

Background **K**entucky has had a tax on property since becoming a state on June 1, 1792. The original method of taxation began with a set levy for each item of tangible property owned in the state. It was not until 1814 that the standard for establishing the tax liability was changed to the ad valorem, or fair value approach, which taxes property at its fair market value. This approach remains the standard today.

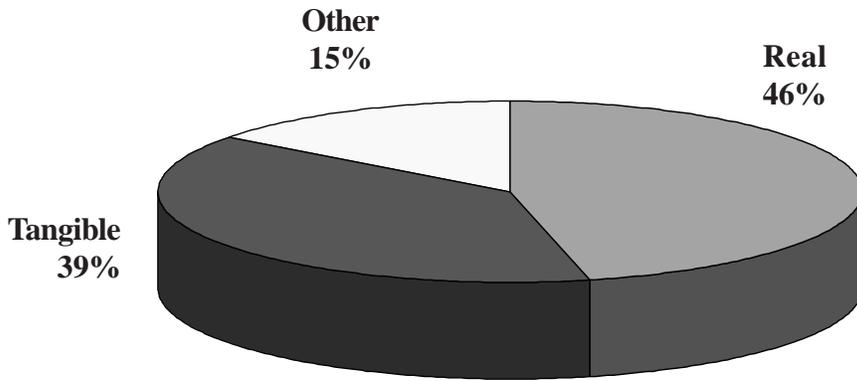
In 1793, the property tax represented over 86 percent of all state government receipts. That percentage has declined dramatically over the past 200 plus years. Much of the recent decline can be attributed to legislation passed during the 1979 Special Session of the General Assembly. House Bill 44, enacted during that session, generally limited growth from the tax levied on real property to 4 percent per year. The high rate of inflation was causing property values, and the resulting tax, to rise too dramatically. To compensate for rapidly growing values, the tax rate is adjusted annually to ensure that the growth in tax receipts does not exceed the legal limits. This restriction remains in effect at the present time. House Bill 272, passed by the 2005 General Assembly, altered the rate setting mechanism by excluding new property when the 4 percent growth limit is calculated. In contrast to earlier reports, this analysis does not consider the rate ceiling established by House Bill 44 to be a tax expenditure, as explained on page 27.

The voters amended section 172 of the Kentucky Constitution in 1998 to give the General Assembly the authority to exempt any class of personal property. Personal property includes both tangible and intangible property. Real property, not specifically exempted by the constitution, must be assessed for taxation at its fair cash value and taxed accordingly.

In FY07 total property tax collections of \$492.5 million accounted for 5.7 percent of total General Fund tax receipts. The chart on the following page shows the allocation between real, tangible and other property tax receipts.

The state tax rate for real property must be adjusted annually to

Figure 3. Allocation of Property Tax Receipts for FY07



**Current
Rate
Structure**

comply with the provisions of House Bill 44. For 2007, the rate was set at 12.4 cents per \$100 of assessed value. The rate in effect prior to House Bill 44 was 31.5 cents per \$100 of assessed value. It must be noted that an increase in the tax base may necessitate a corresponding decrease in the rate. Consequently, any estimates of the cost of exemptions in the real property area are based on the assumption that House Bill 44 would not affect the outcome. The normal state rates applicable to tangible and intangible personal property are 45 cents and 25 cents per \$100 of assessed value, respectively. The General Assembly has reduced the rates for some classes of tangible and intangible personal property over the years. These reduced rates give rise to many of the expenditures detailed later. Legislation enacted in 2005 repealed the intangible property tax effective January 1, 2006. Therefore, the tax expenditures for intangibles are \$0 for FY07 and beyond and have been removed from this edition.

Tax Base

The property tax is levied on the fair cash value of all real, tangible, or intangible property unless a specific exemption exists in the Kentucky Constitution or in the case of personal property, has been granted by the General Assembly. Taxpayers who are 65 years of age or older or are classified as totally disabled qualify for a Homestead Exemption. This exemption, applied against the

assessed value of a qualifying single-unit residential property, is adjusted every two years in accordance with the cost of living index. The homestead exemption amount for 2007 and 2008 is \$31,400.

In general, property is assessed at its fair cash value as of January 1 of each year. Real property must be listed for assessment with the property valuation administrator (PVA) between January 1 and March 1. Tangible personal property may be listed either with the PVA or the Department of Revenue and must be listed by May 15.

Tax Due

When the Department of Revenue certifies the assessment and the amount of taxes due to the county clerk, the clerk prepares the tax bills for delivery to the sheriff of the county, not later than September 15. The sheriff mails a notice to each taxpayer reflecting the total tax, date due, any discount, and the discount period. The tax becomes delinquent if not paid before the following January 1.

