



Kentucky Taxation of Alcohol

Bourbon Barrel Taxation Task Force

June 24, 2022



History of Alcohol Distribution

- 1919 – 18th Amendment created Prohibition
- 1933 – 21st Amendment repealed the 18th
 - Power to control alcohol resides with the states
- States decided on two basic control methods
 - Alcoholic beverage control states – 17 states
 - Three-tier system



Kentucky's Three-Tier System

- Began with the normal three tiers
 - Manufacturer
 - Wholesaler
 - Retailer
- Industry evolution
 - Microbreweries and small-farm wineries
 - Direct to consumer sales
- Industry, evolved – Tax System, not so much



Kentucky Taxes

- Alcohol Excise Tax
- Wholesale Sales Tax
- Distilled Spirits Case Sales
- Sales Tax – changes over time related to alcohol
- Property tax – alcohol in bonded warehouses
- Various Local Taxes



Alcohol Excise Tax

KRS 243.720, et seq.

- Levied upon the use, sale, or distribution by sale or gift
- Tax is based on volume of product sold - gallons
- Wholesalers of distilled spirits and wine when possession or title is transferred from the wholesaler to retailers or consumers in this state
- Distributors of malt beverages or retailers of malt beverages who purchase malt beverages directly from a brewer
- Every small farm winery
- Every other person selling, transferring, or passing title of distilled spirits, wine, or malt beverages to distributors, retailers, or consumers
- Every distributor, retailer, or consumer shall be jointly and severally liable



Alcohol Excise Tax – Rates on Distilled Spirits

- \$1.92 on each wine gallon;
 - A proportional rate per gallon in any container of more or less than one (1) gallon; except
 - Retail containers of one-half (1/2) pint shall be \$0.12; and
- \$0.25 on each gallon when the volume of distilled spirits within a retail container is 6% or less



Alcohol Excise Tax – Rates on Wine

- \$0.50 on each gallon of wine
 - A proportional rate per gallon on the wine used, sold, or distributed in any container of more or less than one (1) gallon, except
 - The tax shall not be less than four cents (\$0.04) on the sale or distribution of any retail container of wine



Alcohol Excise Tax – Rate on Malt Beverages

- \$2.50 on each barrel of 31 gallons
 - A proportional rate per gallon on malt beverages sold or distributed in any container of more or less than thirty-one (31) gallons
 - Each brewer producing malt beverages in this state shall be entitled to a credit of 50% of the tax levied on each barrel of malt beverages sold in this state, up to 300,000 barrels per annum
- KRS 211.285 – Malt Beverage Educational Fund
 - 1% of the tax collected



