

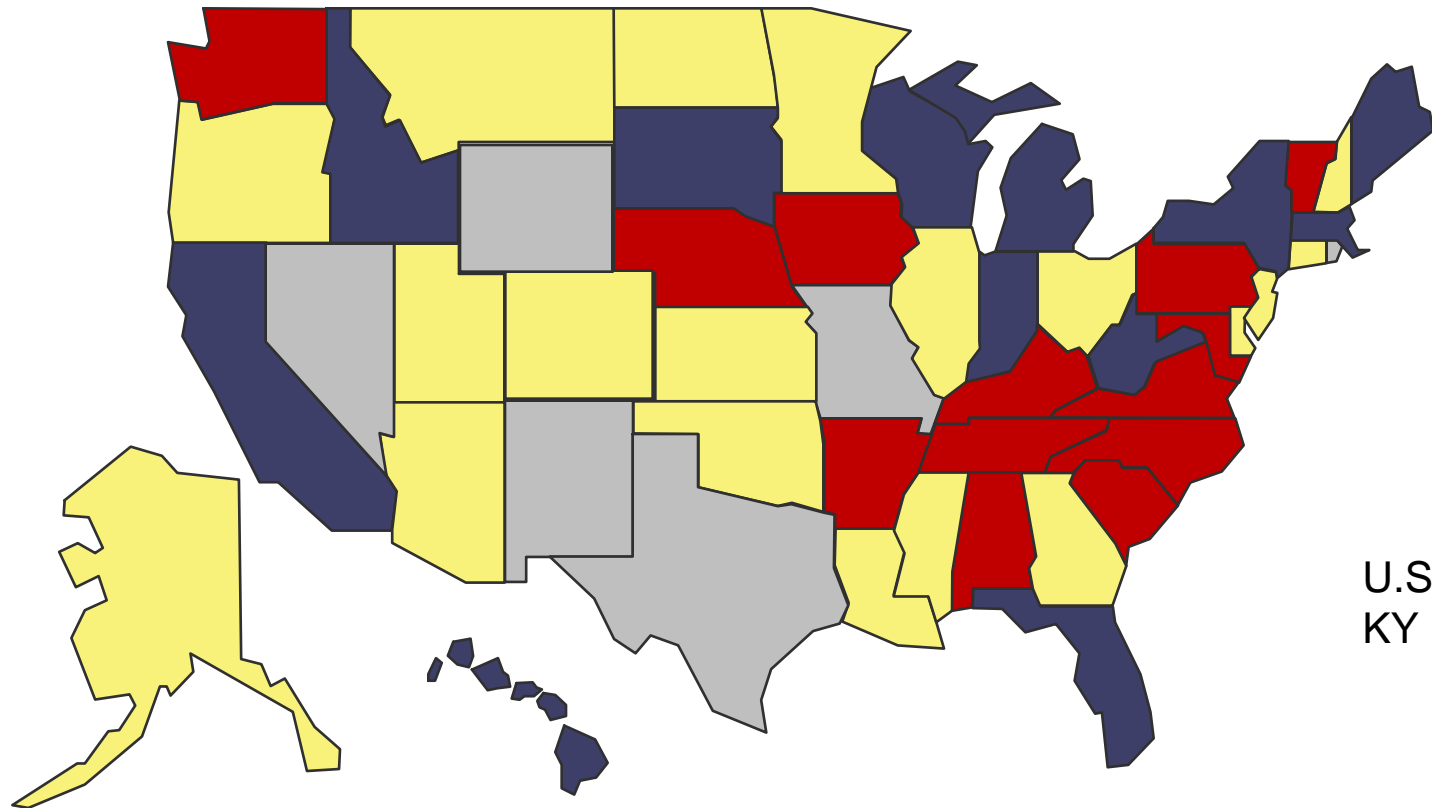
Kentucky Taxes: Is there Need for Reform?

Presented to

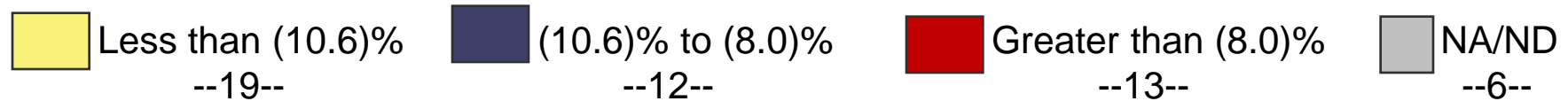
An Economic Perspective on Kentucky's Tax Structure

William F. Fox, Director
Center for Business and Economic Research
The University of Tennessee, Knoxville
January 13, 2010

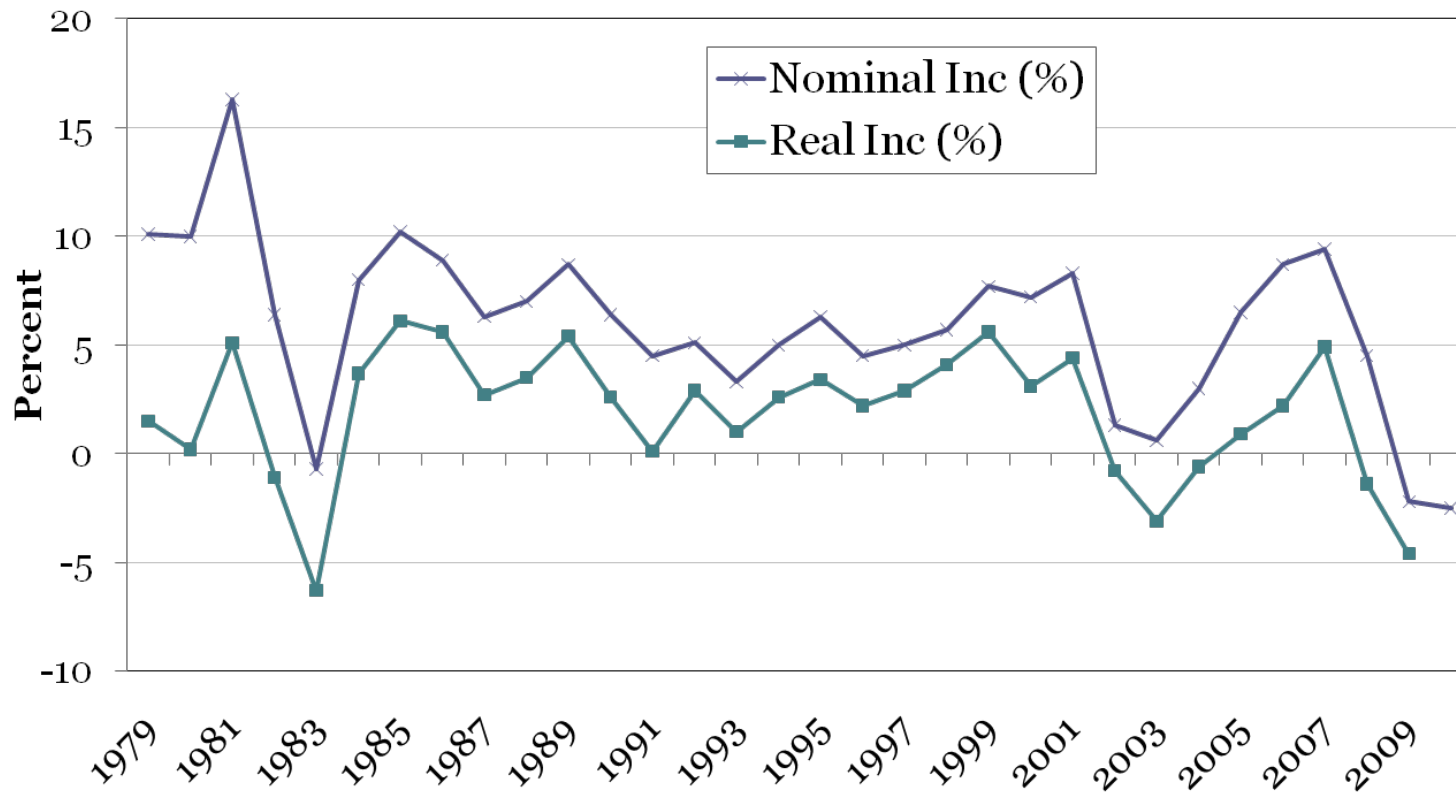
Growth in Total Taxes, July-September, 2008 to 2009



