











KENTUCKY AT A GLANCE

Kentucky has taken progressive steps by modernizing income tax brackets, curbing corporate tax loopholes and publishing an annual tax expenditure report. But the state should look to broaden and modernize its sales tax, as well as enact a state Earned Income Tax Credit.

Has the state...	YES	NO	More Work Needed
1. Broadened sales tax base?		<input checked="" type="checkbox"/>	
2. Modernized sales taxes?	<input checked="" type="checkbox"/>		
3. Raised cigarette tax to US average?		<input checked="" type="checkbox"/>	
4. Enacted Earned Income Tax Credit?		<input checked="" type="checkbox"/>	
5. Modernized income tax bracket?	<input checked="" type="checkbox"/>		
6. Dealt with hidden income tax increases?		<input checked="" type="checkbox"/>	
7. Rethought senior tax preferences?		<input checked="" type="checkbox"/>	
8. Eliminated corporate loopholes?	<input checked="" type="checkbox"/>		
9. Linked property taxes and ability to pay?		<input checked="" type="checkbox"/>	
10. Strengthened accountability?	<input checked="" type="checkbox"/>		
11. Conducted a performance review?		<input checked="" type="checkbox"/>	

A better Kentucky...

Idea 1: Broaden the sales tax base. Kentucky should review sales tax exemptions to eliminate those that don't meet contemporary economic needs. Kentucky is one of the few Southern states without a sales tax holiday.

Idea 2: Modernize sales taxes for the new economy. Kentucky should modernize its policy on taxing services. In 2004, it taxed 29 out of 168 possible services.

Idea 3: Raise cigarette taxes to promote public health.

Kentucky should raise its 30-cent-per-pack cigarette tax to the national average of \$0.92 per pack to reduce smoking and promote public health. Research shows that doing so would likely cause 23,700 current adult smokers to quit. Long-term health savings from both adult and youth smoking declines would be \$845.8 million.

Idea 4: Enact a state Earned Income Tax Credit. Kentucky should enact a refundable earned income tax credit to help to bring working families' incomes above poverty. Some 335,477 Kentucky taxpayers in 2003 claimed the federal earned income tax credit for a total of \$580,496,974. A refundable state EITC would cost an estimated \$57 million if set at 10 percent of the federal credit.

Idea 5: Modernize state income brackets. Kentucky reformed its tax brackets in 2005, making the top rate (6 percent) begin at \$75,000 rather than \$8,000 for single filers. However, the state added a new rate of 5.8 percent at \$8,000, diminishing a portion of the gains from the expanded brackets. Kentucky should consider further modernizing its brackets and rates.

Idea 6: Account for inflation. Kentucky should enact strategies to adjust taxes for inflation to promote long-term *fairness* and reduce back-door inflationary tax hikes. Kentucky does not index personal exemptions, standard deductions, credits or brackets for inflation.

Idea 7: Rethink senior tax preferences. Kentucky should redesign tax codes to provide fair relief to seniors based on *ability-to-pay* instead of age alone. The state, which will grow to having an estimated senior population of 19.8 percent in 2030, currently provides seniors with a full exemption for Social Security income, a private pension income exemption and property tax preferences.

Idea 8: Eliminate corporate tax loopholes. While Kentucky does not require combined reporting, it does restrict the use of the passive investment company (or Delaware-holding company) loophole. Kentucky does not, however, have a throwback rule.

Idea 9: Connect property taxes and *ability-to-pay*. If Kentucky insists on property tax reform, it should use a property tax circuit breaker to shield residents from excessive taxation and connect property taxes with *ability-to-pay*. Kentucky had the 6th lowest property taxes in the nation when measured per capita and the 8th lowest as a percent of personal income in 2002.

Idea 10: Strengthen accountability. Kentucky currently has an annual tax expenditure report.

Idea 11: Review the performance of government. Kentucky should conduct a comprehensive performance review to boost government efficiency, save money and improve customer service. Kentucky hasn't conducted a statewide performance review in the last five years.