Kentucky

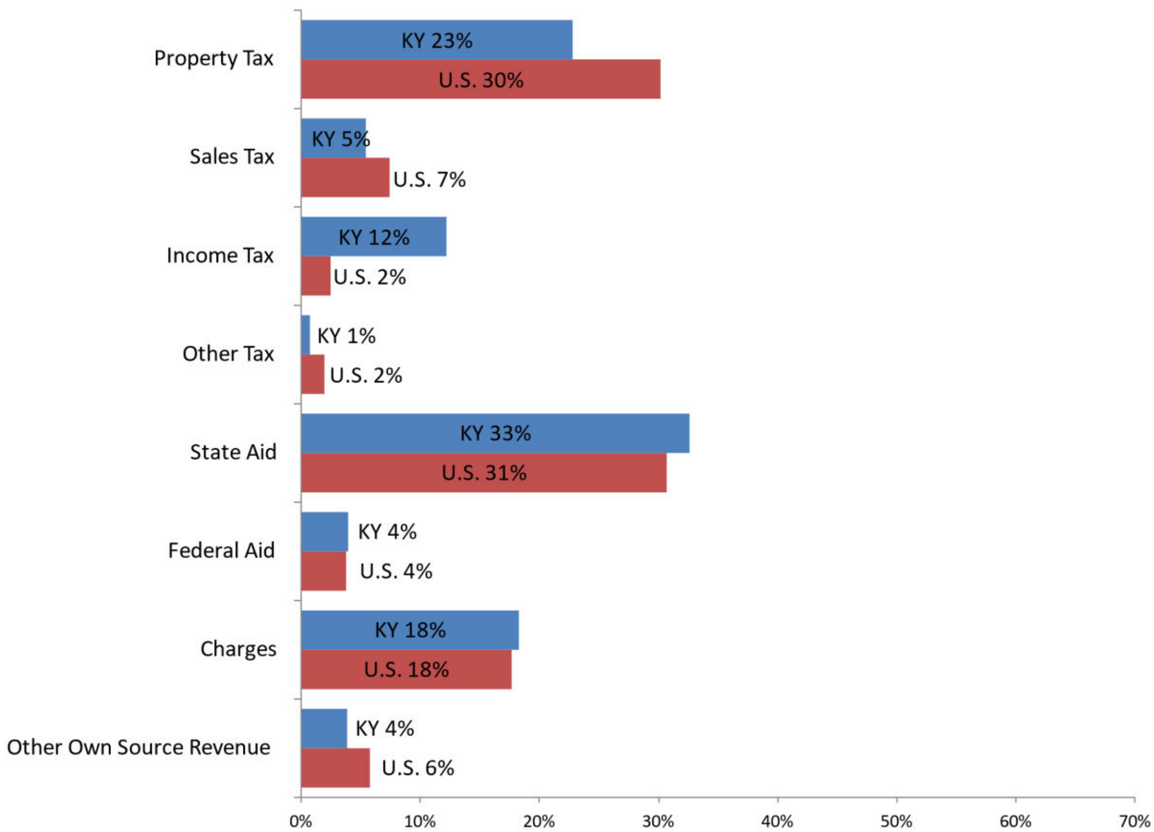
Highlights

Kentucky has a highly centralized system of government. Kentucky localities are less reliant on the property tax than localities in many other states (figure KY-1) because some cities are allowed to levy occupational license taxes and because property taxes are highly regulated. Occupational license taxes are also called occupational income taxes and are generally classified as local income taxes by the U.S. Census Bureau (Boardman 2006).

The state taxes personal property and relies more heavily on personal property taxation than do most other states. Kentucky is one of nine states still taxing most business inventories, though in 2018 it enacted an inventory tax credit which provides a credit equal to 100 percent of qualifying inventory taxes in 2021 (Cammenga 2021; Kentucky Department of Revenue, Inventory Tax Credit).

The Commonwealth of Kentucky uses a detailed system of property tax classification with over 20 different classes of property, and local governments employ 10 of those property classes.

Figure KY-1
Sources of Local General Revenue, Kentucky and U.S., 2019



Source: U.S. Census via Significant Features of the Property Tax

Property Tax Reliance

Kentucky ranks among the lowest 10 states in terms of per capita property taxes, property tax as a percentage of personal income, and as a percentage of state and local revenue (table KY-1).

