FREE REFERENCE

Kentucky business taxes, explained for 2026

Small businesses in Kentucky register with the state revenue agency for income tax withholding and sales tax, and with the Kentucky Office of Unemployment Insurance for unemployment tax. Kentucky has a flat 3.5% income tax, a 6% state sales tax and a $12,000 unemployment wage base for 2026.

QUICK FACTS

- **Income tax.** A flat 3.5% income tax for 2026
- **Sales tax.** 6% state rate, about 6% combined with local
- **Unemployment.** Employers pay Kentucky unemployment tax on the first $12,000 of each worker's 2026 wages

What taxes does a small business pay in Kentucky?

Most Kentucky businesses deal with four: federal and state payroll taxes once they hire, sales tax if they sell taxable items, income tax on profit, and the state's annual report or franchise filing for an LLC or corporation, filed with the Secretary of State.

How do I register for payroll taxes in Kentucky?

Before your first payroll in Kentucky:

1. Get a federal EIN and enroll in EFTPS for federal deposits.
2. Open a Kentucky withholding account with the Kentucky revenue agency, so you can withhold and pay state income tax.
3. Register for unemployment insurance with the Kentucky Office of Unemployment Insurance. For 2026, the tax applies to the first $12,000 of each employee's wages, at a rate the state sets for new employers and then adjusts to your history.
4. Report each new hire to Kentucky's new hire registry, usually within 20 days.

Our state payroll registration guide explains each step, and our payroll service handles it for you.

General information, not tax advice for your situation.

Do I need a Kentucky sales tax permit?

If you sell taxable goods or services in Kentucky, yes. Register with the Kentucky revenue agency before your first taxable sale. Out-of-state sellers need one once they pass Kentucky's economic nexus threshold.

SALES TAX IN KENTUCKY, MIDYEAR 2026	RATE
State rate	6%
Average local rate	0%
Average combined rate	6%
Highest local rate	0%

The state sets how often you file. Our sales tax permit guide covers what to have ready, and the sales tax calculator adds tax to a price.

How does Kentucky tax business owners?

Profit from a sole proprietorship, LLC, partnership or S-Corp passes through to the owners, who pay Kentucky income tax on it at the personal rates: a flat 3.5% income tax. Kentucky allows a standard deduction of $3,360 single and $3,360 joint. Many Kentucky cities and counties charge an occupational license tax on wages.

Estimate yours with the Kentucky income tax calculator.

Where are Kentucky's tax forms and refund status?

- Kentucky tax forms
- Kentucky revenue agency
- Kentucky refund status
- Kentucky Office of Unemployment Insurance

Every state's links are on our state tax forms page.

Which calculators work for Kentucky?

- Kentucky paycheck calculator: take-home pay after every deduction
- Kentucky income tax calculator: your 2026 state income tax
- Payroll cost calculator: what a hire costs you, with Kentucky unemployment

Common questions

Do I need a sales tax permit in Kentucky?
Yes, if you sell taxable goods or services there. Register with the Kentucky revenue agency before your first taxable sale.

What is the Kentucky unemployment wage base for 2026?
$12,000. Employers pay Kentucky unemployment tax on that much of each employee's wages, at a rate the state assigns.

Does Kentucky have a state income tax?
Yes. Kentucky has a flat 3.5% income tax for 2026.

Who runs payroll taxes in Kentucky?
The Kentucky revenue agency handles income tax withholding, and the Kentucky Office of Unemployment Insurance handles unemployment tax.

Want payroll handled?

We set it up, run it and file the returns. Book a free 30-minute call at eminenttax.com/contact or call (972) 347-4590.

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