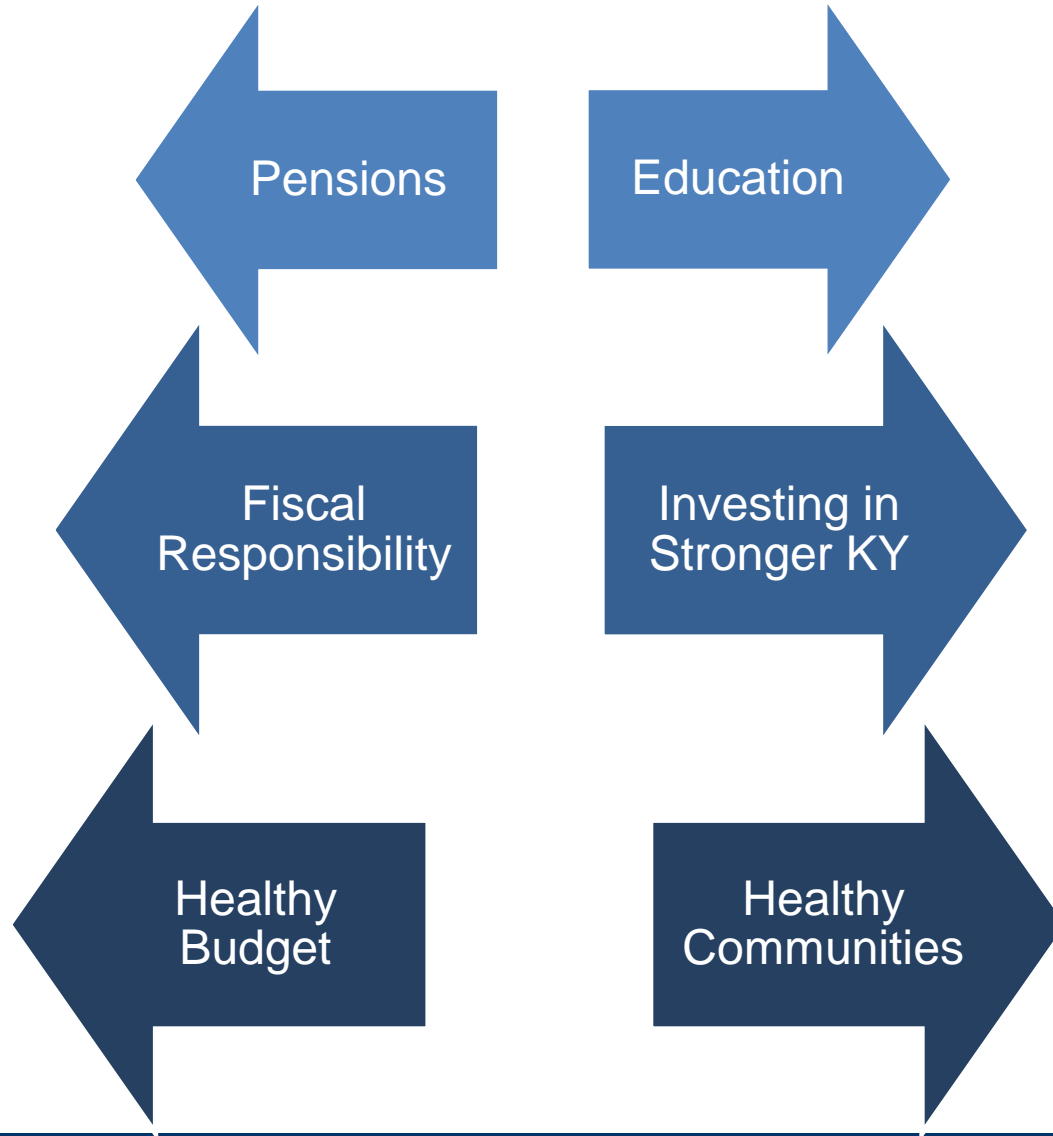




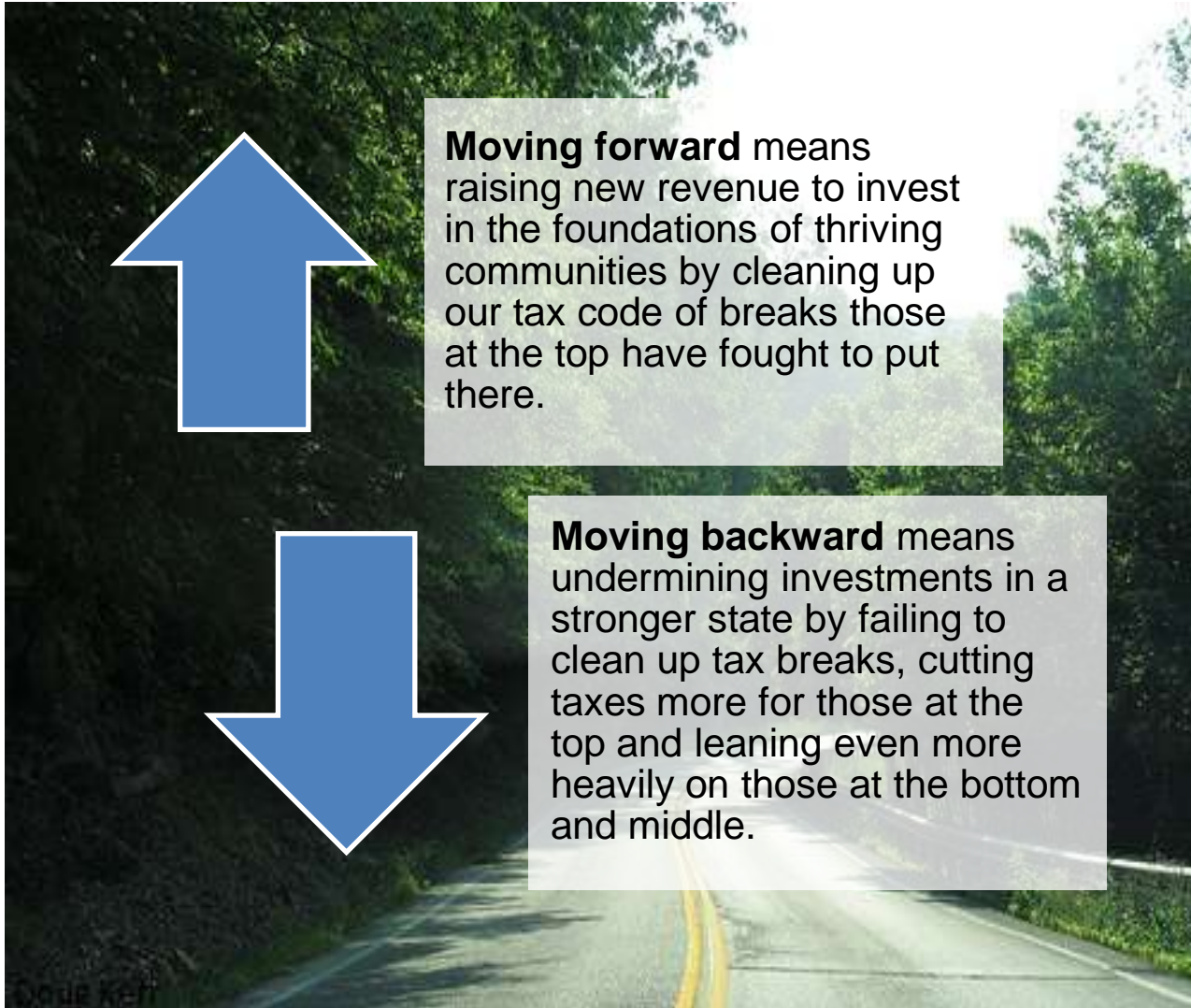
Investing in A Stronger Kentucky Cleaning Up, Rather than Piling On Tax Breaks for Powerful Interests

