Kentucky’s Budget and Tax “Reform”

Kentucky’s taxing, spending, and borrowing policies are half-hazard at best. At worst, they are working to impoverish average Kentuckians. In 2012, the poverty rate in Kentucky was 18.6%, well above the national average of 14.9%. A big reason why Kentucky’s poverty rate is so high is that Kentucky’s employment rate currently ranks 39th among US states. It is difficult to climb out of poverty without showing up for work. A mere 56.2% of adult Kentuckians have a job. What Kentucky needs is a sound budget complete with tax reform that stimulates job growth in the Commonwealth.

On the positive side, Governor Beshear’s tax reform proposal reduces some business taxes, slightly reduces the marginal income tax rate from 6% down to 5.9%, and expands the earned income tax credit. On the margin, these all make work more profitable. On the negative side, the governor’s tax reform proposals collectively seek to *raise* Kentucky’s tax burden by $210 million a year. A whopping $73 million of this money comes from increasing the marriage penalty for married income tax filers.

Rather than simplify the state tax code, the governor’s proposals unduly complicate it. The business and personal tax cuts are financed by increasing sales taxes on “selected” services. Extending the sales tax to all services would do a better job of broadening the tax base allowing for further reductions to state income tax rates. Instead, the governor picked out certain industries to pay fewer taxes such as the horse, beer, wine, and distilled spirits industries, while increasing taxes on other industries such as fitness facilities, home security system providers, landscaping companies, and car repair service providers. The governor further relies on raiding 51 funds to cover $370 million of spending. Using one-time money to cover recurring expenses is an act of fiscal desperation.

The proposed $210 million tax increase does not cover the governors proposed increase in state spending. In Kentucky, oddly, a balanced budget only means the legislature can spend what it collects in taxes plus what it borrows. The governor has proposed $1.96 billion in new state borrowing over the next biennium. From 1992-2003 Kentucky borrowed and spent $4.24 billion more than it collected in taxes. From 2004-2015 they will have borrowed and spent $11.18 billion more than it collected in taxes. Kentucky already has one of the worst bond ratings in the country. Adding nearly $2 billion in new debt will increase the percentage of the budget that is needed to service state debt thereby putting further strain on future budgets.

Governor Beshear again chose to ignore proven job creating policies such as becoming a right to work state, or dumping prevailing wage laws. Doing the latter would save taxpayers more money than the governor proposed in new tax increases. States that de-emphasize state income taxes and allow workers a right to work without joining closed shop unions have created significantly more jobs in the last decade than have states that punish work and worker choice.

Policy makers have a choice. They can pursue pro-growth economic policy, or they can continue to pretend that they can borrow and spend their way to wealth. Unfortunately the governor has chosen the latter. All Kentuckians will pay as a result.