

# THE ONLY THING MORE POWERFUL THAN A BIG IDEA IS THE TEAM THAT CAN SEE IT THROUGH.

Every few seconds a big idea is born. And a few seconds later, it disappears. Yet every now and again, somebody makes one of those big ideas happen. What's their secret? They get help. They get more somebodies. And those somebodies add more ideas to the big idea. Before you know it, that big idea is a great big reality. Windstream supports big ideas and the people who have them. We create teams with our clients and partners that keep your business in a perpetual state of winning.

Let's build a team around  
your next big idea.

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# SMALL BUSINESS RESOURCE GUIDE



## SMALL BUSINESS IS THE BACKBONE OF THE BLUEGRASS ECONOMY

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# SMALL BUSINESS RESOURCE GUIDE

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## About This Resource Guide

This Small Business Resource Guide is intended to give you a step-by-step direction in "How to Start a Small Business." It's important to note that this guide gives a summary of things to think about as you work at starting your own business. There is much more information and aid available at the Kentucky Small Business Development Center, UK Gatton College's Family Business Institute, the U.S. Small Business Administration, and Commerce Lexington Inc. Don't hesitate to take advantage of the resources from these great organizations. We want to help you succeed in your business.

Once you've got your business up and running, you'll want to look into joining a business organization like Commerce Lexington, which features numerous networking opportunities, events, seminars, and programs to help you and your business grow.

Congratulations on your decision to start your own business. Commerce Lexington is here to help you, and our staff looks forward to working with you in the future.

This publication compiled and published by Commerce Lexington Inc., with assistance from the Kentucky Small Business Development Center and our Business Information Center. This Guide is meant to be a step-by-step directional tool for starting a small business. Much more information is available at local centers for business assistance listed throughout this Guide.



**330 EAST MAIN STREET, SUITE 100**  
**LEXINGTON, KY 40507**  
**PHONE: (859) 254-4447**  
**FAX: (859) 233-3304**  
**WWW.COMMERCELEXINGTON.COM**  
**WWW.THINKBLUEGRASS.COM**

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# GETTING STARTED:

## HOW TO START A SMALL BUSINESS

### > OPTIONS FOR BUSINESS STRUCTURES:

**Sole Proprietorship:** One person operating a business as an individual is a sole proprietorship. The sole proprietorship is the most common form of business organization. Profits are taxed as income to the owner personally. The owner has complete control of the business but faces unlimited liability for its debts. Since this is a fairly simple type of legal structure, there is very little government regulation and reporting. A sole proprietorship applies for a business permit at the county clerk's office of which the business is located.

**General Partnership:** A partnership exists when two or more persons join together in the operation and management of a business venture. Partnerships, like sole proprietorships, are subject to relatively little regulation and are fairly easy to establish. A formal partnership agreement is recommended in order to address potential conflicts before they arise; for example, who will be responsible for performing each task, what, if any, consultation is needed between partners before major decisions are made, if a partner dies, and so on. Under a general partnership, each partner is liable for all debts of the business. All profits are taxed as income to the partners based on their percentage of ownership. A general partnership, like a sole proprietorship, registers a business name with the county/city clerk's office in which the business is located.

**Limited Partnership:** Like a general partnership, a limited partnership is established by an agreement between two or more individuals. In a limited however, there are two types of partners. A general partner has greater control in some aspects of the partnership; for instance, only a general partner can decide to dissolve the partnership. General partners have no limitations on the dividends they can receive from profit and so incur unlimited liability. Limited partners can only receive a share of profits based on the prorated amount on their investment, and the liability is similarly limited in proportion to their investment.

**"C" Corporation:** A "C" Corporation is a legal entity made up of persons who have received a charter legally recognizing the corporation as a separated entity having its own rights, privileges and liabilities, apart from those of the individuals forming the corporation. It is the most complex form of business organization and is comprised of three groups of people: shareholders, directors, and officers. The corporation can own assets, borrow money and perform business functions without directly involving the owner(s) of the corporation. The corporation, therefore, is subject to more government regulation than proprietorships or partnerships. Corporate earnings are subject to "double taxation" when the corporation is taxed and when passed through stockholders dividends. However, corporations have the advantage of limited liability, but not total protection from lawsuits.