September 10, 2016

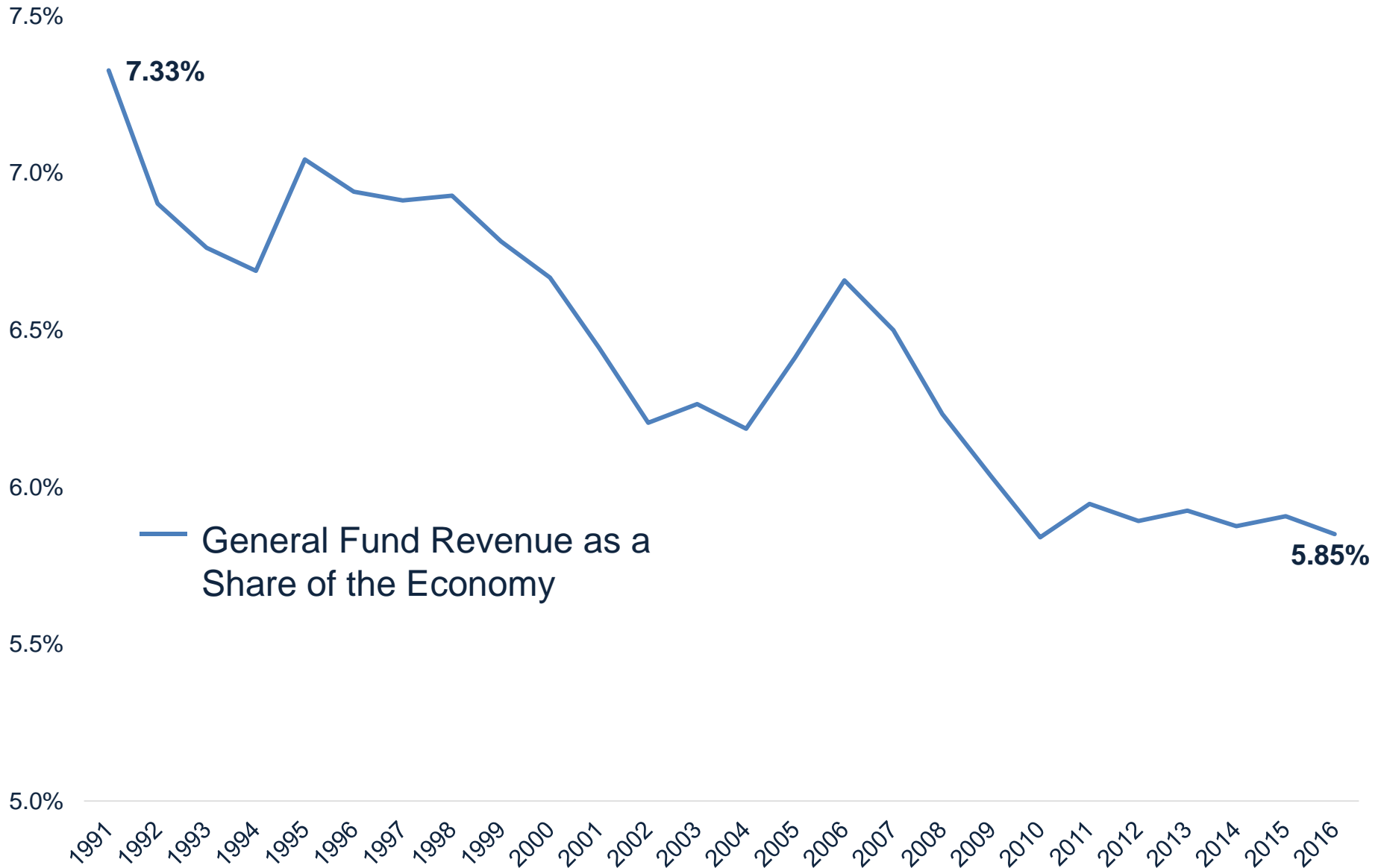
False Choices



Real Choice: Go Forward or Lose Ground

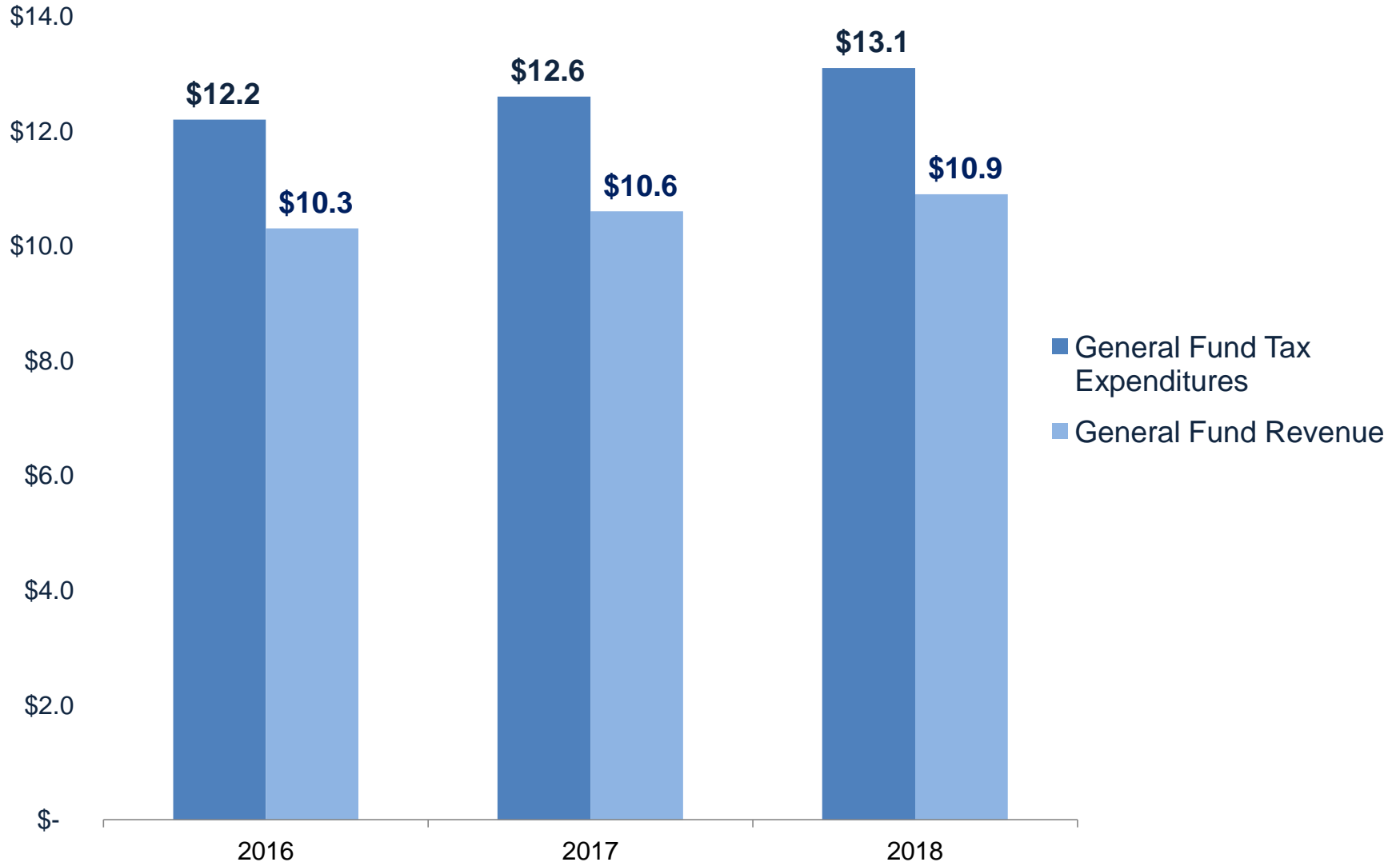


