

Abolishing Kentucky's Aging Barrel Property Tax

Some Issues to Consider

Paul Coomes, Ph.D.

Emeritus Professor of Economics

University of Louisville

and

Economic Consultant to the Kentucky Distillers' Association

September 23, 2022

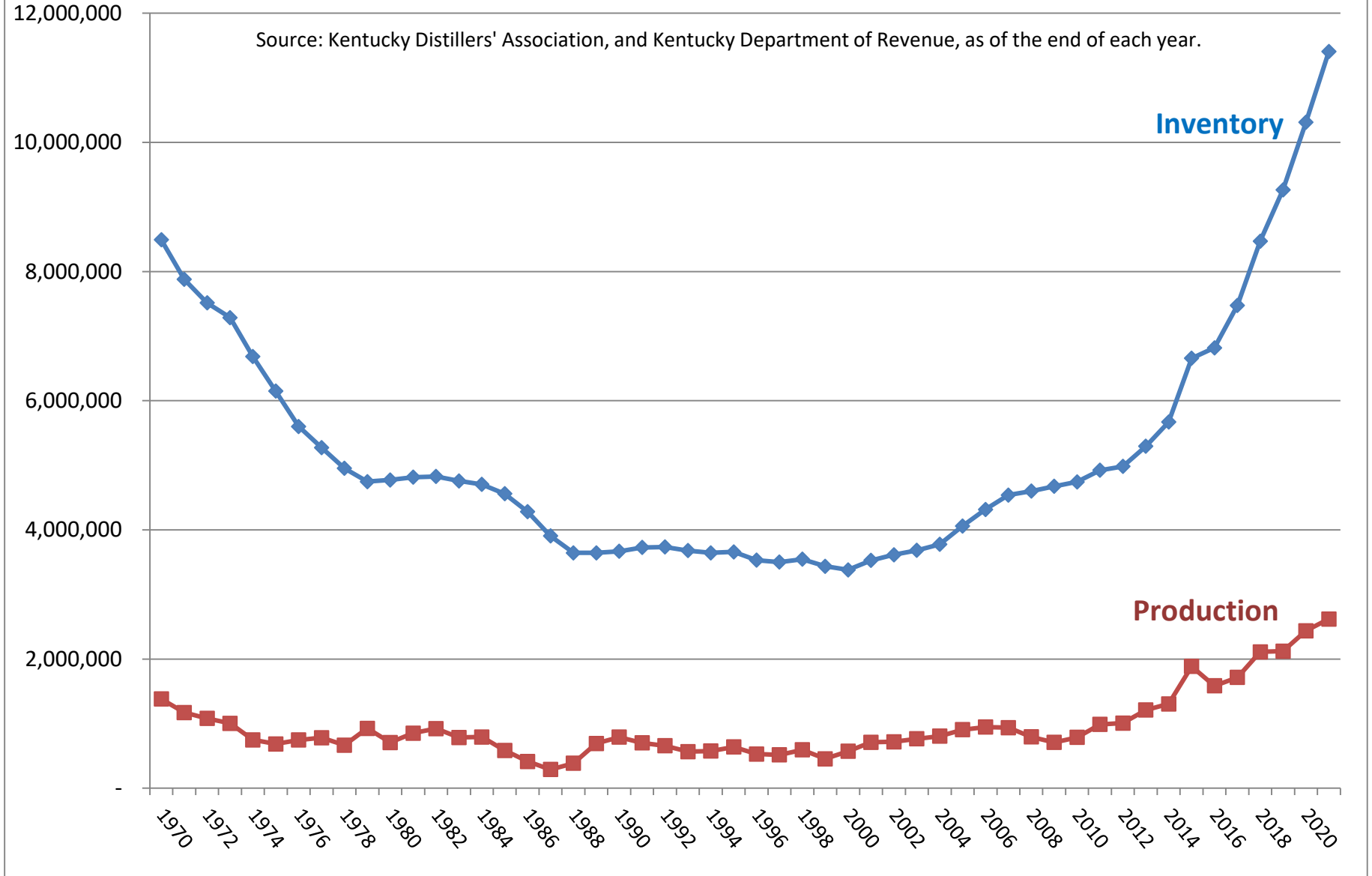
Barrels of Bourbon Produced, and Warehouse Inventory, Kentucky Totals, 1970-2021

Source: Kentucky Distillers' Association, and Kentucky Department of Revenue, as of the end of each year.

