

1 AN ACT relating to tax incentives for first-time home buyers.

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 costs" means any down payment or closing cost associated with**
7 **the purchase of a qualified principal residence and does not include any**
8 **costs incurred prior to the establishment of an eligible savings account;**

9 **(b) "Eligible savings account" means an account established and designated by**
10 **a financial institution as having the sole purpose of saving for eligible costs**
11 **associated with the purchase of a qualified principal residence by a first-**
12 **time home buyer;**

13 **(c) "Financial institution" means a financial institution as defined in KRS**
14 **286.11-003 that has a physical location in this state;**

15 **(d) "First-time home buyer" means an individual who purchases or has the**
16 **intent to purchase a qualified principal residence in this state and has not**
17 **had an ownership interest in a principal residence for a minimum of ten**
18 **(10) years prior to the date in which tax incentives are utilized under this**
19 **section; and**

20 **(e) "Qualified principal residence" means a single-family residence within this**
21 **state and that meets the qualifications for a principal residence for purposes**
22 **of Section 121 of the Internal Revenue Code.**

23 **(2) (a) For taxable years beginning on or after January 1, 2026, but before**
24 **January 1, 2036, a first-time home buyer shall be allowed a deduction in**
25 **each taxable year for contributions made into an eligible savings account**
26 **and may exclude any interest earned therefrom.**

27 **(b) Deductions and exclusions under paragraph (a) of this subsection in any**

1 taxable year shall be limited to:

2 1. Five thousand dollars (\$5,000) for single individuals or taxpayers
3 filing a separate return; or

4 2. Ten thousand dollars (\$10,000) for married individuals filing
5 separately on a combined form or a joint tax return.

6 (3) The total of tax incentives claimed under this section for taxable years beginning
7 on or after January 1, 2026, but before January 1, 2036, shall not exceed:

8 (a) Twenty-five thousand dollars (\$25,000) for single account holders filing a
9 single return or separate returns; or

10 (b) Fifty thousand dollars (\$50,000) for joint account holders filing separately
11 on a combined form or a joint tax return.

12 (4) (a) The department may request bank statements or other necessary forms of
13 verification to confirm:

14 1. The annual contribution made to an eligible savings account;

15 2. The total interest income earned from an eligible savings account; or

16 3. That funds were withdrawn from an eligible savings account for
17 eligible costs by a first-time home buyer.

18 (b) If a first-time home buyer withdraws and uses funds from an eligible
19 savings account for something other than eligible costs, recapture of the
20 deduction or exclusion shall be claimed as an addition to income on the
21 return for the taxable year in which the funds were withdrawn.

22 (c) Notwithstanding paragraph (b) of this subsection, funds may be withdrawn
23 from an eligible savings account for circumstances that involve the:

24 1. Death or disability of an account holder;

25 2. Exhaustion of an account holder's unemployment compensation as a
26 result of a job loss;

27 3. Disbursement of account assets under a bankruptcy proceeding in

1 accordance with the United States Bankruptcy Code, 11 U.S.C. secs.
2 101 to 110; or

3 4. Transfer or deposit of funds into another eligible savings account
4 within sixty (60) days of the withdrawal.

5 (5) (a) In order for the General Assembly to evaluate the effectiveness of this
6 section, the department shall submit the following information to the
7 Legislative Research Commission and the Interim Joint Committee on
8 Appropriations and Revenue on or before November 1, 2027, and on or
9 before each November 1 thereafter as long as the eligible savings account
10 tax deduction and the exclusion may be claimed on a return:

11 1. The location of the taxpayer, by county, as reflected on the return filed
12 for the taxable year;

13 2. The amount of eligible savings account contribution deductions
14 claimed by the taxpayer for the taxable year;

15 3. The amount of the eligible savings account income exclusions claimed
16 by the taxpayer for the taxable year;

17 4. The total cumulative amount of all eligible savings account
18 contribution deductions claimed for the taxable year;

19 5. The total cumulative amount of all eligible savings account income
20 exclusions claimed for the taxable; and

21 6. Based on ranges of adjusted gross income of no larger than five
22 thousand dollars (\$5,000) for the taxable year, the total amount of tax
23 deductions claimed and the total number of returns claiming a tax
24 deduction for each adjusted gross income range; and

25 7. Based on ranges of adjusted gross income of no larger than five
26 thousand dollars (\$5,000) for the taxable year, the total amount of
27 exclusions claimed and the total number of returns claiming an

1 exclusion of interest for each adjusted gross income range.

