

Income Tax Cuts and the Future of the Commonwealth



State Budget Is a Key Tool for Well-Being



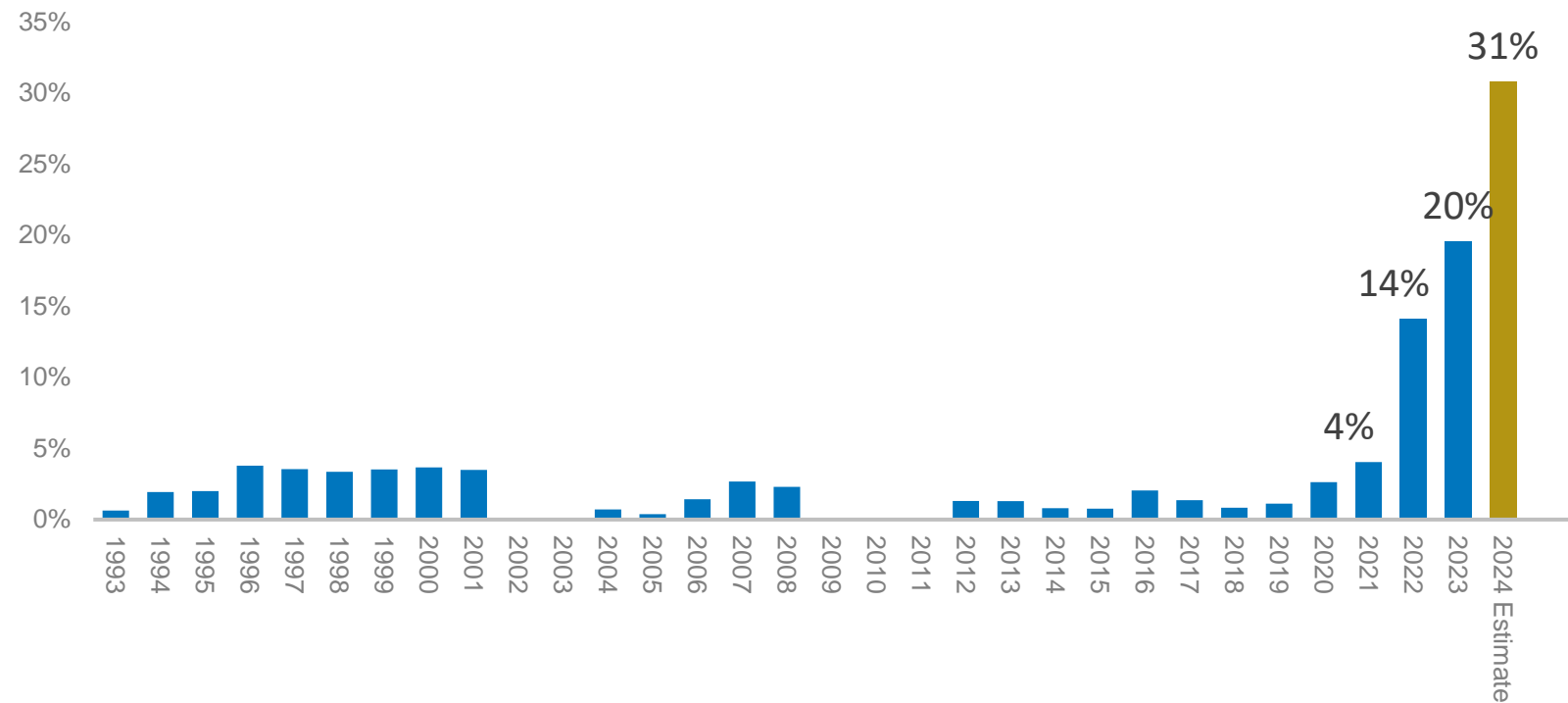
We Have a Once-in-Fifty-Years Opportunity

\$2.7 billion
currently in
rainy day fund



Kentucky's Rainy Day Fund Balance Is at Historic High

Fund balance as a percentage of annual General Fund expenditures



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

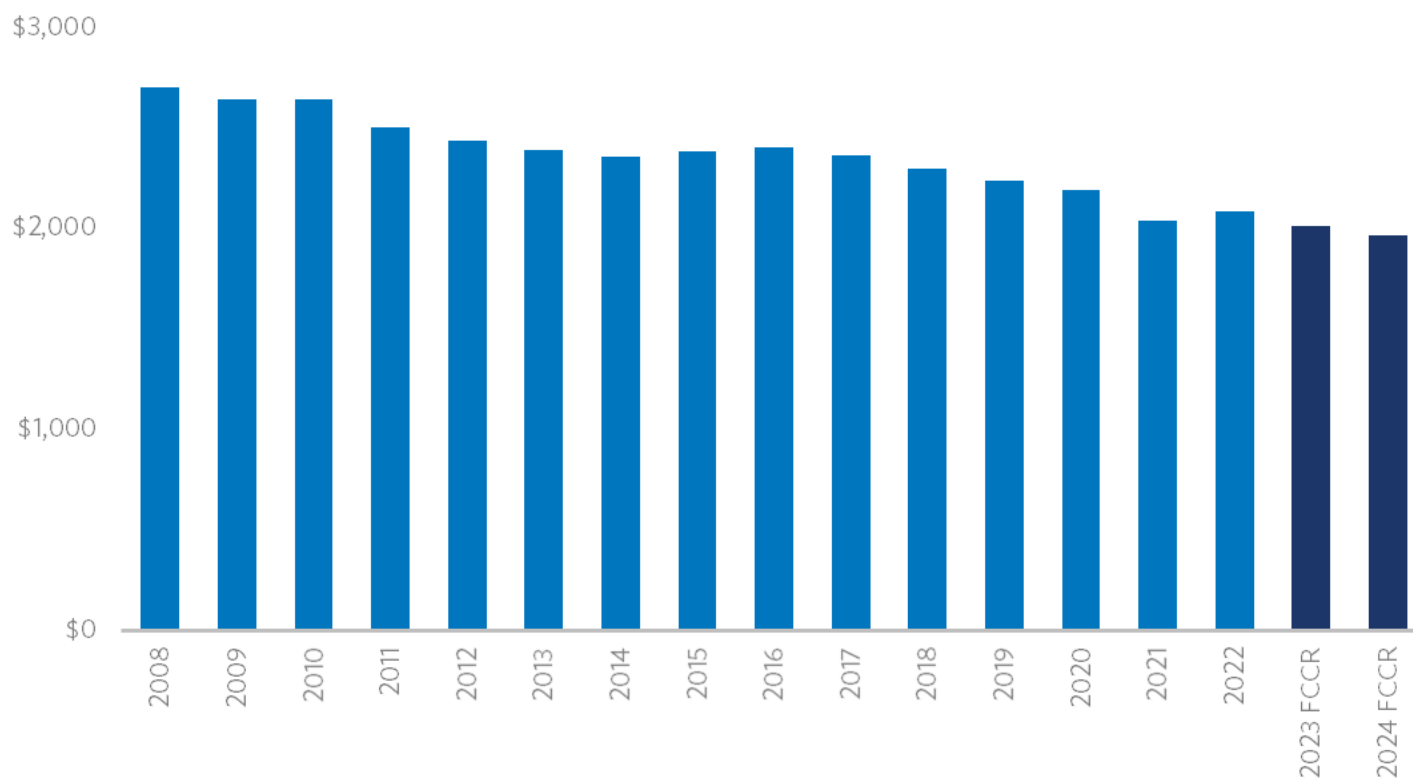
The Great Recession Began a Great Disinvestment

27% inflation-adjusted cut to core P-12 school funding since 2008



State Base SEEK Funding Declines in Budget

Historical and proposed total inflation-adjusted base SEEK funding 2008-2024 (in millions)