11.4 million barrels of bourbon in inventory at the end of 2021.

There were an additional 600,000 reused barrels and neutral spirits in inventory.

Assessed value = \$5.2 billion



State and local tax revenues have grown with investments, production, and inventories

From “The Economic and Fiscal Impacts of the Distilling Industry in Kentucky, 2021”, by Paul Coomes and Barry Kornstein, 72 pages, January 19, 2022.

See <https://kybourbon.com/wp-content/uploads/2022/01/Economic-Impact-Report-2022-01-19-FINAL.pdf>

Comparison of Estimated Annual Kentucky Taxes on the Production of Distilled Spirits, 2010-2020							
	2010	2013	2015	2017	2020	Change	Percent
Property taxes - real estate and tangible property	\$2,705,829	\$3,600,882	\$5,455,338	\$6,878,763	\$10,409,439	\$7,703,610	284.7%
Property taxes - spirits aging in barrels	\$11,697,908	\$11,940,044	\$13,412,692	\$19,024,834	\$27,807,402	\$16,109,494	137.7%
Individual income taxes from distillery-related payrolls	\$25,248,351	\$32,792,590	\$37,001,568	\$47,164,694	\$59,440,739	\$34,192,388	135.4%
General sales taxes from distillery-related payrolls	\$21,938,745	\$28,494,070	\$31,798,948	\$39,912,341	\$49,137,208	\$27,198,463	124.0%
Occupational taxes from distillery-related payrolls	\$6,497,408	\$8,424,378	\$12,073,846	\$15,714,466	\$19,482,174	\$12,984,765	199.8%
Distilled spirits license fees*	\$186,790	\$237,190	\$188,590	\$314,235	\$346,562	\$159,772	85.5%
Total	\$68,275,032	\$91,539,153	\$105,980,981	\$135,059,333	\$166,623,524	\$98,348,492	144.0%

* Production-related license fees are mostly for distillers and rectifiers licenses.

144% growth last decade

Plus other taxes not included in studies:

- utility taxes for schools
- insurance premiums taxes for cities
- state corporate income taxes
- motel room taxes to visitor bureaus
- restaurant taxes to cities

Estimated Property Tax Revenues from Aging Barrels

Source: Kentucky Department of Revenue, with author's breakout of school portion. Local tax revenues are those expected given the assessments and property tax rates from previous year.