**Subchapter "S" Corporation:** A special section of the Internal Revenue Code permits a corporation to be taxed as a partnership or sole proprietorship, with the profits taxed at the individual rather than the corporate rate. To qualify as a Subchapter "S" corporation, a business must meet certain requirements. For more information contact the IRS and request IRS publication 589.

**"LLCs" and the "LLPs":** The Limited Liability Company (LLC) is rapidly becoming a very popular business form. An LLC combines selected corporate and partnership characteristics while still maintaining status as a legal entity distinct from its owners. As a separate entity, it can acquire assets, incur liabilities and conduct business. As the name implies, however, it provides limited liability for the owners. LLC owners risk only their investment. Personal assets are not at risk. The Limited Liability Partnership (LLP) is similar to the LLC with the exception that it is aimed at professional organizations.

(1)  
Once you've made the decision to live out your dream of running your own business, you'll need to decide what business structure with which to operate. Be sure to consult your attorney, CPA, or financial advisor before selecting one.

# HOW TO START A SMALL BUSINESS

**(2)  
Once you've  
decided on a  
business structure,  
it's time to  
put together a  
business plan to  
show to  
representatives  
of banks or  
financial institutions  
when  
applying for  
financing.**

## Need help with business plans?

### Kentucky Small Business Development Ctr.

330 E. Main St., Suite 210  
Lexington, KY 40507  
(859) 257-7666 or  
(888) 475-7232  
[www.ksbdc.org](http://www.ksbdc.org)

### U.S. Small Business Administration

Kentucky District Office  
600 Dr. Martin Luther King  
Jr. Place, Room 188  
Louisville, KY 40202  
(502) 582-5009  
[www.sba.gov](http://www.sba.gov)

### Commerce Lexington

Business Information Center  
330 E. Main St., Ste. 100  
Lexington, KY 40507  
(859) 254-4447  
[www.Commerce  
Lexington.com](http://www.CommerceLexington.com)

### To order an outline of a business plan that will fit most business operations, contact:

Kentucky Cabinet for Economic  
Development  
Division of Small and Minority Business  
Dept. of Community Development  
2300 Capital Plaza Tower  
500 Mero Street  
Frankfort, Kentucky 40601  
Phone: (502) 564-2064  
[www.ced.ky.gov](http://www.ced.ky.gov)

Cost: \$2.00. Make checks payable to Ky.  
State Treasurer

## > DEVELOPING A BUSINESS PLAN:

A business plan is a formal document explaining in some detail your plans to develop a financially successful business. A business plan is important for two reasons:

(1) Preparing a business plan forces you to think through every aspect of your business. If you need outside capital, the business plan will be one of the first things the lender or investor wants to see.

(2) A business plan serves as an assessment tool for the owner. As you work your way through the points of the plan, you will have to reaffirm the viability of your ideas. As you grow your business, a plan will help you keep track of the details and make sure the business is progressing as you intended.

### Introduction

- Give a detailed description of the business and its goals.
- Discuss the ownership of the business and the legal structure.
- List the skills and experience you bring to the business.
- Discuss the advantages you and your business have over your competitors.

### Marketing

- Discuss the products/services offered.
- Identify the customer demand for your product/service.
- Identify your market, its size and location.
- Explain how your products/service will be advertised and marketed.
- Explain the pricing strategy.

### Financial Management

- Explain your source and the amount of initial equity capital.
- Develop a monthly operating budget for the first year.
- Develop an expected return on investment and monthly cash flow for the first year.
- Provide projected income statements, balance sheets for a two-year period.
- Discuss your break-even point.
- Explain your personal balance sheet and method of compensation.
- Discuss who will maintain your accounting records and how they will be kept.
- Provide "what if" statements that address alternative approaches to any problem that may develop.

### Operations

- Explain how the business will be managed on a day-to-day basis.
- Discuss hiring, personnel procedures.
- Discuss insurance, lease or rent agreements and issues pertinent to your business.
- Account for the equipment necessary to produce your products or services.
- Account for production and delivery of products and services.

### Concluding Statement

- Summarize your business goals and objectives and express your commitment to the success of your business. The business plan is a flexible document that should change as your business grows.