Table KY-1
Selected Kentucky Property Tax Statistics, 2019[1]

	Kentucky	U.S. Average	Rank (of 51) *1 is highest*
Per capita property tax	$873	$1,758	*47*
Property tax percentage of personal income	2.0%	3.1%	*45*
Total property tax as percentage of state-local revenue	9.7%	16.6%	*45*
Median owner-occupied home value[2]	$141,000	$217,500	*47*
Median real estate taxes paid for owner-occupied home[2]	$1,210	$2,471	*43*
Effective tax rate, median owner-occupied home[3]	0.9%	1.1%	*29*

Sources: U.S. Census via Significant Features of the Property Tax, American Community Survey

[1] All revenue numbers in this table include the state government as well as local governments.

[2] The statistics for median owner-occupied home value and median real estate taxes paid for owner-occupied home are five-year average statistics for years 2015-2019.

[3] Calculated as the median real estate tax paid on owner-occupied homes as a percent of the median owner-occupied home value.

Administration and Assessment

In Kentucky, property taxes are levied both by the state government and by cities, counties, school districts, and special districts.

Each of the 120 Kentucky counties elects a property valuation administrator (PVA) to conduct its property tax assessment (table KY-2). Cities may use the county valuation administrator assessment but must pay a fee to do so. Section 172 of the Kentucky Constitution requires all property to be assessed at the fair cash value, defined as “the price a property would bring at a fair and voluntary sale between a willing buyer and a willing seller, with neither party under duress, given a reasonable amount of time on the market.”

The state system of property tax classification employs over 20 categories, most of which are classes of personal property. While many classes established by the state are exempt from local taxation, 10 property classes are taxed by local governments to some extent. For example, county, city, and school district governments all set local rates for residential, agricultural, and commercial land and improvements (Kentucky Department of Revenue 2020).

Limits on Property Taxation

Growth in property tax revenues is limited by House Bill 44 (HB 44), enacted in 1979. HB 44 established three options for a local government setting its property tax rates. First, the local government can set rates at the compensating rate, which is the tax rate when applied to properties on the tax list last year that yields the same amount of revenue received as in the previous year. If this rate is chosen, additional revenue would be derived only from new property. Second, if the desired tax rate exceeds the compensating rate, but total revenue from existing property increases less than 4 percent, this must be publicly advertised and a public hearing held on the matter. Third, if the desired tax rate would provide an increase in revenue from existing property of more than 4 percent, the portion of the rate exceeding 4 percent growth is subject to voter recall through a referendum process (Urban County Government 2013).

In addition, Section 157 of the Kentucky Constitution imposes a property tax rate cap that restricts county rates to $0.50 per $100 and city rates to $0.75 to $1.50 per $100 depending on the city size: cities with a population greater than 15,000 are capped at $1.50, and cities with less than 10,000 in population are capped at $0.75. All other cities are capped at $1.00. However, few places exceed these rates because of the constraints imposed by HB 44.

Property Tax Relief and Incentives

Kentucky offers a homestead exemption to seniors or people who are “totally and permanently” disabled. The exemption reduces the assessment by the amount by which it exceeds the value of the property in the first year the owner qualified and received relief, up to a maximum exemption of $39,300 in 2019 (Significant Features of the Property Tax).

According to Section 172A of the Kentucky Constitution, agricultural and horticulture land must be assessed at the property’s use value, which is determined by the income-producing ability of the land and comparable sales of agricultural land (American Farmland Trust 2014).

Kentucky has a few property tax incentives for economic development, including an exemption for new or relocating manufacturing establishments and tax increment finance.

Table KY-2
Kentucky Property Tax Features, 2020

Feature	Kentucky	Count for 50 states plus DC
Statewide classification of real property	Yes	25
Assessment of property primarily by county	No	31
Limits on property tax rates or levies	Yes	45
Limits on the rate of growth of assessed value	No	18
Circuit breaker property tax relief program	No	31

Sources: Significant Features of the Property Tax

Key Property Tax History

Following statehood, Kentucky established a property tax that originally provided over 80 percent of state government revenue. Prior to 1965, the majority of real and personal property was assessed well below market values, and most taxing jurisdictions set tax rates near the Section 157 constitutional limits. However, in *Russman v. Luckett* (1965) the Court of Appeals ruled that real property must be assessed at 100 percent of its real market value (Legislative Research Commission 2016).

