

Kentucky's 2026 Legislative Session Brings Income and Sales Tax Changes



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Kentucky tax law is changing with the enactment of House Bill 757 (HB 757), an omnibus measure that includes updates to income tax, sales tax and other provisions. The General Assembly passed the bill and delivered it to the governor, who vetoed portions of the legislation. Lawmakers subsequently overrode those vetoes on April 14, enacting the law.

Below is an overview of key provisions.

Income Tax Conformity

Kentucky is a “static” conformity state, meaning it adopts the Internal Revenue Code (IRC) as of a specific date. For taxable years beginning on or after January 1, 2026, HB 757 updates Kentucky’s conformity date to December 31, 2025. This brings Kentucky in line with the federal income tax changes made by the One Big Beautiful Bill Act (OBBBA) enacted last summer.

Notably, however, HB 757 decouples from several taxpayer-friendly provisions in the OBBBA, including the federal deductions for qualified tips, overtime pay, and vehicle loan interest. It also decouples from IRC § 174A and the OBBBA’s amendments to IRC § 163(j).

For federal income tax purposes, Section 174A allows taxpayers to immediately deduct domestic research and experimental expenditures. By decoupling from this provision, Kentucky requires taxpayers to capitalize and amortize these expenditures over a period of five years.

Section 163(j) imposes a limit on the amount of business interest that is deductible. This limit is 30% of a taxpayer’s adjusted taxable income (ATI). The OBBBA restored a previous, more beneficial calculation of ATI that allows taxpayers to add back depreciation, which increases the amount of business interest that is deductible. By decoupling from the OBBBA’s changes to Section 163(j), Kentucky fails to adopt this more favorable calculation.

Sales Tax Changes

HB 757 makes two primary changes to Kentucky’s sales tax laws. First, it alters the state’s economic nexus threshold that determines when out-of-state sellers are required to collect sales tax. Currently, out-of-state sellers without a physical presence in Kentucky are required to collect and remit tax if, in the previous or current year, their gross receipts from sales to Kentucky customers exceed \$100,000, or they sold property delivered to Kentucky customers in 200 or more transactions. HB 757 eliminates the 200-transaction threshold, following a recent trend in other states.

Second, HB 757 imposes sales and use tax on data brokering services. Data brokering services are defined as “the act of collecting, aggregating, and analyzing personal data for sale to a third party while possession of the personal data is maintained by the person providing the data brokering services or by the third party.” Sales tax applies regardless of how the charges are billed.

Taxation of Prediction Markets and Fantasy Sports Platforms

HB 757 makes several miscellaneous tax changes. Two notable provisions include the taxation of prediction markets and fantasy sports platforms.

Prediction markets allow players to trade bets on the outcome of real-world events, such as politics or sports. The new law imposes a 14.25% excise tax on the transaction fees of prediction market operators, effective January 1, 2027. Notably, HB 757 states that it is the General Assembly’s intent to tax prediction markets and not to legalize such activities.

A separate provision of the legislation levies a tax on fantasy sports platforms, also effective January 1, 2027. The tax is equal to 12% of entry fees, less winnings paid to participants.

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