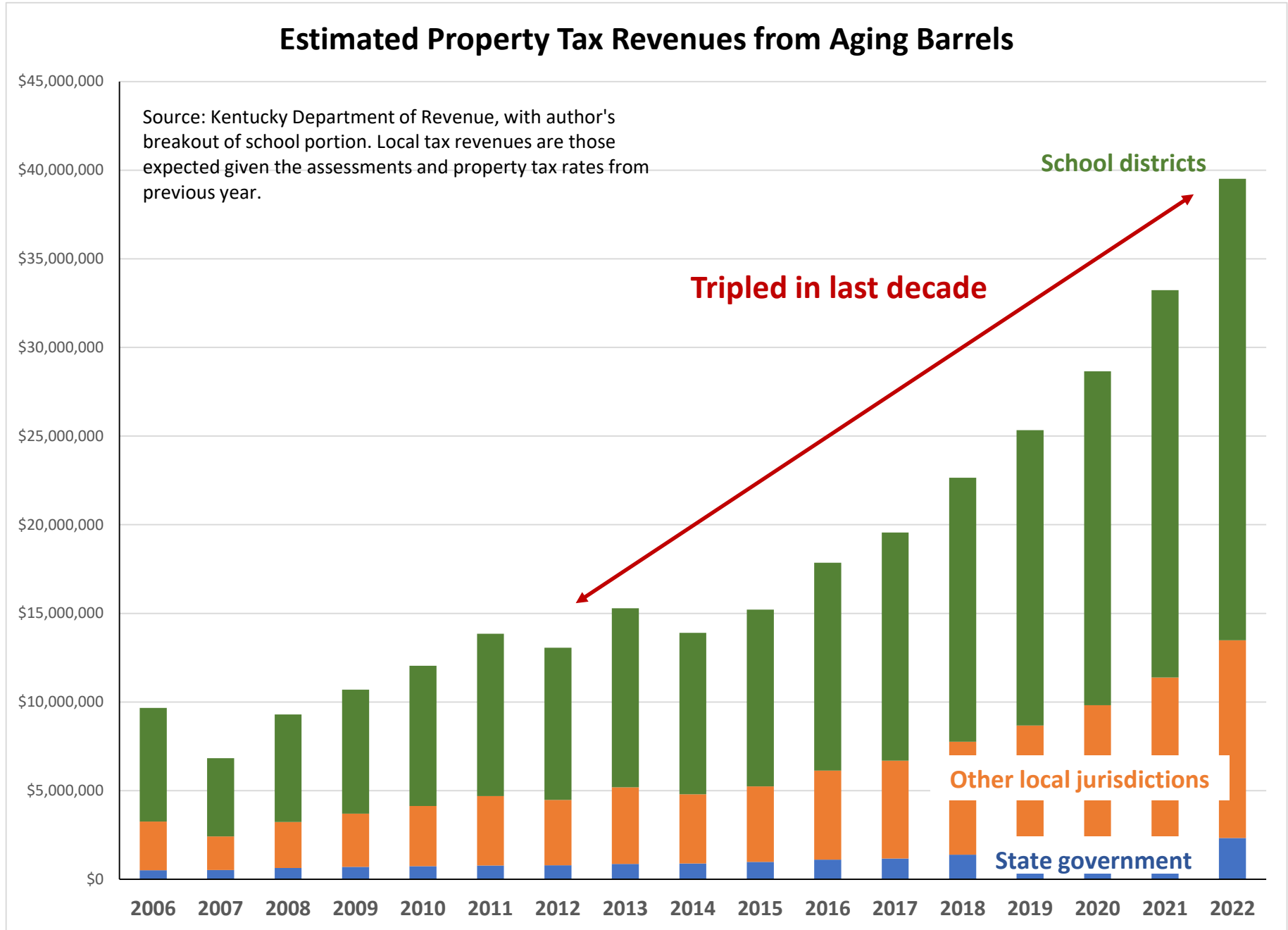
Total in 2022 = \$39.5 million

Schools: \$26 million

Other local: \$11.2 million

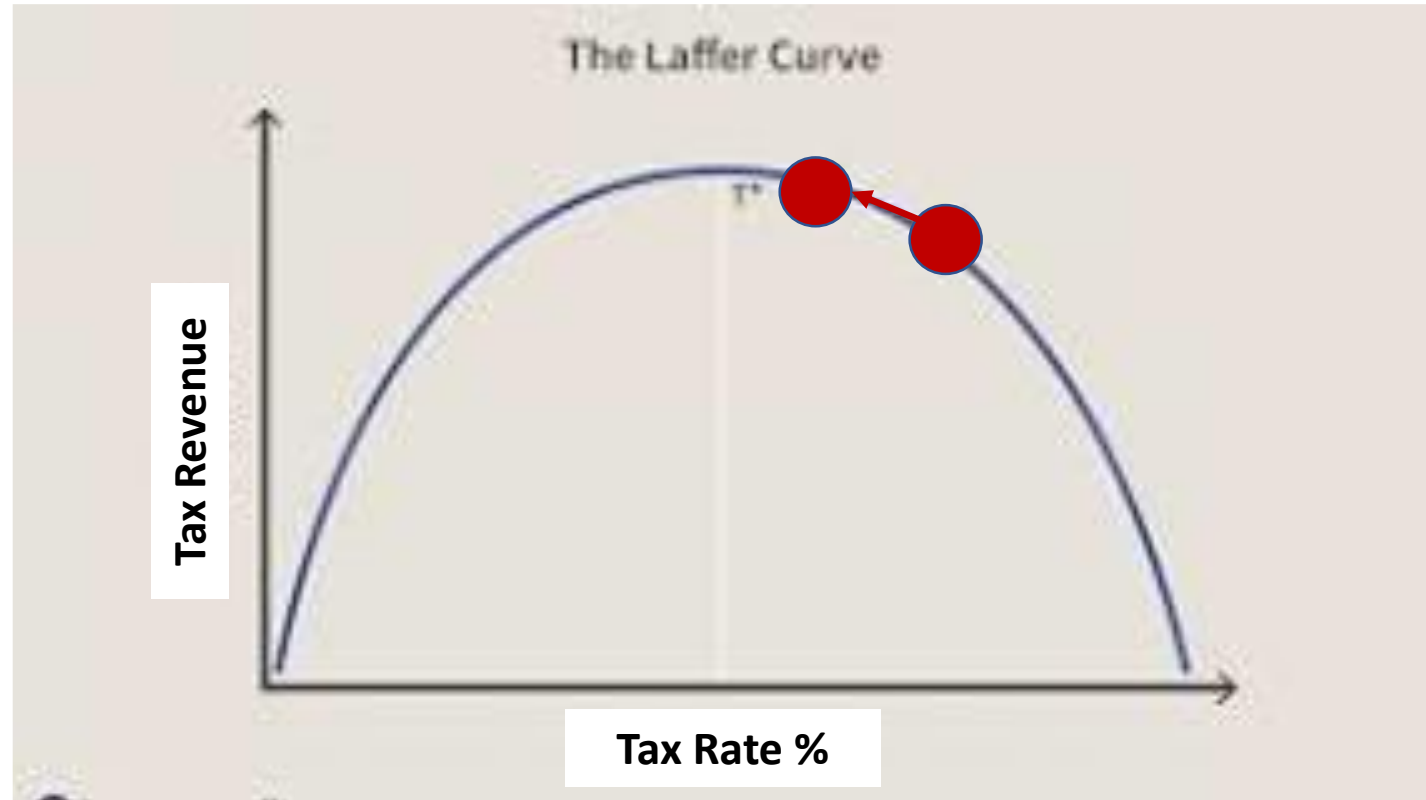
State: \$2.3 million

State tax rate is only 0.05%,
whereas local rates in distilling
counties average of 0.74%.



Is Kentucky now on the downside of the Laffer Curve when it comes to taxing distilling?

Once tax rates surpass the peak of the curve, tax revenues actually fall. Competition from other states could reduce the economic footprint of the industry in Kentucky.



If so, reducing tax rates would increase tax revenues, compared to what there would have been.

This is complicated in practice, as there are so many different taxes and so many different jurisdictions.

Distilling has become a much larger share of local government revenues in key counties.

For example, Marion County:

Distilling's Contribution to Tax Revenues in Marion County, KY				
	2010	2020	growth	
Marion County government*				
Real property taxes	\$745,407	\$815,941	\$70,534	9.5%
Tangible property taxes	\$93,141	\$357,946	\$264,806	284.3%
Distilled spirits taxes **	\$57,307	\$530,976	\$473,669	826.5%
Occupational taxes	\$2,275,981	\$4,134,609	\$1,858,628	81.7%
Marion County schools - local tax revenues***				
	\$6,623,445	\$10,450,160	\$3,826,715	57.8%
Distillers' tax payments to Marion County government****				