# HOW TO START A SMALL BUSINESS

## > WHERE TO GO FOR FINANCING:

### **BANKS**

Banks make money by lending money. To be successful in obtaining a loan, you must be prepared and organized. You must know exactly how much money you need, why you need it and how you will pay it back. You must be able to convince your lender that you are a good credit risk. A good loan proposal is essential and will contain the following key elements:

#### **General Information**

- Business name, names of principals, Social Security number for each principal, and the business address.
- Purpose of the loan-exactly what the loan will be used for and why it is needed.
- Amount required-the exact amount you need to achieve your purpose.

#### **Business Description**

- History and nature of the business-details of what kind of business it, its age, number of employees and current business assets.
- Ownership structure-details on your company's legal structure.

#### **Management Profile**

- Develop a short statement on each principal in your business; provide background, education, experience, skills and accomplishments.

#### **Market Information**

- Clearly define your company's products as well as your markets.
- Identify your competition and explain how your business competes in the marketplace.
- Profile your customers and explain how your business can satisfy their needs.

#### **Financial Information**

- Financial statements-balance sheets and income statements for the past three years. If you are starting out, provide a projected balance sheet and income statement.
- Personal financial statements on yourself and other principal owners of the business.
- Collateral you would pledge as security for the loan.

### **SMALL BUSINESS ADMINISTRATION ASSISTANCE**

The SBA's loan guarantee programs provide a key source of financing for viable small businesses that have real potential, but cannot qualify for loans from traditional sources. Financing programs provided by SBA vary according to a borrower's financial need. SBA loans are made by private lenders and are guaranteed up to 85 percent. There are three principal players in an SBA-guaranteed loan-the small business borrower, the private lender and the SBA. First, the private lender determines whether a borrower's application is acceptable. If it is, the lender forwards the application and its credit analysis to the SBA. After SBA review and approval, the lender makes the loan and disburses the funds to the borrower to make payments to the lender. The following outlines major programs offered by the SBA.

#### **7(a) LOAN GUARANTY PROGRAM**

The 7(a) Loan Guaranty Program is the SBA's primary loan program. The SBA reduces risk to lenders by guaranteeing major portions of loans made to small businesses. This enables the lenders to provide financing to small businesses when funding is otherwise unavailable on reasonable terms.

#### **USE OF PROCEEDS**

You can use a 7(a) loan to: expand or renovate facilities, purchase machinery, equipment, fixtures and leasehold improvements; finance receivables and augment working capital; refinance existing debt with compelling reason; finance seasonal lines of credit; construct commercial buildings; and/or purchase land or buildings. Many types of SBA loans are available.

**(3)**  
**When you've got a business plan complete and in working order, you can begin to look for the financing needed to run your business.**

**Continued Next Page** →



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**MINORITY BUSINESS DEVELOPMENT  
COMMERCE LEXINGTON INC.  
330 EAST MAIN STREET, STE. 200  
LEXINGTON, KY 40507  
PHONE: (859) 225-5005**

**CONTACT: TYRONE TYRA  
VP - COMMUNITY & MINORITY  
BUSINESS DEVELOPMENT**

## FINANCING CONTINUED

### > ACCE\$\$ LOAN PROGRAM

Commerce Lexington, along with the help of many local banks and financial institutions, has an innovative program called the **Acce\$\$ Loan Program**. This extraordinary financing program gives small business entrepreneurs the opportunity to present business plans to representatives from as many as 17 banks and financial institutions at one time, saving people valuable time and providing greater access to financing.

Since its inception in the spring of 2001, the Acce\$\$ Loan Program has been responsible for more than \$10 million in loans for the start or expansion of local small and minority-owned businesses. To get started, entrepreneurs need only to provide a business plan, as well as any supporting information to Commerce Lexington. Guidelines and requirements are available at the Commerce Lexington office at 330 East Main St., Ste. 200, Lexington, (859) 225-5005.

Once the applicant is approved by the Acce\$\$ Loan Subcommittee, the business plan is forwarded to the full committee, where it could get loan offers from more than one bank or institution. If the business plan is not approved by the subcommittee, it is often referred to the Lexington Area Small Business Development Center for some fine-tuning. The entrepreneur could get more than one chance to submit a business plan. For more information or for guidelines, call (859) 255-5005.

### FROM PREVIOUS PAGE

#### PRE-QUALIFICATION LOAN PROGRAM

The SBA's Pre-Qualification Loan (Pre-Qual) provides support to those segments of the small business community that may have been underserved by the lending community. To be eligible, a prospective business must be 51-percent or more owned by veterans, women and/or minorities. The maximum loan amount under this program is \$250,000. The Pre-Qualification Loan Program is a 7(a) loan program.