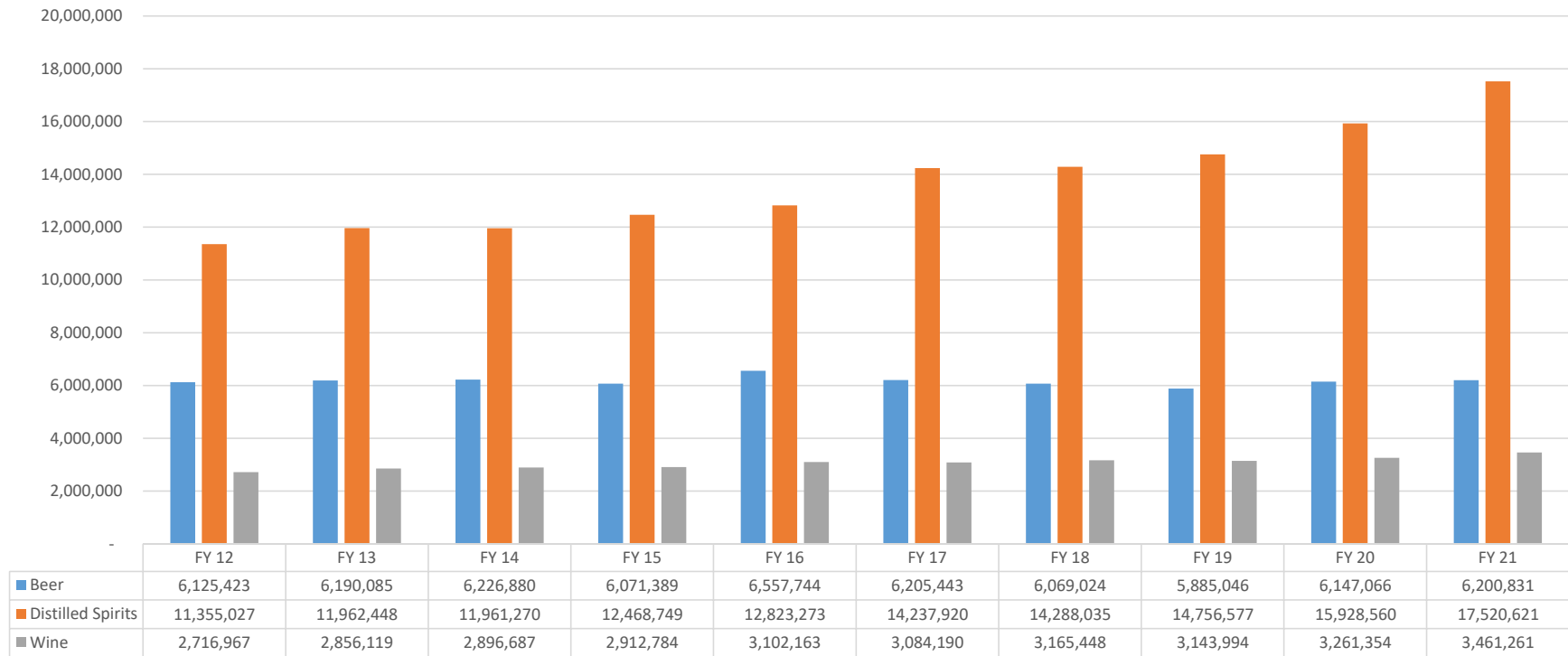
Alcohol Excise Tax

Exemptions from the Tax

- Wine manufactured, sold, given away, or distributed and used solely for sacramental purposes
- Distilled spirits and wine purchased by holders of non-beverage alcohol licenses (KRS 243.320) – unfit for beverage purposes
 - Medicinal, pharmaceutical, antiseptic, and toilet preparations
 - Flavoring extracts, syrups, and food products
 - Scientific, chemical, mechanical, and industrial products



Alcohol Excise Tax Receipts 10-Year History





Wholesale Sales Tax

KRS 243.884, et seq.

- For the privilege of making "wholesale sales" of beer, wine, or distilled spirits
- Today, six types of taxpayers
 - Wholesalers of wine and distilled spirits
 - All distributors beer
 - All direct shipper licensees making sales in this state
 - All distillers making sales at a gift shop or other retail sales
 - All microbreweries selling malt beverages
 - Every small farm winery with sales over 50,000 gallons annually