An exception to the usual method of paying property taxes involves motor vehicles. The appropriate property tax is due and payable to the county clerk on or before the last day of the month in which registration renewal is required for the vehicle.

Table 15. Total Property Tax Expenditures

FY 2008	FY 2009	FY 2010
\$307.1 million	\$318.4 million	\$331.3 million

The property tax expenditures have been categorized between real property and tangible personal property.

Real Property Tax Expenditures

(Real property is defined as land and improvements and all rights inherent in real estate.)

1. Agricultural and Horticultural Land Assessment Protection

Kentucky Revised Statute 132.450, effective 1999

This land will not lose its agricultural and horticultural assessment if it fails to meet the minimum acreage requirement due to the fact a portion of the land has been acquired for public purposes.

FY 2008	FY 2009	FY 2010
\$100,000	\$100,000	\$100,000

2. Agriculture Value of Real Property

Kentucky Revised Statute 132.450, effective 1942

A special procedure is provided for assessing real property at its agricultural or horticultural value.

FY 2008	FY 2009	FY 2010
\$31.1 million	\$32.7 million	\$35.1 million

3. Alcohol Production Facilities

Kentucky Revised Statute 132.020(1), effective 1980

Alcohol production facilities are taxed at a reduced rate of 1/10 of a cent per \$100 of value.

FY 2008	FY 2009	FY 2010
\$0	\$0	\$0

4. Environmental Remediation Property

Kentucky Revised Statute 132.020(1), effective 2005

The owner of all qualifying voluntary environmental remediation property pays tax at the rate of one and one-half cents upon each one hundred dollars of value for this property.

FY 2008	FY 2009	FY 2010
\$2,000	\$2,000	\$2,000

5. Homestead Exemption

Section 172 of the Kentucky Constitution and KRS 132.810, effective 1972, revised 1992, 1999

A taxpayer 65 years of age or older or totally disabled is allowed an exemption against the assessed value of a single-unit residence. In 2005 and 2006 this exemption is \$29,400.

FY 2008	FY 2009	FY 2010
\$13.6 million	\$13.8 million	\$14.7 million

6. Intrastate Railroads and Railway Companies

Kentucky Revised Statute 132.020(10), effective 1990

Railroads or railway companies operating solely within the Commonwealth, are taxed at a reduced rate of 10 cents per \$100 on their operating real property.

FY 2008	FY 2009	FY 2010
\$22,000	\$22,000	\$22,000

7. Leasehold Interests in Buildings Financed with Industrial Revenue Bonds

Kentucky Revised Statute 132.020(1), effective 1978

Leasehold interests privately held in industrial buildings owned and financed by tax-exempt governmental units are taxed at a reduced rate of 1.5 cents per \$100 of value. Note: This is the real estate portion only.

FY 2008	FY 2009	FY 2010
\$2.9 million	\$2.1 million	\$2.2 million

8. Property of Local Governments in Neighboring States

Kentucky Revised Statute 132.192, effective 2005

All real property owned by another state or a political subdivision of another state that is used exclusively for public purposes is exempt from taxation if a comparable exemption is provided in that state or political subdivision for property owned by the Commonwealth or its political subdivisions.

FY 2008	FY 2009	FY 2010
\$20,000	\$20,000	\$20,000

9. Real Property Owned by Exempt Entities

Section 170 of the Kentucky Constitution, effective 1891

Real property owned and occupied by institutions of religion, institutions of purely public charity, and institutions of education is exempted from taxation by the Kentucky Constitution.

FY 2008	FY 2009	FY 2010
\$38.5 million	\$40.7 million	\$42.9 million

Tangible Property Tax Expenditures

(The normal tangible rate is 45 cents per \$100 of value)

10. Agricultural Products

Kentucky Revised Statute 132.020(1), effective 1950

Agricultural products are taxed at a reduced rate of 1.5 cents per \$100.

FY 2008	FY 2009	FY 2010
\$310,000	\$310,000	\$310,000

11. Aircraft

Kentucky Revised Statute 132.020(12), effective 1999

Airplanes, not used in the business of transporting persons or property for compensation or hire, are taxed at the reduced state rate of 1.5 cents per \$100.

FY 2008	FY 2009	FY 2010
\$1.4 million	\$1.4 million	\$1.4 million

12. Business Inventories

Kentucky Revised Statute 132.020(9), effective 1990

Business inventories are taxed at a reduced rate of 5 cents per \$100. This category includes machinery and equipment held in inventory in the regular course of business for sale or lease and originating under a floor plan financing arrangement.

FY 2008	FY 2009	FY 2010
\$71.5 million	\$75.0 million	\$78.8 million

13. Carlines

Kentucky Revised Statute 136.120, effective 1990

Any company, other than a railroad company, which owns, uses, furnishes, leases, rents, or operates to, from, through, in, or across this state or any part thereof, any kind of railroad car is taxed at a reduced rate. The rate is computed annually. The rate in effect January 1, 2005 was 23.5 cents per \$100.