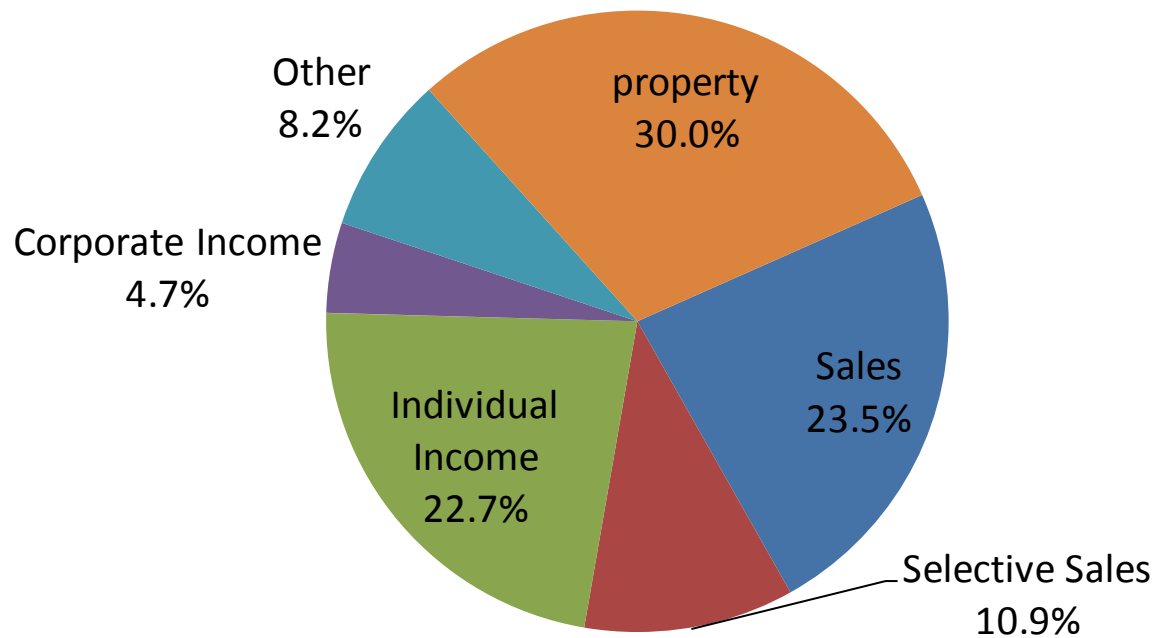
U.S. = (10.7)%
KY = (4.7)%



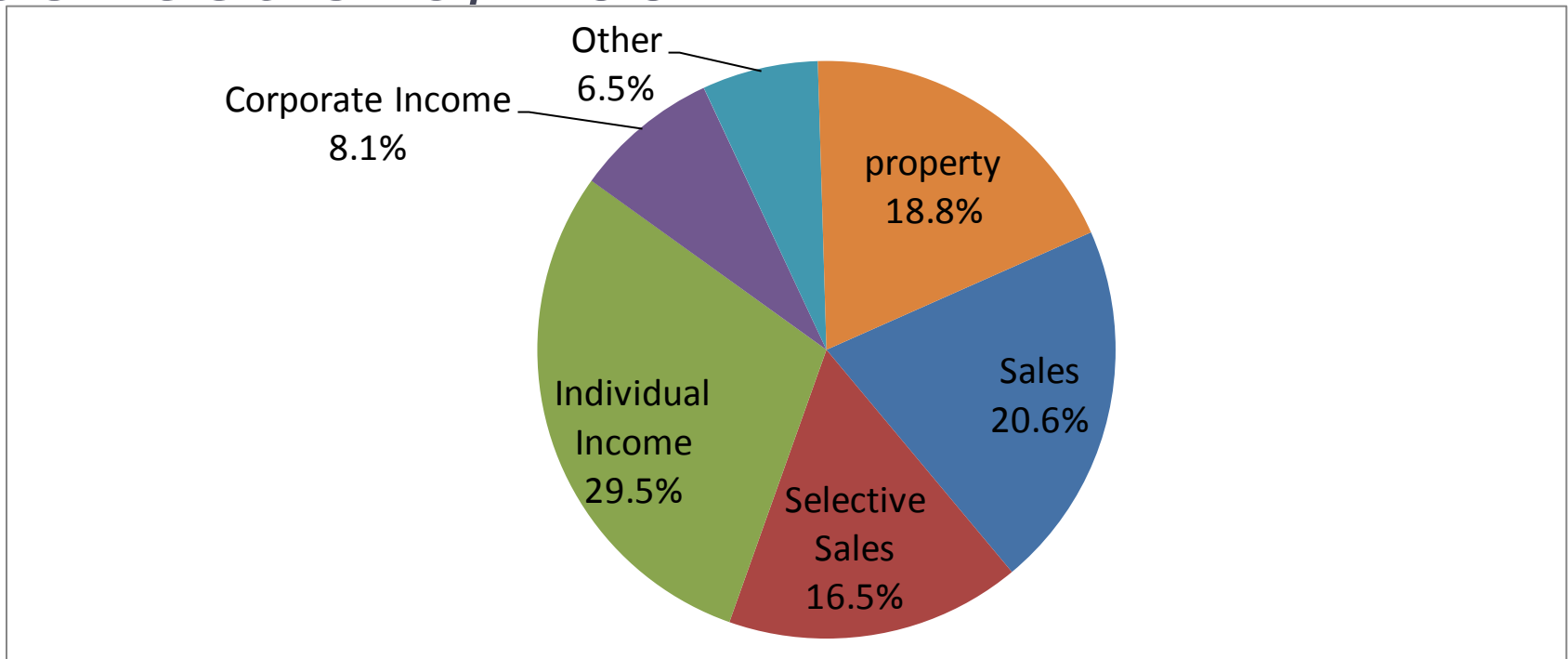
State Nominal and Real Annual Budget Increases, FY 1979-2010



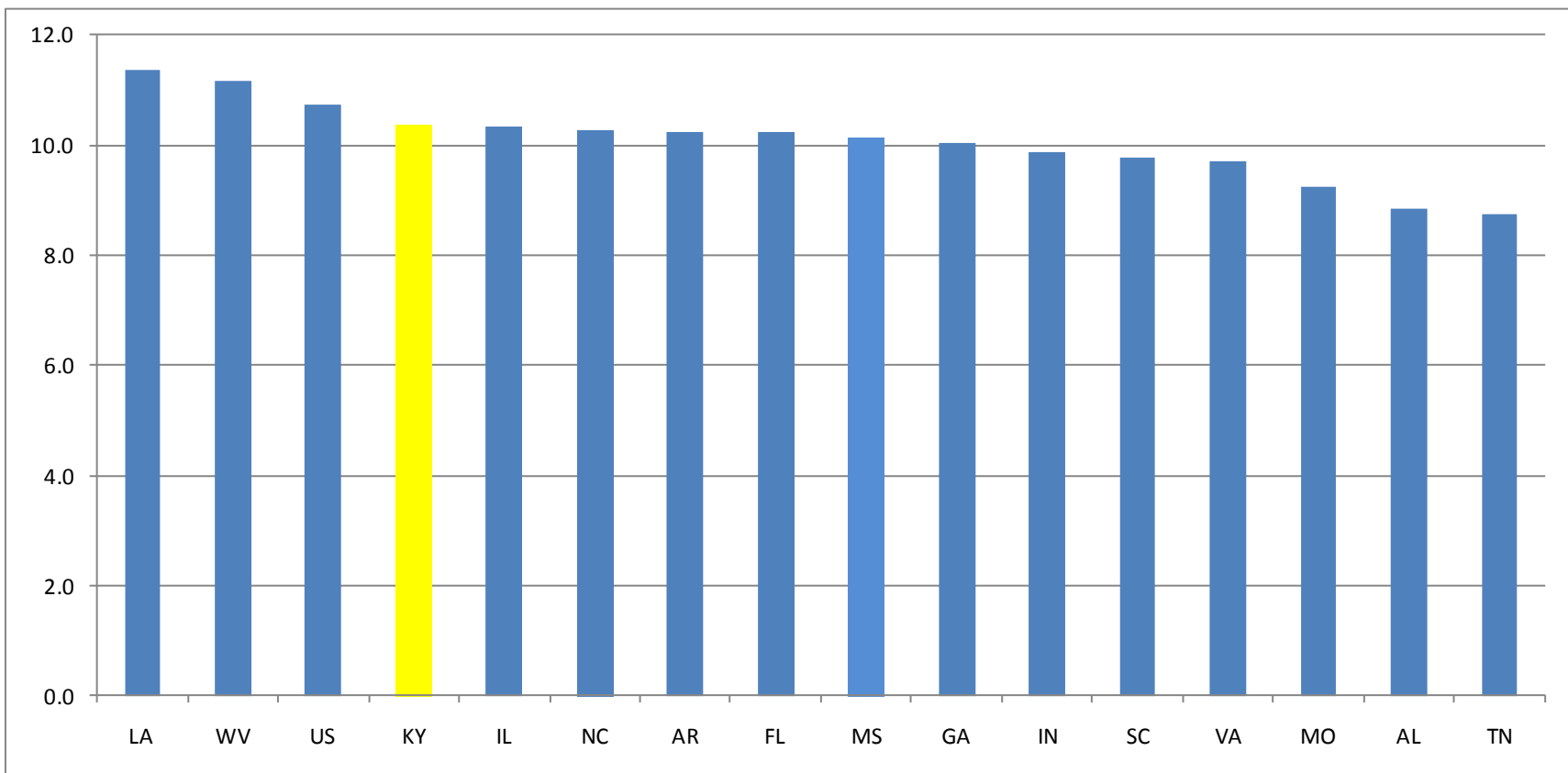
Percentage Distribution of US State and Local Tax Collections, 2007



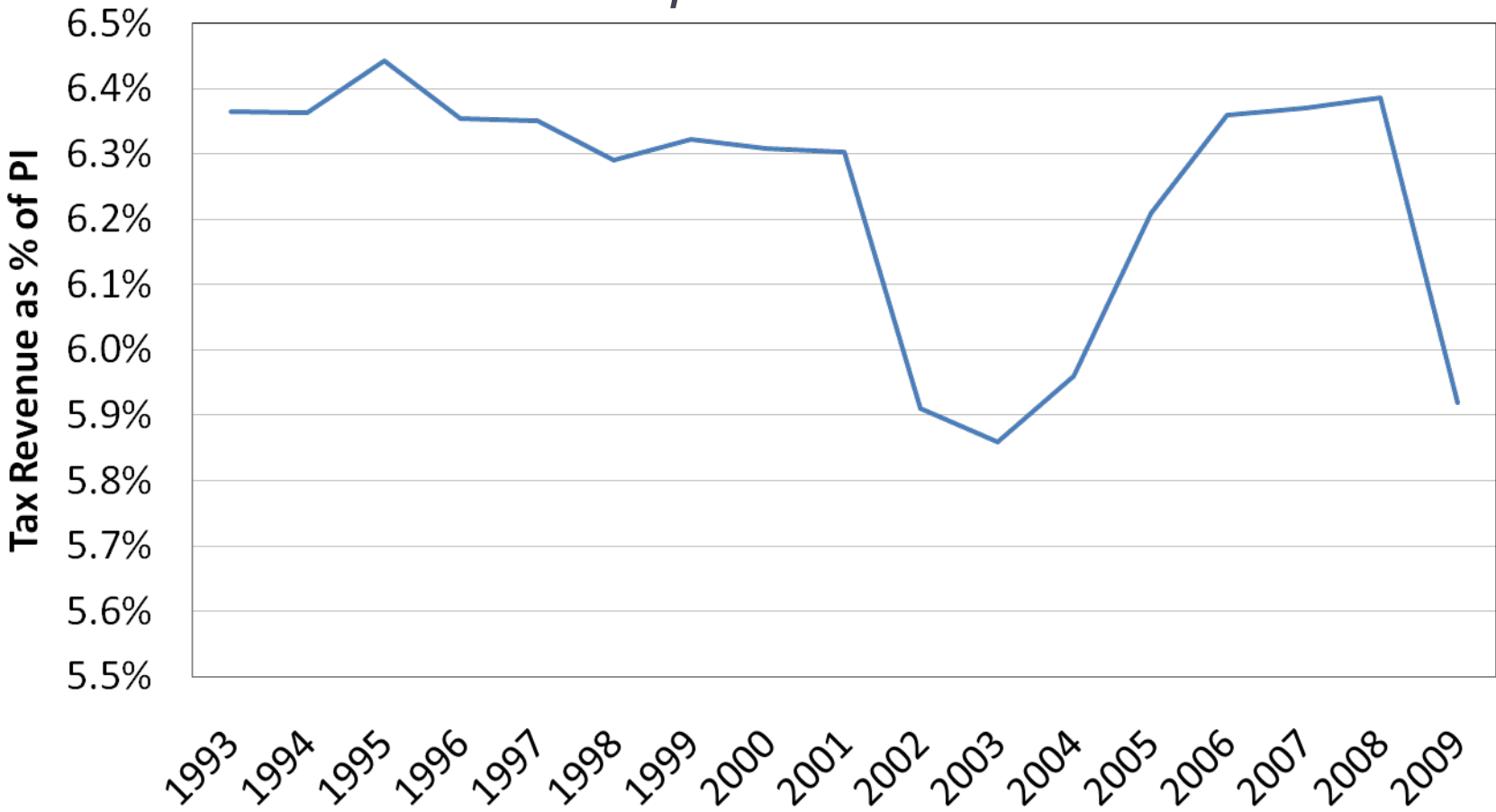
Percentage Distribution of Kentucky State and Local Tax Collections, 2007



