2024 Policy Priorities

KY CPA

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Kentucky Department of Revenue, Commissioner Tom Miller, addresses KyCPA members in the Kentucky Senate Chambers during CPA Day at the Capitol 2023.

Guiding principles of sound tax policy

Clear administrative guidance: Taxpayers and their advisors need clear and reliable guidance to effectively remit their tax liabilities. The clarification of guidance minimizes the cost of tax administration and improves the state's cash flow by reducing errors and unnecessary disputes. KyCPA advocates for tax expertise, sufficient staffing, and as needed appropriations for the Kentucky Department of Revenue. Employee recruitment, retention, and administrative efficiency are key to a functioning Department that appropriately meets the needs of Kentucky taxpayers and practitioners.

Certainty: Continual change and lags in administrative guidance heighten taxpayer uncertainty and increase compliance burdens on Kentucky businesses and individuals. Continual changes and the delay in guidance also decreases Kentucky's competitiveness in attracting new and expanded business. Reducing the frequency of law and rule changes, timely administrative guidance, and using consistent concepts and definitions are crucial elements of sound and enforceable tax policy.

Predictability: The predictability of a state's gross receipts is critical to the budgeting and spending functions of the state. Changing taxing statutes retroactively decreases the predictability of the state's gross receipts. Furthermore, enacting tax laws prospectively gives the Department of Revenue, practitioners, software vendors, businesses, and individuals time to prepare for changes.

Avoid double taxation (tax pyramiding): Kentucky should enact and retain tax laws that ensure sales and use taxes apply only to the end user. Business to business transactions should be exempt from sales and use taxes because application of the tax causes the tax to pyramid and drives up the cost of goods and the cost of doing business.

KyCPA strongly opposes broadening the sales tax to professional services, which would lead to tax pyramiding, administrative complexities, make Kentucky into a tax policy outlier, and adversely impact businesses and inhibit economic development in the Commonwealth.

Accounting pipeline

KyCPA continues to collaborate with firms, universities, state societies, the Kentucky State Board of Accountancy, and the American Institute of CPAs (AICPA) to address the declining number of candidates entering the accounting profession. Adjusting policies to expand interest in obtaining a CPA license while also protecting the ability of CPAs to practice across state lines will be a critical challenge moving forward.

In 2023, the Society worked in collaboration with the State Board to extend the CPA exam timeline from 18 to 30 months, remove the cap on the number of internship hours that apply to a candidate’s 150 credit hour requirement, and establish a Kentucky CPA scholarship fund. With all initiatives approved by the State Board, KyCPA will continue to advocate these changes be adopted by the Kentucky General Assembly through the administrative regulatory review and approval process.

In Washington, KyCPA and the AICPA continue to advocate for federal initiatives to elevate accounting education courses and increase the number of CPA candidates at the national level.

Accounting as STEM: As part of a multi-pronged approach to build the CPA workforce pipeline, the profession is advocating for recognition of accounting as part of a Science, Technology, Engineering and Math (STEM) curriculum under the Technology field. KyCPA believes that designating accounting as STEM will increase student engagement with the accounting profession. Legislation is currently pending in the U.S. House of Representatives, H.R.3541 and Senate, S.1705.

529 Savings Plan: Bipartisan legislation that would let individuals use 529 education savings accounts to pay for fees and expenses required to obtain or maintain recognized postsecondary credentials. For the thousands of CPA candidates in the exam pipeline this legislative change would allow them to use 529 funds to pay for the CPA exam application fee, the CPA exam fees, CPA exam registration fees, and CPA licensing fees. Legislation is currently pending in the House, H.R.1477 and Senate, S.722.

KyCPA members visit U.S. Representative Andy Barr (R) on Capitol Hill during AICPA's 2023 Spring Council Meeting.

Kentucky House Appropriations & Revenue Committee Chairmen, Representative Jason Petrie and Representative Brandon Reed, are recognized as KyCPA 2023 Tax Policy Champions.

Tax simplification

Kentucky's Internal Revenue Code conformity: Given the speed at which the Internal Revenue Code (IRC) is amended and related Treasury guidance is issued, adopting an updated conformity date to the IRC would benefit Kentucky taxpayers, tax practitioners, and tax administrators. IRC Conformity refers to the degree to which a state tax code conforms to the federal tax code and simplifies a state's implementation of its tax policy by using federal taxable income as a starting point for calculations. The Kentucky General Assembly passed the last update during the 2023 Legislative Session via House Bill 360 to December 31, 2022. The Society is requesting consideration for an update to Kentucky's Internal Revenue Code conformity as of December 31, 2023, in preparation for next year's tax filings.

LLET modernization: Modification of the definition of cost of goods sold (COGS) which is frequently used to calculate Kentucky's limited liability entity tax (LLET), is necessary to increase compliance and fairness. The LLET applies to all entities that offer limited liability to their owners (e.g., corporations, S corporations, limited partnerships, limited liability companies). To determine the amount of tax owed, the business pays either a minimum fee ($175) or the lower of two alternative calculations based on the amount of gross receipts or gross profits. The LLET is a unique tax that KyCPA believes should be repealed. However, if the LLET is retained, KyCPA supports legislation to align Kentucky's LLET COGS definition with that of the COGS definition for federal and Kentucky income tax purposes. By bringing Kentucky in line with the federal and its own income tax definition for COGS, it will both enhance compliance by businesses and improve enforcement by the state.

