

REVENUE OPTIONS

TO MEET OBLIGATIONS
AND PROTECT INVESTMENTS

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Kentucky Center for Economic Policy

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ABOUT US

The Kentucky Center for Economic Policy is a non-profit, non-partisan initiative that conducts research, analysis and education on important policy issues facing the Commonwealth. Launched in 2011, the Center is a project of the Mountain Association for Community Economic Development (MACED). For more information, please visit KCEP's website at www.kypolicy.org.



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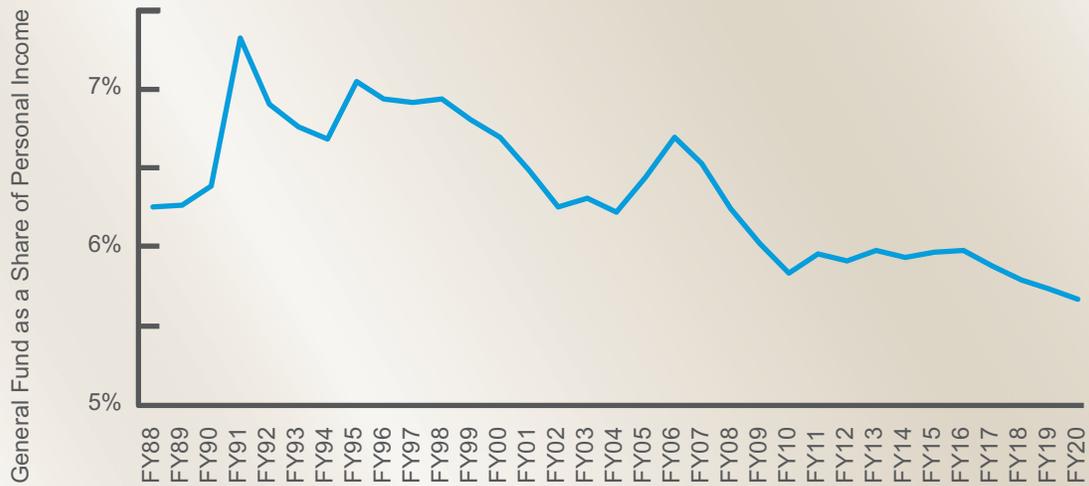
This menu of revenue options describes some of the main ways to improve investments in our commonwealth. Currently, too many tax breaks drain money that is needed to shore up and sustain public schools, higher education and workforce development; teacher and state worker pension systems; preschool, child care and other family supports; health care, public and mental health; and other priorities. Cleaning up tax breaks will generate new revenue to invest in the building blocks of our state and meet our obligations, making Kentucky stronger.

Kentucky's fiscal challenges were exacerbated by the Great Recession, but pre-existing structural problems with the tax code hold back revenue even when the economy is strong. Due to tax breaks growing in both size and number, the General Fund has deeply eroded as a share of our economy since the early 1990s after tax changes as a part of the Kentucky Education Reform Act (KERA) were passed. Following KERA, new General Fund revenues in 1991 exceeded \$700 million—the majority from getting rid of income tax breaks. But as the graph on the next page shows, today the General Fund is even smaller as a share of our economy than it was before KERA. If the General Fund were still 7.3 percent of the economy as it was in 1991 instead of the 5.9 percent it was in 2017, we would have had \$2.6 billion more in 2017 to invest in Kentucky.

We can restore the ability of revenue to keep up with growth in the economy by cleaning up tax breaks—particularly, tax breaks that disproportionately benefit the wealthy and special interest groups. Because of vast inequalities in our economy today, those at the top are taking home the lion's share of growth. Yet by taxing those at the top the least as a share of income, our tax system does not adequately track this growth. As the next graph shows, Kentucky's tax system is mostly upside-down (regressive), with the wealthiest Kentuckians (who take home about \$1 million a year on average) paying less as a share of their income in state and local taxes than all other Kentuckians; and moderate- to middle-income Kentuckians paying the most. Improving the fairness of our tax code will also improve the ability of revenue to sustain over time.