#### LOW DOCUMENTATION LOAN

LowDoc is one of the SBA's most popular programs, offering a simple, one-page SBA application form and rapid turnaround on approvals for loans up to \$150,000. The SBA will guarantee up to 85-percent of the loan amount. Completed applications are processed quickly by the SBA, usually within 2-3 business days.

#### SBAEXPRESS

Available for loans up to \$250,000. The SBA guarantees up to 50-percent of an SBAExpress loan. Loans under \$25,000 do not require collateral.

#### CAPLINES

This specialized umbrella loan program is designed to help small businesses meet their short-term and cyclical working capital needs. CAPLines can be used to finance seasonal working capital needs; finance the direct costs of performing certain construction, service, and supply contracts; finance the direct cost associated with commercial and residential construction performed on a speculative basis; finance operating capital by obtaining advances against existing inventory and accounts receivable; and consolidate short-term debt.

For more information on these and many other loan programs, contact:

**U.S. Small Business Administration**  
600 Martin Luther King Jr. Place,  
Federal Building, Room 188  
Louisville, KY 40202  
Phone: (502)-582-5971  
[www.sba.gov](http://www.sba.gov)

#### Local Sources of Assistance

#### SERVICE CORPS OF RETIRED EXECUTIVES (SCORE)

The association matches volun-

teer business-management counselors with clients in need of expert advice. SCORE has experts in virtually every area of business management. For information, contact the Lexington SCORE Office:  
**Lexington SCORE Office**, 389 Waller Ave., Suite 130, Lexington, KY 40504, (859) 231-9902, [www.score.org](http://www.score.org).

#### SMALL BUSINESS DEVELOPMENT CENTERS (SBDC)

Provide managerial and technical assistance to start-up and existing businesses. These strategically located campus-based centers bring together the resources of the university, the private sector and the government. These resources are utilized to counsel and train small businesses in resolving organizational, financial, marketing, technical and other problems they may encounter. For further information and/or assistance, contact:

**Kentucky SBDC Office**,  
330 East Main Street, Suite 210  
Lexington, KY 40507  
(859) 257-7666

# HOW TO START A SMALL BUSINESS

## > BUSINESS REGULATIONS TO CONSIDER:

### REGISTERING A BUSINESS NAME

Registering a business name protects you from others who might be using the same name. For more information contact the County Recorder in the county in which your business is located. For more information, contact:

#### **Kentucky Secretary of State**

Corporate Division, Capital Building  
Room 152  
Frankfort, KY 40601  
(502) 564-3490  
[www.sos.state.ky.us](http://www.sos.state.ky.us)

### BUSINESS INSURANCE

Business insurance protects the contents of your business against fire, theft, and other losses. It is prudent for any business to purchase a number of basic types of insurance. Law requires some types of coverage, others simply make good business sense. For more information contact your insurance agent or broker.

### HAZARDOUS SUBSTANCE COMPLIANCE

Use of hazardous substances in businesses is highly regulated and there are heavy fines for non-compliance. If you need information about air, water, land uses, solid waste and hazardous materials call or write:

#### **One Stop Environmental Permit Coordinator**

Office of Commissioner, Department for Environment Protection  
14 Reilly Road  
Frankfort, KY 40601  
(502) 564-2150  
[www.environment.ky.gov](http://www.environment.ky.gov)

### BUILDING CODES, PERMITS, AND ZONING

Contact the business license office in the city in which the business is located for information.

### AMERICANS WITH DISABILITIES ACT COMPLIANCE (ADA)

Another consideration when evaluating sites for your business is compliance with the ADA, for information contact:

#### **Cabinet for Workforce Development**

209 St. Clair Street  
Frankfort, KY 40601  
(800) 372-7172  
<http://workforce.ky.gov>

### BAR CODING

The uniform Code Council Inc. assigns a manufacturer's ID code for the purpose of bar coding. Many stores require bar coding on the packaged products they sell. For additional information, contact:

#### **Uniform Code Council Inc.**

7887 Washington Village Dr., Ste. 300  
Dayton, OH 45459  
(937) 435-3870

### EMPLOYEE CONSIDERATIONS

Taxes, Etc.-If you have any employees you must make periodic payments, and/or file quarterly reports about payroll taxes and other mandatory deductions. You may contact these government agencies for information, assistance and forms.

