

# KENTUCKY ECONOMIC JUSTICE ALLIANCE

253 Regency Circle, Suite A Lexington, KY 40503

859-276-0563

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**For more information, contact:**

Jason Bailey, Democracy Resource Center (859) 276-0563

Bob McIntyre, Citizens for Tax Justice/Institute on Taxation and Economic Policy (202) 626-3780

## **New National Study Confirms Kentucky Revenue Problem: Major U. S. Corporations Paying Little or Nothing in State Taxes**

Many of the nation's largest, most profitable companies are paying little or no state corporate income taxes, according to a study released Wednesday by Citizens for Tax Justice (CTJ), the Institute on Taxation and Economic Policy (ITEP) and the Kentucky Economic Justice Alliance (KEJA).

Of 252 profitable *Fortune* 500 companies who report state corporate income tax payments on their profits, 71 managed to pay no state income taxes in at least one of the years between 2001 to 2003. On average over the three years, the 252 profitable companies' net state income tax payments were only 2.3 percent of their US profits, or about one-third of the 6.8 percent average statutory state corporate tax rate across the country. Thus, these companies avoided a total of \$41.7 billion in state corporate income taxes over the time period.

"The study's results are alarming but not surprising," said Jason Bailey, co-director of the Democracy Resource Center. "They confirm what we've known in Kentucky for years: big, profitable corporations are escaping their tax liabilities, and our state is losing revenue because of it."

Corporate taxes in Kentucky have fallen from 11.6 percent of General Fund Revenue in 1989 to 6.2 percent in 2004, Bailey noted.

Nearly one-third of the companies (71 out of 252) paid zero taxes or received a rebate in at least one year between 2001 and 2003. Companies with a presence in Kentucky, including Yum Brands, Alltel, Toys "R" Us, Lexmark, Sears, Advance Auto Parts, and Dollar General, were among the companies with no net state income tax liability in at least one year out of the three-year period included in the study. The companies have not disclosed whether they paid Kentucky income taxes those years.

"These companies are being poor community citizens," said Lyle Snider of Kentuckians For The Commonwealth, noting the loss of significant revenue for Kentucky. "Our lack of attention to our children — who would benefit from many tax supported services this lost revenue could help provide — leads to a very family-unfriendly state."

The study also highlights common ways in which corporations shift taxable income to low- or no-tax states, utilize incentives to lower their tax bills, and otherwise avoid paying.

"Our laws for taxing corporations have become so riddled with loopholes and exemptions that any corporate finance department worth its salt can legally reduce its tax bill to nearly zero," said Debra Miller, director of public policy for Kentucky Youth Advocates. "That may be good business for them, but it isn't good for the state of Kentucky."

"The report makes clear the need for corporate tax reform that closes loopholes and assures that all corporations are paying their fair share," said Bailey. "One of the major reasons we are facing budget

shortfalls in Medicaid and education is that some corporations are not owning up to their responsibility to the people of Kentucky.”

“Corporations depend upon state services for infrastructure, an educated and trained workforce, a justice system to protect their interests and much else,” said Miller. “It is only just that they pay their fair share for these services.”

“Our investments as a state help make these companies profitable, yet they contribute so little in return,” added Bailey.

KEJA will propose a corporate tax reform bill in the 2005 legislative session, sponsored by Rep. Jim Wayne, that will close loopholes in corporate taxes and assure that companies are paying their fair share. Details about that bill and an accompanying individual income tax proposal will be shared at a press conference on Thursday, February 3 at 11 AM in Room 111 in the Capitol Annex.

The CTJ/ITEP study is available at <http://www.ctj.org/html/corp0205.htm> .

The Kentucky Economic Justice Alliance is a partnership of organizations working for progressive social and economic change in Kentucky. It consists of Kentuckians For The Commonwealth, Democracy Resource Center, Kentucky Youth Advocates, and Appalshop. KEJA's website is [www.keja.org](http://www.keja.org).