Conversely, changes that make our tax system more upside-down will weaken revenue growth needed to invest in thriving communities. Asking more of low- to middle-income Kentuckians through a shift to “consumption,” or sales taxes, and asking less of wealthy Kentuckians by reducing income taxes, will make our tax system even less fair and reliable. Furthermore, evidence does not support the theory that lowering income taxes spurs states' economic and revenue growth.

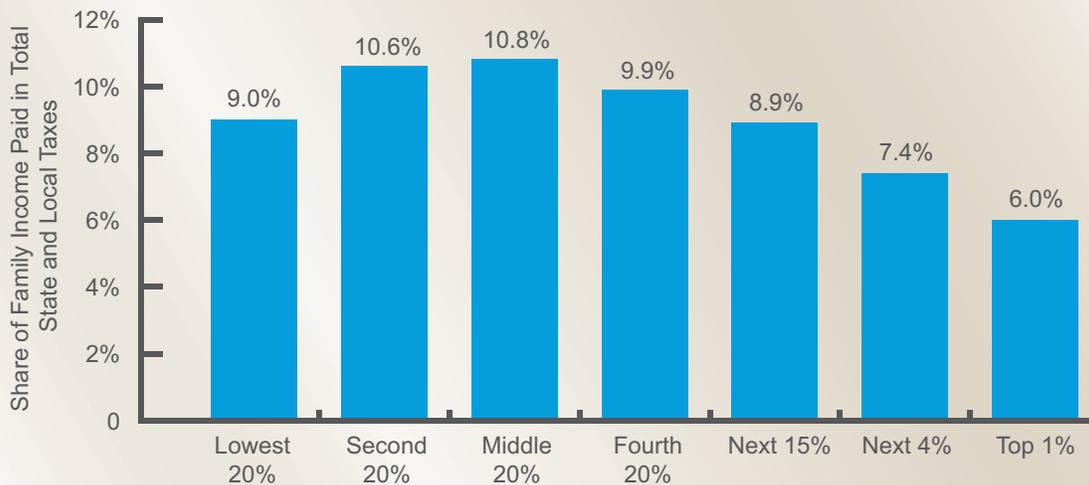
FORECAST SHOWS KENTUCKY'S GENERAL FUND WILL CONTINUE SHRINKING RELATIVE TO STATE'S ECONOMY



Source: KCEP analysis of data from the Office of the State Budget Director (OSBD) and the Bureau of Economic Analysis (BEA).

The following pages identify concrete options for raising revenue to strengthen investments in Kentucky. The next page provides a worksheet for listing options and estimating their combined impact. A caveat is that, due to interactions between various options, simply adding individual estimates together will provide an incomplete picture of the potential fiscal impacts. For instance, broadening the income tax base by capping itemized deductions and adding new top brackets would generate more revenue than the sum of the individual estimates provided here.

IN KENTUCKY'S UPSIDE-DOWN TAX SYSTEM, THE WEALTHIEST PAY THE LEAST AS A SHARE OF INCOME



Source: Institute on Taxation and Economic Policy.

LIMIT INCOME TAX BREAKS

Kentucky's individual income tax exemptions and deductions are expensive and primarily benefit higher-income people who, overall, pay a smaller share of income in total taxes than middle- and low-income Kentuckians. Reducing these giveaways will increase the capacity of the income tax to grow with the economy to help provide adequate and sustainable funding for investments that benefit the entire commonwealth. Contrary to what opponents of the income tax say, these reforms would not drive people away from Kentucky: The overwhelming evidence shows few people move across state lines, and when they do, it's for jobs, family, climate and other quality of life factors—not taxes.