The Problem: We Have Less than We Did

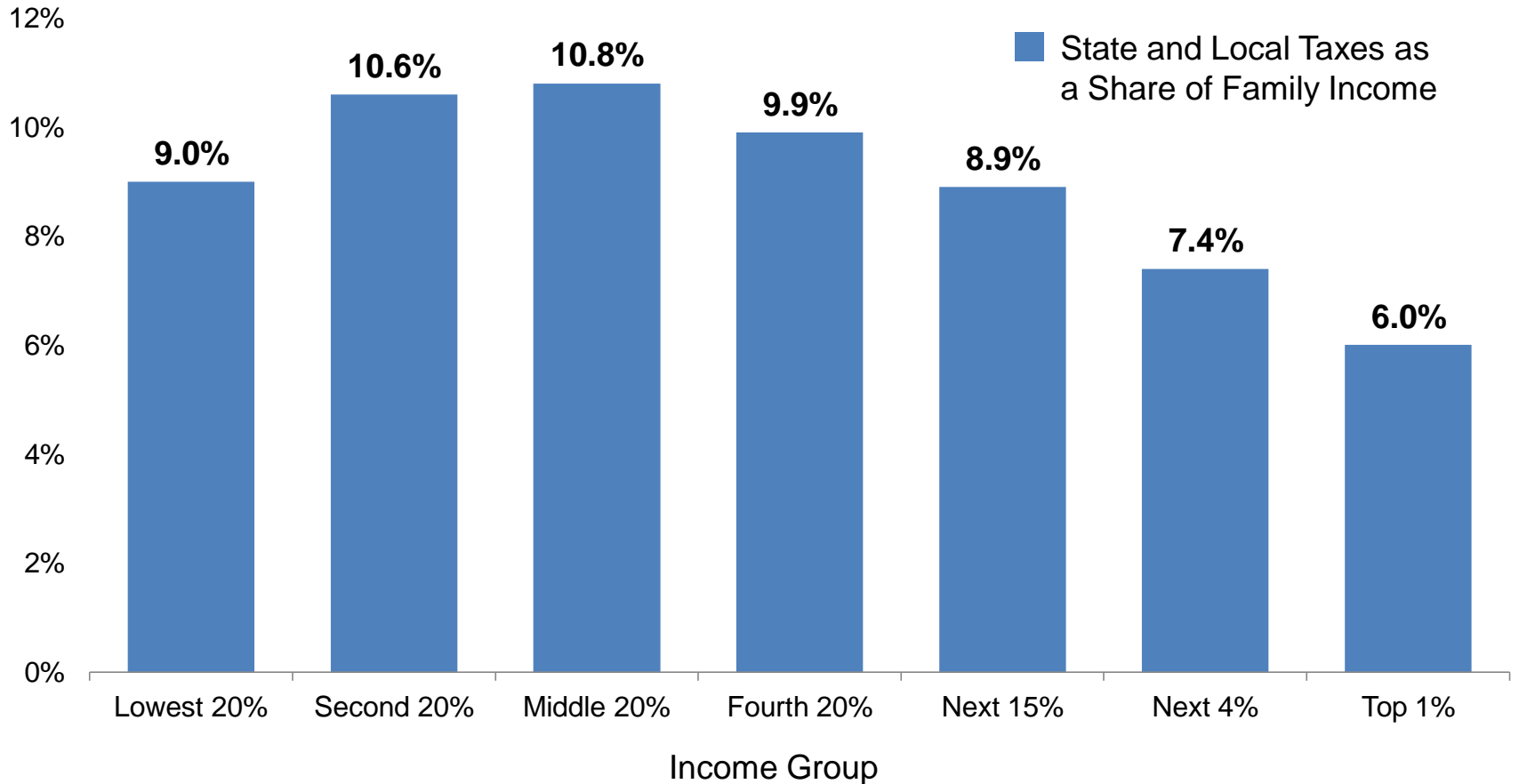




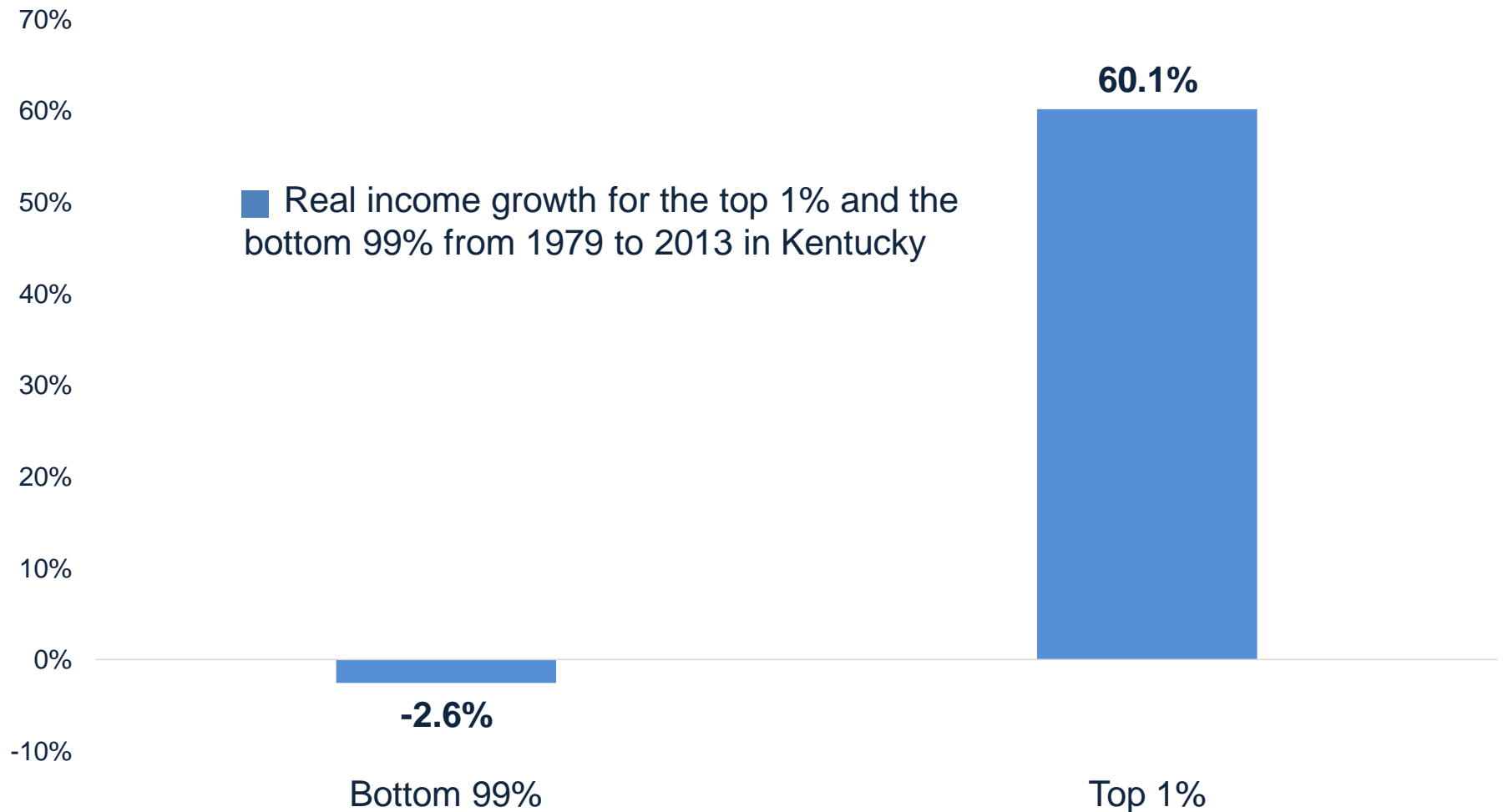
KY Losing More to Tax Breaks