An alternative solution includes the replacement of the LLET with a flat dollar minimum tax amount on limited liability entities that simplifies taxpayer compliance, streamlines the Department of Revenue's enforcement efforts, and results in no net revenue impact to the state treasury.

Local tax uniformity: Local governments and school districts are authorized by law to impose an occupational license tax on the net profits of business activities and the compensation of employees within individual districts. KRS Sections 67.750 through 67.790 provide critical uniform definitions and procedures for these taxes. This uniformity decreases the taxpayers' costs of complying with the law, and the local districts' costs for collecting taxes, examining returns, and resolving disputes.

However, the current system, where hundreds of counties, cities, and school districts each separately interpret and apply the law, continues to be a burden on taxpayers, and likely on tax administrators. Adherence by local taxing districts to the occupational license tax statutes found in KRS Chapter 67 is an important piece to Kentucky's economic progress.

Protect and enhance taxpayer rights: The implementation of a fair tax code plays a significant role in the Commonwealth's economic development efforts. Not only do businesses want to locate, invest, and expand in states that have competitive tax rates, but equally important, is assurances that our tax laws will be enforced transparently, efficiently, consistently, and equitably. Therefore, KyCPA supports the following additional modifications to improve our tax administrative ranking:

- Return to a balanced interest rate on taxes owed to and by the Commonwealth
- Streamline the tax appeals process by allowing taxpayers to appeal directly to the Court of Appeals (or Kentucky Supreme Court), bypassing the circuit court, for tax cases, other than real property cases
- Allow the Department of Revenue to waive interest assessments, consistent with its existing ability to waive penalties
- Equalize assessment and refund periods for tangible personal property taxes;
- Extend the statute of limitations for filing a constitutional challenge from two to four years
- Continue to allow taxpayer appeal of disputed taxes without a payment requirement

KyCPA members meet with Senate Appropriations & Revenue Committee Chair, Senator Chris McDaniel (R) during the 2023 Legislative Session at the Kentucky Capitol.

Federal priorities

Fiscal state of the nation: The resolution requires an annual joint hearing of the U.S. House of Representatives and Senate Budget Committees, which any Member of Congress may also attend, to hear testimony from the U.S. Comptroller General on the federal government's consolidated financial statements. U.S. Representative Andy Barr is the 118th Congress original Republican co-sponsor for this legislation, H.Con.Res.46. The Senate's companion legislation is S.Con.Res.10.

Federal tax extension "safe harbor": Most non-CPAs erroneously believe that simply filing a form allows a taxpayer six additional months to file a tax return and pay, but CPAs know that the current rules for filing an extension require time-consuming calculations of the current year tax by the original due dates during "busy season" – generally April 15 – to avoid incurring penalties. As a result, tax advisors as well as individuals who prepare their own taxes are often putting hours of work into this initial estimation and then a second preparation and review process later. Instead of relying on the current rule of calculating a percentage of the current year tax liability, individuals, trusts, estates, and C corporations would be able to calculate a safe harbor of 125% of the prior year tax ("125% safe harbor") to be paid in by the original due date to avoid the failure to pay and file penalties. Legislation is currently pending in the House, H.R.3566.

Beneficial Ownership Information (BOI) reporting: The Financial Crimes Enforcement Network (FinCEN) final rule implementing the bipartisan Corporate Transparency Act's (CTA) beneficial ownership information (BOI) reporting requirements are designed to enhance the ability of FinCEN, the U.S. Department of Treasury, and other agencies to protect U.S. national security and the financial system from illicit use. Effective January 1, 2024, most companies and businesses will be required to report information about their beneficial owners directly to FinCEN. H.R.4035 and S.2623, the Protecting Small Business Information Act of 2023, would delay the BOI reporting requirements until all three rules under the CTA have all been finalized and all such rules would take effect on the same date.

KyCPA members visit U.S. Representative Morgan McGarvey (D) on Capitol Hill during AICPA's 2023 Spring Council Meeting.

In addition, the Society's advocacy efforts have led to passage in the House of H.R.5119, the Protect Small Business and Prevent Illicit Financial Activity Act, which extends the initial filing deadline for existing businesses to two years. New companies and updates will file reports and changes within 90 days following January 1, 2024.

Kentucky Society of Certified Public Accountants

Founded in 1924, the Kentucky Society of Certified Public Accountants (KyCPA) is a statewide, nonprofit professional organization serving nearly 4,500 CPAs in public accounting firms, business, industry, government and education. KyCPA supports all CPAs in Kentucky with timely information, outstanding educational opportunities, career development, helpful resources, the promotion of high ethical standards and public advocacy on behalf of the profession and the public good.

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