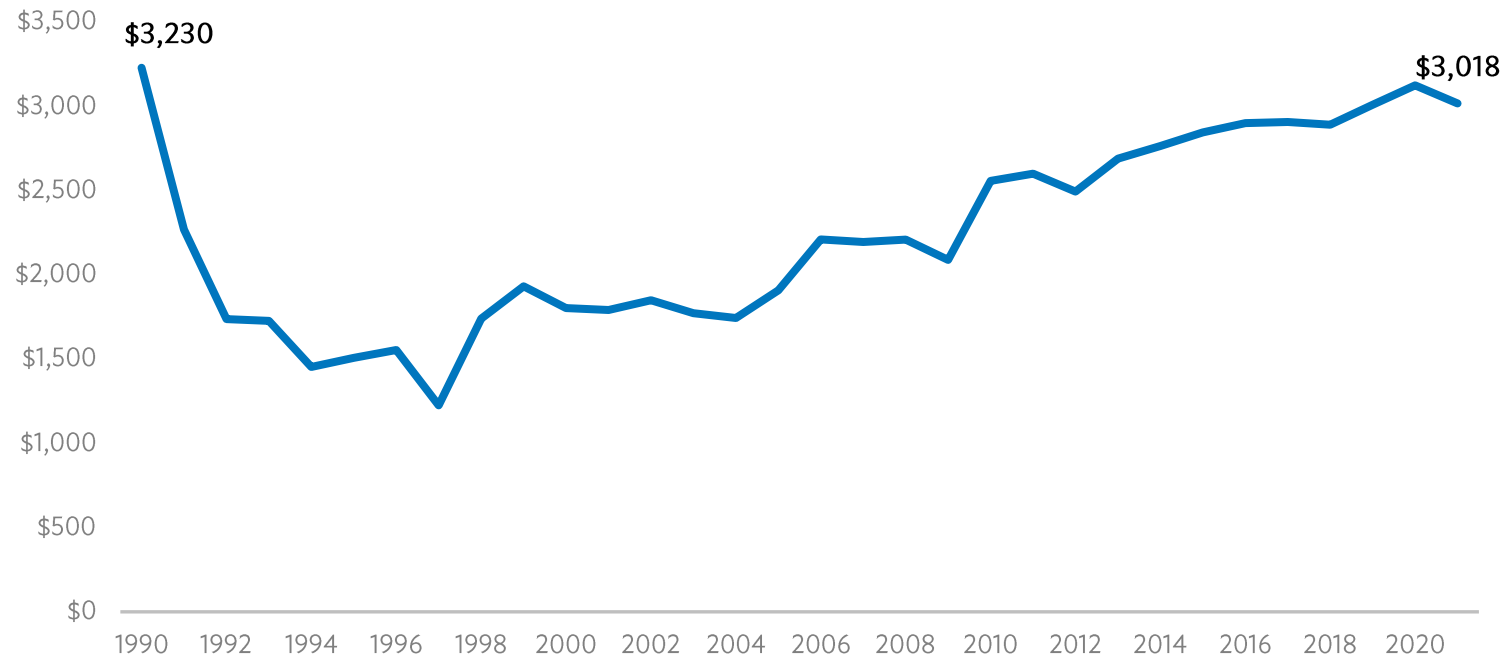


Source: KyPolicy analysis of the 2022 HB 1 Free Conference Committee Report and the CPI-U.
Note: 2008-2022 budget numbers are Enacted.

School Funding Inequity Approaches Unconstitutional Levels

The Funding Gap Between Kentucky's Poorest and Wealthiest School Districts Remains Precariously High

Gap between top and bottom school district quintiles in per-pupil, state and local revenue
(inflation-adjusted 2021 dollars)



Source: Kentucky Office of Education Accountability (1990 - 2010); KCEP analysis of Kentucky Department of Education

Teacher Salaries Have Not Kept Pace Over Time

14.7% inflation-adjusted decline since 2008

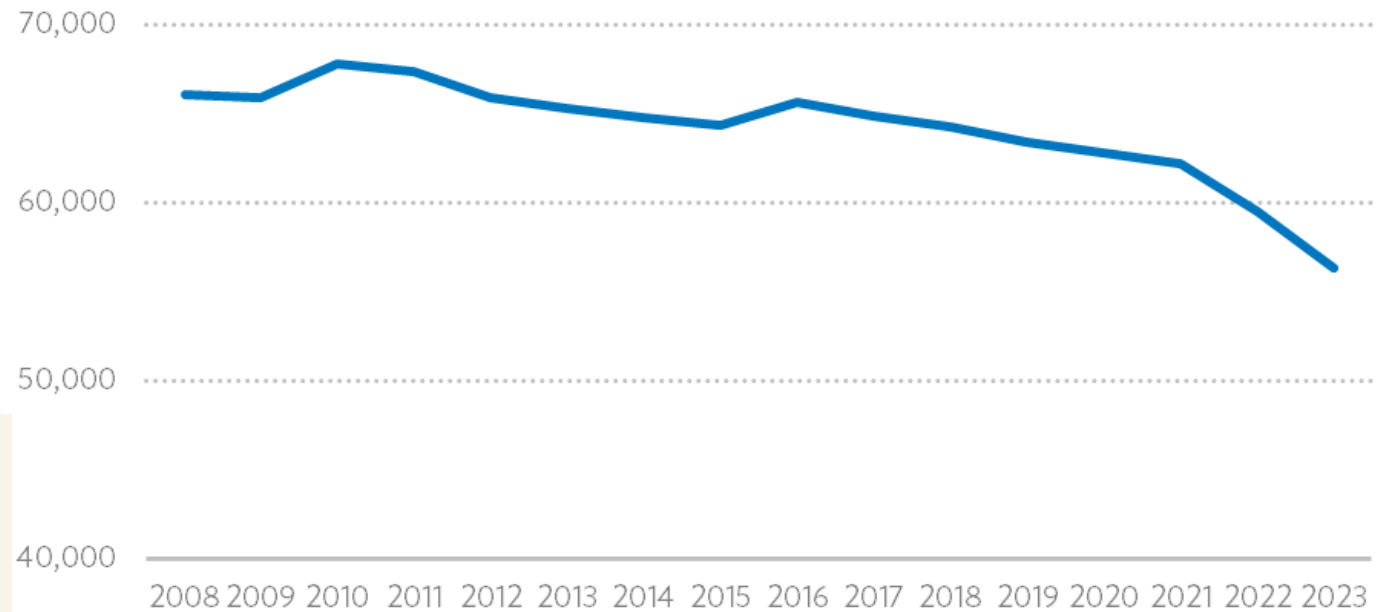
That's a drop of \$9,704

From 6% cut in Fayette to 32% in Russellville Ind.



Average Kentucky Teacher Pay Has Fallen 7 Years In a Row

Average classroom teacher annual pay in Kentucky inflation-adjusted for September 2022



Source: KyPolicy analysis of data from the Kentucky Department of Education and the Consumer Price Index for all Urban Areas.

Cuts to Higher Ed Led to Soaring Student Loan Debt

26% drop in higher ed funding since 2008

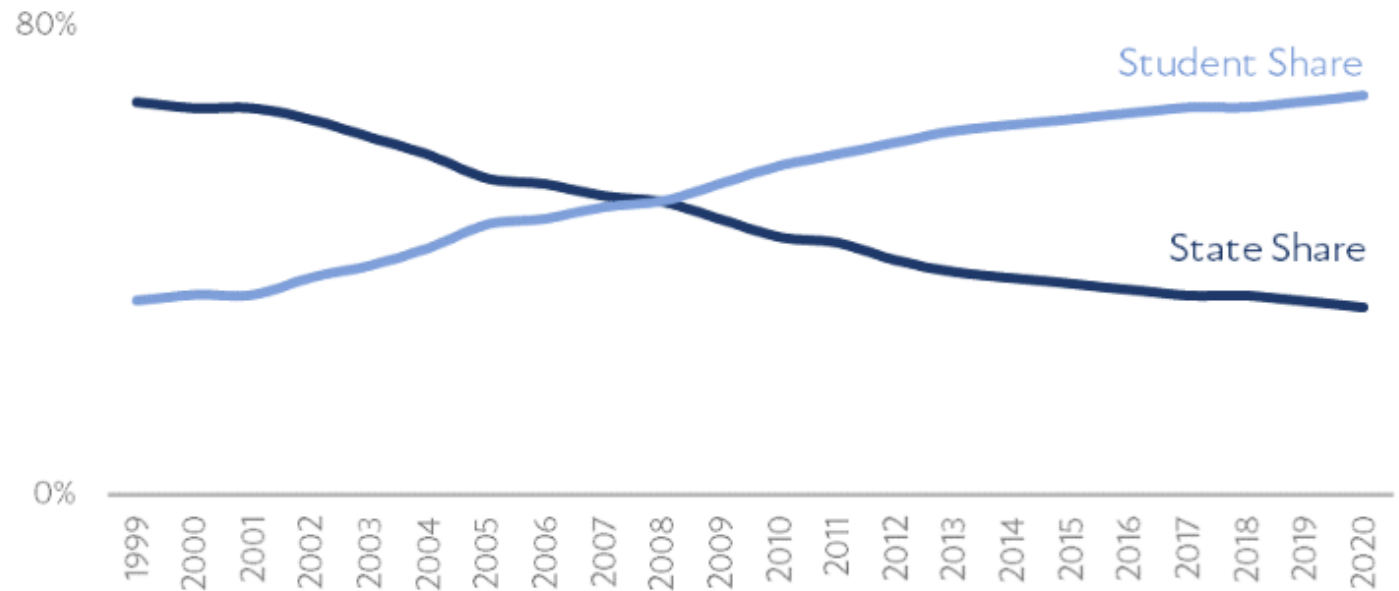
616,000 Kentuckians or 18% of adults have student loan debt

\$20.5 billion owed



Cost of Higher Education Has Shifted From State to Students

State and student shares of total public postsecondary funds in Kentucky, Fiscal Years 1999 - 2020



Source: OSBD and Council on Postsecondary Education.

Note: Net General Fund share compared to gross tuition and revenue share.