than Collecting in Revenue



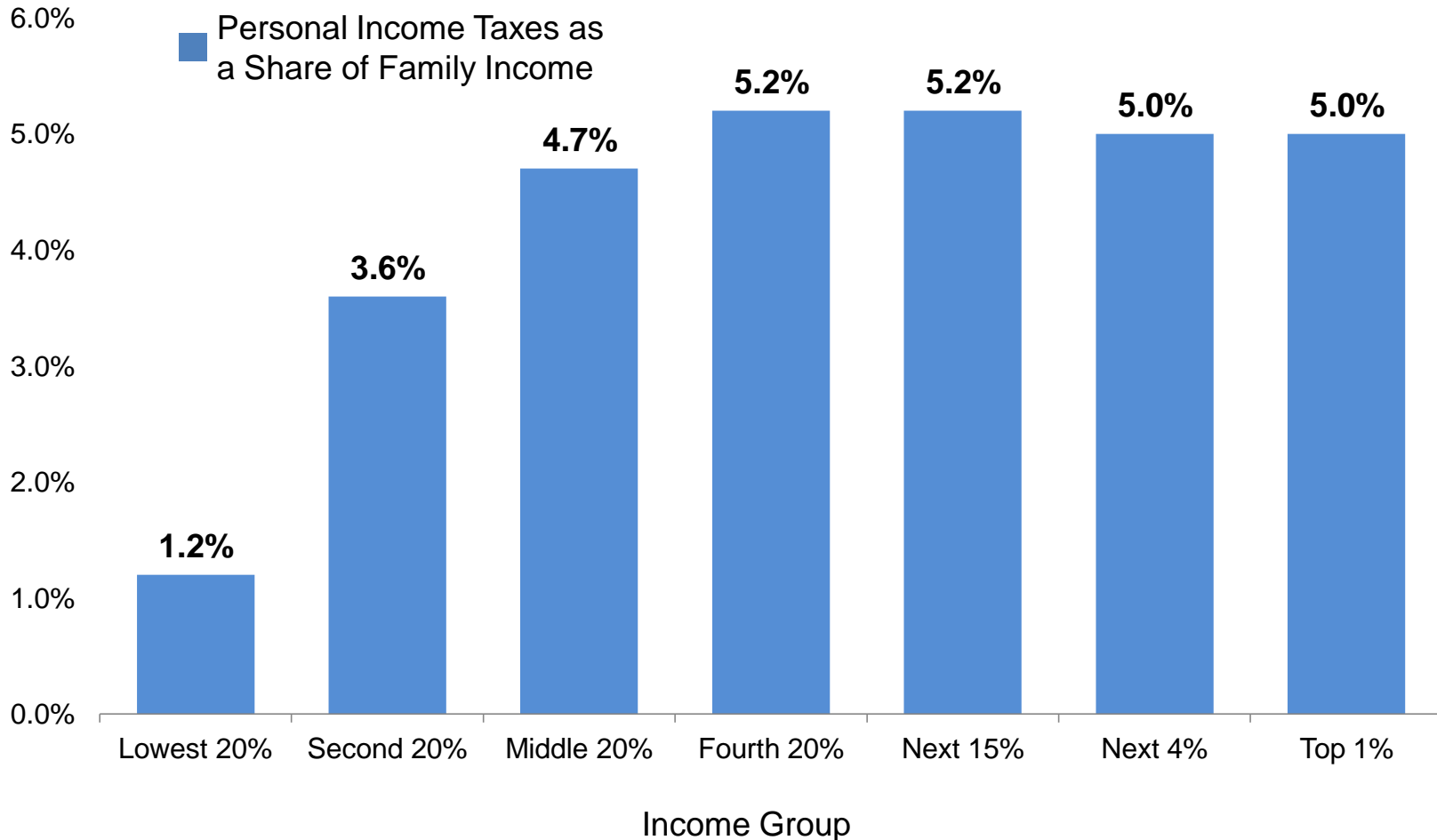
Highest Income Kentuckians Pay Smallest Share of Income in Total State and Local Taxes



