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**Kentucky Technical Advice Memorandum  
(KY-TAM-18-07)**

**SUBJECT:** Credit for Ad Valorem Tax Paid on Inventory  
**EFFECTIVE DATE:** Applies to all periods open under the statute.  
**SUPERSEDES:** KY-TAM-18-04  
**REFERENCE:** [KRS 141.408](#)  
**AUTHORITY:** [KRS Chapter 13A](#)  
[KRS 131.130\(8\)](#)

**SCOPE:** The purpose of a Technical Advice Memorandum (“TAM”) is to provide direction to the public and to Department personnel. It is issued to apply principles of law to a set of facts or general category of taxpayers. The Kentucky Department of Revenue (“KDOR”), in its discretion, may retroactively withdraw, revoke, or modify any TAM including, but not limited to, if there was a change in the applicable statute(s), regulation(s), case law or other KDOR guidance; or if the TAM was issued in error. A TAM does not constitute a final ruling, order or determination of the KDOR and cannot be appealed.

**I. Issue/Question(s)**

How is the inventory tax credit calculated? How are fiscal years handled?

**II. Law**

[KRS 141.408](#)

This statute allows a nonrefundable and nontransferable credit against individual income tax, corporation income tax, and limited liability entity tax for ad valorem (personal property) taxes timely paid on inventory described in KRS 132.020(1)(n) and KRS 132.099. The credit is phased in ratably as a percentage of the ad valorem tax paid from 2018 through 2021 and thereafter.

**III. Conclusion**

Kentucky law allows an increasing tax credit against individual and corporate income and limited liability entity taxes until the credit equals 100% of the ad valorem (personal property) tax timely paid on inventory by 2021. To be considered “timely paid,” the ad valorem tax must be paid to the taxing jurisdiction on or before December 31 of the tax year. Use Schedule INV to calculate the inventory tax credit allowed.

The tax credit allowed increases each year by 25% starting in 2018 as follows.

- Twenty-five percent (25%) of the ad valorem taxes timely paid for taxable years beginning on or after January 1, 2018, and before January 1, 2019;
- Fifty percent (50%) of the ad valorem taxes timely paid for taxable years beginning on or after January 1, 2019, and before January 1, 2020;
- Seventy-five percent (75%) of the ad valorem taxes timely paid for taxable years beginning on or after January 1, 2020, and before January 1, 2021; and
- One hundred percent (100%) of the ad valorem taxes timely paid, for taxable years beginning on or after January 1, 2021.

The tax credit is allowed against individual and corporate income taxes and can also be passed-through to owners of pass-through entities subject to the limited liability entity tax (S corporations, LLCs, and limited partnerships). The tax credit cannot be carried forward into subsequent tax years.

“Inventory” for the purposes of the inventory tax credit is defined as goods held for sale in the regular course of business, including machinery and equipment held in a retailer’s inventory for sale or lease originating under a floor plan financing arrangement; motor vehicles held for sale in the inventory of a licensed motor vehicle dealer, including licensed motor vehicle auction dealers, which are not currently titled and registered in Kentucky and are held on an assignment per KRS 186A.230 or in the possession of a licensed motor vehicle dealer, including licensed motor vehicle auction dealers, for sale, although ownership has not been transferred to the dealer; raw materials; in-process materials; personal property placed in a warehouse or distribution center for the purpose of subsequent shipment to an out-of-state destination; and drugs held by a pharmaceutical manufacturer or by an affiliate of a pharmaceutical manufacturer in a warehouse or distribution center for the purpose of subsequent shipment to an out-of-state destination.

Since there are a number of jurisdictions that issue assessments for ad valorem tax in a myriad of different configurations, it is sometimes difficult to distinguish what portion of the tax paid is deductible as a credit in accordance with KRS 141.408. KDOR will make an inventory tax calculator available on <https://revenue.ky.gov> that will utilize the most complete information available regarding local ad valorem tax rates. KDOR will accept credits claimed based on results of this inventory tax calculator. Taxpayers bear the responsibility for accurate data entry into the calculator as well as compliance with rules relating to timely payment of ad valorem taxes based on inventory.

Taxpayers that operate on a fiscal year will utilize the credit based on when the tax is timely paid.

**Example 1.** A corporation has a fiscal year end date of June 30, 2019, and timely pays ad valorem tax on inventory on December 20, 2018. The corporation will utilize 25% of the inventory tax credit on its 2018 return, because the tax was paid during its taxable year beginning after January 1, 2018, and ending before January 1, 2019.

Example 2. A partnership has a fiscal year end date of September 30, 2019, and timely pays ad valorem tax on inventory on December 20, 2019. The partnership will pass through 50% of the inventory tax credit to its partners on its 2020 return, because the tax was paid during its taxable year beginning after January 1, 2019, and ending before January 1, 2020.

#### IV. Questions

For questions concerning this TAM, contact Policy at [DORtaxpolicy@ky.gov](mailto:DORtaxpolicy@ky.gov).

KENTUCKY DEPARTMENT OF REVENUE

  
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Daniel P. Bork, Commissioner

Date: Nov. 26, 2018