inc. and Sustainable Business Ventures on the Kentucky Entrepreneur Hall of Fame (KEHOF) for the third year. The ceremony honors the legacies of Kentucky's most successful entrepreneurs, while recognizing the inspirational impact they have on the future entrepreneurs of the Commonwealth.

Nominations are now being accepted through **Monday, May 21**, for this year's induction class at entrepreneurhof.com/nominate.



GET DETAILS

Save the date for this year's induction ceremony dinner.

November 14, 2018
Griffin Gate Marriott Resort and Spa | Lexington

For more information about the Kentucky Entrepreneur Hall of Fame or to view past inductees, visit entrepreneurhof.com.

Thank you for your investment.

The following is a list of new members of the Kentucky Chamber. Please help us thank these companies for investing in the Chamber's mission by giving them your business.

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For advertising information, call **Hilary Morgan** at **502-848-8724**.



UPCOMING EVENT

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Register Today

There are a limited number of foursomes available!

Email **Lori Jo Goff** at lgoff@kychamber.com.

Sponsorship Opportunities Still Available

Including the presenting sponsor, contact

Andrea Flanders for more information at **(502) 848-8723** or aflanders@kychamber.com.

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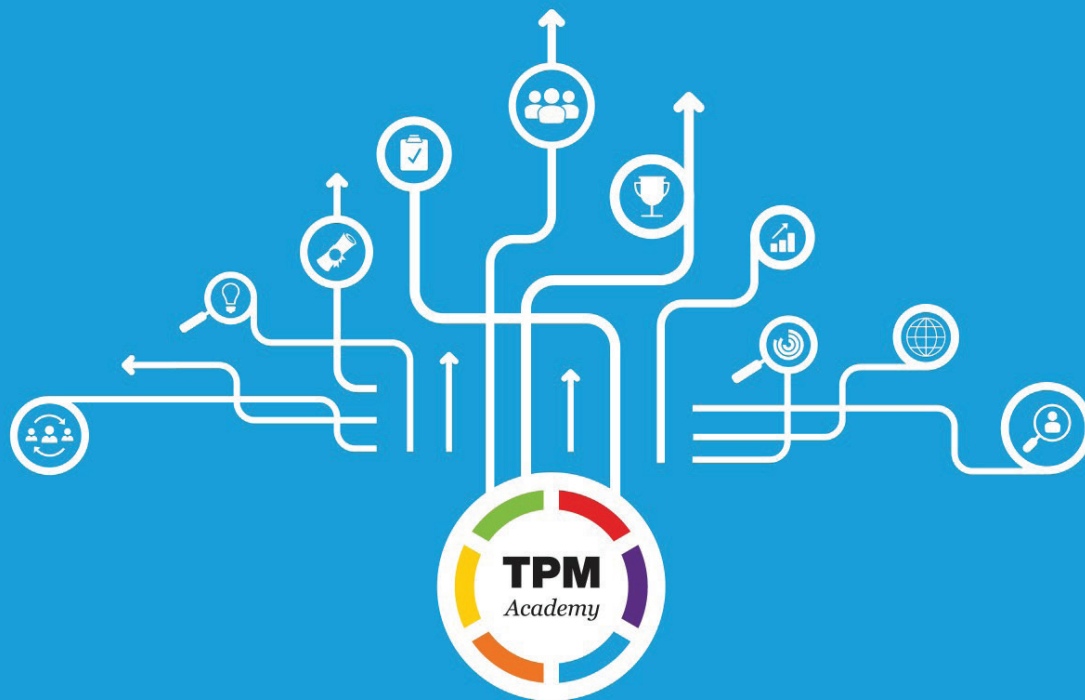
Pictured above: **Kentucky Chamber's 2018 Board of Directors.**

Nominations: FOR BOARD OF DIRECTORS DUE

The nomination process is now open for Kentucky Chamber Board of Directors seats beginning on Oct. 1, 2018. Nominations should contain name, title, organization, city and a brief statement of leadership activities.

For more information, or to nominate an individual, contact **Candy Keeton** at **502-848-8741**.

Nominations are due by May 21, 2018.



KENTUCKY CHOSEN AS ONE OF THREE STATES TO *Create Workforce Academies*

As Kentucky's employers struggle to find employees with the skills they need, the Kentucky Chamber of Commerce Workforce Center is leading initiatives to solve the state's workforce crisis.

The U.S. Chamber Foundation and W.K. Kellogg Foundation selected Kentucky, Tennessee and Michigan to host statewide Talent Pipeline Management (TPM) Academies™, an initiative created by the U.S. Chamber Foundation.

The Kentucky Chamber Workforce Center will hold meetings over the next two years to develop strategies to improve Kentucky's workforce issues.

Participating employers, employer-led associations and education providers will receive training and will build partnerships while using a demand-driven concept in order to connect employees and employers.

Beginning in May, in partnership with the Kentucky Department of Workforce Investment, the Kentucky Chamber's Workforce Center will begin traveling the state to discuss TPM and share information about the program and how its tools and resources can support the efforts of local communities, businesses, and workforce leaders.

Stakeholder meetings will include leaders from local chambers of commerce, the Kentucky Society for Human Resource Management, local Workforce Innovation Boards, and the business and workforce communities.

The Workforce Center also will identify workforce champions in communities across Kentucky to serve as TPM project managers and TPM class participants.

To learn more about the Talent Pipeline Management initiative, visit www.TheTalentSupplyChain.org.

FOR MORE INFO

To learn more about the Talent Pipeline Management Initiative or ways to get involved, please contact **Beth Davisson**, executive director of the Kentucky Chamber Workforce Center, at bdavisson@kychamber.com.

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UNDERSTANDING
THE 2018 SESSION**



**THE KENTUCKY CHAMBER
PUBLIC AFFAIRS TEAM**

(From left): Kate Shanks, Jacqueline Pittis,
Dave Adkisson, Ashli Watts, Travis Burton
and Sawyer Coffey.