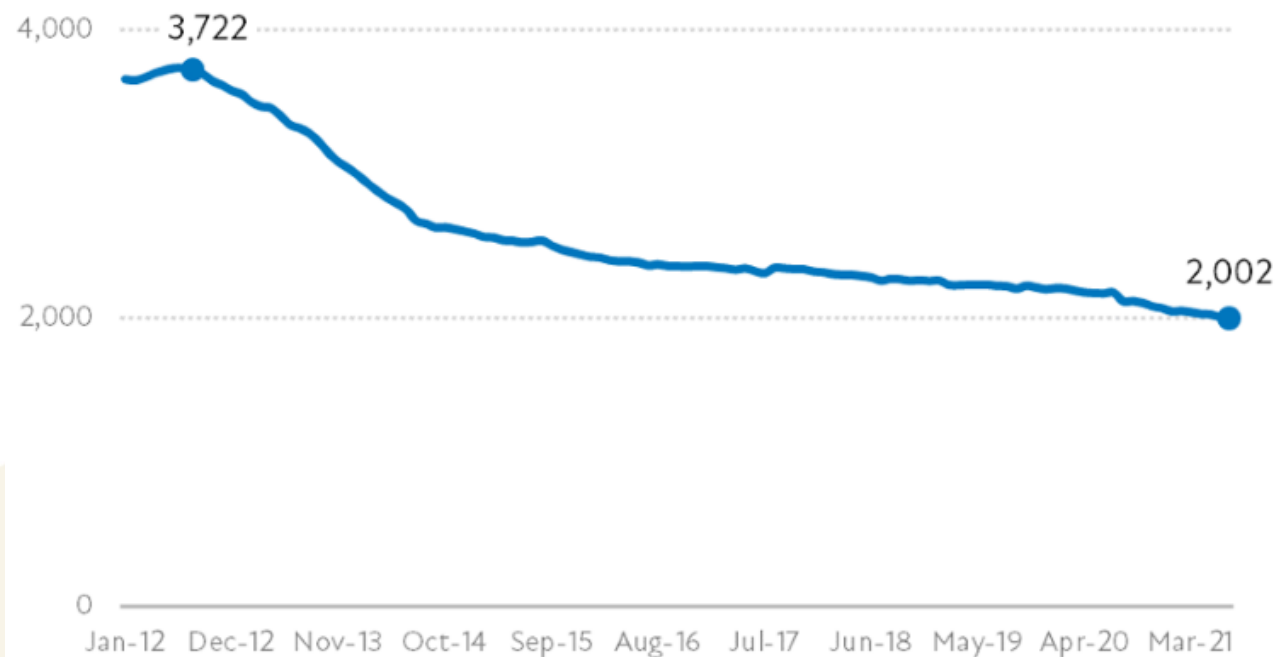
Child Care System Has Shrunk

Currently being propped up with \$1 billion in federal pandemic aid monies that end in 2024

- Center payments, higher reimbursement rates
- Waive co-pays
- Increase eligibility
- Increase worker pay

Child Care Providers Have Been Closing Their Doors

Number of state regulated child care providers in Kentucky, state fiscal years 2012 - 2021



Source: Data from the Cabinet for Health and Family Services.

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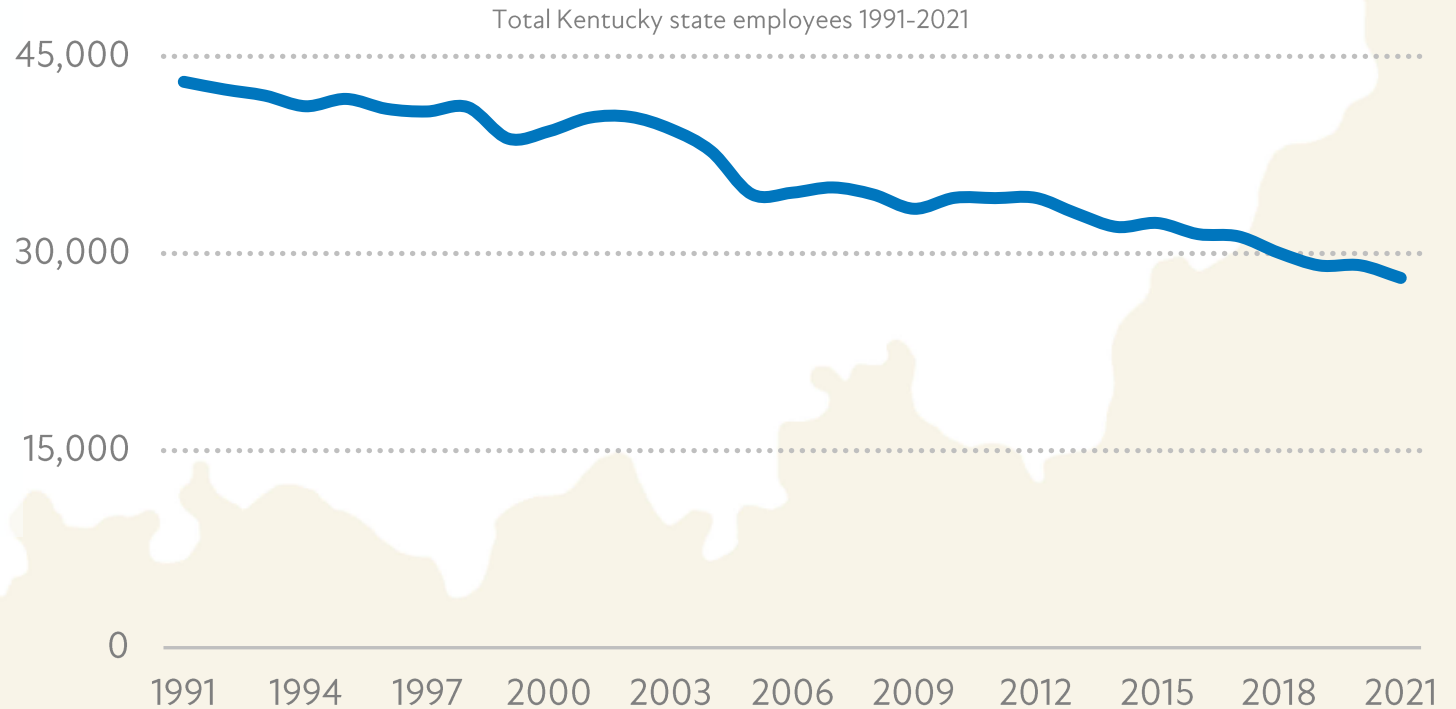


State Services Have Been Depleted

20 rounds of budget cuts since 2008

No raises for 10 of 12 years until current budget

State Government Workforce Has Declined 1/3 Over Past 30 Years



Source: Kentucky Personnel Cabinet.