DEDUCTIONS

Kentucky allows individual income tax filers to reduce taxable income by amounts paid in home mortgage interest, charitable donations, state and local taxes paid, medical expenses and other costs. These deductions are costly and the tax breaks they provide are not well targeted: Typically, only higher-income filers have enough qualifying expenditures to itemize deductions and those with bigger homes and in higher tax brackets can claim more breaks. The home mortgage interest deduction is especially poorly targeted because it subsidizes homeowners but not renters and applies to interest on up to two homes.

- **Follow surrounding states and simplify filing by shifting from itemized deductions to the existing standard deduction of \$2,460 for all—\$367 million.**

Source: Institute on Taxation and Economic Policy (ITEP).

In addition to saving money and making taxes fairer, this option would simplify filing. One out of four states with a broad-based income tax do not allow the majority of federal itemized deductions, and the majority of Kentucky's surrounding states—Indiana, Ohio, Illinois and West Virginia—do not allow any deductions at all. The top 20 percent of income earners would generate 66 percent of the revenue from this change and the top 40 percent would generate 88 percent.

- **Shift from itemized deductions to an increased standard deduction, and phase the standard deduction out for those at the top—\$205 million.**

Source: ITEP.

Increasing the standard deduction to \$4,000 and phasing it out for high-income earners between \$100,000 and \$200,000 would provide a tax cut to the bottom 40 percent of people on average, result in no tax change for the middle 20 percent and generate revenue from higher-income households.

- **Cap the total value of itemized deductions a filer can claim at \$17,500—\$200 million.**

Source: Legislative Research Commission (LRC).

- **Replace itemized and standard deductions with a credit at five percent of total deductions—\$115 million.**

Source: ITEP.

Instead of being able to deduct expenditures from adjusted gross income (AGI) to reduce taxable income, under a (non-refundable) credit-based system, individuals would receive a credit worth a certain percentage of deductions (itemized or the standard) to reduce their tax liability.

- **Replace itemized and standard deductions with a credit at three percent of total deductions—\$323 million.**

Source: ITEP.

RETIREMENT INCOME EXCLUSION

Kentucky excludes the first \$41,100 of a retiree's income from taxation regardless of how high a person's total income is—far more generous than the vast majority of states including five of Kentucky's six neighbors. A married couple using the full exemption and receiving the average amount of Social Security income could have \$110,000 in untaxed income annually. The exclusion is wide-ranging, and even applies to IRAs used primarily as tax shelters by higher-income people.

Retirees should pay a fair share toward the state investments that benefit them, especially those who are higher income. Otherwise, the state must rely more heavily on working families raising children who pay income taxes. Reducing the exclusion would save money and make our tax system fairer, and would not impact the state's exemption of Social Security income. Research also suggests that reducing or repealing this exclusion would not affect the migration patterns of retirees.

- **Reduce the retirement exclusion to \$35,000 and phase it out dollar for dollar—\$220 million.**

Source: LRC.

Under this proposal, retirees with up to \$35,000 in AGI would still be exempted (and Social Security income would remain untaxed), but for every dollar in AGI above the threshold, the exemption would be reduced by a dollar, such that those individuals with an AGI of \$70,000 and over would receive no exclusion.

- **Phase out the retirement exclusion for federal AGI between \$80,000–\$100,000—\$176 million.**

Source: Office of the State Budget Director (OSBD).

Retirees with an AGI of up to \$80,000 would still receive the entire \$41,110 exemption; for those with an AGI over \$100,000, no exemption would be available; and for those in between, the exemption is phased out by about two dollars for every dollar in AGI over \$80,000.

INCOME TAX BRACKETS AND RATES

Kentucky's top individual income tax rate is six percent for filers with an AGI of over \$75,000. Eighteen states and the District of Columbia have a higher top rate, including West Virginia's (6.5 percent for income over \$60,000). Adding a tax of a half-penny or more on the dollar for incomes above six figures would generate significant new revenues from those whose incomes are growing the most.

- **Create a new top rate of 6.5 percent for income over \$100,000—\$62 million.**

Source: ITEP.