#### **Social Security Administration**

(800) 772-1213

#### **Federal Withholding**

**US Internal Revenue Service**  
(800) 829-1040

#### **Workers Compensation**

Department of Workers Claims  
Perimeter Park West, Building C  
1270 Louisville Road  
Frankfort, KY 40601  
(502) 564-5550  
[www.labor.ky.gov/dwc](http://www.labor.ky.gov/dwc)

### EMPLOYEE INSURANCE

If you hire employees, you may be required to provide unemployment of workers' compensation insurance.

### Other Considerations

All business with employees are required to comply with state and federal regulations regarding the protection of employees.

### SAFETY AND HEALTH REGULATIONS

All businesses with employees are required to comply with state and federal regulations regarding the protection of employees. OSHA outlines specific health and safety standards adopted by the U.S. Department of Labor. For information contact:

(4)

**Next, you'll need to consider any government regulations that may affect your industry or business. Take time to research the applicable regulations**

SEE NEXT PAGE





# HOW TO START A SMALL BUSINESS

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## PATENTS, COPYRIGHTS, & TRADEMARKS

### PATENT

A patent for an invention is a grant of property rights by the government to the inventor. The duration of the grant is 17 years. To call for general information, contact:

**Commissioner of Patents & Trademarks**  
P.O. Box 9  
Washington, DC 20231  
Phone: (703) 308-9000  
[www.uspto.gov](http://www.uspto.gov)

### COPYRIGHT

A copyright protects the writings of an author against copying. Literary, dramatic, musical and artistic works are included within the protections of the copyright law. For further information or to register a copyright contact:

**U.S. Copyright Office**  
U.S. Library of Congress  
James Madison Memorial Building  
Washington, D.C. 20559  
(202) 707-9100---Order Line  
(202) 707-3000---Information Line

### TRADEMARK

A trademark relates to any word, name, symbol or device that is used in trade with goods to indicate the source of origin of the goods and to distinguish them from the goods of others. For more information, contact:

**U.S. Department of Commerce**  
Patent and Trademark Office  
Washington, DC 20231  
Phone: (703) 308-9000  
[www.uspto.gov](http://www.uspto.gov)

For more information on obtaining a state trademark, contact:

**Secretary of State**  
Capital Building  
Frankfort, KY 40601  
Phone: (502) 564-3490  
[www.sos.state.ky.us](http://www.sos.state.ky.us)

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### CONTINUED FROM PREVIOUS PAGE

#### Kentucky Labor Cabinet

Occupational Safety & Health  
1047 U.S. 127 South  
Frankfort, KY 40601  
(502) 564-3070

#### IMMIGRATION & NATURALIZATION SERVICE (INS)

All employers are required to verify the employment eligibility of new employees. The Federal Immigration Reform and Control Act obligates an employer to process Employment Eligibility Verification Form I-9. INS forms and the Employer Handbook can be obtained by calling (800) 357-2099. For more information contact:

#### Immigration and Naturalization Service

Snyder Building  
601 West Broadway  
Louisville, KY 40202  
(502) 582-6375

#### EXPORTING

For information concerning international trade contact:

#### International Trade Administration

U.S. Department of Commerce  
Louisville Export Assistance Center  
Snyder Building, 601 W. Broadway  
Louisville, KY 40202  
(502) 582-5066

#### International Trade Office

Cabinet for Economic Development  
2300 Capital Plaza Tower  
500 Metro Street  
Frankfort, KY 40601  
(502) 564-7140  
[www.state.ky.us/agencies/edc/ito.htm](http://www.state.ky.us/agencies/edc/ito.htm)

#### Kentucky World Trade Center

333 West Vine  
1600 World Trade Center  
Lexington, KY 40507  
Phone: (859) 258-3139, WEB: [www.kwtc.org](http://www.kwtc.org)  
KWTC specialists can help you begin or expand international business through consultation on international market strategy, off-shore sourcing, price quotations, freight and payment, export documentation, foreign exchange risk negotiating in foreign cultures and trade financing.