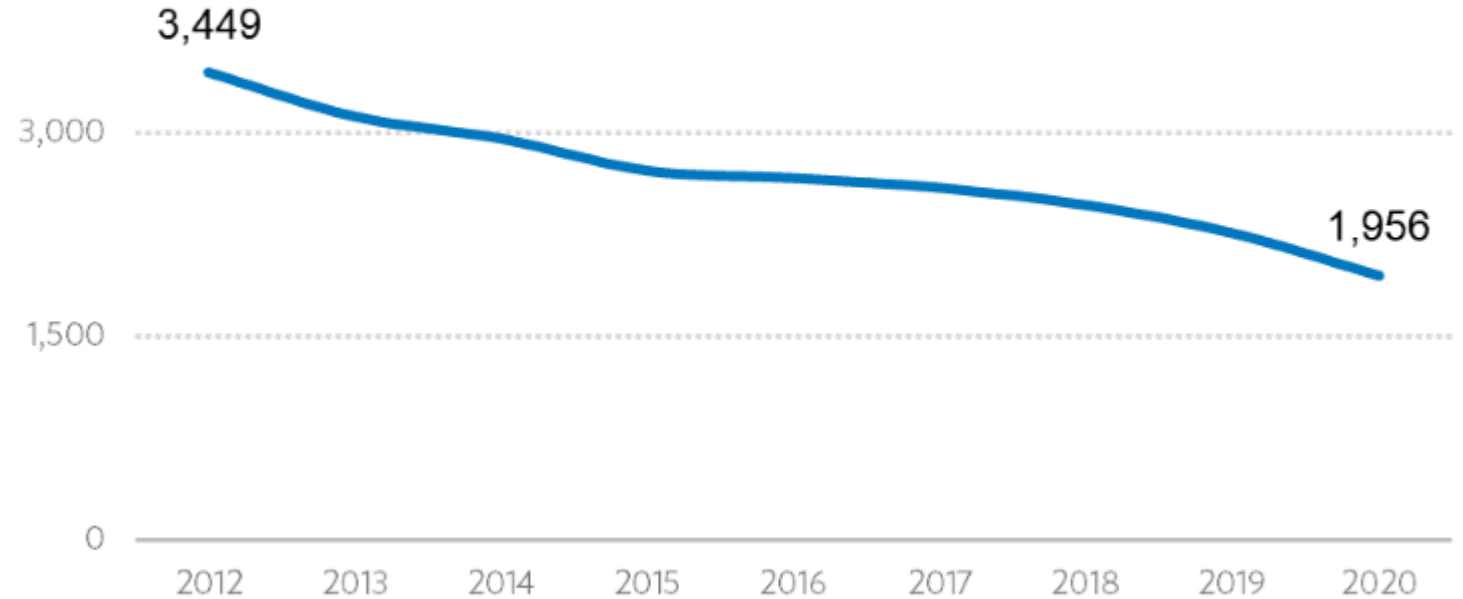
Kentucky Is Vulnerable to Crises

KY has had more flood-related disaster declarations than any state since 2000



The Public Health Workforce Is Shrinking

Kentucky public health workforce from state fiscal year 2012 - 2020



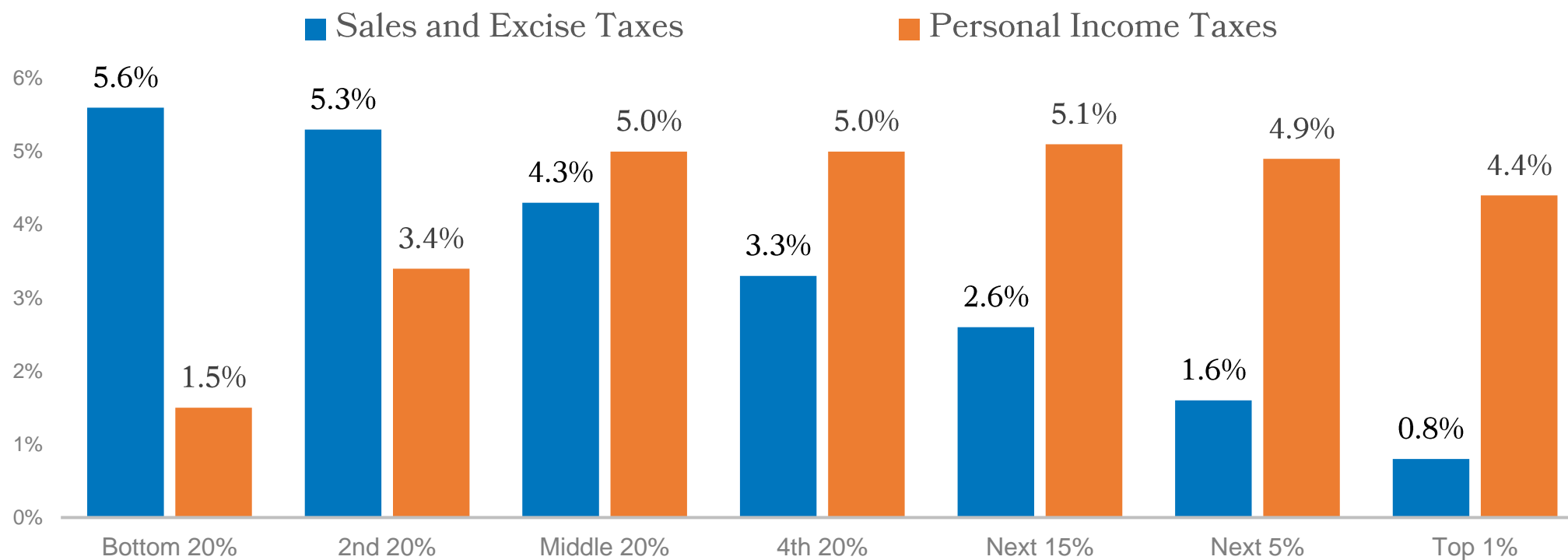
Source: Kentucky Retirement Systems Comprehensive Annual Financial Reports 2012 - 2020.

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Shift from Income to Consumption Taxes Widen Inequities

Sales Taxes Are Regressive

Taxes as a share of incomes



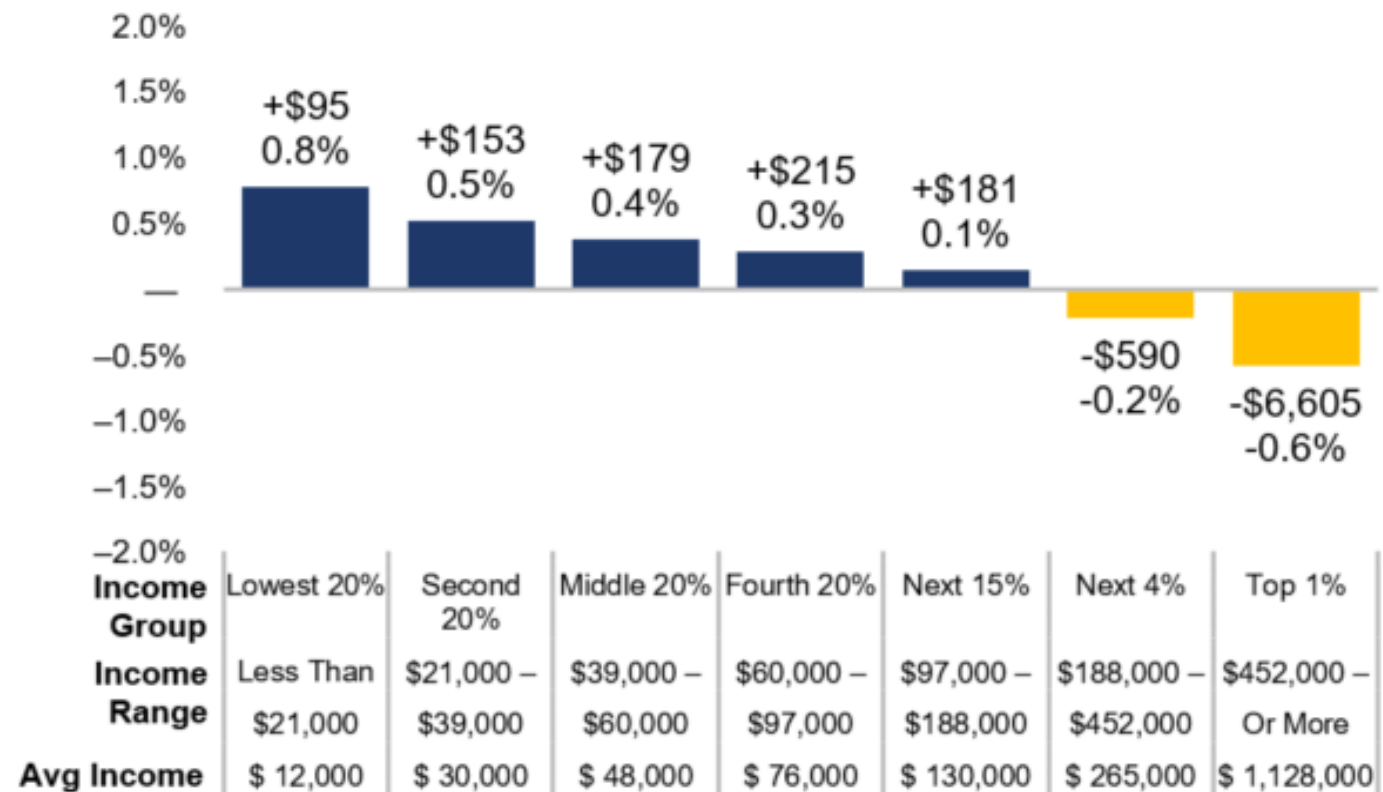
Source: Institute on Taxation and Economic Policy, 2018.

Tax Shift Began in 2018

- Made graduated income tax of up to 6% a flat 5%
- New services sales taxes including on pet vets/grooming, auto repair, dry cleaning, gym memberships, bowling, admission fees, landscaping, etc.

2018 Tax Law a Shift from Those at the Top to Everyone Else

Change in amount and share of family income paid in total state and local taxes (2020 dollars)



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

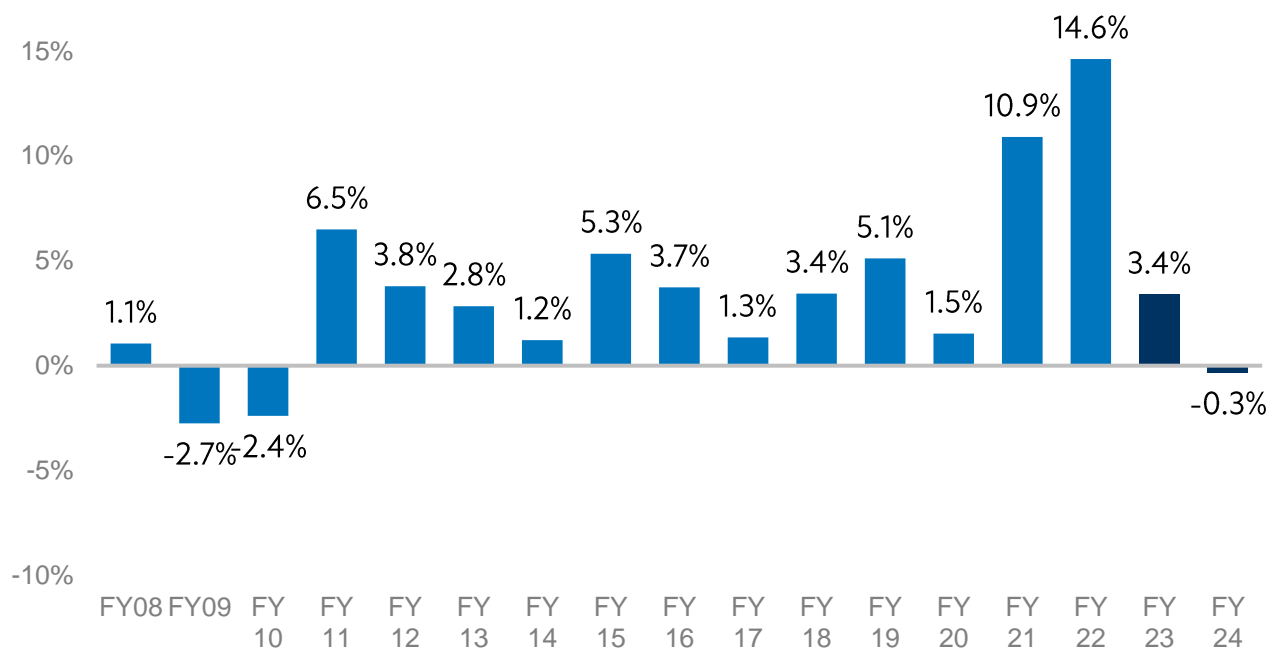
Current Surpluses Are Big, But *Temporary*

Shouldn't be the basis of permanent policy

- Federal pandemic aid boosted strong recovery
- Highest inflation (by far) in 40 years
- Total tax revenues from all states grew 16.6% in '21 and 14.5% in '22

Strong Growth Expected to Ease and Even Decline with HB 1

General Fund Revenue Growth from Prior Year

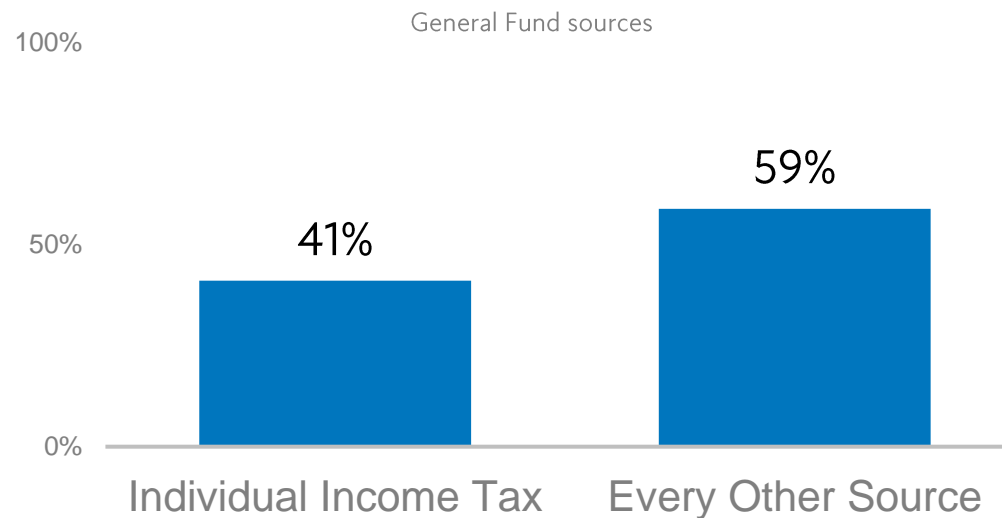


Source: KyPolicy analysis of Office of the State Budget Director data. Uses revised official forecast for 2023 and 2024 and HB 1 impacts in 2024, which apply only to first half of year..