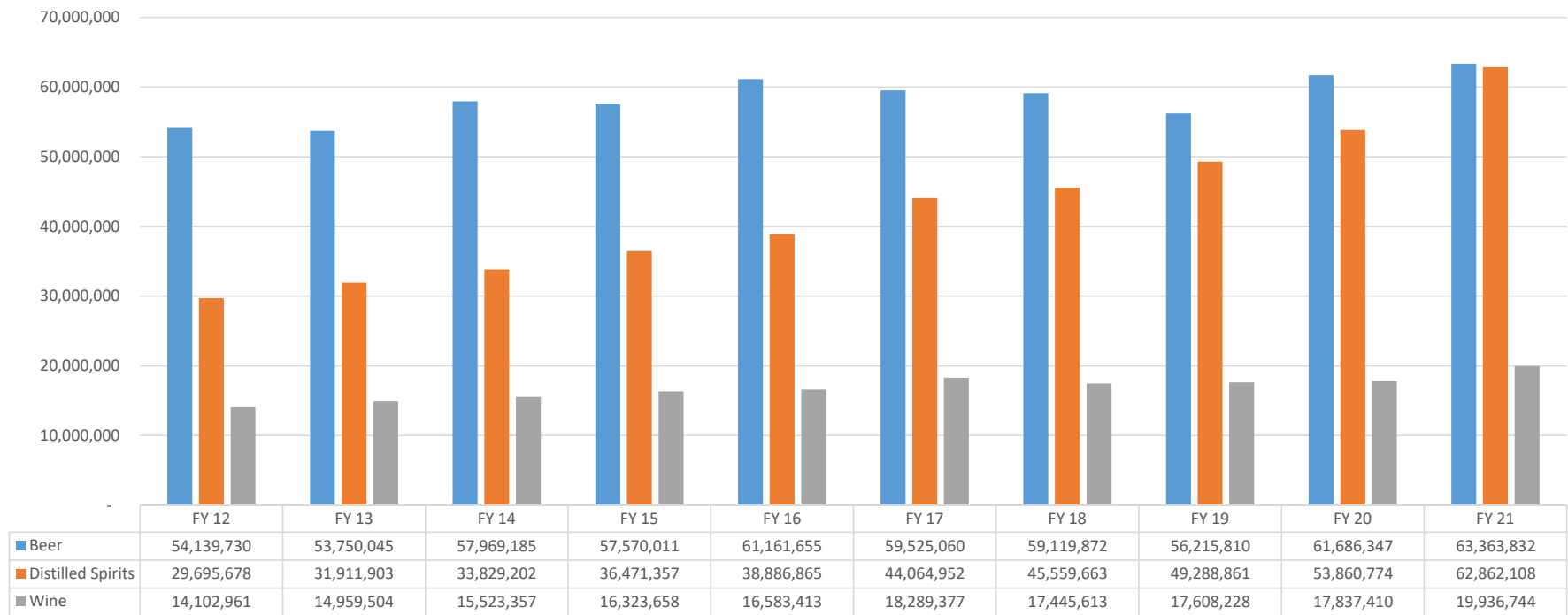
Wholesale Sales Tax Rates

KRS 243.884

- Gross receipts from the wholesale sale
 - 11% prior to July 1, 2015
 - 11% remains for distilled spirits
 - 10% for wine and beer, reduction phased in
 - 10.75% July 1, 2015, to June 1, 2016
 - 10.5% June 1, 2016, to June 1, 2017
 - 10.25% June 1, 2017, to June 1, 2018
 - 10% on or after June 1, 2018
- Beginning March 12, 2021, same rates apply for direct shippers
- Reimbursement for collecting & reporting = 1% of tax due
 - Exceptions – Microbrewery or a Distiller