FY 2008	FY 2009	FY 2010
\$4.3 million	\$4.3 million	\$4.3 million

14. Federally Documented Vessels

Kentucky Revised Statute 132.020(13), effective 1999

Documented boats, not used in the business of transporting persons or property for compensation or hire, are taxed at a reduced rate of 1.5 cents per \$100.

FY 2008	FY 2009	FY 2010
\$460,000	\$460,000	\$460,000

15. Foreign Trade Zone

Kentucky Revised Statute 132.020(1), effective 1982

Property located in an activated foreign trade zone is taxed at a reduced rate of 1/10 of a cent per \$100.

FY 2008	FY 2009	FY 2010
\$33.0 million	\$33.0 million	\$33.0 million

16. Historic Vehicles

Kentucky Revised Statute 132.020(1), effective 1984

Historic vehicles are taxed at a reduced rate of 25 cents per \$100.

FY 2008	FY 2009	FY 2010
\$129,000	\$129,000	\$129,000

17. In-Transit Goods

Kentucky Revised Statute 132.097, effective 1999

Goods shipped into Kentucky and placed in a warehouse or distribution center with the purpose of continued shipment outside of Kentucky within six months are exempt from property tax at the state level.

FY 2008	FY 2009	FY 2010
\$16.5 million	\$17.4 million	\$17.4 million

18. Intrastate Railroads and Railway Companies

Kentucky Revised Statute 132.020(10), effective 1990

Railroads or railway companies operating solely within the Commonwealth are taxed at a reduced rate of 10 cents per \$100 on their operating tangible property.

FY 2008	FY 2009	FY 2010
\$175,000	\$175,000	\$175,000

19. Interstate Trucks, Tractors and Buses

Kentucky Revised Statute 132.760, effective 1990

Commercial vehicles that have routes or systems partly within this state and partly within another state or states are taxed at a reduced rate. This rate is computed annually. The rate in effect January 1, 2007 was 24.62 cents per \$100.

FY 2008	FY 2009	FY 2010
\$3.6 million	\$3.9 million	\$3.9 million

20. Leasehold Interests

Kentucky Revised Statute 132.195, effective 1990

Leasehold interests privately held in industrial buildings owned and financed by tax-exempt governmental units are taxed at a reduced rate of 1.5 cents per \$100 of value. Note: This is the tangible personal property portion only.

FY 2008	FY 2009	FY 2010
\$3.9 million	\$3.9 million	\$3.9 million

21. Machinery Used in Farming and Livestock and Domestic Fowl

Kentucky Revised Statute 132.020(1)(f)(g), effective 1917

Machinery used in farming and the value of all livestock and 25 domestic fowl is taxed at a reduced rate of 1/10 of a cent per \$100.

FY 2008	FY 2009	FY 2010
\$22.5 million	\$22.5 million	\$22.5 million

22. Manufacturing Machinery; Pollution Control Equipment; and Radio, Television and Telephonic Equipment

Kentucky Revised Statute 132.020(1), effective 1977, revised 1998

Machinery, regardless of ownership, used in the manufacturing process is taxed at a reduced rate of 15 cents per \$100. Pollution control equipment is taxed at a reduced rate of 15 cents per \$100. Radio, television and telephonic equipment are taxed at a reduced rate of 15 cents per \$100.

FY 2008	FY 2009	FY 2010
\$63.1 million	\$66.5 million	\$70.0 million

23. Motor Vehicles With a Salvage Title

Kentucky Revised Statute 134.810, effective 1999

Motor vehicles with a salvage title and held by an insurance company on January 1 are taxed at a reduced rate of 5 cents per \$100 of value. This provision allows salvage vehicles held by an insurance company to be taxed in the same manner as motor vehicle dealers' inventory.

FY 2008	FY 2009	FY 2010
Miminal	Miminal	Miminal

24. Property of Local Governments in Neighboring States

Kentucky Revised Statute 132.192, effective 2005

All personal property owned by another state or a political subdivision of another state that is used exclusively for public purposes is exempt from taxation if a comparable exemption is provided in that state or political subdivision for property owned by the Commonwealth or its political subdivisions.

FY 2008	FY 2009	FY 2010
\$0	\$0	\$0

25. Personal Property Used in Vending Stands Operated by the Blind*Kentucky Revised Statute 132.193(1), effective 1998*

Personal property used in vending stands leased and operated by blind persons under the auspices of the Office for the Blind is exempt from taxation.

FY 2008	FY 2009	FY 2010
Minimal	Minimal	Minimal
