

Kentucky Needs a More Progressive State Income Tax

Imagine what Kentucky could be if we made better investments in Kentucky's schools and public services.

According to Governing Magazine, Kentucky ranks 50th in per capita investments in K-12 education, and we consistently fall in the mid- to high-40s in most rankings of state investments in public health, public safety, and higher education. Isn't it time to turn these familiar statistics around? Imagine what Kentucky could be if we made better investments in our children, schools, and public structures. Recalibrating our income tax levels is part of a plan for fair revenue reform in Kentucky. Together, we can build a stronger Kentucky.

Kentucky's personal income tax is an important source of state revenue

- In fiscal year 2006, Kentucky's personal income tax provided about \$2.8 billion, or 35%, to the General Fund.
- The personal income tax is the single largest source of General Fund revenues.

It is fair to ask a bit more of those most able to pay

- Kentucky's overall tax system is regressive — people who earn less contribute a higher percentage of their income, while people who earn more contribute a lower percentage of their income.
- In 2005, U.S. households in the top 1% income group received a federal tax cut averaging \$35,000, 47 times the average for the middle-income, while families in the lowest income group received a federal tax cut that averaged just \$18. (Center on Budget and Policy Priorities, 2005)
- In 2003, Kentucky's wealthiest 1% received 24% of the federal tax cuts that came to our state, an average reduction of more than \$33,000. The poorest 20% of Kentuckians got an average federal tax cut of just \$51. (Citizens for Tax Justice)
- In the early 2000s, KY's income gap between the richest 20% of families and the poorest 20% was 8th largest in the nation; between the richest 20% and the middle 20% was 2nd largest in the nation. (Center on Budget and Policy Priorities, January 2006)
- Wealthy Kentuckians benefit greatly from public investments in schools, transportation, security, health care and economic development. They should be able to contribute fairly.

Kentucky can do better by creating a more progressive income tax.

- Kentucky should create new rates for the wealthiest 20%, taxing income above \$75,000 at a 7% rate and income above \$90,000 at an 8% rate. All income between the poverty level and \$75,000 should be taxed at the current rate of 5.85%. (Currently, the top income bracket in Kentucky is 6% for all income earned above \$75,000.)
- According to the latest fiscal note, these changes are projected to generate an estimated **\$380 million in new revenue.**
- For Kentuckians earning between \$125,000 and \$276,000, this proposal would result in a tax increase of just .2% of income. For the wealthiest 1% (income above \$276,000) the average increase would amount to 1.2% of income. (Institute for Taxation & Economic Policy, 2005)

Support a Progressive Income Tax

Tax reform that is fair, raises revenue and promotes the health and well-being of our people

Kentucky Economic Justice Alliance • P.O. Box 1450 • London, Ky. 40743 • 606-878-2161 • www.keja.org