State and Local Tax Revenues as a Percent of Personal Income, 2007

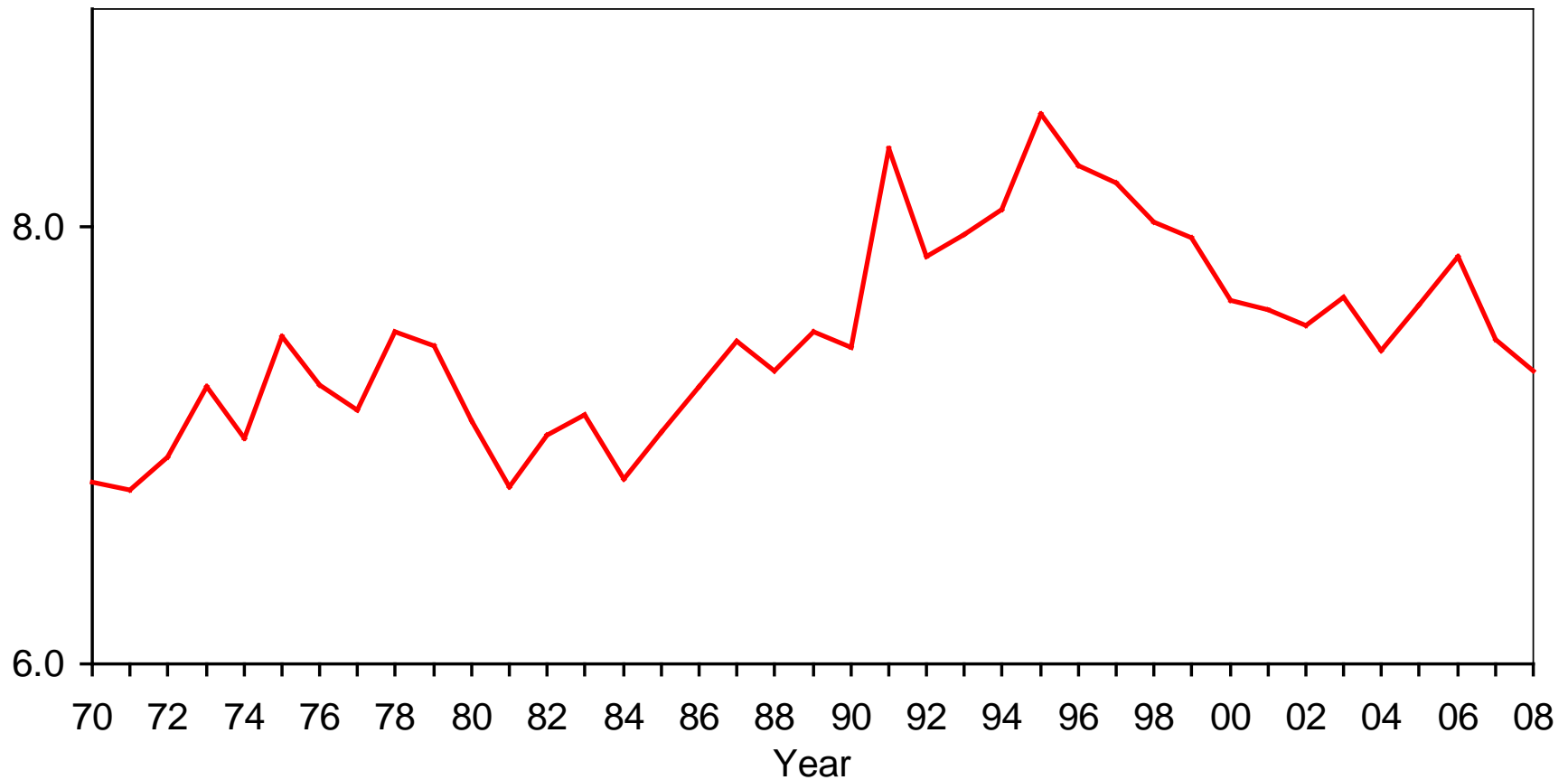


State Tax Collections as a Percentage of Personal Income, 1993-2009

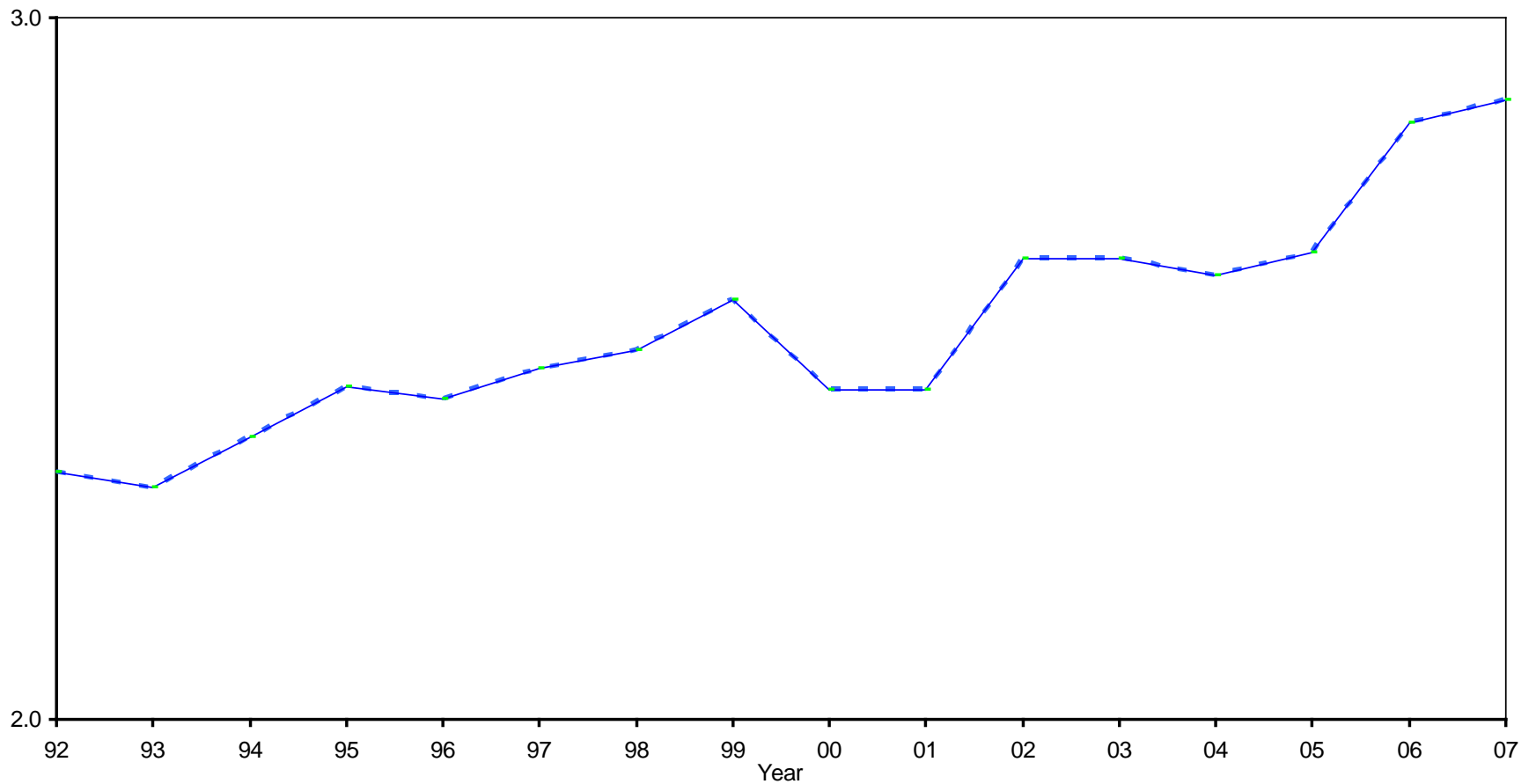


Note: Tax Data for 2009 is by fiscal year; PI for 2009 is based on Global Insight's 10 year baseline forecast.

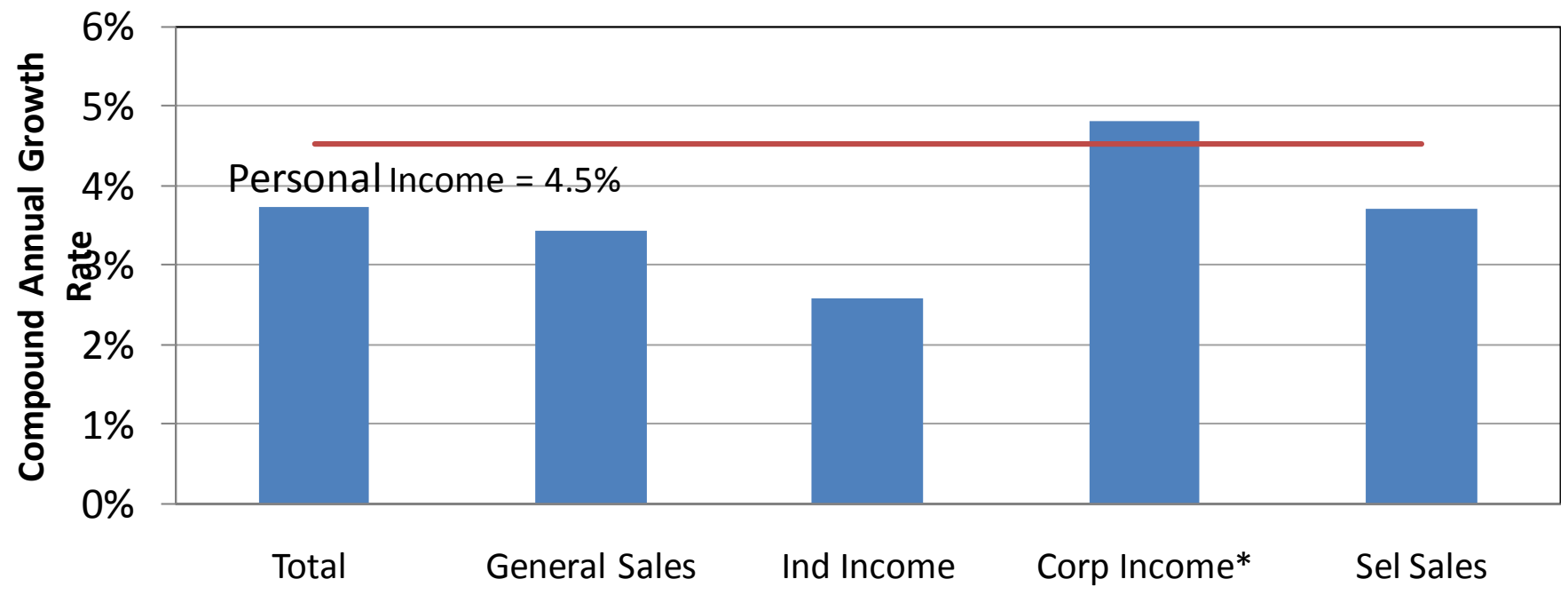
Kentucky State Tax Collections as a Percent of Personal Income