#### Lexington U.S. Export Assistance Center

4th Floor Lexington Central Library  
Lexington, KY 40507  
Phone: (859) 225-7001, Fax: (859) 582-6501  
Web address: [www.buyusa.com](http://www.buyusa.com)

The U.S. Commercial Service of the U.S. Department of Commerce is committed to assisting U.S. firms in realizing their export potential by providing expert counseling and advice, information on markets abroad, international contacts, and advocacy services.

# HOW TO START A SMALL BUSINESS

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## BUSINESS LICENSES

### FEDERAL LICENSES

As a small business owner you will need an Employer Identification Number (Form SS-4) to comply with Federal Income Tax, Social Security and Unemployment Insurance regulations. For Federal Business Tax Information, contact the local Internal Revenue Service (IRS) office in your area or call (800) 829-1040. The following is a list of activities that require special federal licenses.

<b>Activity</b>	<b>Federal Agency</b>
Rendering investment advice	Securities & Exchange Commission
Providing ground transportation as a common carrier	Interstate Commerce Commission
Preparation of meat products	Food & Drug Administration
Production of drugs or biological products	Food & Drug Administration
Making tobacco or alcohol	Treasury Department, Bureau of Alcohol, Tobacco and Firearms
Labeling	Federal Trade Commission
Making or dealing in firearms	Treasury Department, Bureau of Alcohol, Tobacco, and Firearms
Radio or television broadcasting	Federal Communications Commission

### STATE LICENSES

A good place to contact when determining your licensing requirements is the Business Information Clearinghouse. The Clearinghouse offers complete licensing information for opening a business in Kentucky and, in many instances, can provide you with the actual applications and forms you will need to obtain. For complete, state, federal and local licensing information, contact:

#### **Business Information Clearinghouse**

Capital Plaza Tower  
Frankfort, KY 40601  
Phone: (502) 564-4252  
(800) 626-2250 (toll free in Kentucky)  
Fax: (502) 564-3256  
[www.ced.ky.gov](http://www.ced.ky.gov)

### LOCAL LICENSES

As a general rule, the county or city clerk's office is a good place to begin seeking information on local requirements such as, zoning, local business license, and specialized local license.

In Lexington, contact the Lexington-Fayette Urban Co. Government's Division of Revenue at (859) 258-3340.

**(5)**  
**As a small business owner, you will need an Employer Identification Number (Form SS-4) to comply with Federal Income Tax, Social Security and Unemployment Insurance regulations.**

# HOW TO START A SMALL BUSINESS

## STATE & LOCAL TAXES

**Sole proprietorships & partnerships** - The tax on income of sole proprietorships and partnerships is paid by the owners as state individual income tax. The amount paid is based on the proprietors or partners proportionate share of income.

**Organization Tax** - Corporations that incorporate in Kentucky pay an organizational tax to the Commonwealth's Secretary of State. The tax is based on the number of shares authorized in the articles of incorporations. The tax is also levied on extra shares of capital stock by amended articles of incorporation and on additional shares created by merger or consolidation. The box depicts the per share tax for businesses incorporating in Kentucky.

### KY. CORPORATE ORGANIZATION TAX RATES

Shares of Stock	Tax per share
First 20,000	\$0.010
Next 180,000	\$0.005
Excess of 200,000	\$0.002
Minimum Tax	\$10.000

Source: Kentucky Revenue Cabinet

**State Corporation Income Tax** - Kentucky corporations and foreign companies owning or leasing property, or having one or more paid employees in Kentucky pay an annual income tax on taxable net income. Banks and some other financial institutions are exempted from the tax. Additionally, corporations exempt from federal tax under section 501 of the US Internal Revenue Code, subchapter S corporations and other nonprofit corporations are exempted from state income tax. Corporations having business income taxable in both Kentucky and elsewhere pay Kentucky income tax on that portion of business income earned in the Commonwealth.

### KENTUCKY CORPORATE INCOME TAX RATES

Taxable Income	Tax Rate
First \$50,000	4.00%
\$50,001 - \$100,000	5.00%
\$100,001 +	6.00%

Source: Kentucky Revenue Cabinet

**Tangible Property Tax** - In Kentucky, if you own a business of any kind, large or small, as of January 1, you are required to list the value of your personal property with the Property Valuation Administrator, by May 15th. Personal Property consists of items such as office furniture, office machines, store fixtures, professional trade and business fixtures, leasehold equipment, machinery and equipment both manufacturing and non manufacturing, free standing signs, raw materials, inventories of all kinds, aircraft and many other personal items that may have value and utility. If you have any questions regarding Tangible Property, call (859) 246-2722, ext 245.

