Kentucky

#26

Overall Rank	Corporate Tax Rank	Individual Income Tax Rank	Sales Tax Rank	Property Tax Rank	Unemployment Insurance Tax Rank
26 ▼ 1	27 ▼ 7	17 ▲ 8	19 –	26 ▲ 3	34 ▼ 2

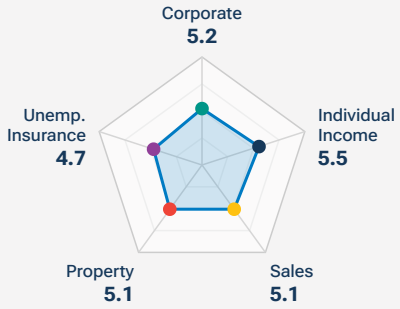
Kentucky's tax competitiveness has improved substantially in recent years due to several rounds of reforms that broadened the sales tax base to additional categories of mostly final personal consumption while moving to a single-rate individual income tax at a substantially lower rate. However, many other areas of the Commonwealth's tax code are riddled with antiquated and complex provisions that remain ripe for reform.

Specifically, Kentucky is one of the few states that levy income-based taxes on individuals and businesses not just at the state level, but also at the county and municipal levels in the form of occupational license taxes and net profit taxes. In addition to individual and corporate income taxes, Kentucky levies a limited liability entity tax (LLET), which is a gross receipts-based alternative minimum tax on C corporations and limited liability pass-through businesses owed even when businesses do not turn a profit. Kentucky is further hindered by its lack of bonus depreciation allowance for corporate machinery and equipment investments. While Kentucky's Section 179 small business expensing allowance is broadly available because the Commonwealth does not conform to the federal phaseout threshold, Kentucky's expensing limit of $100,000 is much lower than the $2.56 million expensing limit offered in most states.

Kentucky is a notable outlier in applying its tangible personal property taxes to business inventory, a highly distortionary practice that has been abandoned in most states. Furthermore, Kentucky levies an inheritance tax that kicks in at a low level, affecting beneficiaries across the income spectrum, not just the affluent. Additionally, Kentucky's UI tax ranking is hindered by high maximum rates, a surtax, and a three-year experience rating waiting period.

Component scores

out of 10



Kentucky and its neighbors

Overall rank, 2027 Index, with change from 2026

Tennessee	#8	–
Missouri	#9	▲ 3
Indiana	#14	▼ 3
Kentucky	**#26**	▼ 1
West Virginia	#29	▲ 6
Virginia	#31	▼ 4
Ohio	#36	▲ 2
Illinois	#38	▲ 1