

MONEY MATTERS...\$...\$...\$

FOR KIDS, FOR COMMUNITIES, FOR KENTUCKY

LOW AND MIDDLE INCOME KENTUCKIANS BEAR HIGHER TAX BURDENS

A Fiscal and Budget Policy Research Brief

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Special points of interest:

- Low- and middle- income Kentuckians pay more taxes as a percent of their income than high-income persons.
- Lower-income Kentuckians pay disproportionately higher sales and property taxes than higher-income Kentuckians.
- Higher-income Kentuckians pay disproportionately higher income taxes than lower-income Kentuckians.

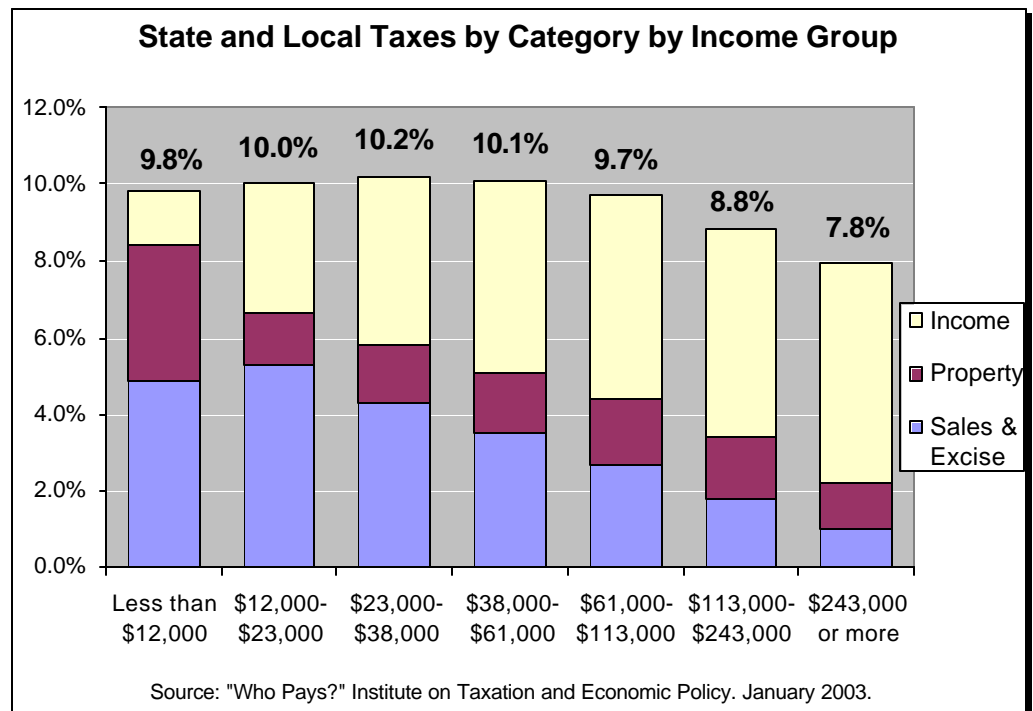


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In Frank Baum's Wizard of Oz, Dorothy discovers that her world is not everything it appears to be. Much the same can be said for the recent debate about Kentuckians' total tax bill. Two recent reports, however, dispel the myth that state and local tax burdens are equally distributed in Kentucky. According to the Institute on Taxation and Economic Policy's "Who Pays?" report released in January 2003 and Kentucky's Legislative Research Commission report "State and Local Tax Burdens" released in October 2001, low- and middle-

income Kentuckians pay more taxes as a percent of their income than higher-income Kentuckians.

These findings are particularly important given Kentucky's current fiscal crisis. A nearly \$400 million budget shortfall through June 2004 exists. Knowing that service-only cuts could have very harmful effects on such things as child health insurance, long-term care, and education, it is important that legislators examine how tax changes could, not only solve the state's fiscal problems, but



also remedy the unequal tax treatment between different groups of Kentuckians.

Any tax change proposal should address the significant imbalance between the percent of taxes that low- and middle- income Kentuckians pay relative to high-income people. Low- and middle- income Kentuckians' should not have to pay a higher percentage of taxes than those with higher incomes. At the very least, the state's tax system should provide a balanced distribution of taxes. At best, it should mean a tax system based upon one's ability to pay. This is generally called a "progressive" tax system.

Here are the conclusions from those two studies.

Institute on Taxation and Economic Policy : "Who Pays?"

????Low-income Kentuckians' paid 9.8 percent of their income in state and local taxes before federal tax deductions and credits*;

????Highest-income Kentuckians' paid 7.8 percent of their income in state and local taxes before federal tax deductions and credits*;

????Low- and middle- income Kentuckians pay, on average, between 4.3 and 4.9 percent of their income in sales and excise taxes;

????Highest-income Kentuckians' pay, on average, between 1.0 and 2.7 percent of their income in sales and excise taxes;

????Lowest income Kentuckians pay, on average, 3.5 percent of their income in property taxes;

????Highest income Kentuckians pay, on average, between 1.2 and 1.7 percent of their income in property taxes.

Kentucky Legislative Research Commission: "State and Local Tax Burdens."

????Low-income Kentuckians pay a higher proportion of taxes than non-poor Kentuckians. This is called a regressive tax structure.

????Kentuckians with incomes below \$12,000 pay 13 percent of their total income as state and local taxes before federal deductions or credits*;

? Highest income Kentuckians pay 9 percent of their total income as state and local taxes before federal deductions or credits*;

????The poorest Kentuckians, those with an annual income less than \$12,000, pay 30 percent more of their income as state and local taxes than Kentuckians with incomes of up to \$253,000;

????Kentuckians with incomes less than \$12,000 pay, on average, up to \$1,500 in total state and local taxes each year.

* Federal tax deductions and credits indirectly affect state and local tax burdens by allowing federal income tax filers to deduct or take a credit for state and local taxes paid. Including federal tax deductions and credits makes Kentucky's tax structure even more regressive.