

**COMMONWEALTH OF KENTUCKY FISCAL NOTE STATEMENT  
LEGISLATIVE RESEARCH COMMISSION  
2020 REGULAR SESSION**

**MEASURE**

2020 BR NUMBER 1745

HOUSE BILL NUMBER 452

**TITLE** AN ACT relating to the ad valorem taxation of privately owned leasehold interests in residential property owned by a purely public charity.

**SPONSOR** Representative John Sims Jr.

**FISCAL SUMMARY**

STATE FISCAL IMPACT:  YES  NO  UNCERTAIN

OTHER FISCAL STATEMENT(S) THAT MAY APPLY:  ACTUARIAL ANALYSIS  
 LOCAL MANDATE  CORRECTIONS IMPACT  HEALTH BENEFIT MANDATE

APPROPRIATION UNIT(S) IMPACTED: \_\_\_\_\_

FUND(S) IMPACTED:  GENERAL  ROAD  FEDERAL  RESTRICTED \_\_\_\_\_

<b>FISCAL ESTIMATES</b>	<b>2019-2020</b>	<b>2020-2021</b>	<b>2021-2022</b>	<b>ANNUAL IMPACT AT FULL IMPLEMENTATION</b>
<b>REVENUES</b>			(Indeterminable)	(Indeterminable)
<b>EXPENDITURES</b>			Minimal	Minimal
<b>NET EFFECT</b>			(Indeterminable)	(Indeterminable)

( ) indicates a decrease/negative

**PURPOSE OF MEASURE:** HB 452 creates a reduction in the state real property tax rate to 1.5 cents per one-hundred dollars of valuation for privately owned leasehold interests in residential property owned in fee simple by a purely public charity. The leasehold interests qualify when the residential property unit is leased for a period of one year or longer to an individual who is 55 years old or older and maintained as the individual's permanent residence, and when the lease agreement between the individual and the purely public charity prohibits subleasing of the unit and provides that the individual's possessory interest in the unit is terminable upon the individual's death, physical or mental inability to continue to reside in the unit, or relocation to a long-term care facility.

HB 452 also proposes to exempt from property taxation privately owned leasehold interests in residential property that is owned in fee simple by a purely public charity when the residential unit is leased by the purely public charity to an individual who requires supportive services and is a minor, sick, disabled, impoverished, or over the age of 65.

These exemptions apply to leasehold interests in residential property assessed on or after January 1, 2021.

**FISCAL EXPLANATION:** Section 170 of the Kentucky Constitution exempts property owned by institutions of a purely public charity from taxation. However, in accordance with KRS 132.195(1), the leasehold interest of that tax-exempt property can be taxed when the interest is transferred to a taxable

entity. While KRS 132.195(2) provides a list of leasehold interests exempt from taxation, leasehold interests in residential property owned by a purely public charity is not included in that list.

HB 452 creates new tax exemptions by adding leasehold interests in residential property owned by a purely public charity to the list of exemptions. The current state tax rate for real property is 12.2 cents per one-hundred dollars of valuation. However, without data on the valuation of the leasehold interests, the fiscal impact cannot be determined. In general, any newly created tax exemption is likely to result in a negative impact to the General Fund.

Privately owned leasehold interests in residential property owned by purely public charities are not tracked, but do exist within the state. In 2017, the Kentucky Court of Appeals published the case The Grand Lodge of Kentucky Free and Accepted Masons, et al. v. City Taylor Mill et al., No. 2015-CA-001617-MR (Ky. App. Feb. 10, 2017), which identifies leasehold interests in Kentucky that would qualify for a reduction of the state property tax rate under HB 452. However, the total tax dollars collected through the taxation of leasehold interests in residential property owned by purely public charities are not tracked. Therefore, the exact tax implication of HB 452 is unknown.

HB 452 is expected to have a minimal impact on state expenditures as a verification method will need to be developed and administered to confirm that the terms of the lease agreement and the lessee's age, health condition, financial condition, and need for supportive services are met in order to qualify for the exemptions.

**DATA SOURCE(S): International Association of Assessing Officers Research Exchange, LRC Staff**  
**PREPARER: Cynthia Brown NOTE NUMBER: 165 REVIEW: JAB DATE: 2/24/2020**