Goal of HB 8/HB 1: Eliminate the Income Tax



Income Tax Pays for Nearly Half of State Services



Source: Office of the State Budget Director.

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Permanent Cuts Based on Temporary Conditions

- Cuts state's 5% income tax by up to 0.5% each year
- Trigger based on 1-year snapshot:
 - How much is in rainy day fund
 - How much in revenues above spending
- First cut to 4.5% automatically went into effect Jan. 1
- Conditions met for cut from 4.5% to 4% in '24, but requires action



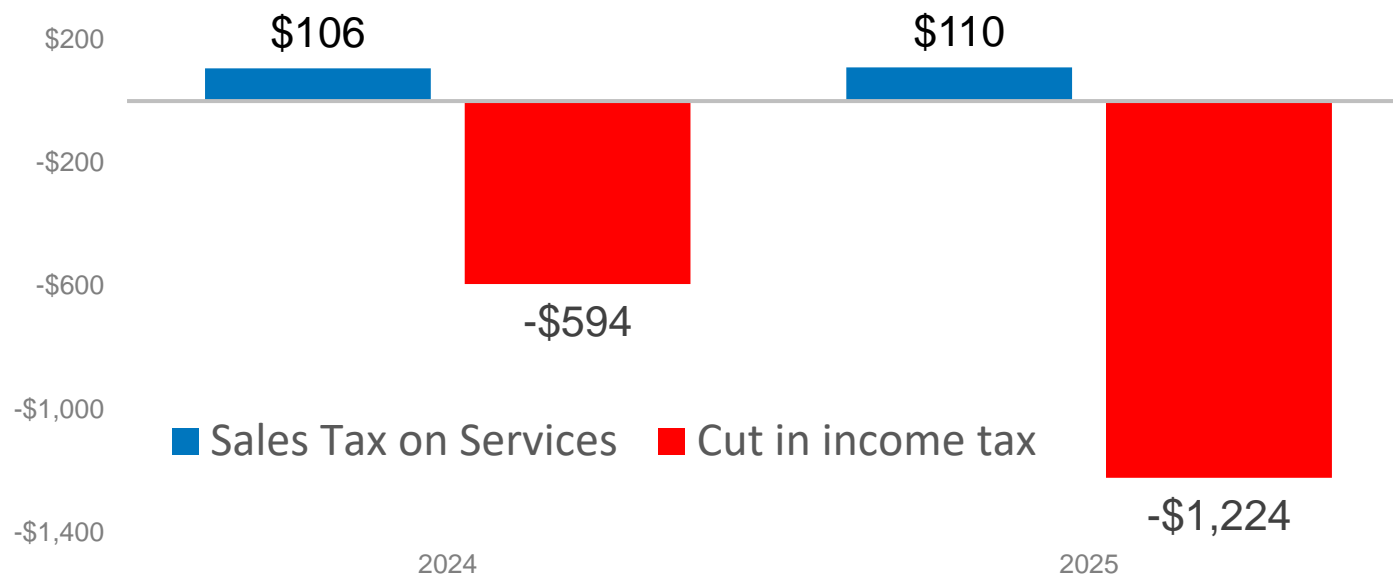
Tax Cuts Blow Major Hole in Revenue

New sales taxes on services* come nowhere close to offsetting cost of income tax cuts

*Added sales tax to 35 additional services (parking, uber/taxis, family portraits, AAA membership, moving, fitness classes, summer camps, wedding space, etc.)

Revenue Gained and Lost from HB 8/HB 1

Millions of dollars

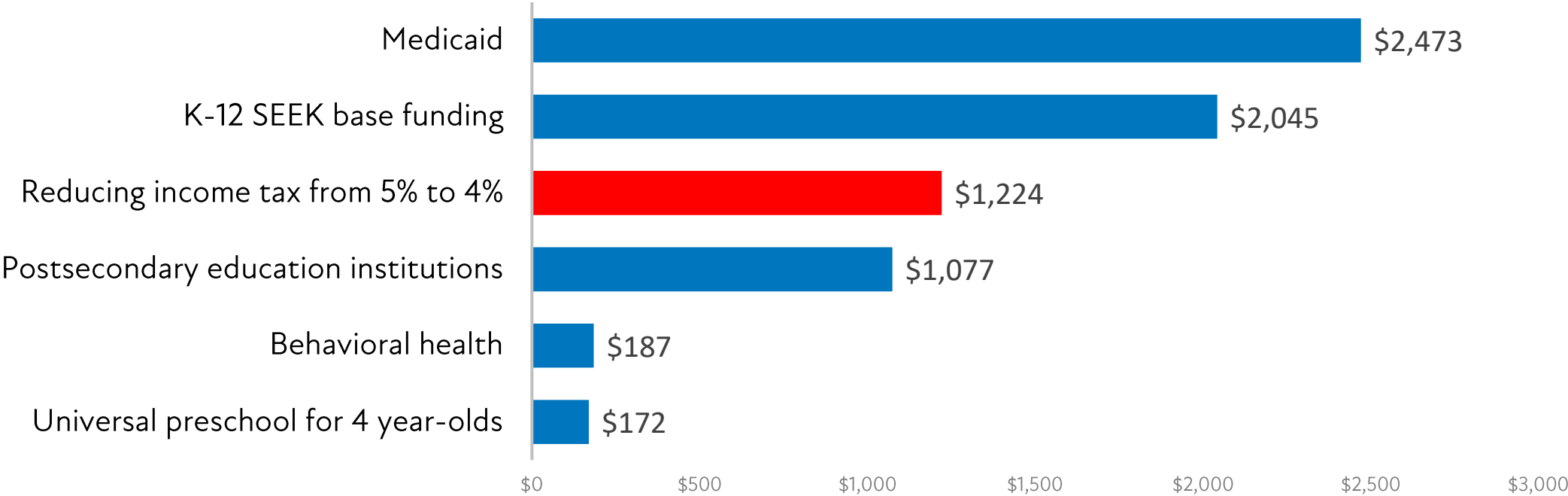


Source: KyPolicy analysis of Office of the State Budget Director data. Assumes 4.5% income tax in 2024 and 4% income tax in 2025.

Cost of Cut to 4% Income Tax Is Massive

Cost of Cutting the Income Tax by Just 1% Is Huge

Annual General Fund cost in millions of dollars



Source: KyPolicy analysis of Office of the State Budget Director data. Income tax estimate is for 2025, appropriations are for fiscal year 2024.

Who Benefits from Income Tax Cuts?

For the typical working class family = \$2 a week

Richest 1% get 100 times that amount

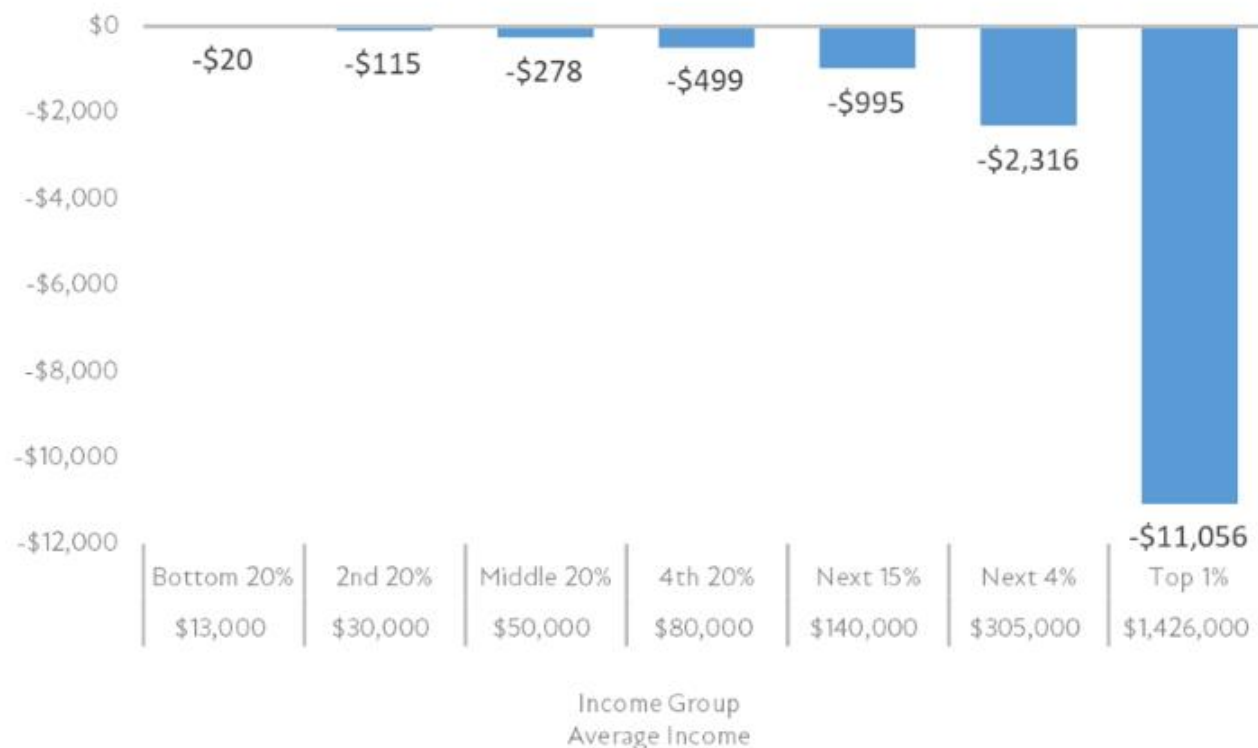
Doesn't help 1 million low-income Kentuckians

