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Kentucky's Structural Deficit Continues to Plague the Commonwealth
Tax Reform Needed to Fix Long-Term Problem

Louisville, KY – Last night Governor Steve Beshear announced his proposal to close one of the worst budget crises in recent history - an estimated \$1.4 billion budget gap in fiscal year 2010 – with 2 percent cuts to agencies and revenue from expanded gambling. In his speech the Governor asserted that “changing our tax structure will not get us out of this financial crisis.” A new report released today by Kentucky Youth Advocates makes the case that the end of the recession will not bring the end of Kentucky’s financial challenges. Rather, the slow and persistent decline in the growth of state revenues can only be remedied if state legislators intentionally balance the tax structure to provide adequate revenues that prove stable and predictable over time.

“In the case of tax reform, we could not disagree with the Governor more. Year after year we face a budget deficit, and instead of addressing the real problem - the tax structure - lawmakers piece together a budget with a combination of small spending cuts, the use of one-time-revenue, and quick fixes,” said Terry Brooks, executive director of Kentucky Youth Advocates. “Until we address the long-term problem we will be unable to make the critical investments that a growing economy needs like education, health care, transportation and public safety.”

A structural deficit exists when normal growth in state revenue fails to keep pace with normal growth in government spending on public services like schools, state roads and access to healthcare. A structurally sound revenue system would provide adequate revenue to meet today’s needs and grow with the economy to meet future needs.

“The problem is two-fold,” said Brooks. “Not only are we faced with a serious economic downturn, our revenues continue to grow more slowly than the economy. Professor Fox from University of Tennessee discovered this problem nearly ten years ago and predicted that it would continue until our tax structure changed significantly. His prediction is proving accurate.”

A number of factors contribute to Kentucky’s structural deficit: sales tax is naturally declining, individual income tax is relatively flat, corporate income tax is inequitable, and property taxes are declining. In 2005, tax modification legislation passed by the General Assembly recognized the need for changes in the Commonwealth’s tax structure, however the bill did little to fix the structural deficit problem.

The report recommends a number of steps needed to fix the structural deficit such as: modernizing the state sales tax by taxing services, making the personal income tax more progressive, ensuring that out-of-state corporations doing business in Kentucky pay their fair share of taxes, and reducing unfair tax exemptions.

A complete copy of the report, [Kentucky’s Structural Deficit: Well-documented and Persistent](#) can be found at www.kyyouth.org.

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Kentucky Youth Advocates is the home of Kentucky’s Tax and Budget Initiative, a member of the nationwide State Fiscal Analysis Initiative.