Local Government Mandate Statement
Kentucky Legislative Research Commission
2023 Regular Session

Part I: Measure Information

Bill Request #: 1754

Bill #: HB 5 GA

Document ID #: 6125

Bill Subject/Title: AN ACT relating to property tax on distilled spirits.

Sponsor: Representiative Jason Petrie

Unit of Government: **X** City **X** County **X** Urban-County
X Charter County **X** Consolidated Local **X** Unified Local Government

Office(s) Impacted: Sheriff,

Requirement: **X** Mandatory ___ Optional

Effect on Powers & Duties: ___ Modifies Existing **X** Adds New ___ Eliminates Existing

Part II: Bill Provisions and the Estimated Fiscal Impact Relating to Local Government

Section 1 provides a city, county, consolidated local government, urban-county government, fire protection district or fire protection subdistrict the authority to impose a storage license fee on an owner, proprietor, or custodian of a bonded warehouse containing distilled spirits if it is financed by industrial bonds prior to January 1, 2024, and any portion of the costs of which remains outstanding during the calendar year. The authorization of a license fee is not a mandate. The fiscal impact on local government tax revenues in indeterminable.

Sections 2 and 3 provide a fire protection district, fire protection subdistrict, or emergency services board the authority to charge a service fee to the owner, proprietor, or custodian of a bonded warehouse containing distilled spirits if it is not financed by industrial bonds during the calendar year and qualifies for the property tax exemption created in Section 4 of this bill. The authorization of a service fee is not a mandate. The fiscal impact on local government tax revenues in indeterminable.

Section 4 creates a graduated tax exemption from state and local property taxes on distilled spirits' inventory. The tax exemption begins at 3% on the January 1, 2026, assessment date and reaches 100% on the January 1, 2039, assessment date.

During the Bourbon Barrel Taxation Task Force, which met during the 2023 Interim, the Kentucky Distillers' Association testified that twenty-eight counties and sixteen cities would be impacted immediately, but that other counties and cities may be impacted in the near future since this industry is currently growing and expanding to locations in areas where the industry is not currently located. The following chart estimates the total amount of local tax revenues lost for each tax year, beginning in 2026.

Estimated Reduction in Local Property Tax Receipts Related to Distilled Spirits		
Tax Year	Tax Exemption	Local Tax Loss
2026	3%	$1,385,151
2027	6%	2,770,301
2028	9%	4,155,452
2029	13%	6,002,319
2030	17%	7,849,186
2031	21%	9,696,054
2032	26%	12,004,638
2033	32%	14,774,939
2034	38%	17,545,240
2035	44%	20,315,541
2036	50%	23,085,843
2037	65%	30,011,595
2038	80%	36,937,348
2039	100%	46,171,685
Total		**$232,705,293**

Section 5 sunsets the distilled spirits inventory state income tax credit as of January 1, 2024, and allows a similar tax credit on distilled spirits inventory for each taxpayer up to 25,000 barrels of distilled spirits from January 1, 2024 to December 31, 2033. It also permits the accumulated tax credits that have not been claimed by the end of the 2023 tax year to be claimed by the taxpayer in any taxable year starting with the 2024 tax year. The state income tax credit does not impact local government tax revenues.

Section 6 requires the portion of the assessed value on distilled spirits related to the tax exemption to be removed in the calculation of the local effort required for the Support Education Excellence in Kentucky program and the property tax rate-setting process for district boards of education. This section the measure pertains to school funding and does not pertain to local government tax revenues.

Section 7 states that a settlement agreement between the Department of Revenue and any taxpayer having distilled spirits in a bonded warehouse, which is related to the ongoing assessment or collection of distilled spirits property tax is not considered null and void, but may be renegotiated by the parties. This section does not pertain to local government tax revenues.

Part III: Differences to Local Government Mandate Statement from Prior Versions

HB 5 GA makes changes from the HCS 1 for the state income tax credit on ad valorem taxes paid on distilled spirits' inventory. It removes the owning and possessing requirement for the 25,000 barrels and establishes a tax credit on distilled spirits inventory for each taxpayer up to 25,000 barrels of distilled spirits from January 1, 2024 to December 31, 2033.

HB 5 HCS 1 adds the following provisions:

- It provides a city, county, consolidated local government, urban-county government, fire protection district or fire protection subdistrict the authority to levy a storage license fee on bonded warehouses containing distilled spirits financed with an IRB.
- It provides a fire protection district, fire protection subdistrict, or emergency services board the authority to charge a fee to recover costs for services rendered to bonded warehouses containing distilled spirits not financed with an IRB.
- It expands the state income tax credit to January 1, 2034, for taxpayers owing or possessing less than 25,000 barrels of distilled spirits.
- It removes the assessed value related to the distilled spirits property tax exemption from the SEEK funding calculation and the property tax rate-setting process for district boards of education.

Data Source(s): Kentucky Department of Revenue and LRC staff estimated calculations.

Preparer: Cynthia Brown **Reviewer:** KHC **Date:** 3/14/23