Leaves out 85% of retirees



Income Tax Cut to 4% Is a Giveaway to Those at the Top

Average tax cut from a 1 percentage point reduction in the income tax rate, by income group



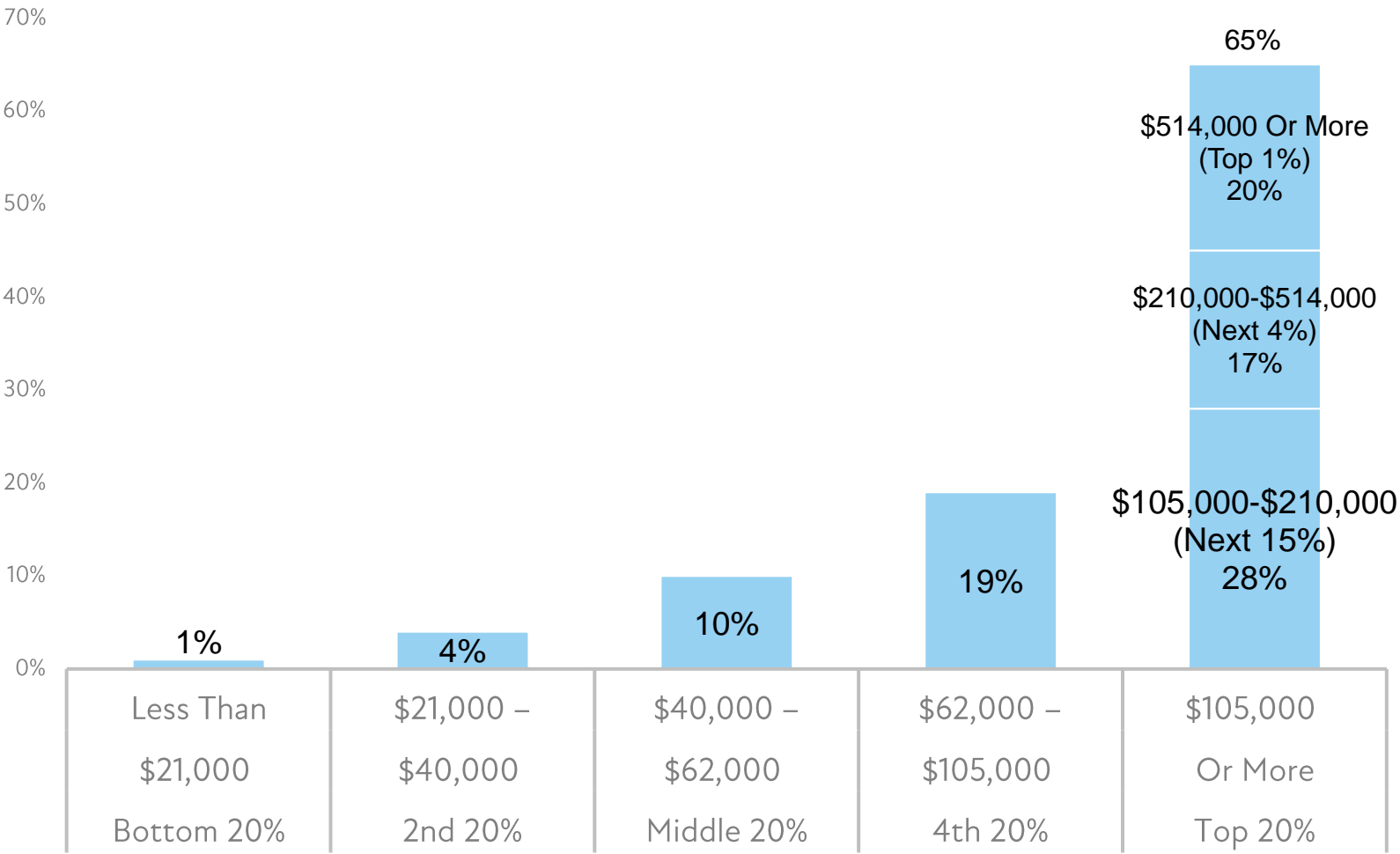
Source: Institute on Taxation and Economic Policy, 2021.

Who Benefits from Income Tax Cuts?



Richest 20% of Kentuckians Get 65% of Income Tax Cut

Share of income tax cut by income group



Source: Institute on Taxation and Economic Policy.

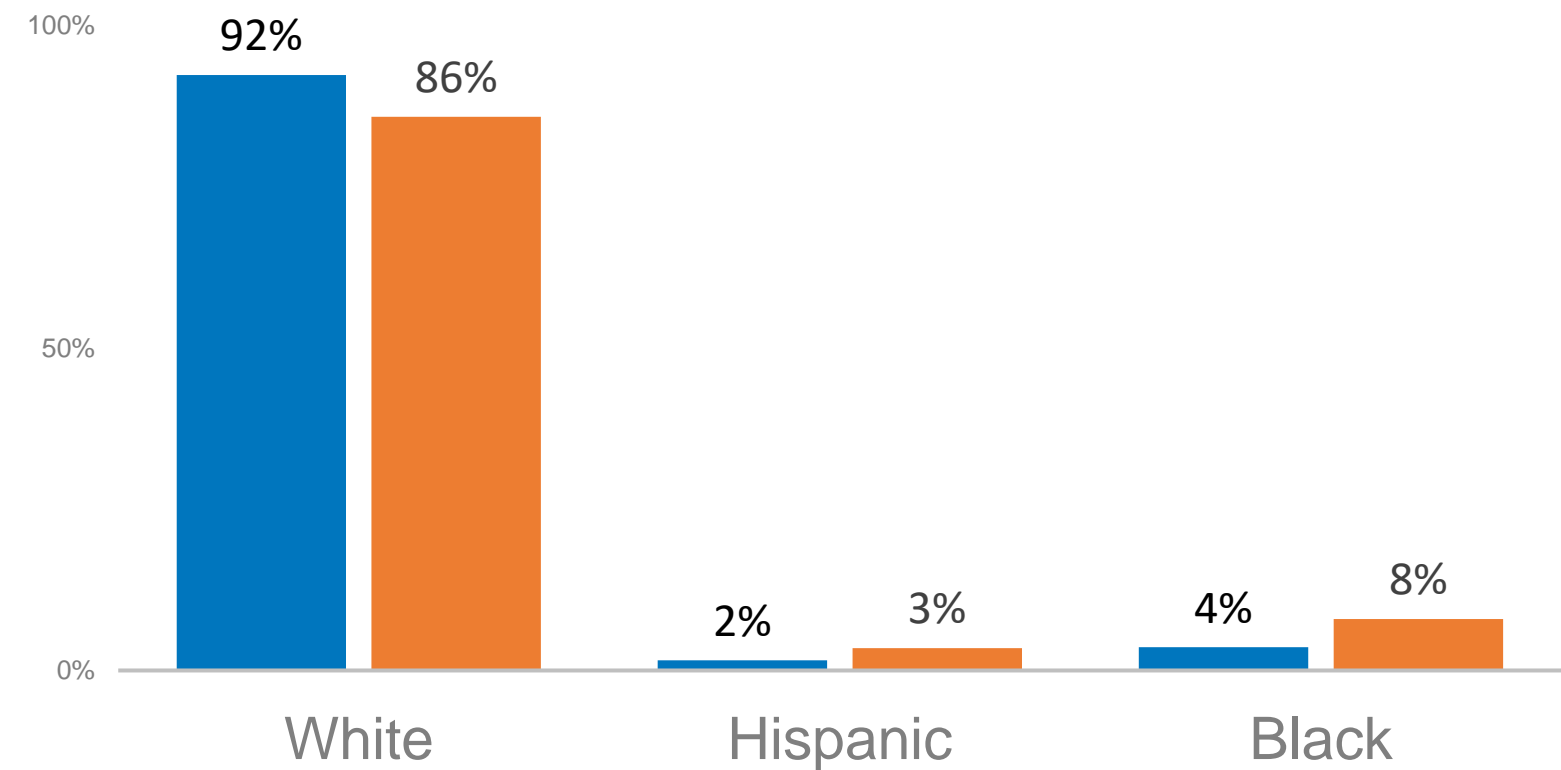
Who Benefits from Income Tax Cuts?



