

The Tax Plan that Passed Both Chambers on 3-8-05

Exempts people in poverty from state income tax

The bill exempts people making less than federal poverty level from paying individual income tax and links that exemption to the federal poverty line for future years. The exemption level adjusts by the family size, benefiting those with children more. The plan also reduces income taxes owed by families making up to 33% above the poverty line. For the year 2005 that means:

Family size	Will pay no state income taxes	Will pay lower state income taxes
1	Below \$9,570	Up to \$12,728
2	Below \$12,830	Up to \$17,064
3	Below \$16,090	Up to \$21,400
4 and above	Below \$19,350	Up to \$25,736

Lowers income tax rate for all income earned between \$8,000 and \$75,000.

Currently people pay 6% on all income above \$8,000. This bill lowers the rate to 5.8% for income earned between \$8,000 and \$75,000. Any income earned above \$75,000 will be taxed at the current 6% rate. This is an improvement over the larger personal income tax reductions proposed by the Governor. His plan would have lowered the top income tax rate to 5.45% and would have benefited the wealthiest the most. Though the measure was softened in the final plan, it still gives unnecessary tax cuts that are small to individuals (up to \$134 for the wealthiest) but cost the state much needed revenue (about \$65 million a year).

Eliminates the income tax trigger proposed by Governor Fletcher.

The Governor had proposed some dangerous fine print designed to shrink government over time. The so-called trigger would have required deeper income tax cuts – not investments in education or health care – if state revenues ever increased significantly in the future.

Closes some of the major loopholes that corporations have used to avoid paying state taxes.

These changes will make corporate taxes in Kentucky fairer between businesses and a more stable revenue source.

Phases in Governor Fletcher's proposed reductions in the corporate income tax.

This bill will reduce the top corporate income tax rate from 8.25% to 6% over three years. The current rate was established in 1990 with the support of the Chamber of Commerce to help fund educational reforms. Kentucky's corporate income tax currently puts us at or near the bottom of our surrounding states for all but the most profitable businesses. This reckless tax break for the largest corporations will cost our state millions in much needed revenue in future years.

Eliminates the corporate license tax and adds a smaller "alternative minimum tax."

Governor Fletcher and KFTC/KEJA both proposed eliminating the corporate license tax that had been challenged in the courts. However, we also both recognized the need to establish a new "alternative minimum tax" to replace it. The idea behind this new tax is to make sure that firms cannot escape paying any taxes at all. It would replace the \$200 million a year now generated by the license tax. The tax plan that passed both Chambers lowered the alternative minimum tax

from the House version (which had been reduced from the Governor's proposal) by lowering the absolute minimum a business must pay from \$250 from \$175.

As a whole, cuts corporate taxes by a net total of \$60 million a year.

In addition to this \$60 million cut in corporate taxes, the plan includes approximately \$80 million more in property and sales tax cuts aimed at aiding corporations.

Raises the cigarette tax by 27 cents to \$.30 per pack.

This is lower than the \$.31 increase requested by the Governor and far below the national average of about \$.84 supported by KFTC/KEJA. The Governor had also proposed increasing the cigarette tax even more in future years, based on the average tax in surrounding states, but this was not included in the final plan. This plan increased the tax by 1 penny more than the House had proposed and dedicated the money to university cancer research.

Other

The tax plan passed by both chambers reduces higher taxes proposed by Governor Fletcher on alcohol and cable/satellite television services. It also eliminated the "back-to-school" sales tax holiday included in the original plan.

Revenue impact

The plan passed by the legislature raises an additional \$137 million next year by phasing in the corporate tax reductions over three years. After that year, however, it will result in a loss of approximately \$40 million annually. Beyond the one-time increase for 2006, the bill does nothing for the budget crisis facing education, health care and other state services. And with the tremendous amount of new debt legislators are taking on through the scores of projects included in the budget—along with the use of restricted funds and timing issues--the legislature is creating an estimated \$500 million hole in fiscal year 2007. That means even greater pressure next year for the legislature to generate revenue – something that pleases gambling supporters.

*Kentucky Economic Justice Alliance
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