

Tax Options for Kentucky Cities

Property Taxes

Real

Taxes on the value of real property (buildings and land) are set each year and are collected late in the calendar year (around November). The real property tax rate is capped by the Kentucky Constitution based on a city's population. State law requires cities to calculate the compensating rate – the rate that when applied to next year's assessments would produce about the same amount of revenue as the preceding year. The calculation excludes new property added to the tax rolls, and homestead exemptions are also removed from the taxable property amount. Cities may adopt the compensating tax rate without having to advertise and conduct a hearing on the matter. If the proposed tax rate exceeds the compensating rate, the city must give notice and conduct a hearing. If the rate set would produce more than 4% more revenue than the compensating rate, the portion of the rate above the four percent figure is subject to a voter recall effort. Adopting such a rate is almost impossible due to the timing requirements in statute.

- *Required to be levied by all cities.*
- *Median Rate: \$0.2050/\$100 assessed value*
- *Maximum rates:*
 - *15,000 or more population – \$1.50/\$100 assessed value*
 - *10,000-14,999 population – \$1.00/\$100 assessed value*
 - *Less than 10,000 population – \$0.75/\$100 assessed value*

Personal

Taxes on the value of personal property (tangible) are set similarly to real property tax rates. The compensating rate must be calculated as well, and it may be raised in the same manner as the real property tax rates. While personal property taxes are not subject to hearing requirements or a voter recall, if a recall happens on the real property rate, the personal property rate must also be reduced proportionally.

- *Levied by 295 cities, though not all types other than tangible.*
- *Median rates:*
 - *Tangible – \$0.2519/\$100 assessed value*
 - *Merchants inventory – \$0.2515/\$100 assessed value*
 - *Documented watercraft – \$0.2665/\$100 assessed value*
 - *Personal aircraft – \$0.2500/\$100 assessed value*
- *Maximum rates: N/A*

Motor Vehicle

Taxes on the value of motor vehicles must be set and submitted to the Department of Revenue before October 1 for taxes to be collected the following calendar year. The rate set by the city must not exceed the maximum rate the city could levy in 1983.

- *Levied by 266 cities.*
- *Median rate: \$0.2370/\$100 assessed value*
- *Maximum rate: The rate each city could have levied in 1983.*

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Special Assessment

Any city may provide funding for a specified project, program, or service by enacting a special ad valorem tax for such purpose. This tax is not subject to the property tax rate limitations discussed above. After the first reading of the ordinance, a copy of the ordinance must be sent to the county clerk, who is required to place the tax issue upon the ballot at the next regular election if he or she received the information by the second Tuesday in August. If a simple majority of those voting in the city approve the tax, then the city may proceed with the final adoption of the ordinance levying the property tax. The special assessment applies to all taxable property within the city, and the tax may only be used to fund the specified project, program or service described in the ordinance and must be accounted for in a separate fund.

Other types of special property tax options include the following:

- Certain cities in Jefferson County may levy a supplemental ad valorem tax to fund police, fire, and garbage services
- Orchestra funding
- Purchasing and maintaining parks
- Airport development
- Mass transit
- City pension plans
- Riverport development
- Abandoned urban property

Occupational License Taxes

Payroll

The payroll tax is a tax or license fee on all persons working in the city. The payroll tax may be levied as a percentage of gross earnings (wages or salaries) on all persons working in or conducting business in the city. There is no limit on the amount of the payroll tax rate (except for Louisville); however, it cannot be so high as to be “confiscatory” or “prohibitory.” Cities may also levy the tax on a flat dollar amount.

- *Levied by 165 cities.*
- *Median rate: 1.225% of wages (the rate may not apply equally to all wages)*
- *Maximum rate: N/A; cannot be so high as to be “confiscatory” or “prohibitory”*

Net Profits

The net profits tax is another form of occupational license taxes, but it taxes the profits of the business, not the employees. There is no limit on the amount of the net profits tax rate (except for Louisville); however, it cannot be so high as to be “confiscatory” or “prohibitory.” A city may have both a payroll tax and a net profits tax.

- *Levied by 92 cities.*
- *Median rate: 1.20% of net profits*
- *Maximum rate: N/A; cannot be so high as to be “confiscatory” or “prohibitory”*

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Gross Receipts

The gross receipts tax is another form of occupational license taxes, but it taxes all revenues or proceeds derived from the sale, lease or rental of goods, services or property by a business entity reduced by sales and excise taxes paid returns and allowances. There is no limit on the amount of the gross receipts tax rate; however, it cannot be so high as to be “confiscatory” or “prohibitory.” A city may have both a payroll tax and a gross receipts tax.

- *Levied by 35 cities.*
- *Median rate: 0.075% of gross receipts*
- *Maximum rate: N/A; cannot be so high as to be “confiscatory” or “prohibitory”*

Other General Taxes

Insurance Premium

Cities may impose a tax on most insurance premiums for policies based in the city. To levy or amend an insurance premium tax, a city must submit a copy of the ordinance to the Commissioner of Insurance no later than March 23 to be effective the following July 1. There is no cap on the percentage of the tax rate.

- *Levied by 366 cities.*
- *Median rate: 7.0% of gross premiums*
- *Maximum rate: N/A*

Bank Franchise/Local Deposits

Cities may impose a franchise tax on financial institutions located within the city’s boundaries. The tax is based on the amount of bank deposits the financial institutions maintain during the preceding year. The maximum rate is 0.025% except for Lexington-Fayette Urban County Government (0.050% maximum). A city must notify the Department of Revenue of the tax imposed upon enactment and any subsequent changes. The rate must be set by October 1, and payments are due with a two percent (2%) discount by December 31 or in full by January 31.

- *Levied by 187 cities.*
- *Median rate: 0.025% of bank deposits held*
- *Maximum rate: 0.025%; 0.050% for Lexington*

Tourism Taxes

Transient Room (Motel) Tax

Cities that have established a tourist and convention commission may levy a tax of up to 3% of the rent for every occupancy of a suite, room, or rooms charged by motor courts, motels, hotels, inns, or similar accommodation businesses. An additional 1% is authorized for the sole purpose of meeting operating expenses of a convention center. All revenue collected must be turned over to the commission. Louisville-Jefferson County Metro Government and Lexington-Fayette

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Urban County Government may levy different totals, and counties may levy rates that cover hotels within city limits.

- *Levied by 42 cities.*
- *Median rate: 3.0% of rent*
- *Maximum rate: 3.0% or 4.0%, except for Louisville and Lexington*

Restaurant Tax

Cities of the former fourth and fifth classes that have established a tourist and convention commission may impose a tax on retail sales of restaurants within the city. All revenue collected must be turned over to the commission. Rates may not exceed 3%. Louisville-Jefferson County Metro Government may levy a tax of 0.25% to fund the operating costs of a multipurpose arena.

- *Levied by 50 cities.*
- *Median rate: 3.0% of retail sales*
- *Maximum rate: 3.0%*

Total City Tax Revenues: FY 2019