- **Create a rate of 6.5 percent starting at \$100,000 and 7.0 percent starting at \$250,000—\$96 million.**

Source: ITEP.

- **Create a rate of 6.5 percent at \$100,000 and 7.0 percent at \$250,000 and phase out lower rates for income from \$250,000 to \$300,000—\$130 million.**

Source: ITEP.

Phasing out their ability to run income through lower marginal tax rates would generate revenue from the wealthiest Kentuckians, requiring those at the very top to pay seven percent on all income.

- **Create new rates of 6.5 percent starting at \$100,000, 7.0 percent starting at \$250,000, 7.5 percent starting at \$500,000 and 8.0 percent starting at \$1 million—\$150 million.**

Source: ITEP.

- **Create an income tax surcharge of three percent on income over \$1 million—\$79 million.**

Source: ITEP.

OTHER IIT REFORMS

- **Repeal the postsecondary education tuition tax credit—\$18 million.**

Source: OSBD.

Individuals may deduct a nonrefundable credit for tuition and related expenses of up to 25 percent of the federal American Opportunity Tax Credit. Because people living below the poverty line owe no state income taxes, they receive no benefit from this program. Yet need-based financial aid programs are consistently underfunded. A state higher education work group recommended repealing this credit and diverting the funds to need-based aid.

- **Repeal the \$10 individual income tax credit—\$33 million.**

Source: OSBD.

Kentuckians receive a \$10 credit against individual income taxes. Repealing it would not significantly affect filers' ability to pay since the Family Size credit supports low-income Kentuckians.

- **Simplify filing by having married couples file joint returns—\$73 million.**

Source: OSBD.

Requiring married Kentuckians to use the same filing status they do for federal income taxes would remove their ability to run each spouse's income through the entire marginal rate schedule. Very few states allow this filing status and removing it would simplify tax filing.

BRING SALES TAX INTO THE 21ST CENTURY

Kentucky's sales tax has not kept up with a changing economy in which a growing share of consumer spending is on services as well as online purchases. Bringing the sales tax up to date would generate revenue to invest in a stronger state, including in a workforce with better-paying jobs and more disposable income to buy goods and services.

BROADEN THE SALES TAX BASE TO INCLUDE MORE SERVICES

Compared to other states, Kentucky taxes very few services—only 28 of the 168 services that at least one state taxes. Bringing more services into the base will generate new revenue, increase the sustainability of sales tax revenue over the long term and end the distorting effect of discounting services over goods. In the same way that Kentucky exempts goods such as food and prescription drugs from sales taxes that otherwise would fall heavily on low-income Kentuckians, taxation of services should be as progressive as possible.

- **Expand the base** to include luxury and other services such as country club and golf club membership fees, janitorial services, armored car and security, pest control services, landscaping, car washing, limousine and commercial linen services—**\$115 million.**

Source: LRC.

- **Expand the base** according to these principles: "household-consumption based, luxury items, services that have a clear nexus to Kentucky, ties to physical products already taxed, services with an inelastic demand [and] sensitive to border state sales taxes"—**\$176.4 million.**

Source: Blue Ribbon Commission on Tax Reform (BRC).

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- **Expand the base** to include “the labor associated with the installation and repair of taxable goods, certain recreational activities, certain commercial and residential services, and several personal services” — **\$280 million.**

Source: OSBD.

TAXING ONLINE PURCHASES AND OTHER SALES TAX REFORMS

- **Enact click through or affiliate nexus provisions (Amazon laws) to help stem the loss of sales tax revenues from online purchases — Indeterminable.**

Click through/affiliate nexus statutes require the collection of sales tax on purchases made from online retailers that do not have a physical presence in the state, and thus cannot be otherwise required to collect sales tax. These provisions assume physical presence when, in order to direct traffic and sales to the out-of-state retailer’s online platform, the retailer enters into a relationship with an in-state retailer. Currently 28 states have some form of click through nexus provisions to help prevent erosion of the sales tax base as more and more purchases are made remotely.