2 (b) The information required to be reported under this section shall not be
3 considered confidential taxpayer information and shall not be subject to
4 KRS Chapter 131 or any other provisions of the Kentucky Revised Statutes
5 prohibiting disclosure or reporting of information.

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

7 In the case of taxpayers other than corporations:

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

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

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

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

18 (d) Exclude employee pension contributions picked up as provided for in KRS
19 6.505, 16.545, 21.360, 61.523, 61.560, 65.155, 67A.320, 67A.510, 78.610,
20 and 161.540 upon a ruling by the Internal Revenue Service or the federal
21 courts that these contributions shall not be included as gross income until such
22 time as the contributions are distributed or made available to the employee;

23 (e) Exclude Social Security and railroad retirement benefits subject to federal
24 income tax;

25 (f) Exclude any money received because of a settlement or judgment in a lawsuit
26 brought against a manufacturer or distributor of "Agent Orange" for damages
27 resulting from exposure to Agent Orange by a member or veteran of the

1 Armed Forces of the United States or any dependent of such person who
2 served in Vietnam;

- 3 (g) 1. a. For taxable years beginning after December 31, 2005, but before
4 January 1, 2018, exclude up to forty-one thousand one hundred ten
5 dollars (\$41,110) of total distributions from pension plans, annuity
6 contracts, profit-sharing plans, retirement plans, or employee
7 savings plans; and
- 8 b. For taxable years beginning on or after January 1, 2018, exclude
9 up to thirty-one thousand one hundred ten dollars (\$31,110) of
10 total distributions from pension plans, annuity contracts, profit-
11 sharing plans, retirement plans, or employee savings plans.
- 12 2. As used in this paragraph:
- 13 a. "Annuity contract" has the same meaning as set forth in Section
14 1035 of the Internal Revenue Code;
- 15 b. "Distributions" includes but is not limited to any lump-sum
16 distribution from pension or profit-sharing plans qualifying for the
17 income tax averaging provisions of Section 402 of the Internal
18 Revenue Code; any distribution from an individual retirement
19 account as defined in Section 408 of the Internal Revenue Code;
20 and any disability pension distribution; and
- 21 c. "Pension plans, profit-sharing plans, retirement plans, or employee
22 savings plans" means any trust or other entity created or organized
23 under a written retirement plan and forming part of a stock bonus,
24 pension, or profit-sharing plan of a public or private employer for
25 the exclusive benefit of employees or their beneficiaries and
26 includes plans qualified or unqualified under Section 401 of the
27 Internal Revenue Code and individual retirement accounts as

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

1 active duty;

2 (m) 1. Include the amount deducted for depreciation under 26 U.S.C. sec. 167
3 or 168; and

4 2. Exclude the amounts allowed by KRS 141.0101 for depreciation;

5 (n) Include the amount deducted under 26 U.S.C. sec. 199A;

6 (o) Ignore any change in the cost basis of the surviving spouse's share of property
7 owned by a Kentucky community property trust occurring for federal income
8 tax purposes as a result of the death of the predeceasing spouse;

9 (p) Allow the same treatment allowed under Pub. L. No. 116-260, secs. 276 and
10 278, related to the tax treatment of forgiven covered loans, deductions
11 attributable to those loans, and tax attributes associated with those loans for
12 taxable years ending on or after March 27, 2020, but before January 1, 2022;{
13 and}

14 (q) For taxable years beginning on or after January 1, 2020, but before March 11,
15 2023, allow the same treatment of restaurant revitalization grants in
16 accordance with Pub. L. No. 117-2, sec. 9673 and 15 U.S.C. sec. 9009c,
17 related to the tax treatment of the grants, deductions attributable to those
18 grants, and tax attributes associated with those grants;{and}

19 (r) For taxable years beginning on or after January 1, 2026, but before
20 January 1, 2036, exclude amounts contributed to an eligible savings
21 account for use by a first-time home buyer in accordance with Section 1 of
22 this Act; and

23 (s) For taxable years beginning on or after January 1, 2026, but before
24 January 1, 2036, exclude interest income received from an eligible savings
25 account for use by a first-time home buyer in accordance with Section 1 of
26 this Act; 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 131.190 is amended to read as follows:

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

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

- 16 (a) Information required in prosecutions for making false reports or returns of
17 property for taxation, or any other infraction of the tax laws;
- 18 (b) Any matter properly entered upon any assessment record, or in any way made
19 a matter of public record;
- 20 (c) Furnishing any taxpayer or his or her properly authorized agent with
21 information respecting his or her own return;
- 22 (d) Testimony provided by the commissioner or any employee of the department
23 in any court, or the introduction as evidence of returns or reports filed with the
24 department, in an action for violation of state or federal tax laws or in any
25 action challenging state or federal tax laws;
- 26 (e) Providing an owner of unmined coal, oil or gas reserves, and other mineral or
27 energy resources assessed under KRS 132.820, or owners of surface land

1 under which the unmined minerals lie, factual information about the owner's
2 property derived from third-party returns filed for that owner's property, under
3 the provisions of KRS 132.820, that is used to determine the owner's
4 assessment. This information shall be provided to the owner on a confidential
5 basis, and the owner shall be subject to the penalties provided in KRS
6 131.990(2). The third-party filer shall be given prior notice of any disclosure
7 of information to the owner that was provided by the third-party filer;

8 (f) Providing to a third-party purchaser pursuant to an order entered in a
9 foreclosure action filed in a court of competent jurisdiction, factual
10 information related to the owner or lessee of coal, oil, gas reserves, or any
11 other mineral resources assessed under KRS 132.820. The department may
12 promulgate an administrative regulation establishing a fee schedule for the
13 provision of the information described in this paragraph. Any fee imposed
14 shall not exceed the greater of the actual cost of providing the information or
15 ten dollars (\$10);

16 (g) Providing information to a licensing agency, the Transportation Cabinet, or
17 the Kentucky Supreme Court under KRS 131.1817;

18 (h) Statistics of gasoline and special fuels gallonage reported to the department
19 under KRS 138.210 to 138.448;

20 (i) Providing any utility gross receipts license tax return information that is
21 necessary to administer the provisions of KRS 160.613 to 160.617 to
22 applicable school districts on a confidential basis;

23 (j) Providing documents, data, or other information to a third party pursuant to an
24 order issued by a court of competent jurisdiction;

25 (k) Publishing administrative writings on its official website in accordance with
26 KRS 131.020(1)(b); or

27 (l) Providing information to the Legislative Research Commission under:

- 1 1. KRS 139.519 for purposes of the sales and use tax refund on building
- 2 materials used for disaster recovery;
- 3 2. KRS 141.436 for purposes of the energy efficiency products credits;
- 4 3. KRS 141.437 for purposes of the ENERGY STAR home and the
- 5 ENERGY STAR manufactured home credits;
- 6 4. KRS 141.383 for purposes of the film industry incentives;
- 7 5. KRS 154.26-095 for purposes of the Kentucky industrial revitalization
- 8 ~~credit~~~~[tax credits]~~ and the job assessment fees;
- 9 6. KRS 141.068 for purposes of the Kentucky investment fund;
- 10 7. KRS 141.396 for purposes of the angel investor ~~[tax]~~credit;
- 11 8. KRS 141.389 for purposes of the distilled spirits credit;
- 12 9. KRS 141.408 for purposes of the inventory credit;
- 13 10. KRS 141.390 for purposes of the recycling and composting
- 14 ~~credits~~~~[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 exemptions
- 22 for~~[exemption on]~~ the commercial mining of cryptocurrency;
- 23 16. KRS 141.419 for purposes of the decontamination ~~[tax]~~credit;
- 24 17. KRS 141.391 for purposes of the qualified broadband investment ~~[tax]~~
- 25 ~~credit~~~~[and]~~
- 26 18. KRS 139.499 for purposes of the sales and use tax
- 27 exemptions~~[exemption]~~ for a qualified data center project; and

19. Section 1 of this Act for purposes of the deduction for contributions made to an eligible savings account and the exclusion of interest earned therefrom.

(3) The commissioner shall make available any information for official use only and on a confidential basis to the proper officer, agency, board or commission of this state, any Kentucky county, any Kentucky city, any other state, or the federal government, under reciprocal agreements whereby the department shall receive similar or useful information in return.

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

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

(6) Notwithstanding any provision of law to the contrary, beginning with mine-map submissions for the 1989 tax year, the department may make public or divulge only those portions of mine maps submitted by taxpayers to the department pursuant to KRS Chapter 132 for ad valorem tax purposes that depict the boundaries of mined-out parcel areas. These electronic maps shall not be relied upon to determine actual boundaries of mined-out parcel areas. Property boundaries contained in mine maps required under KRS Chapters 350 and 352 shall not be construed to constitute land

- 1 surveying or boundary surveys as defined by KRS 322.010 and any administrative
- 2 regulations promulgated thereto.