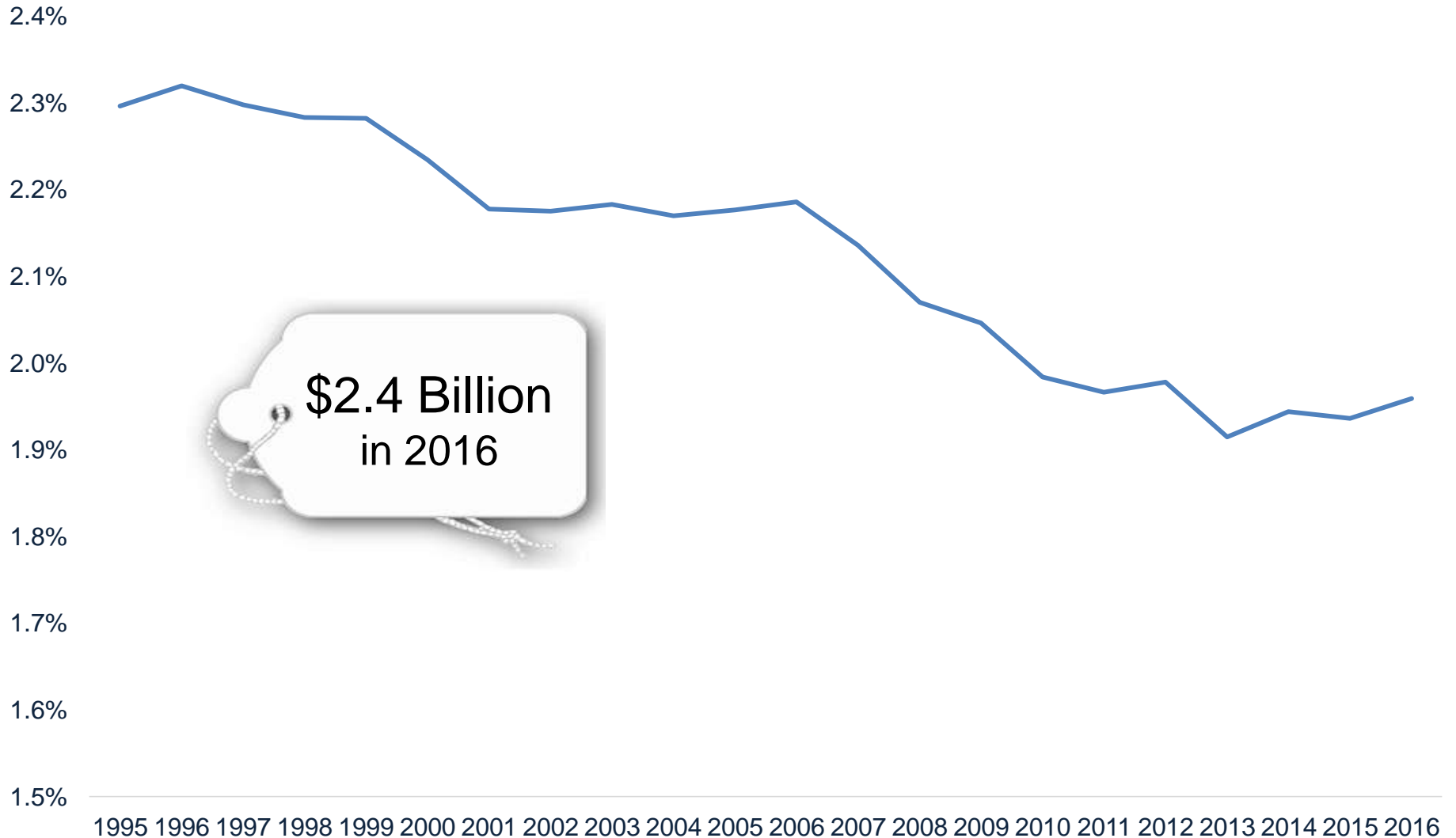
Income Growth is Going to the Top, Leaving Everyone Else Behind



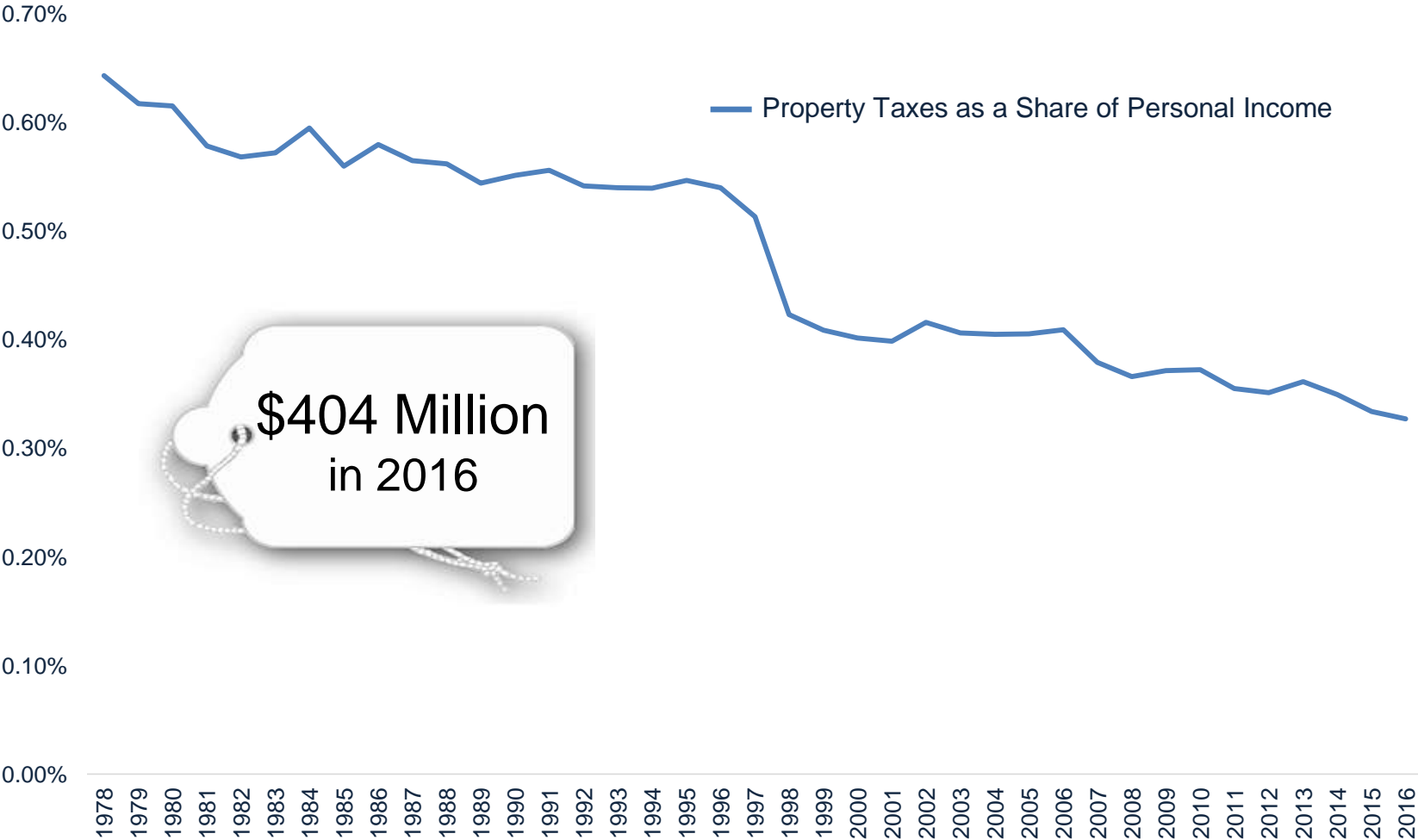
Income Taxes Flatten Out, Drop Off At the Top



Without Services in the Base, Sales Tax is Shrinking



State Property Taxes Shrinking Compared to the Economy



Other Factors Influencing Available Revenue

- **Corporate Income Tax:** big profits, big loopholes.
- **Coal Severance:** mining and receipts collapsing.
- **Cigarette Taxes:** declining consumption, less revenue.
- **Estate Taxes:** state has not restored this tax since Congress eliminated it.