- **Clarify that the sales tax is applicable to all prewritten software, regardless of method of delivery (i.e. that it applies to internet downloads) — \$5 million.**

Source: OSBD.

- **Clarify that sales tax and transient room taxes are applicable to all costs of hotel accommodation, including payments to online booking agents — \$5 million.**

Source: OSBD.

- **Repeal the exemption for pollution control facilities — \$32.5 million.**

Source: OSBD.

This exemption was originally enacted to encourage the installation of pollution control facilities at steel-making facilities. Subsequently, federal law required installation of pollution control facilities so this exemption no longer serves its original purpose.

- **Repeal exemptions for repair and replacement parts for large trucks and the purchase of trailers and semi-trailers — \$7.5 million.**

Source: OSBD.

- **Repeal the exemption for vessels and maritime supplies — \$6.4 million.**

Source: OSBD.

- **Repeal the exemption for tombstones and other grave markers — \$8.5 million.**

Source: OSBD.

TIGHTEN CORPORATE TAX LOOPHOLES AND BRING BUSINESS TAX BREAKS UNDER SCRUTINY

Current laws allow large corporations to escape taxation through a variety of accounting strategies that small businesses can rarely use. Profits sheltered from corporate taxation often go to out of state shareholders and executives, circumventing Kentucky’s General Fund and its economy altogether. Kentucky tax laws also give many tax breaks to businesses promising to create jobs in Kentucky. Even though the cost-effectiveness of these

incentives is questionable, they are not routinely scrutinized by state lawmakers or weighed against other types of spending.

As a result, many businesses that profit from Kentucky's public investments are not paying a fair share and the responsibility to fund state priorities falls more heavily on individuals and families. Addressing these problems would not hurt our economy or our ability to grow jobs. Corporate taxes account for a very small portion of business expenditures, and therefore factor little in businesses' decisions about where to locate and hire employees especially compared to skills of the workforce and quality of the infrastructure.

In addition to the changes below, Kentucky could also generate additional revenue by adjusting its corporate income tax rates to correspond to the higher, graduated income tax rates identified above under the individual income tax. Currently, Kentucky's top corporate income tax rate is six percent, lower than 31 other states and the District of Columbia.

■ **Close loopholes by enacting combined reporting and throwback rule—\$66 million.**

Source: LRC.

Combined reporting requires large corporations to include profits from all functionally related entities on state tax returns, eliminating their ability to shift profits—through passive investment companies (PICs), capital real estate investment trusts (REITs), transfer pricing and other structures—to states or foreign nations with low or no corporate taxes. Twenty-four states, or more than half of states with corporate taxes, have enacted combined reporting and six list well-known tax havens.

A throwback rule would require corporations producing goods in Kentucky, but selling them in states without enough sales to be subject to corporate income taxes, to report that income on their Kentucky corporate income tax returns.

■ **Create a review process for all business tax break programs, require sunset dates and require the General Assembly to reauthorize programs—Up to \$361 million from sunsets.**

Source: OSBD.

Business tax breaks rarely pay for themselves and take money away from more reliable strategies for strengthening the state like education and infrastructure. Reform would entail scrutinizing these programs for their cost-effectiveness compared to other types of spending.

■ **Repeal the Film Industry Tax Credit Program—Up to \$200 million annually.**

Source: KCEP analysis of data from the Kentucky Film Office.

The film industry tax credit has exploded with \$147.7 million in approved projects since legislative changes in 2015. With no statutory cap on these refundable credits and rapid growth, their cost could feasibly reach \$200 million annually in the near future. Film industry incentives have been roundly criticized as an ineffective economic development strategy, and many states have scaled back or repealed theirs in recent years.

■ **Lower the exclusion for the Limited Liability Entity (LLE) Tax to \$1 million and phase it out to \$2 million—\$13 million.**

Source: LRC.