Real property taxes	\$15,315	\$50,759	\$35,444	231.4%
Tangible property taxes	\$1,909	\$7,241	\$5,331	279.2%
Distilled spirits taxes	\$57,307	\$530,976	\$473,669	826.5%
Occupational taxes	\$47,442	\$188,467	\$141,025	297.3%
Total	\$106,659	\$726,684	\$620,025	581.3%
<i>Distillers' share of tax payments to Marion County government</i>	3.4%	12.4%		
Distillers' tax payments to Marion County schools				
Real property taxes	\$90,106	\$349,408	\$259,302	287.8%
Tangible property taxes	\$8,863	\$34,138	\$25,275	285.2%
Distilled spirits taxes	\$266,033	\$1,383,488	\$1,117,456	420.0%
Total	\$365,002	\$1,767,034	\$1,402,032	384.1%
<i>Distillers' share of Marion schools local tax receipts</i>	5.5%	16.9%		

* County government tax revenues from the Kentucky Department of Local Government, Uniform Financial Reporting Information system, fiscal years. The UFIR report does not show distilled spirits taxes going to the County, though they do show up in tax bills.

** Since the UFIR database shows zero distilled spirits tax receipts, I have assumed the receipts were the same as the distillery payments.

*** School district revenues from the Kentucky Department of Education, annual reports on revenues and expenditures, fiscal year.

**** Distillers' tax payments from KDA studies in 2011 and 2021, derived from tax bills; occupational tax payments estimated by author.

