Proposed Phase Out of Kentucky's Bourbon Barrel Tax

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As discussed at length in our prior article, Kentucky has been toying with the idea of eliminating or amending its ad valorem tax on distilled spirits for many years.

With the Bourbon Barrel Tax Task Force, which was created during the 2022 Regular Session to consider various solutions to remedy the issues surrounding the tax, not appearing to reach a consensus on the future of the tax prior to the 2023 Regular Session, many were unsure if legislation to amend or eliminate the tax would be introduced this session or not—but that question is now answered.

Introduced this week and co-sponsored by Rep. Jason Petrie and Speaker of the House Rep. David Osborne, House Bill 5 proposes a complete phase out of the ad valorem tax on distilled spirits. First, the bill provides that the income tax credit created in 2014 that allows taxpayers to apply property tax paid on distilled spirits against the taxpayer's income tax liability to cease after January 1, 2024; however, it amends the credit to allow it to roll over and be applied to future years. Then, beginning January 1, 2026, the bill proposes a gradual phase out of the ad valorem tax on distilled spirits. Beginning with a 3% exemption in 2026, the bill's proposed phase out creates a total exemption by 2039.

This is an important bill to watch as it will affect one of the state's most profitable and growing industries as well as state and local revenues. And given that HB 5 was introduced by House leadership, it is believed to stand a good chance of passing this legislative session, in its current form or with revisions as it goes through both chambers. If enacted, the complete phase out of barrel tax would be a major boon to the booming distillery industry in Kentucky, even if it takes multiple years to carryout, and would allow local governments several years to budget for such changes, and possibly find additional revenue sources to replace these funds through future local tax reform and/or agreements with distilling partners in their districts.

We will continue to monitor the progress of this bill and report on any changes as it works its way through the legislative process. For more information visit FBT Tax Law Defined Blog.