Wholesale Sales Tax Receipts 10-Year History





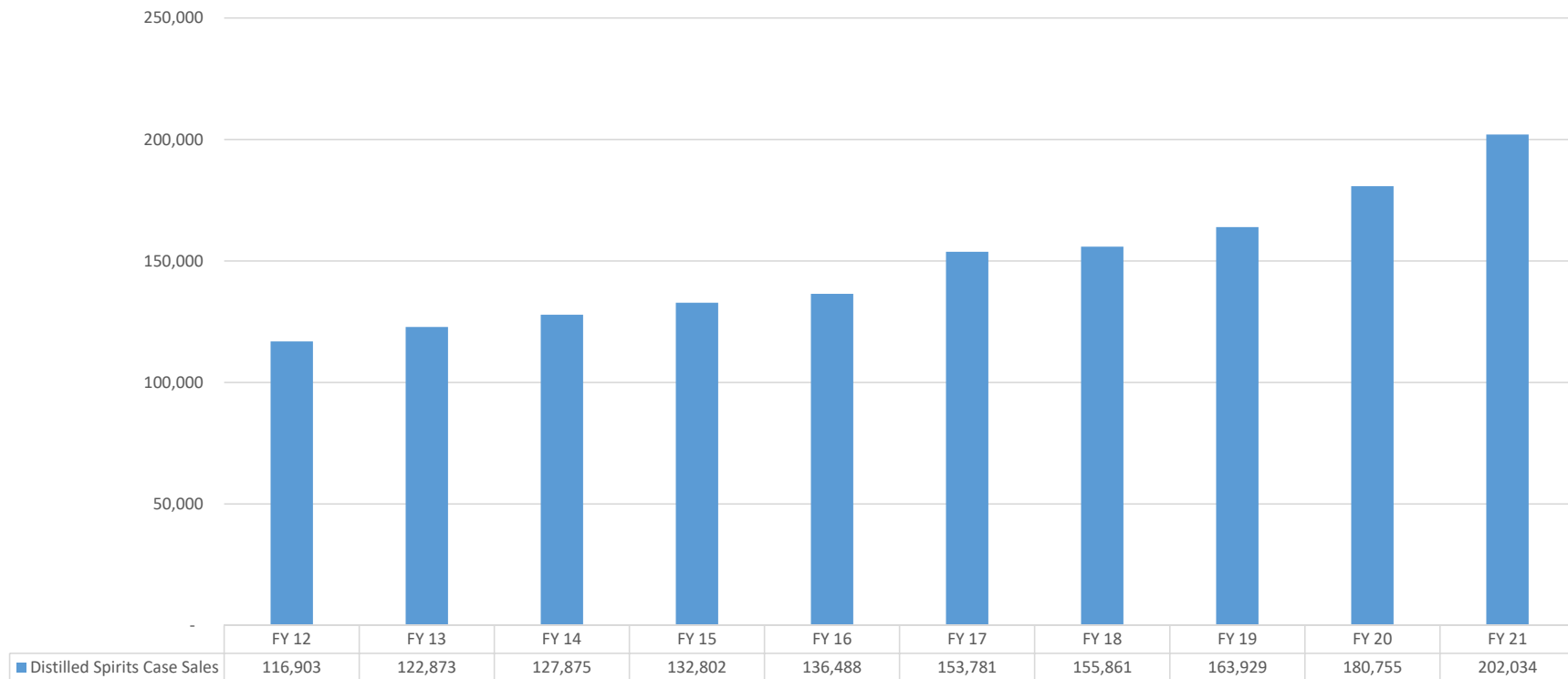
Distilled Spirits Case Sales Tax

KRS 243.710

- Each wholesaler
- \$0.05 per case on each case sold in the state



Distilled Spirits Case Sales Receipts 10-Year History





Wholesale v. Retail History

| Time Period | Product Taxed | Excise Tax | Wholesale Sales Tax | Distilled Spirits Case Tax | Retail Sales Tax |
|--------------------------------|-----------------------------------|------------|---------------------|----------------------------|------------------|
| Prior to June 1, 1982 | Beer, Wine, and Distilled Spirits | X | | X | |
| | Packaged alcohol | | | | X |
| | Alcohol sold by the drink | | | | X |
| June 1, 1982 to March 31, 2009 | Beer, Wine, and Distilled Spirits | X | X | X | |
| | Packaged alcohol | | | | |
| | Alcohol sold by the drink | | | | X |
| April 1, 2009 | Beer, Wine, and Distilled Spirits | X | X | X | |
| | Packaged alcohol | | | | X |
| | Alcohol sold by the drink | | | | X |



Sales and Use Tax

2021 RS HB 249

- “Machinery for New and Expanded Industry”
 - Means machinery directly used in the manufacturing...
 - Distilled spirits, wine, or malt beverages...
 - At a plant facility...
 - That includes a retail establishment...



Property Tax on Distilled Spirits in Bonded Warehouses **KRS 132.130, et seq.**

- Every owner, proprietor, or custodian of a bonded warehouse in which distilled spirits are stored
- Value is assessed as of January 1 each year by the Department of Revenue
- Valuation is certified to applicable county clerks for local taxation