Moving forward means raising new revenue to invest the foundations of thriving communities by cleaning up our tax code of breaks those at the top have fought to put there.

New Revenue for Investments

Clean Up Tax Breaks at Top

Reliably Supports Stronger KY

Moving backward means undermining investments in a stronger state by failing to clean up tax breaks, cutting taxes more for those at the top and leaning even more heavily on those at the bottom and middle.

Undermines Investments

Neglects/Expands Tax Breaks at Top

Puts Future Investments at Risk

GOOD: Cleaning Up Tax Breaks Finances Smart Investments

Invest in broadband access, modern infrastructure

Equip classrooms with best materials, curricula, supports for learning; reduce class sizes, shrink equity gap

Invest in supporting elderly and disabled Kentuckians to stay healthy and happy at home

Hire more public defenders, social workers, give raises to public servants

Spend less on breaks benefiting those at the top



Invest more in what benefits us all

Convert deductions to a 3% tax credit that provides the same rate of benefit to all filers

Bring services, especially luxury services, into the sales tax base

Restore 5 cents of property tax lost over last 37 years to cap

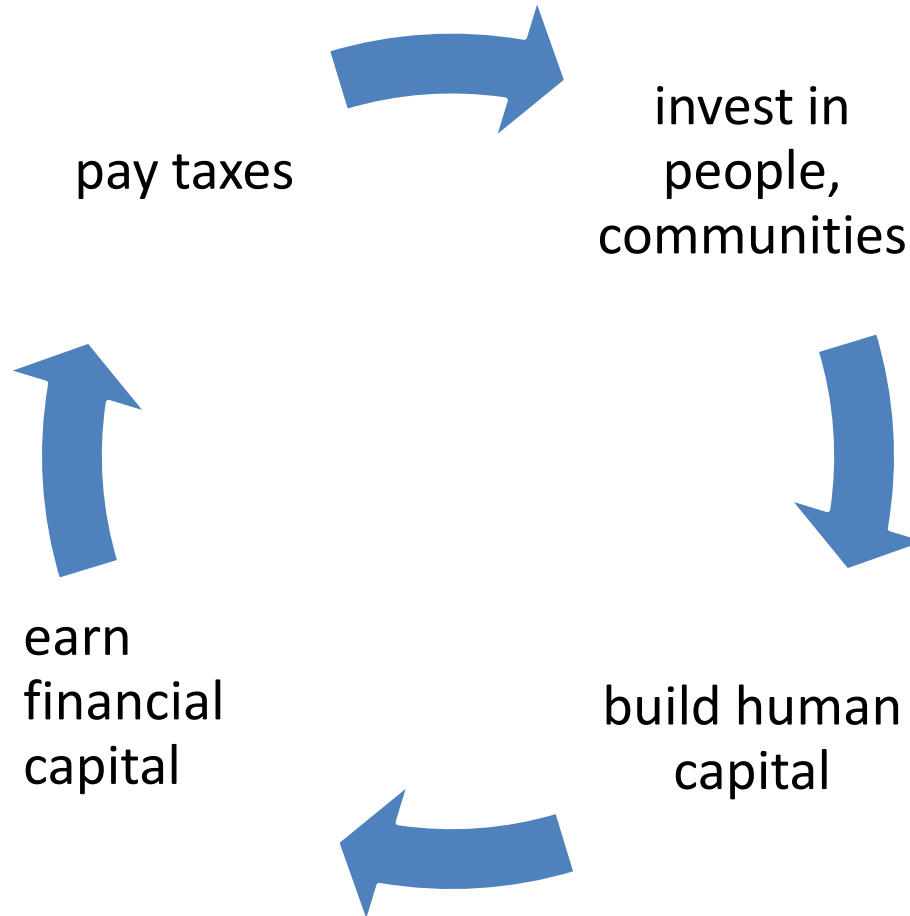
Enact Combined reporting and a throwback rule. Trim economic development incentives by 20 percent

BAD: Neglecting or Expanding Tax Breaks Undermines Investments

	2008 Enacted	2018	Percent Change	Real Percent Change
Public Health	\$73,823,000	\$74,548,200	1%	-15%
Commission for Children with Special Health Care Needs	\$5,917,000	\$5,824,800	-2%	-17%
Commission on Human Rights	\$1,859,100	\$1,781,800	-4%	-19%
Deaf and Hard of Hearing	\$933,000	\$873,900	-6%	-21%
Behavioral Health and Intellectual Disabilities	\$194,117,600	\$180,833,900	-7%	-21%
Kentucky Nature Preserves Commission	\$1,166,500	\$1,061,500	-9%	-23%
Vocational Rehabilitation	\$13,134,400	\$11,872,700	-10%	-24%
Commission on Women	\$266,200	\$237,400	-11%	-25%
Libraries and Archives	\$14,689,300	\$13,001,800	-11%	-25%
Environmental Protection	\$26,118,000	\$22,479,100	-14%	-27%
Auditor of Public Accounts	\$5,828,300	\$4,948,600	-15%	-28%
Kentucky Educational Television	\$16,816,100	\$13,923,200	-17%	-30%
Board of Elections	\$4,861,900	\$3,989,300	-18%	-31%
Heritage Council	\$900,000	\$717,100	-20%	-33%
Registry of Election Finance	\$1,571,700	\$1,231,700	-22%	-34%
Attorney General	\$14,113,100	\$11,034,400	-22%	-34%
Secretary of State	\$2,298,100	\$1,784,100	-22%	-35%
Health Policy	\$625,600	\$441,500	-29%	-41%
Arts Council	\$4,182,500	\$2,640,700	-37%	-47%
Energy Development and Independence	\$2,341,500	\$1,249,200	-47%	-55%

GOOD: Cleaning Up Income Tax Breaks

Key to Greater Benefit for All



BAD: Income Tax Cuts Hurt Investments, Families

Kansas

- 2012-13 income tax cuts have led to sales and cigarette tax increases as well as reduction in itemized deductions.
- Consecutive deep revenue shortfalls have caused across the board cuts; borrowing from highway fund, corrections, children's programs to balance budget; teacher, counselor, librarian, nurse layoffs in schools.
- Recovery from recession has lagged behind nation; revenue growth stagnant; share of the national economy has declined; state faces another credit rating downgrade.

North Carolina

- 2013 to present "Great Tax Shift" has cut individual and corporate income tax rates, expanded and raised the sales tax, eliminated estate tax and EITC. When all changes are fully phased in, -\$2 billion annual revenue impact.
- On net, top 1 percent has received avg tax cut of \$15,500. People earning \$44,000 a year get \$167 cut, while people earning < \$12,000 get tax increase of \$10.
- 2014-2015, income growth lagged behind all neighbor states, including KY.

Louisiana

- Largest tax cut package in state's history in 2008, including big income tax cuts, tax credits to corporations.
- State facing a \$2 billion shortfall in FY 2017, Gov Edwards has talked about shutting down hospice services and college campuses to convey gravity of crisis, has proposed a tax hike package totaling \$836 million.