For example, Anderson County:

Distilling's Contribution to Tax Revenues in Anderson County, KY				
	2010	2020	growth	
Anderson County government*				
Real property taxes	\$1,385,075	\$1,586,396	\$201,321	14.5%
Tangible property taxes	\$72,728	\$80,076	\$7,348	10.1%
Distilled spirits taxes **	\$107,111	\$228,004	\$120,893	112.9%
Anderson County schools - local tax revenues***				
	\$9,775,409	\$13,133,050	\$3,357,641	34.3%
Distillers' tax payments to Anderson County government****				
Real property taxes	\$43,435	\$92,809	\$49,374	113.7%
Tangible property taxes	\$1,955	\$7,997	\$6,042	309.1%
Distilled spirits taxes	\$107,111	\$228,004	\$120,893	112.9%
Total	\$109,065	\$236,001	\$126,935	116.4%
<i>Distillers' share of tax payments to Anderson County government</i>	7.0%	12.5%		
Distillers' tax payments to Anderson County schools				
Real property taxes	\$194,928	\$461,887	\$266,958	137.0%
Tangible property taxes	\$6,560	\$32,214	\$25,655	391.1%
Distilled spirits taxes	\$359,467	\$1,143,553	\$784,086	218.1%
Total	\$560,955	\$1,637,655	\$1,076,700	191.9%
<i>Distillers' share of Anderson schools local tax receipts</i>	5.7%	12.5%		
* County government tax revenues from the Kentucky Department of Local Government, Uniform Financial Reporting Information system, fiscal years. The UFIR report does not show distilled spirits taxes going to the County, though they do show up in tax bills.				
** Since the UFIR database shows zero distilled spirits tax receipts, I have assumed the receipts were the same as the distillery payments.				
*** School district revenues from the Kentucky Department of Education, annual reports on revenues and expenditures, fiscal year.				
**** Distillers' tax payments from KDA studies in 2011 and 2021, derived from tax bills; occupational tax payments estimated by author.				

Local Property Tax Rates

Several jurisdictions maintain very low property tax rates on real estate.

Is this because they have such a strong tax base due to distilling?

If so, all households and businesses in those counties have benefited from the low tax rates on real estate.

Property Tax Rates, County Fiscal Court (cents per \$100 valuation)							
	Real Estate				Tangible Personal		
	2010	2015	2021		2010	2015	2021
Anderson	12.300	13.000	12.900		16.448	13.680	12.900
Bullitt	9.300	9.600	9.400		13.800	9.990	9.400
Franklin	15.500	17.700	18.500		24.000	23.500	18.530
Marion	8.600	8.600	8.600		10.900	10.900	10.900
Nelson	14.300	14.300	13.900		16.600	15.140	13.900
Woodford	7.000	7.000	7.000		7.000	7.000	7.000
Jefferson	12.550	12.540	12.890		16.600	16.600	16.600
Kentucky	12.200	12.200	11.900		45.000	45.000	45.000
Source: Kentucky Department of Revenue							

Many jurisdictions have reduced their tax rates as distilling-related tax revenues grew.

The Kentucky Bourbon Trail® tour has greatly increased **hospitality industry** in region, with strong growth in room tax and restaurant tax revenues.

The county tourism websites prominently feature distilleries.

Shepherdsville
JIM BEAM COUNTY
KENTUCKY

Home Adventures Family Fun Taste Lodging Groups Events Contact Q

Bourbon Casual – Come enjoy the casual side of travel.

Shepherdsville in Bullitt County KY is the Trailhead of the Kentucky Bourbon Trail. Located on I-65 only 20 minutes south of downtown Louisville.

We have info on attractions, events, historic sites and many comfortable and affordable lodging and dining options.
Experience the Wine & Whiskey Trail.

Jim Beam American Outpost
Experience how the world's number-one Bourbon is made from grain to bottle at this 200-year-old landmark. Guided tours available. Must be 21.

Bernheim Forest
More than 16,000 plus acres of wildlife sanctuary, landscaped gardens and arboretum which offers programs and events to educate and entertain.

4 Award Winning Wineries
Visit one or all four award-winning wineries and enjoy a relaxing day in beautiful settings while visiting the vineyards and tasting rooms.