Kentucky Local Tax Collections as a Percent of Personal Income



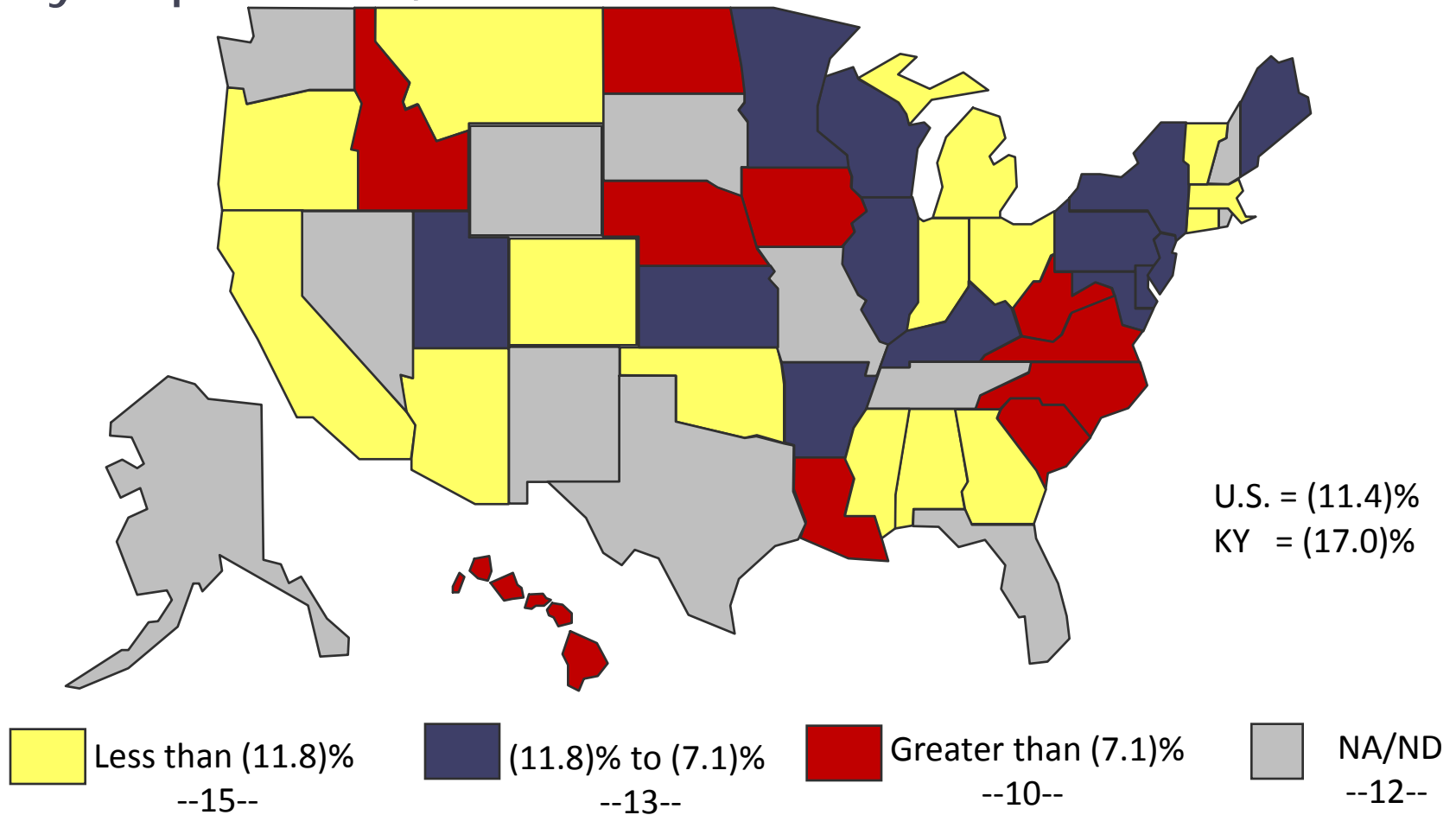
Growth Rate in KY Tax Revenue, 1998-2007



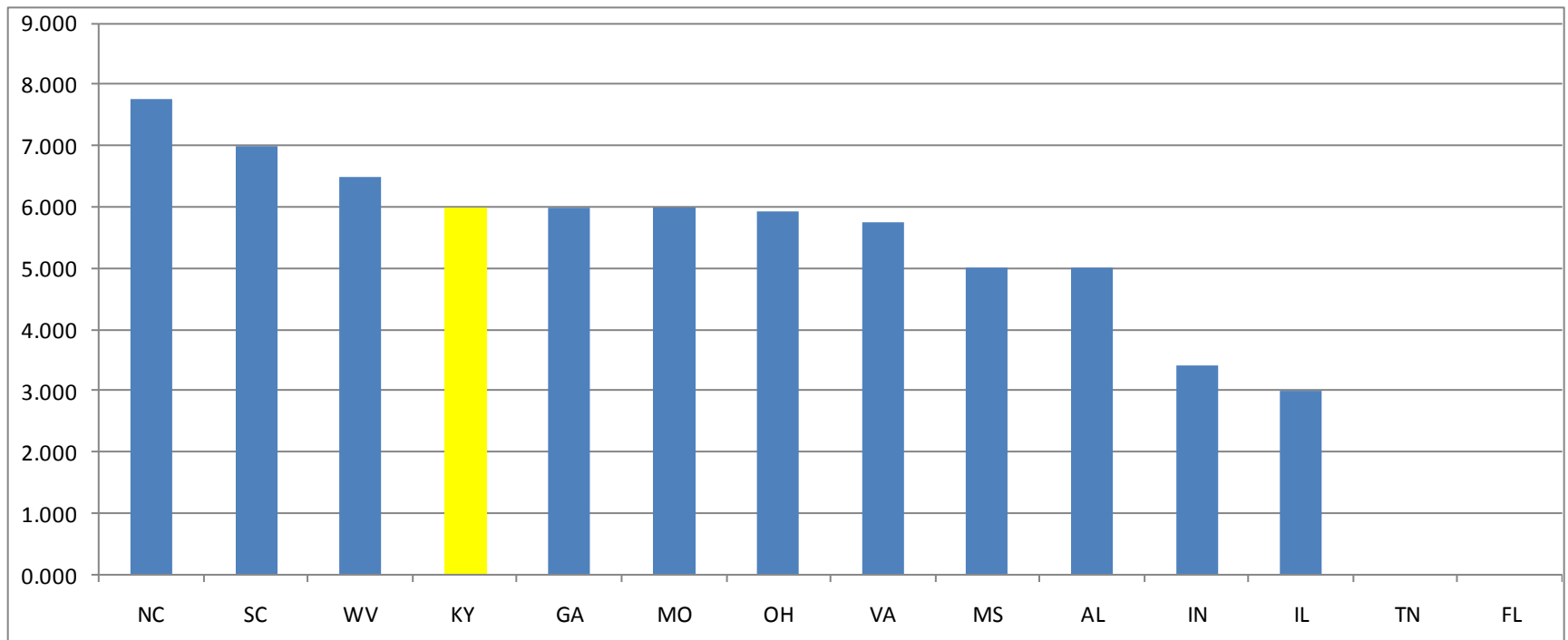
Tax Reforms around the US?

- Lower income tax rates
- Sales Tax
 - Raise sales tax rates
 - Tax more services
- Raise alcohol and tobacco tax rates
- Business tax reform
- Property tax growth caps

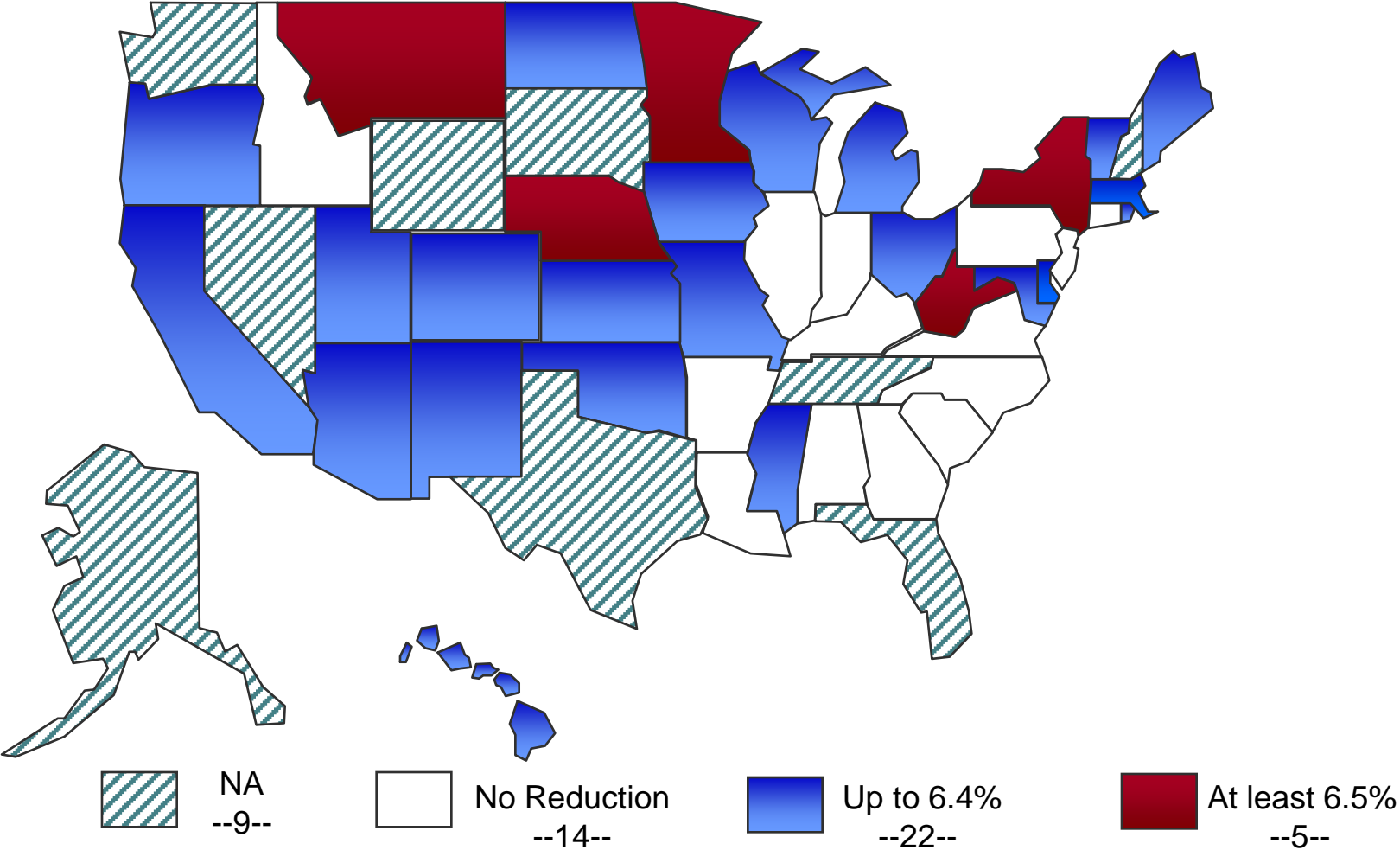
Change in Personal Income Taxes, July-September, 2008 to 2009