BAD: Cutting Income Taxes Doesn't Boost Economy

Myth: Income tax cuts encourage job creation.

Fact: Very few people employ others, meaning that tax cuts are more for the wealthy than for so-called job creators.

Myth: Lower income taxes will draw people to KY.

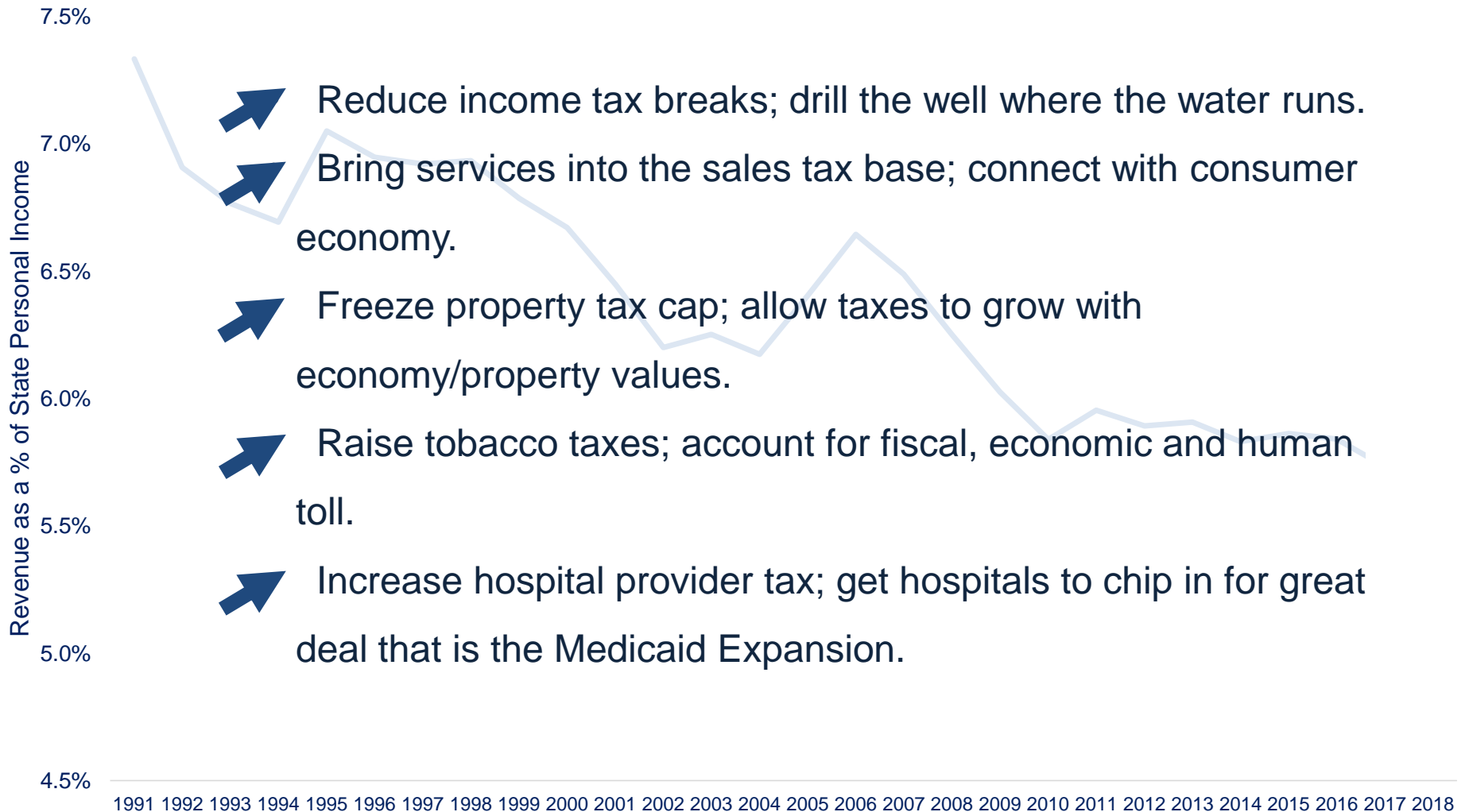
Fact: Very few people move and when they do it's for work, family, and other personal reasons, not for taxes.

Myth: Cutting income taxes will generate more revenue in the long term.

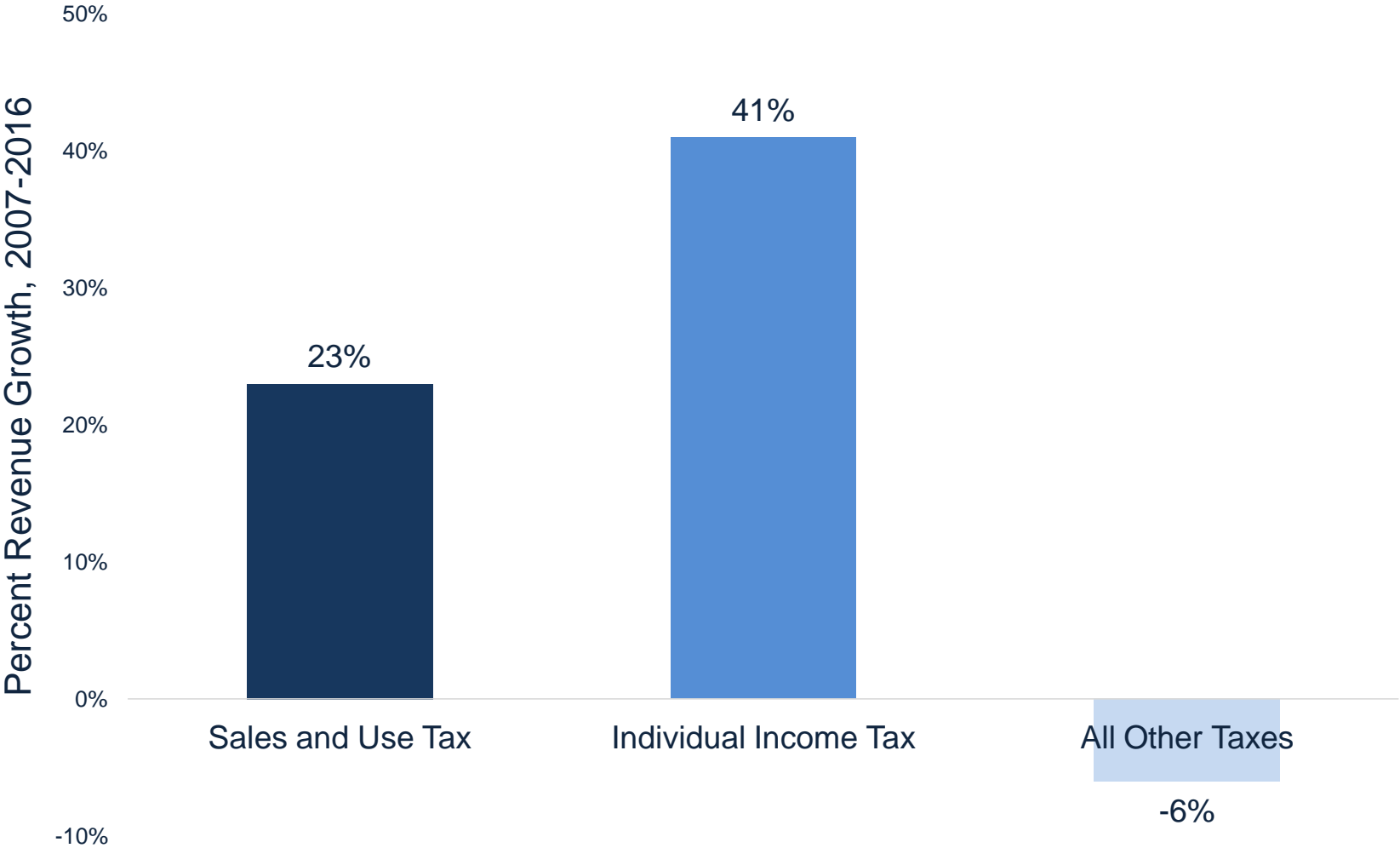
Fact: No evidence that tax cuts pay for themselves. Less revenue to invest today means compounding fiscal problems, shrinking investments in healthy, educated, thriving communities – building blocks of a strong economy.

