

**Local Government Mandate Statement
Kentucky Legislative Research Commission
2026 Regular Session**

Part I: Measure Information

Bill Request #:	323	Bill #:	HB 9/HCS 1
Document ID #:	8136	Sponsor:	Rep. Matthew Koch
Bill Title:	AN ACT relating to regulated substances and declaring an emergency.		

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

Office(s) Impacted: All that collect regulatory license fee revenue

Requirement: Mandatory Optional

Effect on Powers & Duties: Modifies Existing Adds New Eliminates Existing

Other Fiscal Statement(s) that may exist: Actuarial Analysis Corrections Impact
 Health Benefit Mandate State Employee Health Plan

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

HB 9/HCS 1 updates how Kentucky regulates and taxes alcoholic beverages, cannabis-infused beverages, hemp-derived cannabinoid products, and kratom. It creates several new statewide regulatory license fees on retailers and wholesalers beginning July 1, 2027, replacing the current wholesale tax structure.

Section 1 creates a state retail regulatory license fee beginning July 1, 2027. Retailers selling alcoholic beverages or cannabis-infused beverages must pay 4% of their gross receipts from those sales. The fee can be listed separately on a sales receipt, but the retailer is responsible for remitting the fee to the Department of Revenue. Monthly reporting is required.

Section 2 establishes a wholesale-level regulatory license fee starting July 1, 2027. The fee is based on the amount of alcohol or THC per milliliter in beverages. For alcohol, wholesalers pay \$0.004 per mL of alcohol content. Cannabis-infused beverages are taxed at a higher rate based on THC content at \$0.016 per ml or mg of tetrahydrocannabinol.

Microbreweries are given a different rate structure with exemptions for small self-distributors.

Section 3 imposes new fees on retailers selling kratom and hemp-derived cannabinoid products beginning July 1, 2027. Fees are based on the milligrams of active ingredients like mitragynine or THC. Retailers must file monthly reports and keep detailed records.

Section 5 directs the Department for Public Health to improve lab testing standards and create a certification and proficiency testing program for laboratories performing cannabinoid testing. Only labs approved through this process may be used to test registered products sold in Kentucky.

Section 13 repeals and replaces KRS 243.075, which governs city and county regulatory license fees on alcohol sales. The new system:

- Allows cities and counties to impose a local fee on gross receipts from alcohol and cannabis-infused beverage sales.
- Limits maximum rates depending on when the area became wet.
- Requires funds to be placed in a segregated account and used only for law enforcement, regulation, administration, and (in some cases) emergency services.
- Requires regular audits by the Auditor of Public Accounts.
- Establishes consequences for improper use of funds.

The fiscal impact of HB 9/HCS 1 on local government is indeterminable but likely positive and negative. The fiscal statement is unchanged from the bill as introduced.

This bill allows local governments to charge fees not only on alcoholic beverages but also on cannabis-infused beverages, which means localities may see new revenue streams from these products by the expansion of this legislation.

Cities and counties may continue to charge a regulatory license fee on gross receipts from alcoholic beverages and cannabis-infused beverages, but the bill sets new limits on how much they can collect and how those funds may be used. Local governments that were already imposing such a fee before the bill may charge up to 5% if the revenue is used only for policing, regulation, and administrative costs related to alcohol or cannabis-infused beverage sales, or up to 3% if the funds are also used to support local emergency services. Communities imposing the fee for the first time after the bill takes effect are limited to a maximum rate of 1%, and the revenue may be used solely to support emergency services and the additional policing or regulatory expenses tied to these sales. Some jurisdictions may experience a revenue reduction if they previously charged more than allowed. Others may see new revenue if they had not imposed a fee before.

Every local government that collects these fees must undergo an audit every three years and must pay for the audit using its segregated fund. If the audit finds misuse or noncompliance, localities may be forced to lower its fee to 1%, reimburse the segregated

fund or lose the ability to impose the fee altogether. If a local government fails to file the annual report on time, all revenue from the previous year must be forfeited to the Auditor of Public Accounts, resulting in a potential loss of revenue if reporting deadlines are missed.

Data Source(s): LRC Staff

Preparer: HT **Reviewer:** JB (MDA) **Date:** 3/10/26