LLEs exclude their first \$3 million in gross receipts or gross profits from taxable income, and the exclusion phases out to \$6 million. Any LLE with less than \$3 million pays the alternative minimum tax of \$175. Because the threshold is so high, an estimated 82 percent of LLEs pay the \$175 minimum.

REMOVE REVENUE GROWTH CAP FROM PROPERTY TAX

Kentucky's total state and local per capita property tax revenue ranks 46th in the nation, meaning money is being left on the table that could go instead toward investments that benefit all Kentuckians, including property owners. A big reason is Kentucky's law broadly suppresses revenue instead of targeting those least likely to be able to afford property taxes. The four percent cap on state real property revenue growth has pushed the state tax rate down from 31.5 cents when it was enacted in 1979 to 12.2 cents today, preventing property taxes from growing with property values, and therefore, with the economy.

■ Freeze the state real property tax rate at 12.2 cents — Indeterminable.

Freezing the real property tax rate at 12.2 cents would allow revenue to grow with the economy as the assessment values increase over time. According to the OSBD, the state would have collected \$405 million more in 2017 if the rate were frozen in 1979 at 31.5 cents.

■ Restore state property tax rate to level of early 1990s — \$106 million.

Source: Kentucky Center for Economic Policy.

Restoring five cents of property tax rate cut due to House Bill 44 would mean clawing back only a small portion of the cuts and could be coupled with a property tax circuit breaker to support lower-income people.

OTHER PROPERTY TAX CHANGES

Note that any changes made to the real property tax that expand the base will generally not result in additional property tax revenues for the commonwealth unless the cap on new revenues is removed or the rate frozen.

■ Tax privately owned leasehold interests in industrial buildings and tangible property in such buildings at the regular rate rather than the current discounted rate — \$6.9 million.

The properties that qualify for this reduced rate on leasehold interests are typically part of a transaction where a local government issues bonds to finance the construction, renovation or improvement of the property and the title is transferred by the private entity to the local government for the specific purpose of removing the property from the tax rolls. This transfer and reduced rate on the leasehold interest results in a large tax benefit for the private entity.

■ Require businesses that rent or lease space to house boats, RVs, and private aircraft to report to the Department of Revenue for taxing purposes — \$3 million.

Source: LRC.

Reporting would lead to greater compliance with existing ad valorem tax laws for tangible personal property.

■ Clarify and strengthen requirements for qualification of property for agricultural valuation — Indeterminable.

Source: OSBD.

The statutes relating to the valuation of property for agricultural purposes have been interpreted differently by PVAs across the state resulting in a lack of uniformity and in some cases qualification of property not used for agricultural purposes.

ADEQUATELY TAX GAMING ALREADY TAKING PLACE

- **Increase the tax on Instant Racing to 3.5 percent and direct all new revenue to the General Fund—\$18.4 million.**

Source: KCEP calculation based on data available from the Kentucky Horse Racing Commission.

Instant racing is an electronic gambling system that allows betting on historical horse races. Though the legality of instant racing has been challenged and the issue is still in court, more machines are being installed at more racetracks each year. The current tax rate is 1.5 percent, and most of the proceeds flow back into the horse racing industry. Raising the rate to 3.5 percent would bring it up to the same level as live wagers at larger race tracks, and directing all of the proceeds from the additional 2 percent levy to the General Fund could generate an additional \$18.4 million annually, an amount that is expected to grow as additional tracks are approved to add the machines.

- **Increase the tax on advance deposit wagering (ADW) accounts to match the tax on live wagers—\$5 million.**

Source: KCEP calculation based on data available from the Kentucky Horse Racing Commission.

ADW allows bettors to deposit money in an account and use that money to place bets online or by phone from anywhere. Currently, these wagers are taxed at 0.5 percent, and 85 percent of the revenue is distributed back to the race tracks. Increasing the rate imposed against ADW wagering to 3 percent (the levy imposed against other forms of account and simulcast wagering), and directing all revenues from the new portion of the levy to the General Fund would generate an additional \$5 million annually.