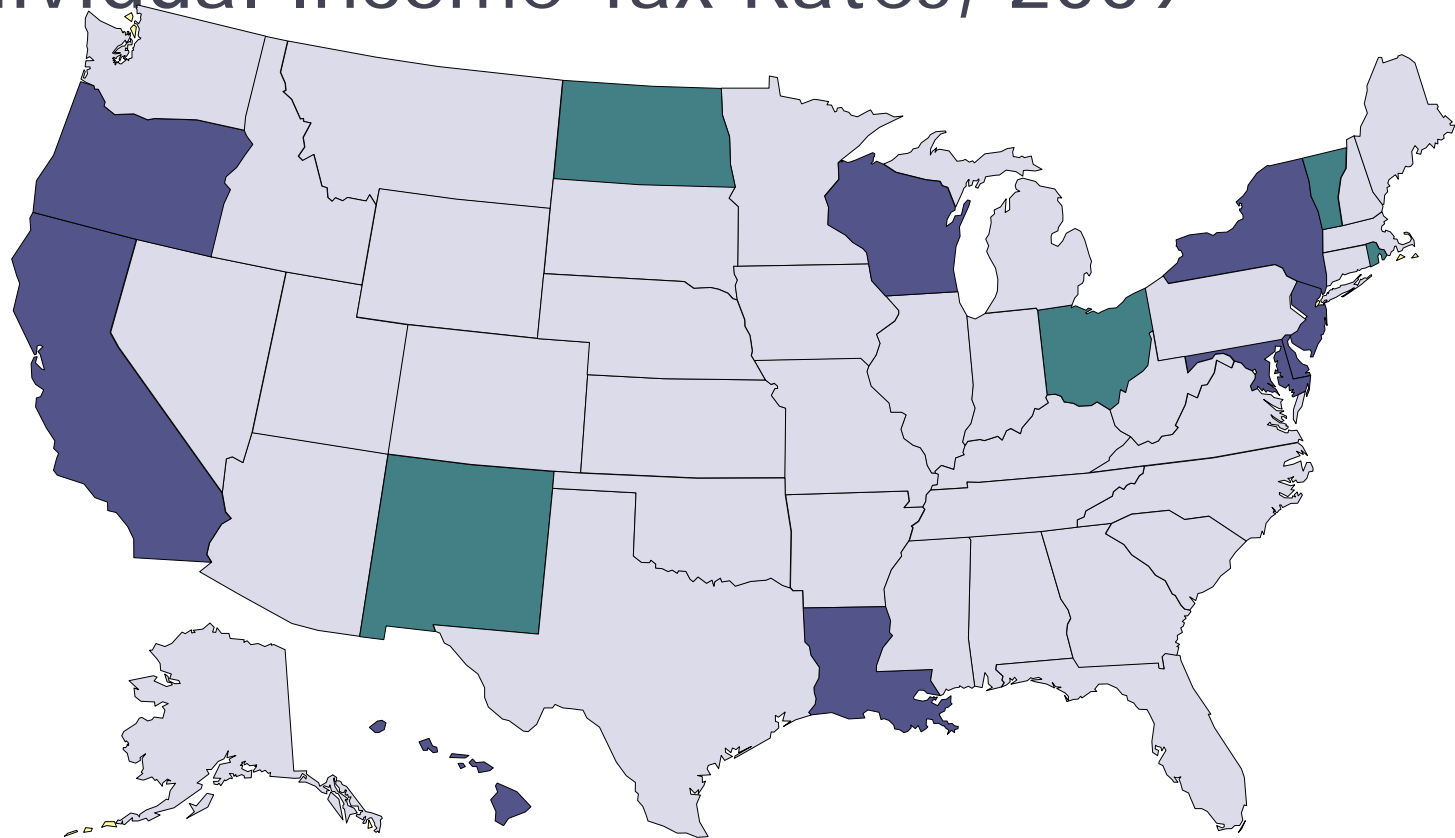
State Income Tax Rates, 2009



Reduction in the Income Tax Rate (1985 to 2007 Highest Marginal Rate)



States with Significant Changes in Individual Income Tax Rates, 2009

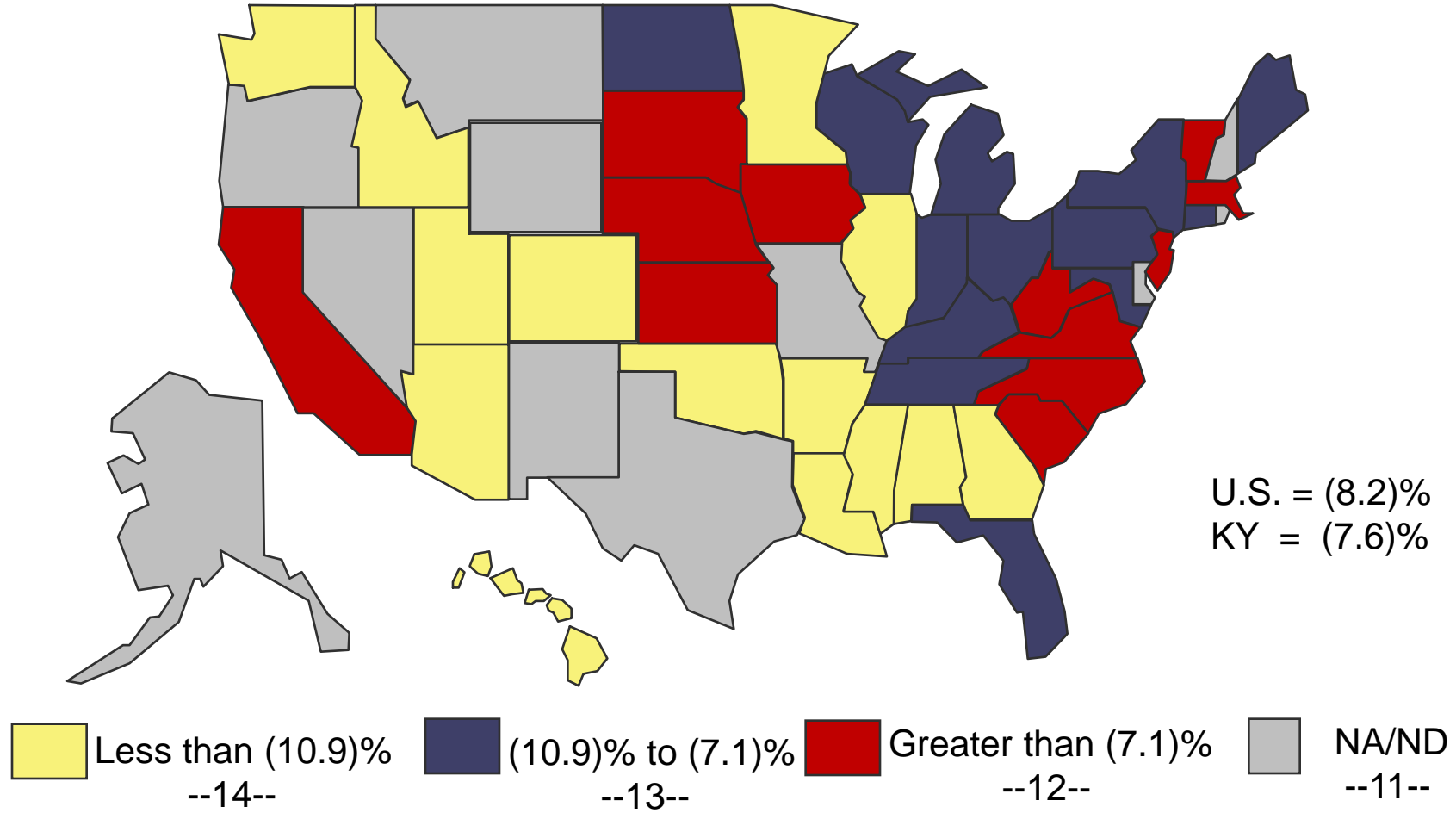


 States with No Significant Change (36)