White Kentuckians Overrepresented in Richest 20%

Share of tax filers by race

■ Top 20% ■ All



Source: Institute on Taxation and Economic Policy, 2015.

Who Benefits from Income Tax Cuts?

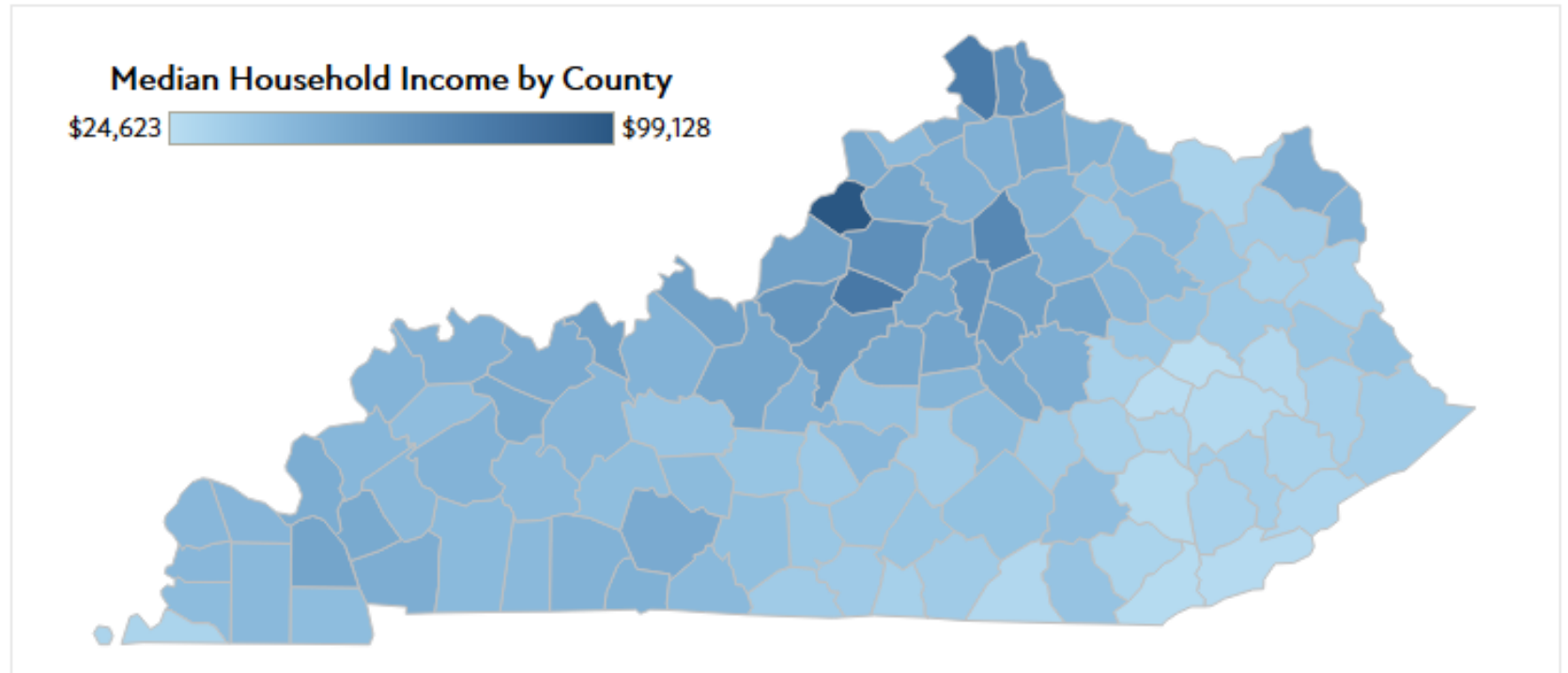
Median household income in Oldham County: \$99,128, with 17% of the population receiving more than \$200,000

In Wolfe County: \$24,623, with only 0.2% receiving more than \$200,000



The Lower the Household Income in Your County, the More Income Tax Cuts Will Take Out of It

Median Household Income 2015-2019 in Kentucky



Source: American Community Survey 5 year estimates for Kentucky counties.

Who Benefits from Income Tax Cuts?

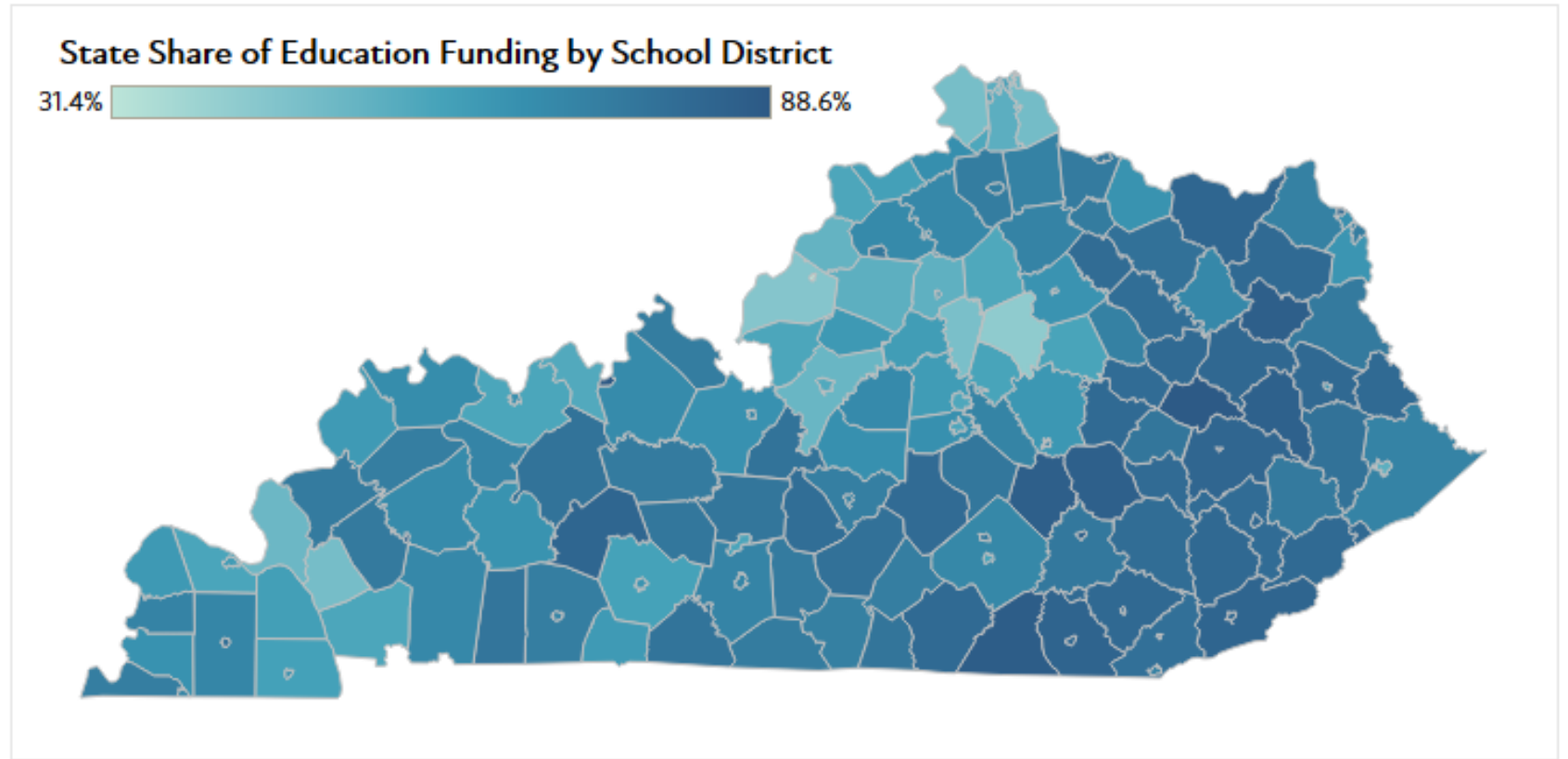
Share of school funding that comes from state tax dollars in Anchorage Independent School District: 31.4%

In Wolfe County School District: 88.4%



Income Tax Cuts Will Harm Public Education in Rural Districts More Reliant on State Funding

Share of total state and local public school district revenue from the state in 2020



Source: KyPolicy analysis of data from the Kentucky Department of Education.