- **Impose an excise tax on the gross revenues of fantasy sports operators—Indeterminable.**

The two primary fantasy sports operators in the U.S., FanDuel and DraftKings, are currently operating in Kentucky despite questionable legal authority to do so. If fantasy sports are explicitly authorized and regulated in Kentucky (legislation was introduced in 2016 and 2017 but failed to pass), the legislation should include fees to offset the cost of regulation and a state tax for the General Fund on operators' gross revenues, similar to those imposed against other types of betting.

OTHER REVENUE OPTIONS

- **Raise the cigarette tax to \$1.60, add e-cigarettes to the Other Tobacco Products tax base and raise that tax commensurate with the cigarette tax increase—\$155 million.**

Source: LRC.

Excise taxes on cigarettes and other tobacco products (OTP) raise revenue and also act to discourage their purchase and use. That means a tax increase would have diminishing long-term revenue returns but also important health benefits. Currently, Kentucky's cigarette tax is 60 cents per pack, 43rd lowest among states and well below the national average of \$1.71. And while there is a tax on "other tobacco products" it does not include e-cigarettes and could also be raised proportionately to the increase in the cigarette tax.

■ **Unfreeze the hospital provider tax in recognition of the huge benefits to the health care sector from Medicaid expansion—\$99 million.**

Source: LRC.

A number of states are paying for the state's share of Medicaid expansion by raising the tax on health care providers, particularly hospitals, in recognition of the huge influx of dollars to those institutions because of expansion. Kentucky's provider tax has been frozen since 2007—prior to Medicaid expansion—so that hospitals currently pay only 2.5 percent of their 2006 gross receipts. Since then, hospitals revenues have grown an estimated 54 percent, dropping their effective tax rate to only 1.6 percent.

■ **Regulate and tax of recreational marijuana—\$73 million–\$122 million.**

Source: Tax Foundation.

Legalizing and taxing recreational marijuana is increasingly discussed as a possible source of new revenue in Kentucky. The Tax Foundation has estimated, based on demand in Colorado and Washington, that in Kentucky a 15 percent tax on the retail sales price could generate \$73 million, a 20 percent tax could generate \$97 million, and a 25 percent tax could generate \$122 million. These estimates do not consider revenues that would be generated by other state taxes that might apply such as the sales tax and income taxes. Based on ramp-up time in other states, it would likely be at least two years after legalization before any revenues would be received.

■ **Re-establish the estate tax in accordance with federal law in effect on January 1, 2003, without any of the federal increases to exemption under the Bush tax cuts—\$25 million.**

Source: LRC.

Taxes on the transference of wealth generate revenue for public investments that help all Kentuckians build capital, mitigate the concentration of wealth and provide a backstop to income tax losses through unrealized capital gains. But because Kentucky's estate tax on wealth transferred at death is linked to the federal estate tax, federal changes in the 2000s eliminated the estate tax. By referencing a date in the statutes prior to the repeal, Kentucky can reinstate the tax.

■ **Repeal the discount for early payment of the inheritance tax—\$1.2 million.**

Source: OSBD.

■ **Disallow compensation for wholesalers who remit the wholesale tax on alcoholic beverages—\$1.2 million.**

Source: OSBD.

Compensation for collecting and remitting taxes is sometimes provided if a retailer has been required to collect taxes from customers on behalf of the commonwealth, as is the case with the sales tax. The wholesale tax on alcohol is actually paid by the wholesaler, so there is no burden or obligation regarding collection of the tax from a third party. There is therefore no reason that the wholesaler should receive compensation for simply paying a tax that is owed.