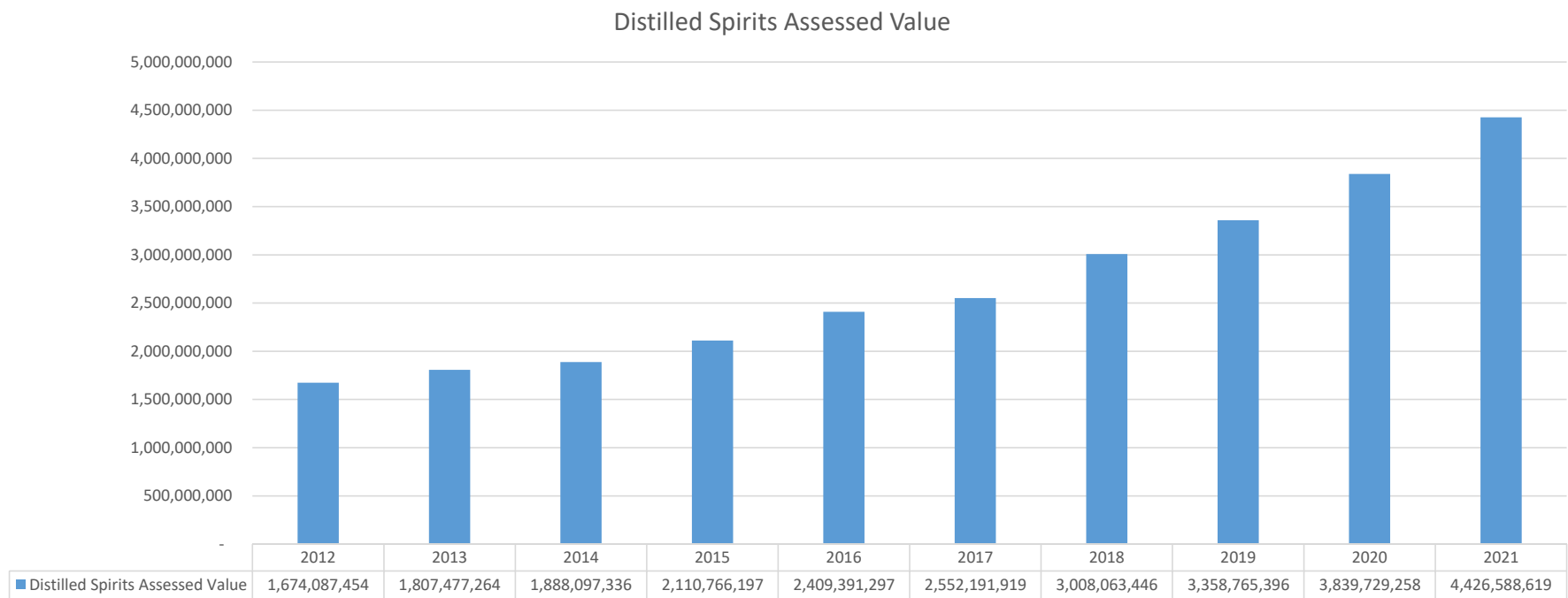


State Property Tax Distilled Spirits in Bonded Warehouses

- Tangible personal property state tax rate = \$0.45/\$100 value
 - Reduced state rate on distilled spirits in bonded warehouses = \$0.05/\$100
- The reduced rate is applied to:
 - Raw materials
 - In-process materials
 - Inventory
 - Finished goods not yet in transit
- Tax becomes due September 15 following the assessment date



Distilled Spirits History - Assessed Value



Source: Kentucky Distiller's Association – Open Records Request from Department of Revenue



Distilled Spirits Tax Credit

KRS 141.389

- Income tax credit equal to the distilled spirits total property tax assessed and timely paid
- Includes both state and local taxes
- Phased-in credit
 - 20% of the tax timely paid during 2015
 - 40% of the tax timely paid during 2016
 - 60% of the tax timely paid during 2017
 - 80% of the tax timely paid during 2018
 - 100% for the tax timely paid thereafter



Distilled Spirits Tax Credit

KRS 141.389

- The amount of distilled spirits credit shall be used only for capital improvements at the premises of the distiller
 - Construction or remodeling facilities
 - Purchases of barrels and pallets or equipment
 - Access road or parking facilities
 - Construction to market or promote tourism
- Nonrefundable – nontransferable



Local Property Taxes on Distilled Spirits

- See separate handout for county detail*
- Estimates
 - Prior year certified tax roll
 - Current year rates
- Property Tax Calendar envelopes one full year
- Best that can occur outside the actual SEEK computation

*Source of county data – Kentucky Distiller’s Association



Local Taxes – Alcohol License Fees

- KRS 243.060
 - County or consolidated local government in which traffic in alcoholic beverages is permitted
 - License fee = a maximum annual amount based on business activity, with some of the maximum amounts higher in a consolidated local government
 - County shall not impose upon any person who holds a city license under KRS 243.070



Local Taxes – Alcohol License Fees

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 - City or consolidated local government in which traffic in alcoholic beverages is permitted
 - License fee = a maximum annual amount based on business activity, with some of the maximum amounts higher in a consolidated local government



Local Taxes

Regulatory License Fees

- KRS 243.075(1)
 - City population < 20,000
 - County without a city with a population \geq 20,000 population
 - City or county grandfathered in as of January 1, 2019
 - Maximum rate = 5%
 - Gross receipts of the sale of alcoholic beverages at each licensed establishment
 - To reimburse the local government for the estimated cost for any additional policing, regulatory, or administrative expenses related to the sale of alcohol
 - Credit for other license fees paid
 - City and county both impose, county only imposes outside of city



Local Taxes – Regulatory License Fees

- KRS 243.075(2)
 - City or a county that is moist
 - Upon the gross receipts of the sale of alcoholic beverages
 - A rate that is reasonably estimated to reimburse the city or county for the costs of additional policing, regulatory, or administrative expenses

Questions?





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


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 Smooth Ambler Spirits ✓
June 14 at 12:00 PM · 

There's a short list of ingredients that makes great Bourbon, and no, it doesn't include Kentucky. Happy National Bourbon Day!



SMOOTH AMBLER.
BOURBON IS BIGGER THAN KENTUCKY

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  41 7 Shares