No It Won't Grow Our Economy

- KS, AZ, NC, OH, ME and WI saw lower revenues, not faster growth
- 8 of the 10 states with lowest poverty rates and highest median incomes have income taxes
- 9 states with *highest* top income tax rates doing as well or better than no-income tax states in recent growth



Tennessee Is Not a Model

- Also a poor state like Kentucky—at bottom in life expectancy
- Taxes groceries, nearly 10% sales tax, 6th most inequitable tax system in country
- Spends less on education, hasn't expanded Medicaid
- Get sales tax from Great Smoky Mountains tourism

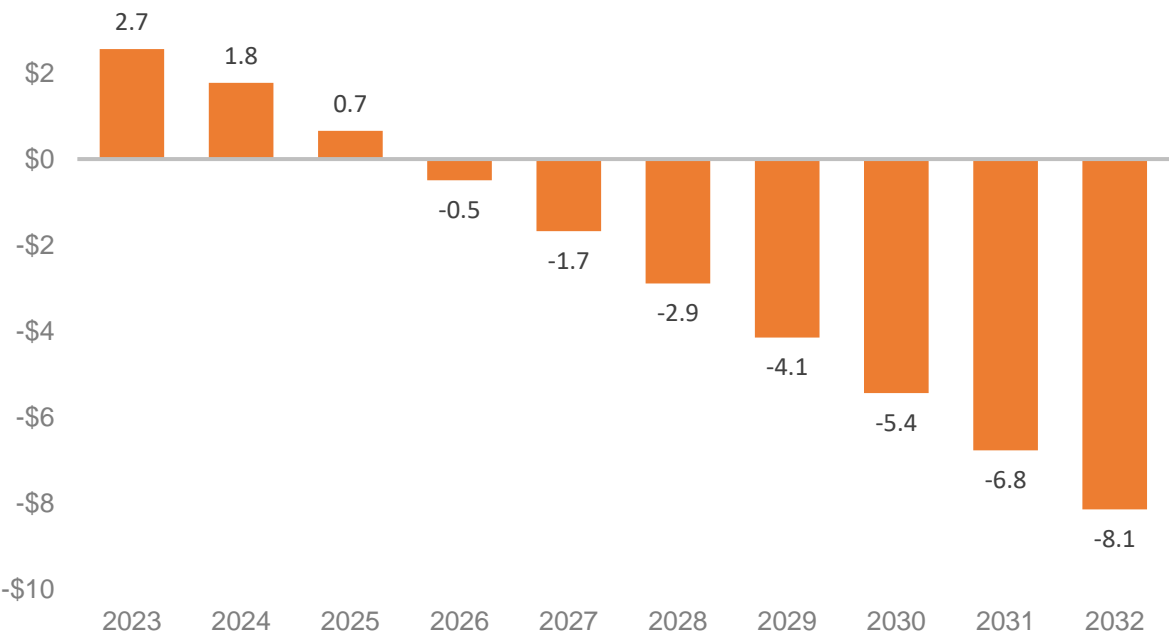


Rainy Day Savings Are Small Compared to HB 8 Costs

If eventual cost is paid for from rainy day fund, would deplete fund in 3 years with 4% income tax

Lost Revenue from HB 1 Far Exceeds What's In Rainy Day Fund

Balance of rainy day fund if used to fund lost revenue from HB 1, in billions of dollars

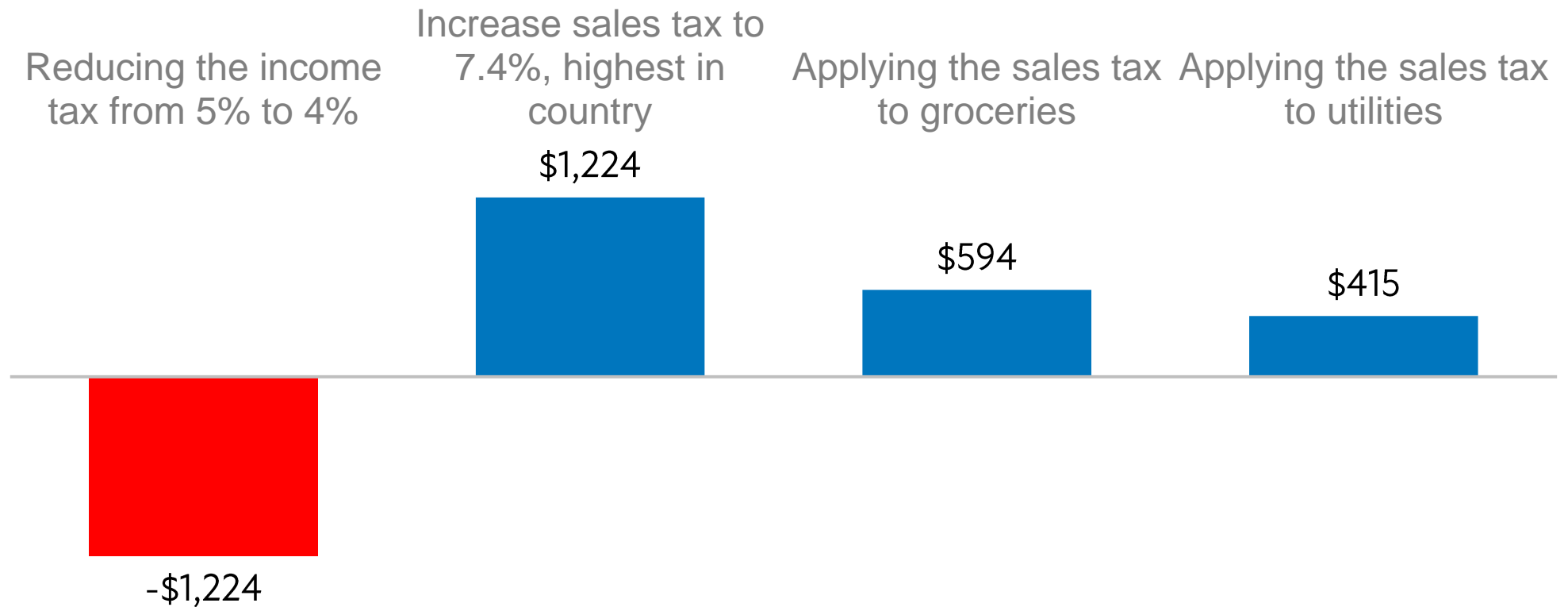


Source: KyPolicy analysis of Office of the State Budget Director data. Assumes 3% revenue growth (no recession).

Later Tax Increase Will Hit Kentucky Families

Massive Sales Tax Increase Needed To Offset Cut to 4% Alone

Millions of dollars



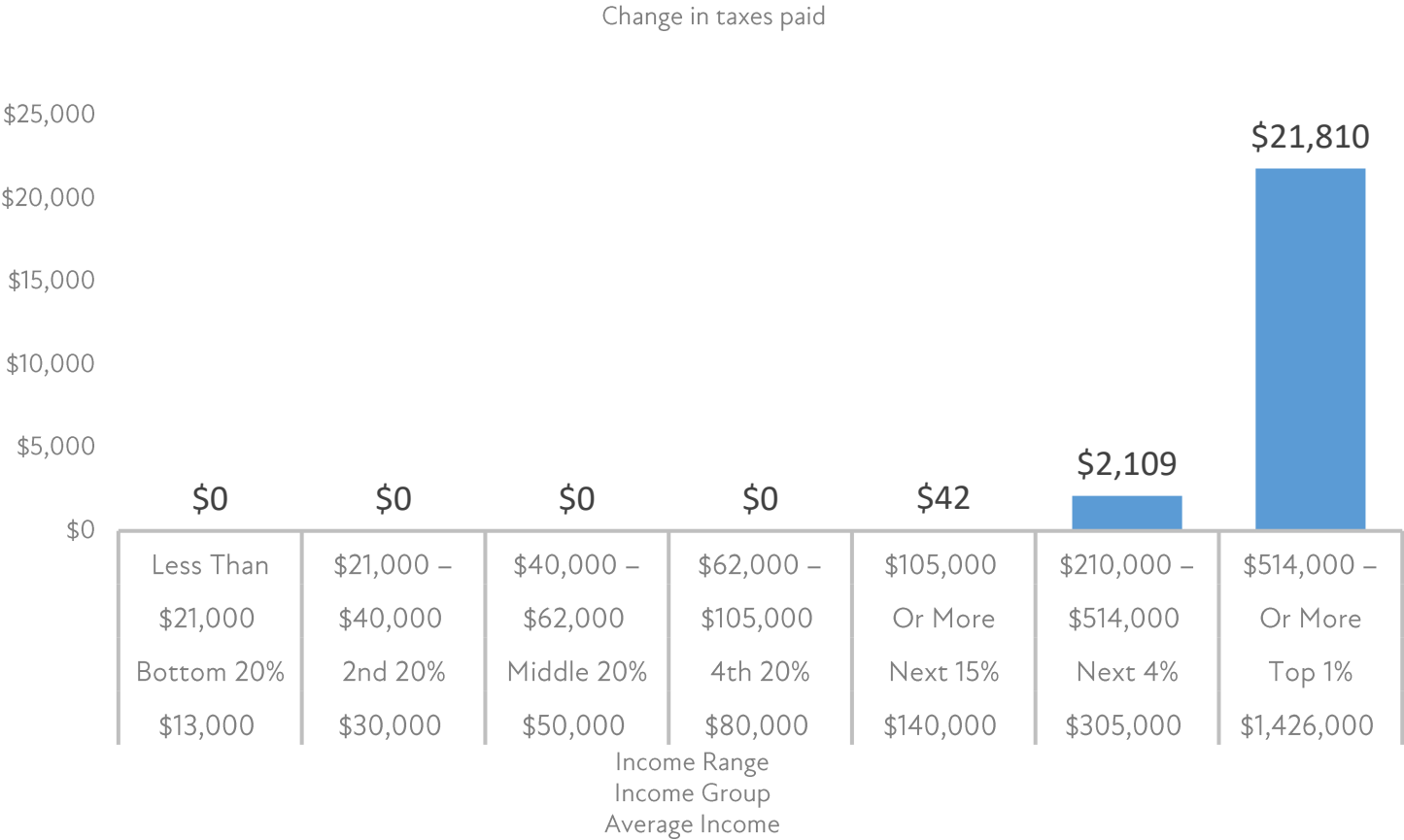
Source: KyPolicy analysis of Office of the State Budget Director data.

A Path Forward

- HB 111, Rep. Willner
- Income over \$100,000 taxed at 5%
- Over \$125,000 taxed at 6%
- Restores top rate KY had for over 80 years
- Raises \$640 million



Restoring a Graduated Income Tax



Source: Institute on Taxation and Economic Policy, 2021.

How Would You Use \$1.2 Billion/Year for Our Needs?

What is more important than tax cuts skewed to the wealthy?

It's OK to be general (or specific)!

