Kentucky.com
LEXINGTON HERALD-LEADER

Back to web version

Tuesday, Jul 7, 2009

Posted on Tue, Jul. 07, 2009

# Kentucky needs more tax reform, fewer tax credits

By Terry Brooks

A melancholy and familiar song is playing again: the Kentucky Budget Blues.

We've been hearing the song for the past decade, but over the past three years the volume has increased as state leaders made cuts to balance the budget, with each shortfall worse than the last.

During the recent special legislative session, the state once again slashed spending on important programs that protect vulnerable people and families. Again, the state has resorted to quick fixes to balance the budget — using more than $741 million in federal stimulus funds. And once again, we have postponed a needed discussion about the state's inadequate tax and revenue system.

Quite simply, this revenue system is outdated and poorly fashioned to generate the funds we need to support important and necessary government spending.

Indeed, rather than coming to grips with the state's long-term revenue needs, lawmakers took steps that will worsen the situation by reducing tax revenue.

As they worked on the budget, lawmakers moved quickly and with almost no public debate to put several new tax breaks on the books. Among these is a major cut to the taxes paid when someone trades in a used car to purchase a new one and a provision that gives a healthy tax credit to people purchasing new homes.

These new incentives will allow some Kentuckians to reap a nice windfall. But many of the people who will benefit were already in good enough financial shape to buy a new car or home.

Meanwhile, many other state residents can only dream about having the means to trade in a beat-up old clunker or buy a home. They are out of work or struggling desperately to make ends meet. For them, state assistance programs — not tax credits for new purchases — are vital.

Unfortunately, these new tax breaks will cost the state an estimated $107 million in revenue over the next two years. That means additional cuts to programs that are important to struggling families.

For example, juvenile-justice programs that provide appropriate services to young people and families going through tough times face significant cuts.

Programs to provide much-needed support to families struggling to keep their children out of foster care are also likely to be cut.

These programs have been shown to be effective at helping families. And they save the state money because the programs keep families together and kids out of foster care or juvenile detention facilities — two expensive, last-resort options.

As a state, Kentucky should be making more investments in these preventative measures. But to do that, we need adequate revenue.

The main problem is that our tax system was largely fashioned years ago, when Kentucky's economy was driven by agriculture and manufacturing.

Today, the state economy is increasingly built on service industries, but the tax system was never modernized to reflect that evolution.

That means revenues are not growing at a rate that keeps pace with the state's pressing needs. In a recession like the one we're in now, the imbalance becomes even more serious.

The bottom line is that we have used up all of the budget gimmicks.

It is high time we focus on our outdated tax system and ensure that it can meet the needs of Kentucky's citizens now and into the future. With an adequate and equitable system in place, we can expect smart investments that support the middle class, help those who are struggling and buttress the state's economy to benefit our kids and generations beyond.

It's time that we get serious about planning for Kentucky's future.

---

*Terry Brooks is executive director of Kentucky Youth Advocates, the home of the Kentucky Tax and Budget Initiative, part of the national, nonpartisan State Fiscal Analysis Initiative.*

---