GOOD: Cleaning Up Tax Breaks

Reliably, Fairly Generates Revenue for Investments

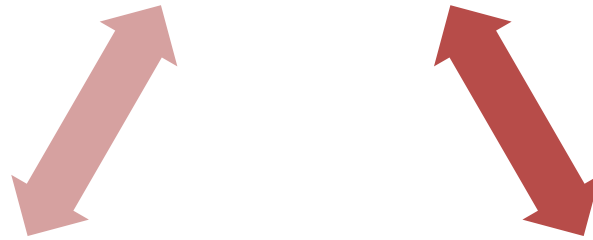


Individual Income Taxes Protect Kentucky's Investments



BAD: Shifting to Sales Taxes Is a Tax Cut for the Wealthy, Jeopardizes Investments

Low- and middle-income families pay more in sales taxes as a share of income – families for whom the economy is underperforming.



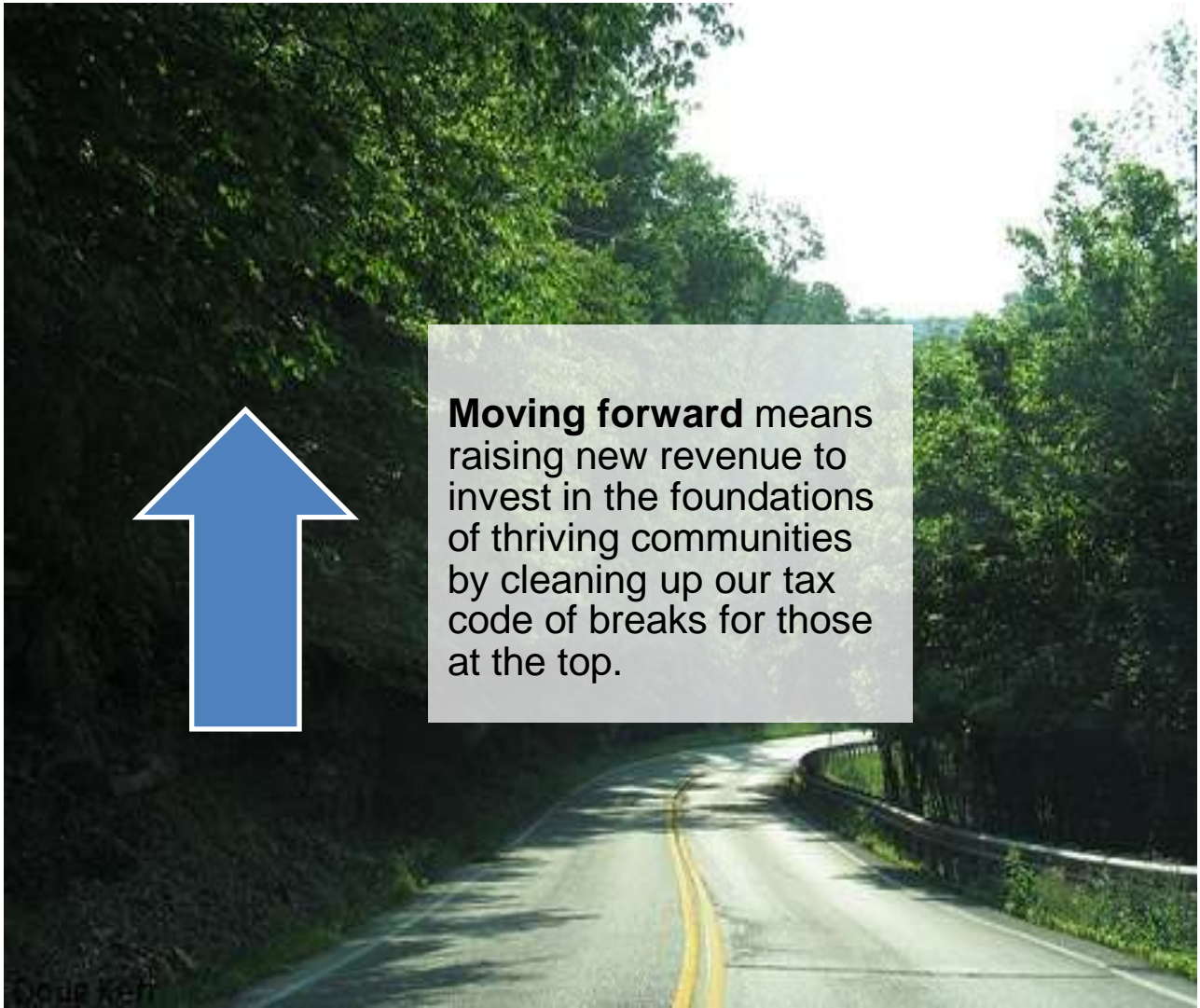
Sales taxes don't grow as well as income taxes over the long term.

Wealthier families pay less – those benefitting most from economic growth today.

BAD: Heavier Reliance on Sales Taxes Falls Hardest on Low Income KYians

2016 Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Next 15%	Next 4%	Top 1%	Revenue Impact
Average Income in Group	\$11,000	\$27,000	\$44,000	\$71,000	\$115,000	\$225,000	\$904,000	
Sales tax increase from 6% to 7%								
Tax Change as % of Income	0.6%	0.6%	0.5%	0.4%	0.3%	0.2%	0.1%	+\$559 Million
Average Tax Change	+\$63	+\$146	+\$200	+\$254	+\$324	+\$407	+\$909	
Top Individual Income Tax Rate from 6% to 5%								
Tax Change as a % of Income	-0.0%	-0.2%	-0.3%	-0.4%	-0.4%	-0.5%	-0.7%	-\$554 Million (w/o federal offset)
Average Tax Change	-4	-56	-139	-252	-513	-1,222	-6,305	

Real Choice: Go Forward or Lose Ground



Moving forward means raising new revenue to invest in the foundations of thriving communities by cleaning up our tax code of breaks for those at the top.



Questions? Comments?

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