### Payroll & Net Profits Tax

Payroll/Net Profits tax rates vary by geographic locale within the Lexington MSA. The county rates will vary from a low of .75% in Bourbon County to a high of 2.75% in Lexington-Fayette County. The city rates also vary from 0% in several small municipalities to 2% in Wilmore, Richmond, Berea and Midway.

### Gross Income

Gross income of corporations subject to Kentucky income tax is similar to income reported for federal income tax purposes.

**Excluded from Kentucky gross income** is income exempt

from taxation by the Kentucky Constitution and the Constitution and statutory laws of the U.S.; all dividend income; income from safe harbor leases; any amount received by a tobacco producer or quota owner from the master settlement agreement, secondary settlement fund, or commodity credit corporation; and fifty (50) percent of the gross income from any disposal of coal covered by Section 631(c) of the Internal Revenue Code, if no deduction is taken for percentage depletion; exclude any amounts received as a result of a tobacco quota buydown program; exclude the distributive share income or loss received from a corporation subject to the tax imposed by KRS 141.040; and exclude Phase II payments received by a producer of tobacco or a tobacco quota owner.

**Included in Kentucky gross income** is interest income from obligations of other states and their political subdivisions (bonds, notes, mortgages, etc.), include in the gross income of lessors income tax payments made by the lessees to lessors, under the provisions of Section 110 of the IRC and exclude payments from the gross income of lessees; and income from intercorporate transactions adjusted to an arm's length basis, when required by the Kentucky Revenue Cabinet to prevent the avoidance of taxes.

### Net Income

Net income for corporations subject to Kentucky income taxes is gross income minus essentially the same deductions from gross income as allowed for federal income taxes, except for the following which are not deductible when computing Kentucky net income:

- (a) income taxes paid to other states that are computed in whole or in part, by reference to gross or net income, U.S. territories or possessions, or any foreign country or its political subdivisions;
- (b) any deduction directly or indirectly allocable to net income which is either exempt from taxation or otherwise not taxed by Kentucky, or the same item to be deducted more than once;
- (c) certain dividends received deduction by the corporation (as defined by Sections 243, 244, 245, and 247 of the U.S. Internal Revenue Code); and
- (d) amounts paid to any club, organization, or establishment that has been found by the courts or a government body to discriminate in its membership, privileges, or services on the basis of race, color, religion, national origin, or sex.

Depreciable property placed in service after December 31, 1989, is depreciated in the same way as allowed by federal depreciation rules in effect prior to September 11, 2001. Property placed in service during the 1980s is adjusted to the value used for federal income taxes, beginning in 1994. Kentucky has not adopted the thirty percent (30%) federal bonus depreciation enacted by the Job Creation and Worker Assistance Act of 2002, or the fifty (50%) bonus depreciation enacted by the Jobs and Growth Tax Relief Reconciliation Act of 2003.

### ADDITIONAL TAX INFORMATION:

As with most other states and localities, we have other taxes besides those listed above. We recommend that you consult an attorney, accountant, or other professionals about tax matters. For further information regarding state taxes, please call the Revenue Cabinet at (502) 564-4580 or the Taxpayer Ombudsman at (502) 564-7822. For information on local taxes, call the Revenue Division at (859) 258-3340.

# HOW TO START A SMALL BUSINESS

## TAX INCENTIVES

### ECONOMIC INCENTIVES SUMMARY

Kentucky's General Assembly passed new legislation in 2009 combining the KIDA, KJDA, and KREDA incentive programs into one streamlined incentive program called the Kentucky Business Investment Program or KBI. Also included is a new incentive program for existing businesses for capital expenditures, the Kentucky Reinvestment Act or KRA. The following information is meant to be a summary guide to Kentucky's Incentive Programs as presented by the Kentucky Economic Development Finance Authority (KEDFA). As with all state administered tax incentive programs, any inducement offered to an eligible company is negotiated by Cabinet for Economic Development officials. For more information on Kentucky's incentives, visit [www.thinkkentucky.com](http://www.thinkkentucky.com).