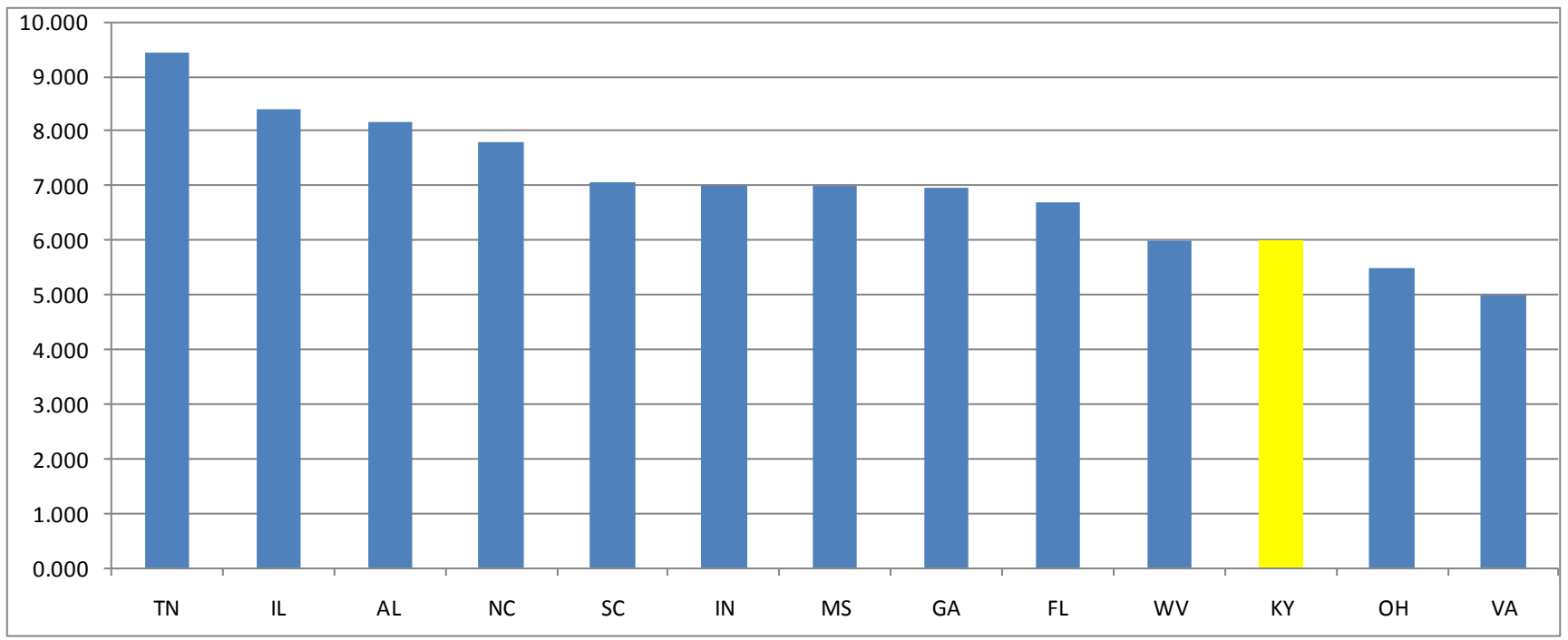
 States with Increases (9)

 States with Decreases (5)

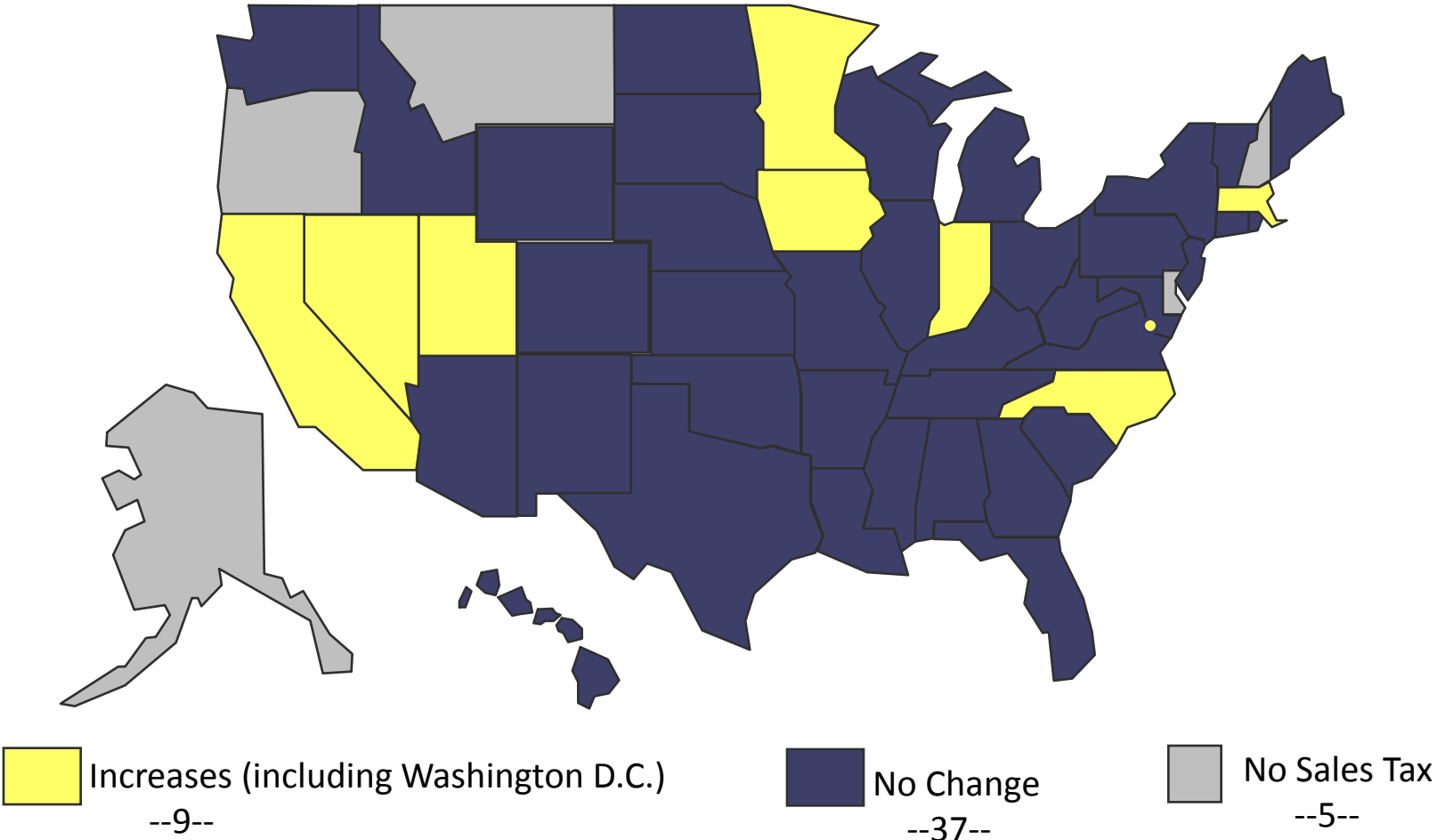
Change in Sales Taxes, July-September, 2008 to 2009