The court ruling created worries of large assessment increases without an assurance that tax rates would be reduced. Thus, a 1965 special session enacted a law requiring local tax authorities to roll back tax rates to a rate which results in approximately the same amount of revenue that was raised in the preceding year. Increases in revenue were allowed if due to growth in the assessed tax base or if new properties were added to the base (Fayette Urban County Government 2013; Legislative Research Commission 2016).

However, in the 1970s, high inflation rates resulted in substantial increases in the assessed value. Although tax rates remained relatively constant in this period, HB 44 passed in 1979 in order to provide taxpayers with property tax relief from the rising assessments. Initially, the tax law preserved the rollback rate provision in addition to the compensating rate and 4 percent rate limitations discussed above. However, in 1990, the rollback rate was removed, but the compensating and 4 percent rate limitations were preserved (Fayette Urban County Government 2013; Legislative Research Commission 2016).

Historically, Kentucky has had substantial inequities in revenue-raising capacity across the state. Some school districts brought a lawsuit against the state. In *Rose v. Council for Better Education* (1989), the Kentucky Supreme Court declared the system of public education unconstitutional. In response to the court, the Kentucky Education Reform Act (KERA) attempted to equalize revenue generated at a specific tax rate across districts. Districts are required to put forth a minimum amount of funding equal to 0.30 percent of assessed property value, and the state then grants each district the difference between a calculated guarantee level of funding and the required local contribution (Clark 2003).

However, despite the requirements in KERA and the requirements to assess property at 100 percent of real market value, the tax base in eastern Kentucky, in particular, remains problematic. Every two years the state sends professional appraisers to each county to randomly check assessments against fair market value. Many counties in eastern Kentucky fall below the required assessments, which often results from a lack of property sales in these counties, pressures to keep assessments low due to high poverty rates, and property tax appeals in which owners argue that the value of the property was damaged due to coal mining. In addition, many of these eastern counties have a substantially higher share of disabled or elderly residents than the average county, which results in a depleted tax base from use of the homestead exemption (Cheves 2015).

Recent Developments

Two notable cases involving the charitable tax exemption have reached the Kentucky Supreme Court in recent years. In the case of *City of Taylor Mill v. Grand Lodge of Kentucky*, *Free and Accepted Masons, et al*. (2015), a circuit court ruled that possession of a unit in a retirement community makes the owner liable for the property tax even though the community itself may be exempt as a public charity. On appeal, in 2017, the Kentucky Court of Appeals upheld the circuit court's ruling (Bingham Greenebaum Doll LLP). In 2018, the Kentucky Supreme Court denied a motion for discretionary review. In a separate case, the supreme court ruled that the state's charitable property tax exemption applies solely to property taxes, denying a refund of use taxes paid on behalf of a charity (Bingham Greenebaum Doll LLP 2018).

Although Kentucky is one of fewer than 10 states that tax inventory, the legislature passed an inventory tax credit effective for the 2018 tax year. The non-refundable, non-transferable credit may be claimed against individual or corporate or LLC entity taxes. The credit was phased in between 2018 and 2021, by 25 percent per year. In the 2021 tax year, eligible taxpayers may claim a 100 percent credit for qualifying inventory taxes (KRS 141.408; Pierzchalski 2018).

In 2019, Kentucky passed tax legislation (HB 354) that curtails tangible personal property taxes by exempting taxpayers with personal property valued up to $1,000 from filing requirements (Kentucky Department of Revenue 2019).

A 2021 executive order allows property taxpayers to file appeals without going to circuit court. Kentucky Governor Andy Beshear reinstated the Kentucky Board of Tax Appeals by executive order in 2020 and disbanded the Kentucky Claims Commission. The previous administration had replaced the Board of Tax Appeals with the Kentucky Claims Commission. In 2021, the governor signed a Republican-backed bill (SB 162) that authorizes the Board of Tax Appeals to hear special district, local, county, and state tax appeals. Prior to the law, taxpayers had to file property tax appeals in circuit court (Loricchio 2021).

Resources

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