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- **Ensure that all relevant taxes are applied to and collected from on-demand, internet-based services such as Airbnb, Uber and Lyft—Indeterminable.**

One of the fastest growing areas of our economy is the on-line, on demand sector, sometimes referred to as the “sharing economy” or the “gig economy.” Large companies like Airbnb (which is already working to comply with Kentucky tax laws), Uber, Lyft and VRBO provide a centralized platform for individuals to connect and exchange payment for services provided. Existing laws should be reviewed and amended as necessary to ensure that revenues generated through this rapidly growing sector of the economy are subject to the appropriate sales taxes, lodging taxes, property taxes and income taxes at both the state and local levels.

ROAD FUND REFORMS TO KEEP KENTUCKY’S INFRASTRUCTURE UP-TO-DATE

Along with the General Fund, Kentucky’s Road Fund faces challenges. Roads in poor condition with potholes and uneven surfaces can be dangerous and cost Kentuckians more on car repairs. But failing to start and complete important transportation projects also holds the state’s economy back. The gas tax rate—which is tied to the wholesale price of gasoline—has stabilized recently due to changes in the law. However precipitous drops prior to the stabilization have left the state with less to invest in good roads and bridges. Due to a low cash balance in the Road Fund, the Transportation Cabinet instituted a “Pause-50” program in 2016 under which new state funded projects were deferred or delayed until the 2017–18 fiscal year to allow the cash balance to replenish. Even now, there is only \$50 million available for these projects. Like many other states and the federal government, Kentucky faces a long-term problem because we lack a source of revenue that 1) keeps up with the cost of building and maintaining a reliable transportation network and 2) is not eroded by rising fuel efficiency standards.

- **Increase gas tax rate by 5.6 cents and diesel tax rate by 8.6 cents to match national average—\$192 million.**

Source: ITEP.

- **Index the gas tax to inflation and vehicle fuel-efficiency—\$30–\$60 million more each year.**

Source: ITEP.

- **Reduce dealer’s compensation for collecting and remitting motor fuels tax to 1.00 percent from 2.25 percent—\$21 million.**

Source: BRC.

Compensation has not been reduced to reflect technological changes that have made the dealer’s job easier.

- **Repeal the exemption from the motor vehicle usage tax for large trucks—\$13.9 million.**

Source: OSBD.

ENACT COMPLEMENTARY POLICIES SUPPORTING LOW-INCOME KENTUCKIANS

One common element among the reforms discussed so far in this menu is that they all raise revenue—and many do so by enhancing tax fairness. Yet there are also key components of progressive tax reform that would provide greater support to low-income families, who pay a higher share of their income in state and local taxes than do higher-income people. A state Earned Income Tax Credit (EITC) and property tax circuit breaker are important policies in their own right, and also as offsets to certain reforms included in this menu such as lifting the cap on real property revenue growth, increasing tobacco taxes and adding select services to the sales tax base.

■ **Create a refundable state EITC at 15 percent of the federal credit—\$115 million.**

Source: LRC.

A refundable EITC helps low-income working families. Over 400,000 Kentucky families who receive the federal EITC would benefit. Families typically spend their credit on basic living expenses, paying off debt and investing in education. It is a proven anti-poverty tool that has lasting benefits for children, including higher rates of employment and earnings later in life. In addition to these policy reasons to enact a state EITC, linking it to the federal program would be administratively simple.

■ **Enact a circuit breaker—Indeterminable.**

A circuit breaker reduces property tax liability for people below a certain income level when property taxes exceed a certain portion of income. More than 33 states have circuit breakers. A circuit breaker would be much better targeted and less costly than Kentucky's current blunt cap on property tax growth. This would require a constitutional amendment.

SOURCES

You can read more about tax reform options in the resources listed below.

- Blue Ribbon Commission, “Report by the Blue Ribbon Commission on Tax Reform to Governor Beshear,” December 17, 2012.
- HB 263, “An Act Relation to Taxation,” Kentucky General Assembly, 2017, <http://www.lrc.ky.gov/record/17RS/HB263.htm>.
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- Institute on Taxation and Economic Policy, “Kentucky Reports and Information,” <https://itep.org/tag/kentucky>.
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