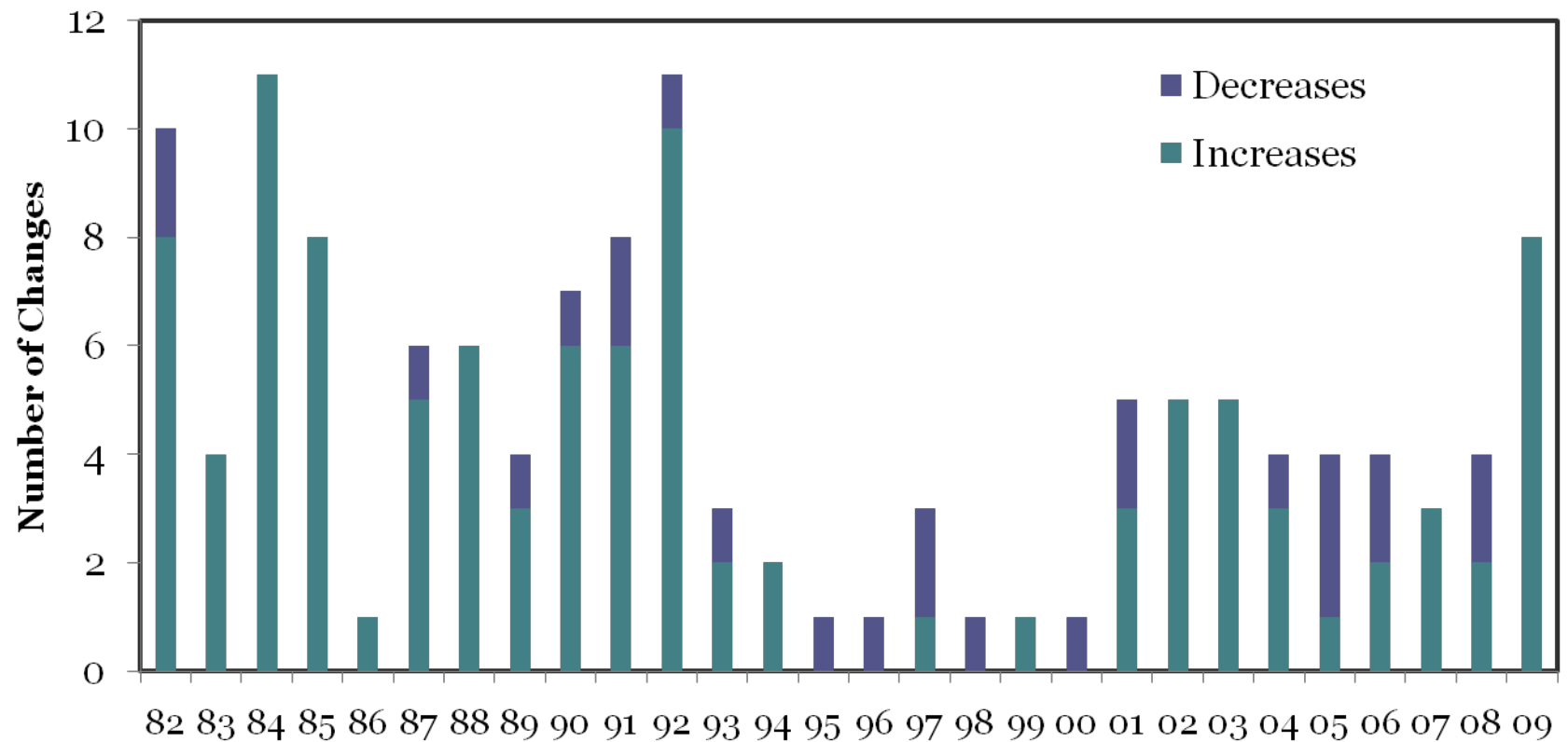
State & Local Sales Tax Rates, 2009



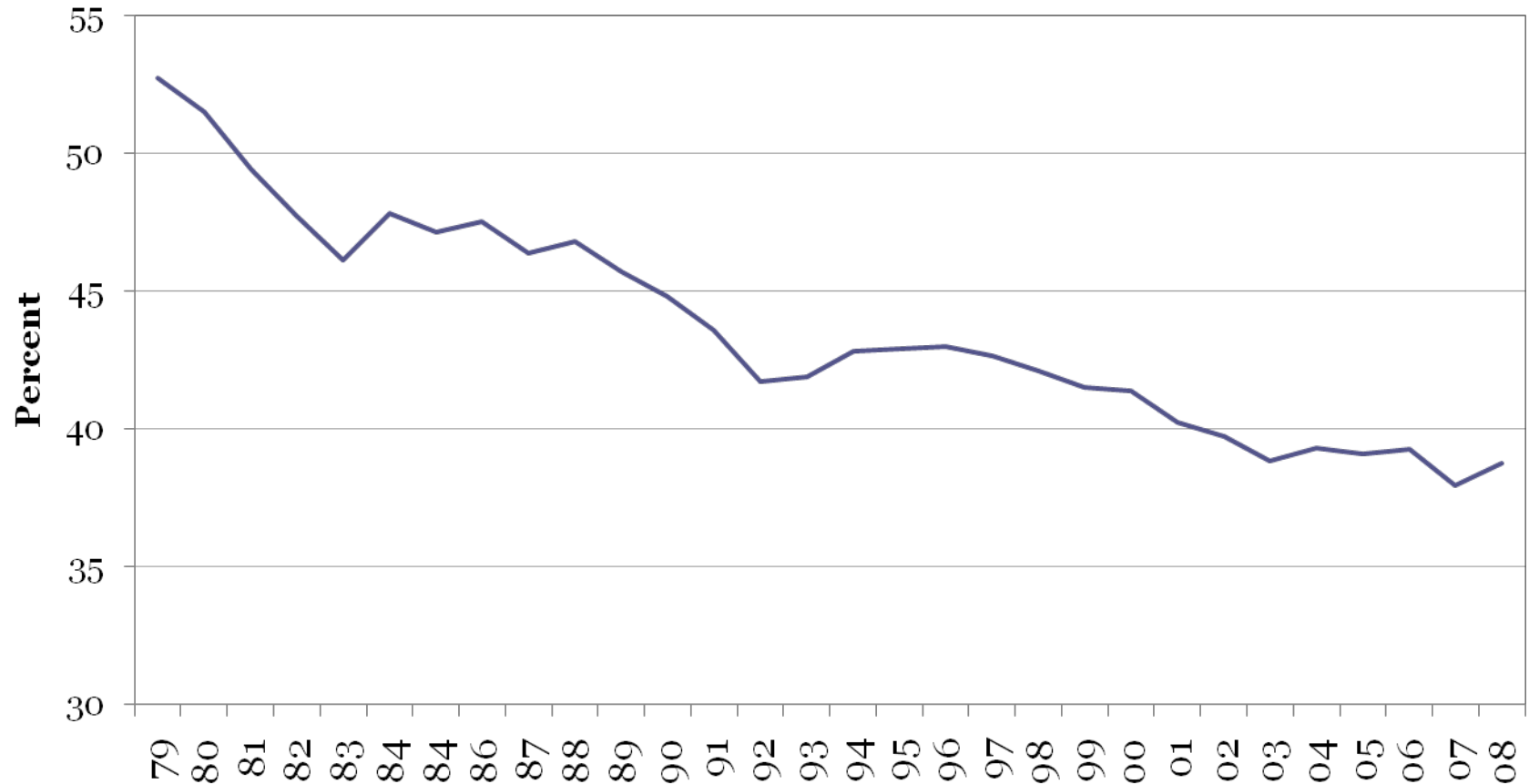
Sales Tax Rate Changes, 2009



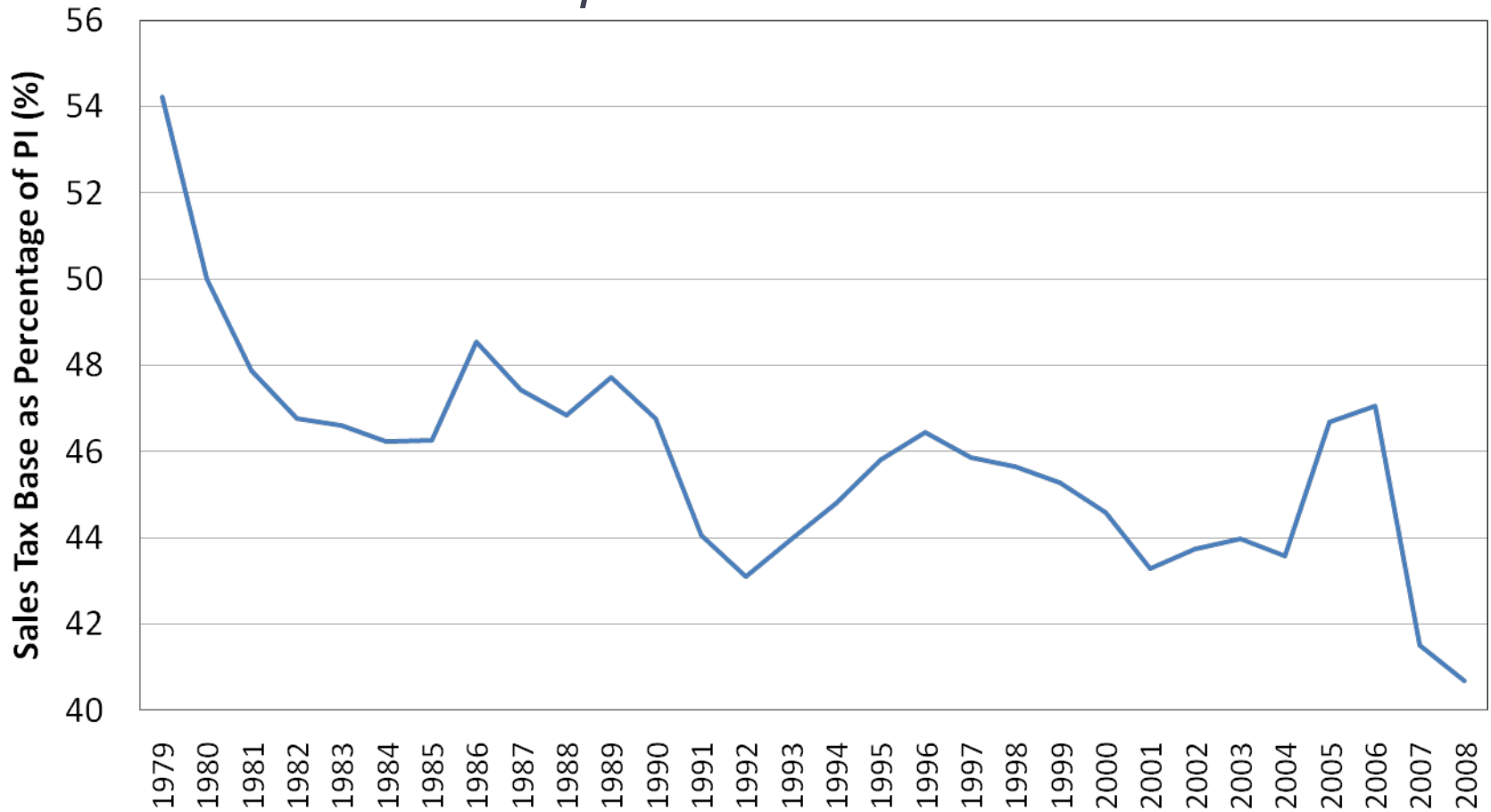
NUMBER OF SALES TAX RATE CHANGES



U.S. SALES TAX BASE AS A PERCENT OF PERSONAL INCOME, 1979-2008

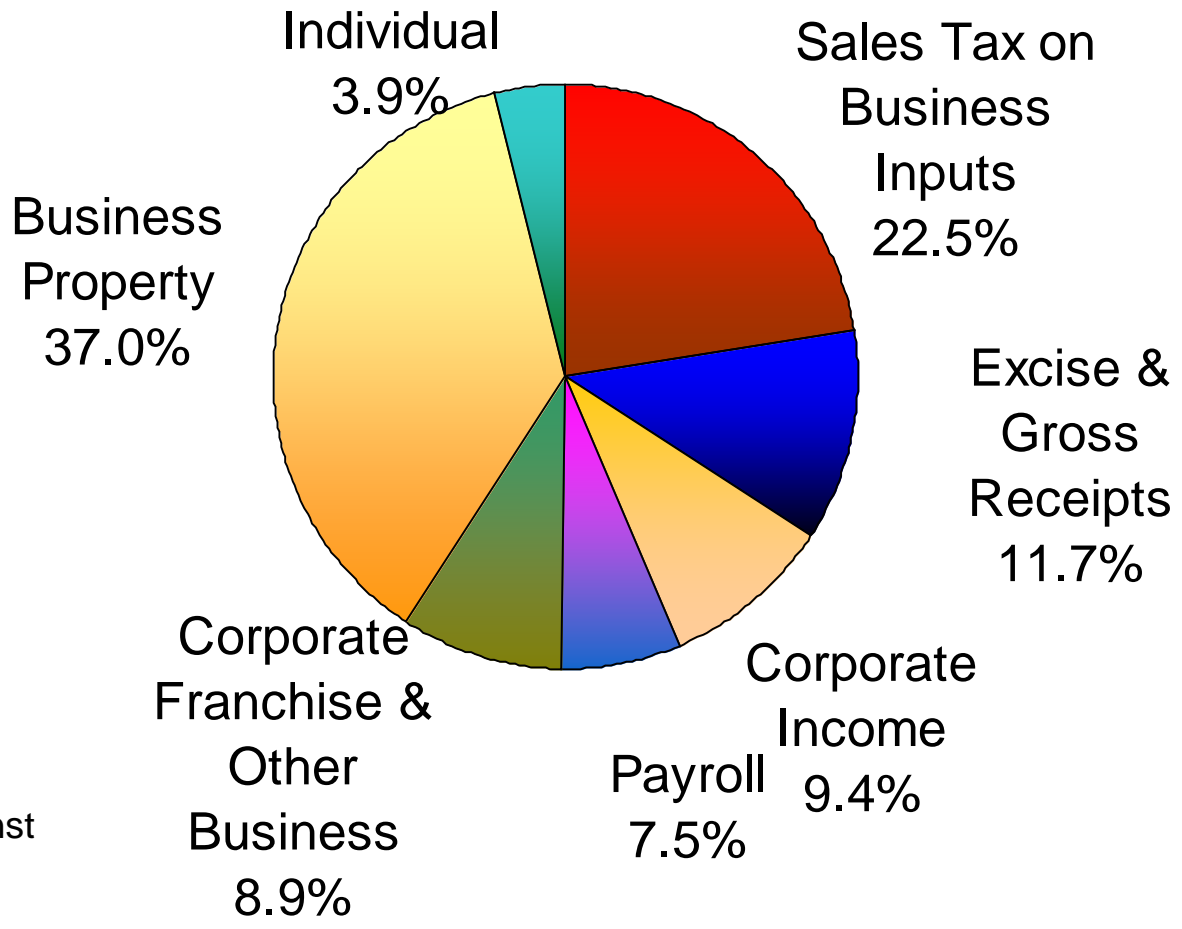


KY Sales Tax Base as a Percentage of Personal Income, 1979-2008



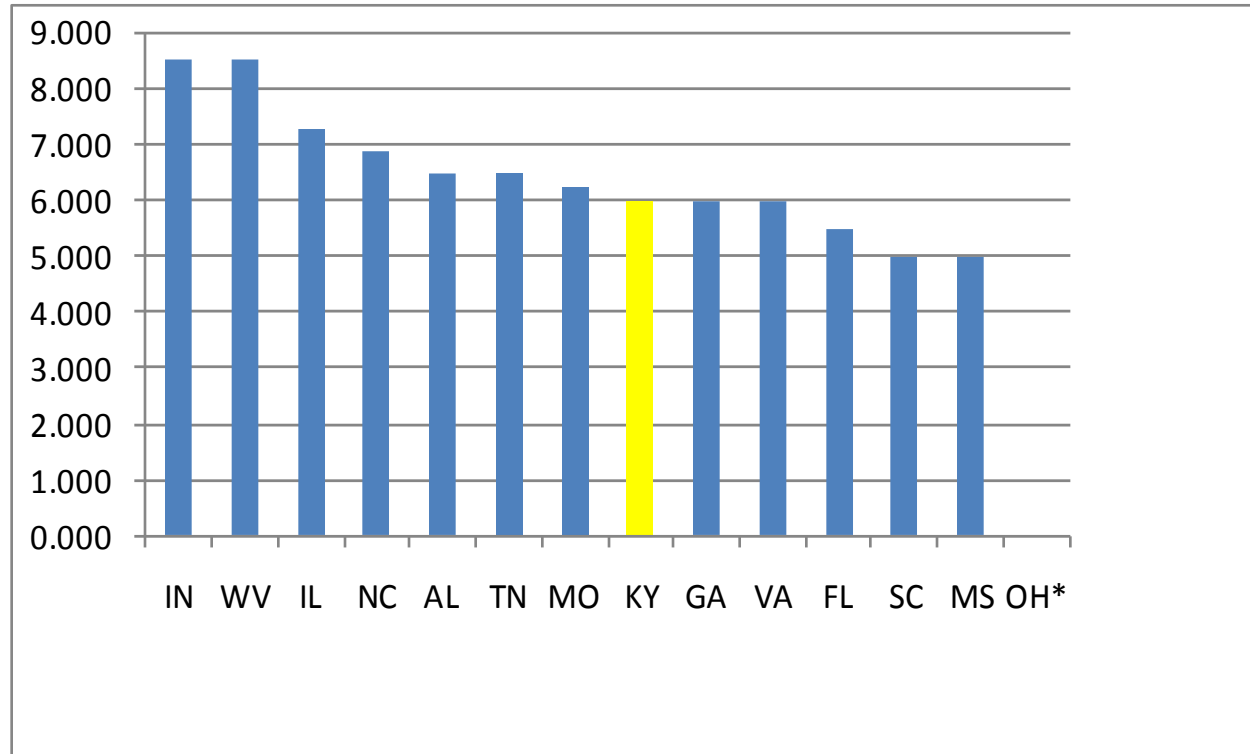


State and Local Business Taxes, 2006



Source: Ernst & Young

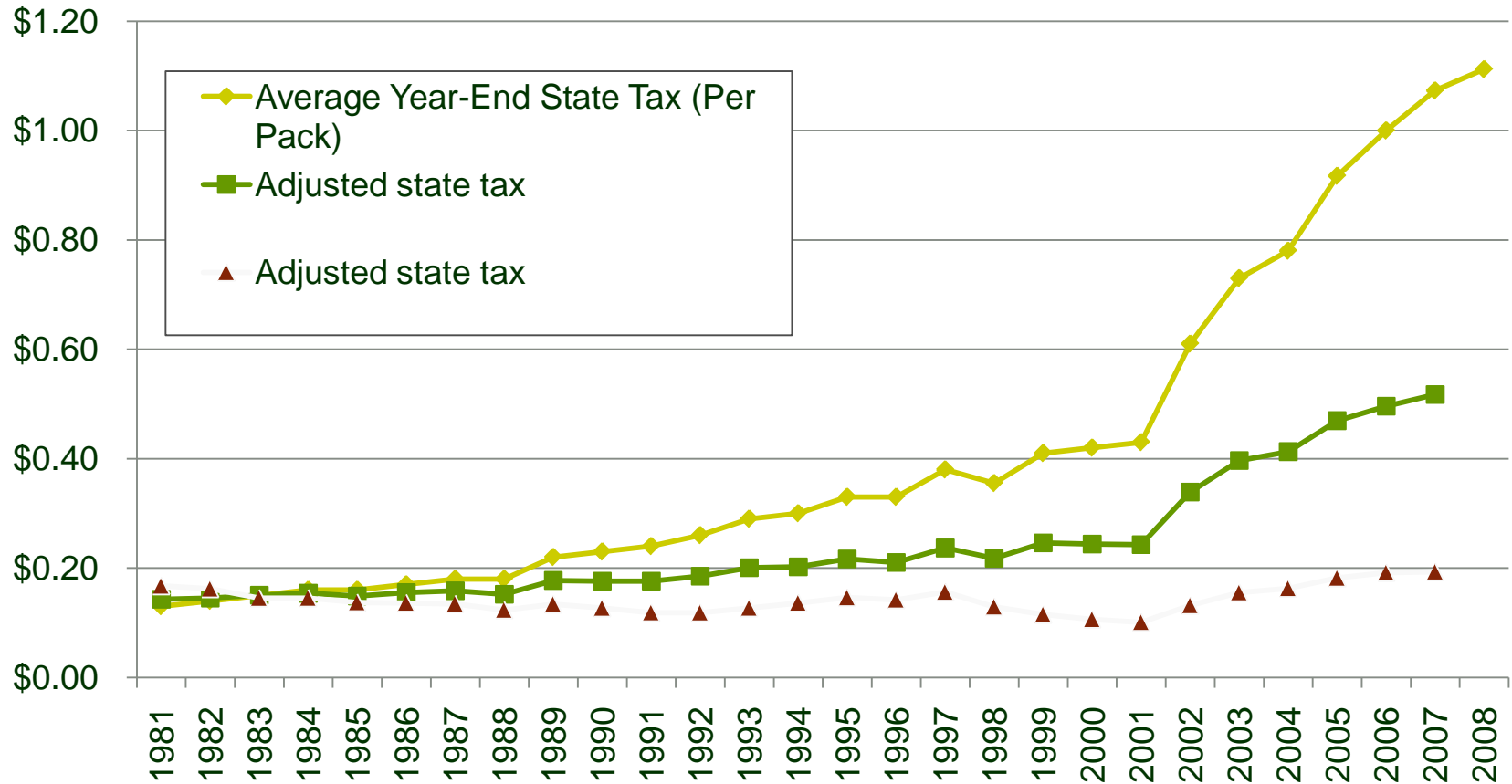
State Corporate Income Tax Rates, 2009



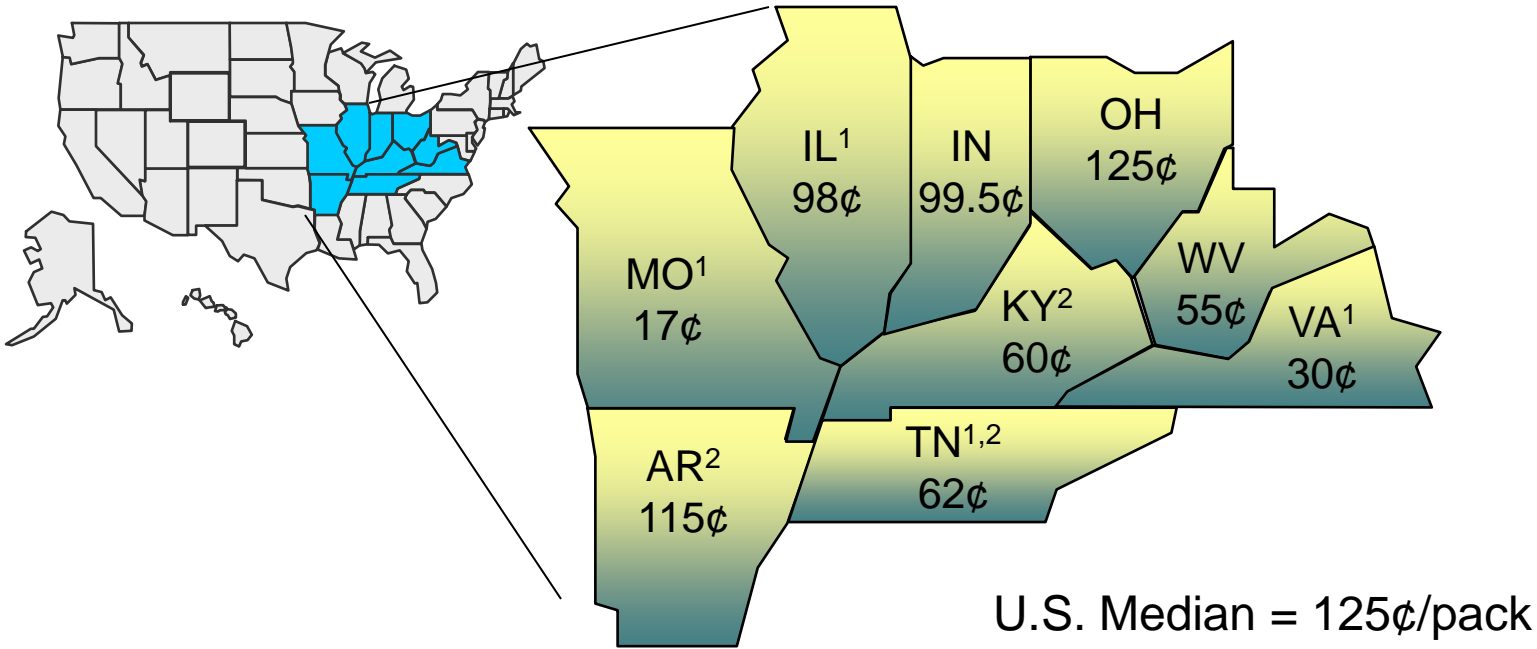
Why Reform State Corporate Income Taxes?

- **Offset shrinking base**
 - Reduce tax planning
- **Broaden set of taxpayers**
 - Unincorporated business
 - Unprofitable firms
 - Firms with out of state locations
- **Reduce tax on instate production – manufacturing**
- **Replace other taxes**

Tobacco Tax Rates



State Excise Tax Rates on Cigarettes, Cents Per Pack (November 2009)



¹ Counties and cities may impose an additional tax on a pack of cigarettes: AL 1¢-6¢; IL 10¢-15¢; MO 4¢-7¢; NYC \$1.50; TN 1 ¢; VA 2¢-15¢.

² Dealers pay an additional enforcement and administrative fee: KY 0.1¢; TN 0.05; AR \$1.25/1,000 cigarettes.