### Kentucky Business Investment Program (KBI)

*Eligible Companies:* Any business entity engaged in one or more of the following activities: Manufacturing, agribusiness, or regional and national headquarters (regardless of the underlying business activity). *Incentives:* Tax incentives are available for up to 10 years via tax credits up to 100 percent of tax paid on corporate income or limited liability entity tax arising from the project. Wage assessment incentives up to four percent (including up to one percent required local participation) of gross wages of each employee. **FIND OUT MORE ON-LINE.**

### Kentucky Revitalization Act (KRA)

*Eligible Companies:* Any Kentucky company engaged in manufacturing and related functions at a location operating within the Commonwealth on a permanent basis for a reasonable period of time preceding the request for assistance. *Incentives:* A tax incentive is available for up to 10 years from the date of final

approval via tax credits up to 100% of tax paid on corporate income or limited liability entity tax generated by or arising from the project. The tax incentive remains in place until the authorized incentive amount is realized or for the term of the reinvestment agreement, however, unused credits expire at the maturity of the agreement. **FIND OUT MORE ON-LINE.**

### Kentucky Economic Development Finance Authority (KEDFA)

KEDFA offers a mortgage loan program to work in conjunction with private financing. The program is designed to allow businesses to obtain the long term financing needed to encourage growth. *Program Guidelines:* Projects financed must be agribusiness, tourism, industrial ventures, or service industry. No retail projects are eligible. KEDFA may participate in projects with loans ranging from \$25,000 to \$500,000. For more information, visit [www.thinkkentucky.com/kyedc/pdfs/kedfadcp.pdf](http://www.thinkkentucky.com/kyedc/pdfs/kedfadcp.pdf).

### Bluegrass State Skills Corporation (BSSC)

The Bluegrass State Skills Corporation acts as a coordinator and funding source for job training in Kentucky. For more details on BSSC, visit [www.thinkkentucky.com/bssc/wftrain-prog.aspx#SkillsInvestmentCredit](http://www.thinkkentucky.com/bssc/wftrain-prog.aspx#SkillsInvestmentCredit).

### Kentucky Enterprise Initiative Act (KEIA)

*Eligible Companies:* Any business entity that establishes a new or expanded service or technology, manufacturing, or tourism attraction activity in Kentucky. *Tax Incentives:* A KEIA approved company is eligible to receive a refund of sales and use tax paid for construction materials and building fixtures and for equipment used in research and development purchased during the life of the project not to exceed the amount authorized in the memorandum of agreement.

Through  
Commerce  
Lexington & the  
Cabinet for  
Economic  
Development,  
several economic  
incentives are  
available to firms  
considering a  
Lexington area  
location.

Commerce Lexington  
330 E. Main, Ste. 100  
Lexington, KY 40507  
(859) 225-5005

Bluegrass Business  
Development Partnership  
[www.thinkbluegrass.com](http://www.thinkbluegrass.com)

Kentucky Cabinet for  
Economic Development  
[www.thinkkentucky.com](http://www.thinkkentucky.com)

## PROCUREMENT

### The Kentucky Procurement Assistance Program (KPAP)

The KPAP is a business assistance program of the Kentucky Cabinet for Economic Development. The KPAP's goal is to help Kentucky firms market their goods and services to federal, state and local government agencies. Visit their Internet website at

<http://www.thinkkentucky.com/kyedc/proassist.asp>. For free consultation and assistance, contact:

### KPAP Central Kentucky Service Center

Cabinet for Economic Development  
Business and Entrepreneurship  
Development Division  
2200 Capital Plaza Tower

500 Mero Street  
Frankfort, KY 40601  
Phone: (502) 564-4252 or (800) 838-3266

### International Trade THE INTERNATIONAL TRADE DIVISION KENTUCKY CABINET FOR ECONOMIC DEVELOPMENT

International Trade Office  
Department of Community Development  
Cabinet for Economic Development  
2300 Capital Plaza Tower  
500 Mero Street  
Frankfort, KY 40601  
Phone: (502) 564-7140  
[www.thinkkentucky.com/kyedc/int-trade.asp](http://www.thinkkentucky.com/kyedc/int-trade.asp)

Contact the  
Kentucky  
Procurement  
Assistance  
Program  
(KPAP) at  
(800) 838-3266  
or  
(502) 564-4252  
or on the Web at  
[www.thinkkentucky.com/kyedc/proassist.asp](http://www.thinkkentucky.com/kyedc/proassist.asp)