

Financial Incentives Summary

Kentucky's innovative and progressive tax incentive programs provide the flexible financial assistance businesses need when locating, expanding or reinvesting in the state. Below are programs that may be available to your company that can be used to reduce or recover costs of your business investment in Kentucky. Details of an incentive proposal will be negotiated once a specific site of interest has been identified.

Kentucky Business Investment Program (KBI)

KBI allows companies to recover land, building and equipment costs over a 10-year term by utilizing a combination of a 100 percent credit against the state corporate income tax associated with the project AND, by assessing the employees at the operation up to 4 percent of their wages, local participation is required. With the wage assessment portion, the employees receive a credit against their state personal income tax and local occupational tax equal to their assessment so their net income is unaffected. A detailed fact sheet on the program is available [here](#).

Kentucky Enterprise Initiative Act (KEIA)

A KEIA-approved company is eligible to receive a refund of a portion of the Kentucky sales and use tax paid for construction materials, building fixtures and equipment used in research and development as well as electronic processing equipment. A detailed fact sheet on the program is available [here](#).

Industrial Revenue Bonds

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. 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.

Economic Development Bond Funds

These funds may be available for Kentucky to inject cash into a project in a creative and flexible manner for infrastructure, equipment, research and development, or other special needs. Availability of these funds is based on a variety of factors including the project parameters as well as the site specific requirements justifying the funds.

Financial Incentives Summary (Continued)

Kentucky Economic Development Finance Authority (KEDFA) Loan

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.

The Kentucky Skills Network

Kentucky has resources that allow flexible and customizable training specific to the company's needs and standards. The Kentucky Skills Network offers a one-stop delivery system of workforce services for new, expanding and existing companies. Uses for workforce development funding include reimbursable grants for classroom training, on-the-job training, tuition and certification training, train-the-trainer travel, and entry level and skills upgrade training. Some of these sources provide funding and other in kind services for pre-employment assessment and training, recruitment, pre-employment job screening, labor market research, interviewing, job fair assistance, job placement, safety and health consultation services. Upon the completion of a needs assessment, specific amounts and use of funding will be identified in a manner to assure that the unique needs of the company are met. The value of the free and in-kind services would be determined once specific conversations about that process progress. Additional details on the programs are available at thinkkentucky.com/workforce.

Department of Transportation / Access Road Funds

Kentucky has a pool of funds available to ensure an industrial location has good, functional, and safe highway access. The state may be able to assist in providing access road assistance if the land under consideration is publicly owned and there is currently no access. Infrastructure dollars may also be available show other issues arise.

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.

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 five 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.

Recycling Tax Advantages

Financial Incentives Summary (Continued)

Income tax credits are allowed for up to 50 percent of the installed costs of equipment used exclusively to recycle or compost postconsumer waste 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. (KRS 141.390 and 141.0205)

Manufacturing Tax Advantages

There is a non-refundable application fee of \$500 payable upon submission of the KEIA application. The application fee will be waived if a project applies for KEIA and another tax incentive program.

- **Property Tax - Manufacturing Machinery**
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)
- **Property Tax - Raw Materials**
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)
- **Property Tax - Pollution Control Equipment**
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)
- **Sales and Use Tax - Manufacturing Machinery**
Machinery for new and expanded industry (manufacturing) is exempt from Sales and Use Tax. 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)
- **Sales and Use Tax - Raw Materials**
Raw materials which enter into and become a part of the manufactured product are exempt from sales and use tax. (KRS 139.470)
- **Sales and Use Tax - Supplies, Tools and Materials**
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 are exempt from Sales and Use Tax. (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 are exempt from Sales and Use Tax. (KRS 139.470) - Materials and supplies that are not reusable after one manufacturing cycle, excluding repair, replacement, or spare parts of any kind are exempt from Sales and Use Tax. (KRS 139.470)
- **Sales and Use Tax - Pollution Control Equipment**
Facilities and equipment are exempt from sales and use tax. 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)

Financial Incentives Summary (Continued)

- Sales and Use Tax - Energy
Energy and energy-producing fuels used in manufacturing, that exceed 3 percent of the total cost of production (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)

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To learn more, contact:
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