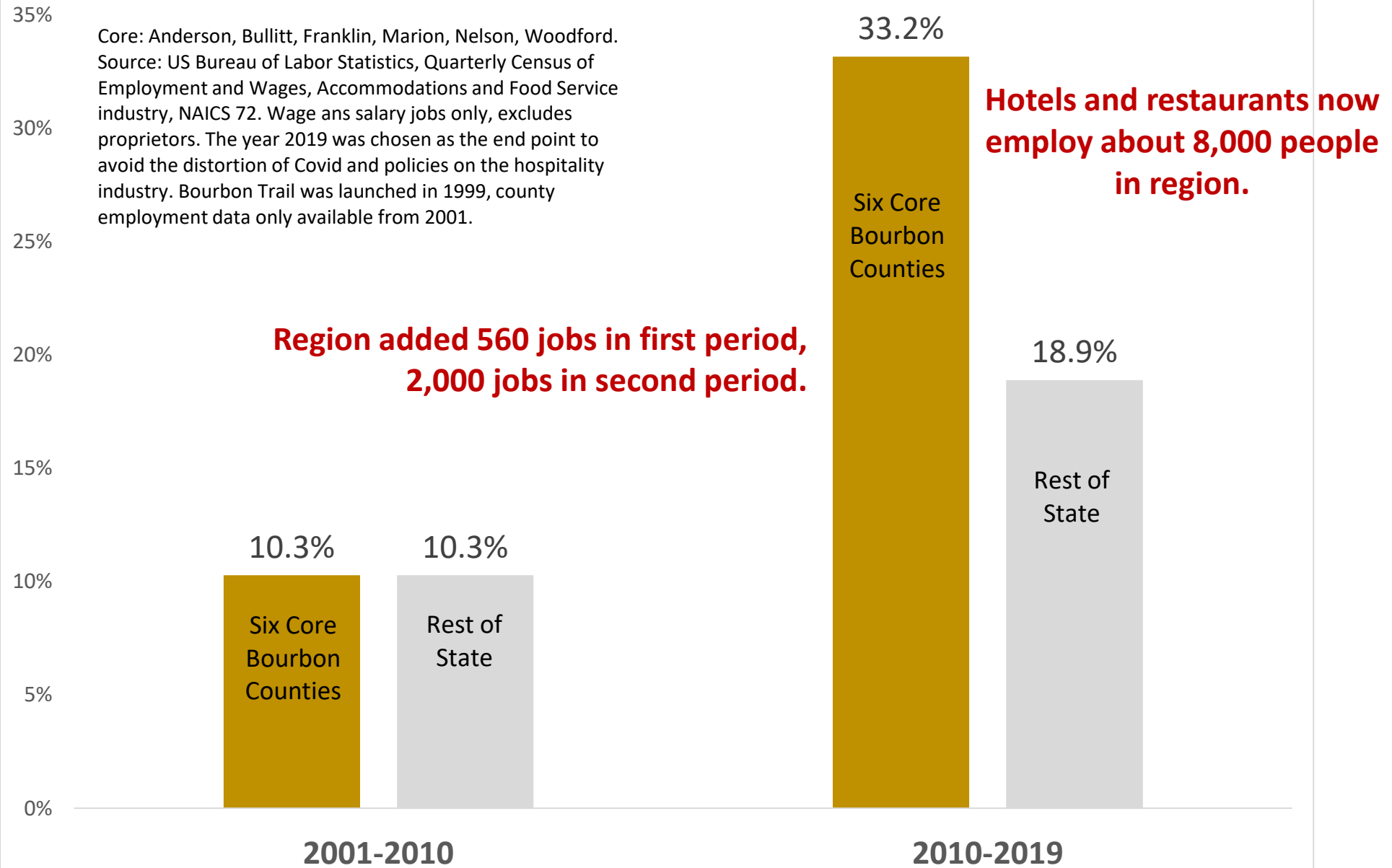
Kart Kountry
Experience the world's longest go-kart track which is sure to thrill visitors of all ages. Seasonal aquatic bumper cars, miniature golf and more!

