

Is Kentucky's Corporate Income Tax High?

While Governor Fletcher promotes cutting Kentucky's top corporate income tax rate--saying that it's too high at 8.25 percent--what's not said is that Kentucky's "effective rate" (the rate which corporations actually pay) is one of the lowest around. That's because Kentucky, unlike 6 of the 7 surrounding states, has a graduated corporate income tax that starts at only 4 percent (rather than a flat rate). The charts below demonstrate what that means to corporations at four different levels of income. Not only is Kentucky's corporate income tax low—it's also pro-small business. Reducing it further will not help our state.

Effective Corporate Income Tax Rates in Kentucky and Surrounding States

Corporation A: Net Income of \$50,000	
West Virginia	9.0%
Indiana	8.5%
Illinois	7.3%
Tennessee	6.5%
Missouri	6.3%
Virginia	6.0%
Ohio	5.1%
Kentucky	4.5%

Corporation C: Net Income of \$200,000	
West Virginia	9.0%
Indiana	8.5%
Ohio	7.7%
Illinois	7.3%
Tennessee	6.5%
Missouri	6.3%
Kentucky	6.1%
Virginia	6.0%

Corporation B: Net Income of \$100,000	
West Virginia	9.0%
Indiana	8.5%
Illinois	7.3%
Ohio	6.8%
Tennessee	6.5%
Missouri	6.3%
Virginia	6.0%
Kentucky	5.3%

Corporation D: Net Income of \$500,000	
West Virginia	9.0%
Indiana	8.5%
Ohio	8.2%
Illinois	7.3%
Kentucky	7.3%
Tennessee	6.5%
Missouri	6.3%
Virginia	6.0%

Sources: http://www.taxadmin.org/fta/rate/corp_inc.html; Ohio Department of Taxation; Kentucky Revenue Cabinet; Author's calculations.

Corporate Income Tax Structures (Tax Year 2004)	
Illinois	7.3% Flat Rate
Indiana	8.5% Flat Rate
Kentucky	First \$25,000: 4% Next \$25,000: 5% Next \$50,000: 6% Next \$150,000: 7% Above \$250,000: 8.25%
Missouri	6.25% Flat Rate
Ohio	First \$50,000: 5.1% Above \$50,000: 8.5%
Tennessee	6.5% Flat Rate
West Virginia	9.0% Flat Rate
Virginia	6.0% Flat Rate

Sources: http://www.taxadmin.org/fta/rate/corp_inc.html; Ohio Department of Taxation; Kentucky Revenue Cabinet; Author's calculations.

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