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Poor spend larger percentage on taxes

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Low and middle-income Kentuckians pay a larger share of their incomes on state and local taxes than wealthier people do, making the tax system one of many in the country that is inherently unfair, according to a new study.

The Institute on Taxation and Economic Policy in Washington, D.C., studied tax codes in every state and concluded that the vast majority depend too much on sales and property taxes, which then puts a greater burden on the lower-income population.

"State and local taxes are profoundly unfair around the nation, and Kentucky is no exception," said Matt Gardner, the author of the study and director of the institute, which bills itself as a non-partisan, non-profit research group.

The study found that, in 2007, people making less than $15,000 a year paid 9.4 percent of their income to sales, property and income taxes, while those making about $36,000 paid 11 percent.

In contrast, the wealthiest 1 percent of Kentuckians, those making more than $346,000 a year, paid 7.1 percent. After federal deductions, the percentage is 6.1.

In 2002, the group did a similar study, which found that the poorest Kentuckians paid 9.8 percent of their income in sales, property and income taxes, while the richest 1 percent paid 7.8 percent.

Wealthier people do pay more in income taxes, about 5.2 percent of their income, compared with 1.3 percent for the poorest fifth of the population. But, Gardner said, the income tax is the only one designed to be progressive and does not offset the effects of the other two.

"This upside-down approach to state and local taxes is astonishingly inequitable," Gardner said.

However, the issue is complicated: one of the major sales and excise taxes, for example, is the cigarette tax, which was raised to 30 cents a pack last year. A majority of Kentuckians supported an increase to decrease smoking and help pay for smoking-related disease, but it does disproportionately affect buyers of cigarettes in lower-income brackets.

The institute's study comes less than two months before the Kentucky General Assembly returns to Frankfort to face a possible $1 billion shortfall over the next two years.

Steve Boyce, vice-chair of Kentuckians for the Commonwealth, a public-policy group, said the report should spur legislators to pass laws that will replace Kentucky's antiquated tax system with one that is more fair, more adequate and more sustainable.

"It should not disproportionately impact the poor," Boyce said.

KFTC and a host of other public-policy groups are pushing a tax-reform bill from Rep. Jim Wayne, D-Louisville, that would give more tax credits to the poor and raise income taxes on the wealthy, while taxing more services, a growing sector of the economy.

"This study is a great opportunity to take a second look at the tax-reform package we're pushing because it's a step in the right direction," in terms of fairness and adequacy, Wayne said.

Another tax-reform bill, from Rep. Bill Farmer, R-Lexington, would eliminate the income tax altogether, while also taxing services.

Farmer said he doesn't dispute the study because Kentucky's tax system is so antiquated. He just says people should be taxed on their consumption, not their income.

But Gov. Steve Beshear has said he opposes both measures because they would cause tax increases. Instead, he has put his support behind an effort to pass an expanded-gambling bill to raise more revenue.

"I don't think anyone disputes that we could be more judicious in how we tax and could do a better job of taxing," said Rep. Rick Rand, D-Bedford, the chair of the House Appropriations and Revenue Committee. "It's just that with the climate we're in, I don't think that will happen."

The climate, however, might get more desperate. Earlier this year, the state used $787 million in federal stimulus dollars to plug a nearly $1 billion budget hole. Kentucky has about $485 million of federal stimulus funds left to use for the upcoming fiscal year, state budget officials say.

Since 2007, the General Assembly has taken money out of different funds to make up the shortfalls, using about $2 billion more than was deposited in the General Fund.

Preliminary projections, which will be finalized in December, show the state facing another $161 million shortfall in the current fiscal year. To spend $9.1 billion in each of the following two years, the state must somehow boost projected revenues by $680 million in fiscal year 2011 and $350 million in fiscal year 2012.