Lawrenceburg/Anderson County Tourism Office



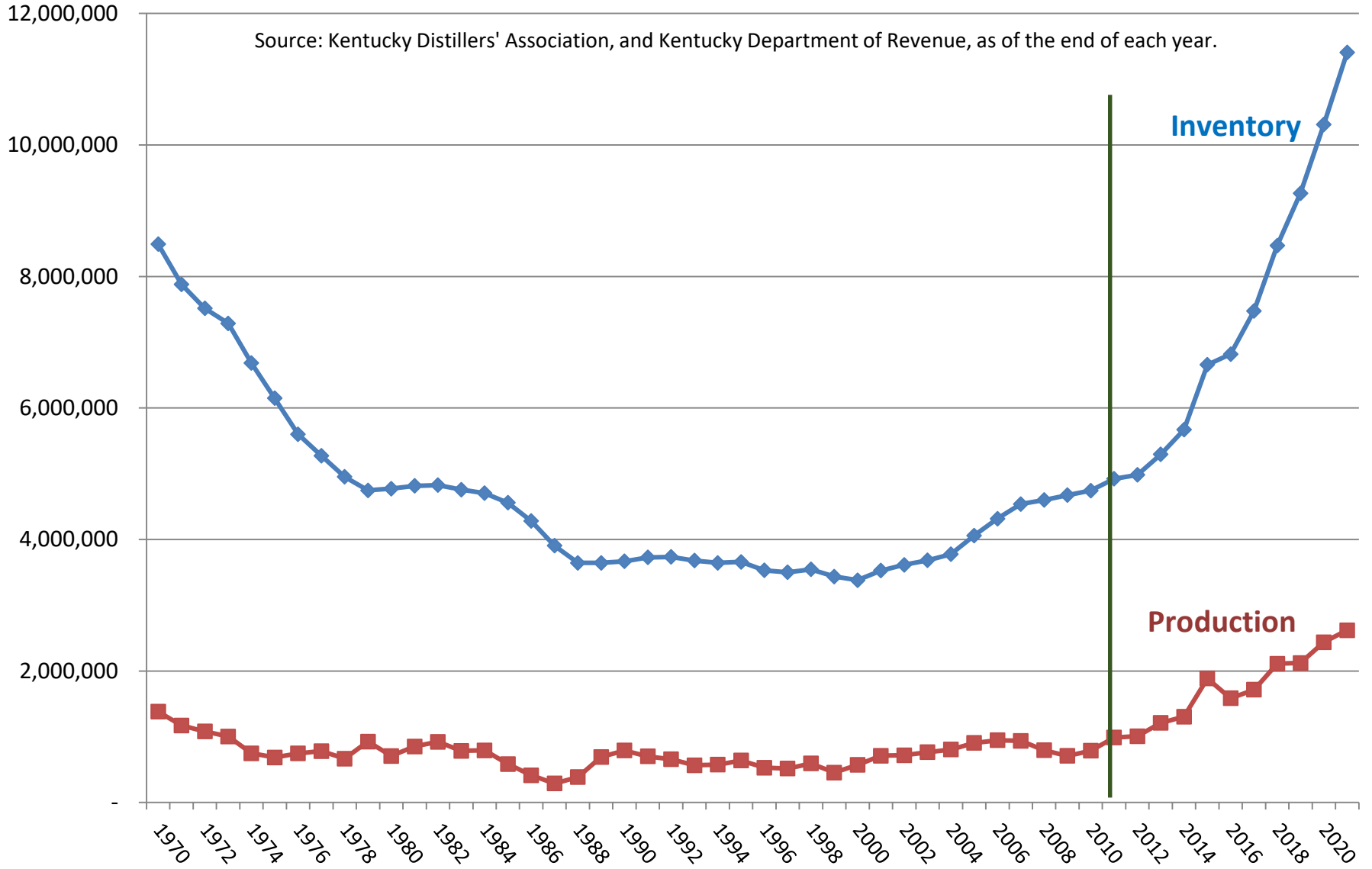
Employment Growth in Hospitality Industries, Before and After 2010

Core: Anderson, Bullitt, Franklin, Marion, Nelson, Woodford.
Source: US Bureau of Labor Statistics, Quarterly Census of Employment and Wages, Accommodations and Food Service industry, NAICS 72. Wage and salary jobs only, excludes proprietors. The year 2019 was chosen as the end point to avoid the distortion of Covid and policies on the hospitality industry. Bourbon Trail was launched in 1999, county employment data only available from 2001.



Barrels of Bourbon Produced, and Warehouse Inventory, Kentucky Totals, 1970-2021

Source: Kentucky Distillers' Association, and Kentucky Department of Revenue, as of the end of each year.



Note that the strong growth in hospitality jobs in the region coincides with the exponential growth in new production and inventory beginning in the early 2010s.

Billions of dollars have been invested in new facilities at the distilleries, including tasting rooms, tours, gift shops, and grounds.