



The Independent Voice for Kentucky's Children

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## UPDATED MEDIA RELEASE

### Kentucky's 2005 Tax Reform: Does it Increase the State's Risk of a Structural Deficit?

LOUISVILLE, KY – Tax policy experts realize that short-term improvements in state revenue generation can quickly vanish if the growth in tax receipts cannot keep up with the natural growth in state expenditures.

Now, more than two years after Kentucky's tax modernization was signed into law, it is a good time to ask, does Governor Fletcher's tax modernization plan truly improve the security of Kentucky's tax revenues in the long-term? In other words, does Kentucky have, or is it in risk of developing a "structural deficit"?

A structural deficit is a long-term, chronic predisposition to a deficit position resulting from a gap between the normal growth in tax receipts and the normal growth in state expenditures. The normal growth of receipts refers to changes in tax revenues that would naturally occur even if there are no changes to tax rates, tax bases or other aspects of state tax policy.

Even with no changes in tax regulations, revenues would be expected to change as a result of demographic and economic changes. So how does Kentucky fare?

On balance, *JOBS for Kentucky* increases Kentucky's risk of finding itself in a structural deficit. While the plan instituted two major changes to greater secure future streams of corporate income (the alternative minimum calculation and the expansion of the corporate tax to LLEs), these are overshadowed by the trade-off between increased cigarette taxes and reduced personal income taxes, as well as the repeal of the corporate license tax.

These changes fundamentally alter the state's tax structure resulting in greater reliance on specific sales taxes and less reliance on income taxes. Because the tax base for income taxes is expected to grow at a more rapid clip than sales taxes, Kentucky's tax modernization appears to have intensified the risk for future deficits.

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