

# **Kentucky Taxes Hit Poor & Middle Class Harder than the Wealthy**

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Low- and middle-income families in Kentucky pay a higher share of their income in state and local taxes than do the richest Kentucky families, according to a new study by the Institute on Taxation & Economic Policy.

“State and local governments are being called upon to take on more and more responsibilities,” said Robert S. McIntyre, ITEP’s tax policy director and lead author of the study, titled *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States*. “Unfortunately, when it comes to paying for services, Kentucky has an unfair tax system.”

## **Kentucky’s Tax Code: Tax the Poor & Middle Class More Than the Wealthy**

When all Kentucky taxes are totaled up, the study found that:

- The state and local tax rate on the best off one percent of Kentucky families—with average incomes of \$602,000—is 7.8% before accounting for the tax savings from federal itemized deductions. After the federal offset, the effective tax rate is only 5.6%.
- The average tax rate on families in the middle of the income distribution—those earning between \$23,000 and \$38,000—is 10.2% before the federal offset and 10.1% after, three quarters more than the effective rate the richest pay.
- But the tax rate on the poorest Kentucky families—those earning less than \$12,000—is the highest of all. At 9.8% it is also three quarters more than the effective rate on the very wealthy.

“Kentucky’s income tax fails to offset the regressivity of its sales and excise taxes, leaving the highest income families with the lowest tax burdens,” McIntyre said. “Taxes ought to be based on people’s ability to pay them, which means that the share of income paid in taxes should rise as income grows, not fall as is the case in Kentucky.”

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## Tax Regressivity Has Grown Since 1989

The study also examined the impact of changes in the regressivity of Kentucky taxes since 1989, when the last cycle of state government shortfalls began. The study's findings include:

- Progressive changes to the income tax included: adoption of low income credits, an increase in the standard deduction, and elimination of the deduction for federal taxes.
- But these were not enough to prevent the bottom fifth of Kentucky residents from receiving the largest increase in tax burdens, due to large increases in property taxes.

"Low income taxpayers in Kentucky were forced to pay the money they saved from income taxes right back in higher property taxes," said McIntyre. "As lawmakers consider budget-balancing strategies in 2003, they should remember that their past actions have served to shift a greater share of the tax burden onto low-income taxpayers."

### Two pages of tables detailing the Kentucky findings of the study follow

The Institute on Taxation and Economic Policy is a nonpartisan Washington-based research group. The full *Who Pays?* report is available in PDF format at [www.itepnet.org](http://www.itepnet.org). Printed copies can be ordered by calling ITEP at 202-737-4315.

*Who Pays?* examines the tax systems of all 50 states and the District of Columbia, using the Institute on Taxation & Economic Policy Microsimulation Tax Model. The ITEP Model is similar in methodology and data sources to the elaborate computer models used by the U.S. Treasury and the congressional Joint Committee on Taxation, except that the ITEP Model adds state-by-state estimating capabilities.

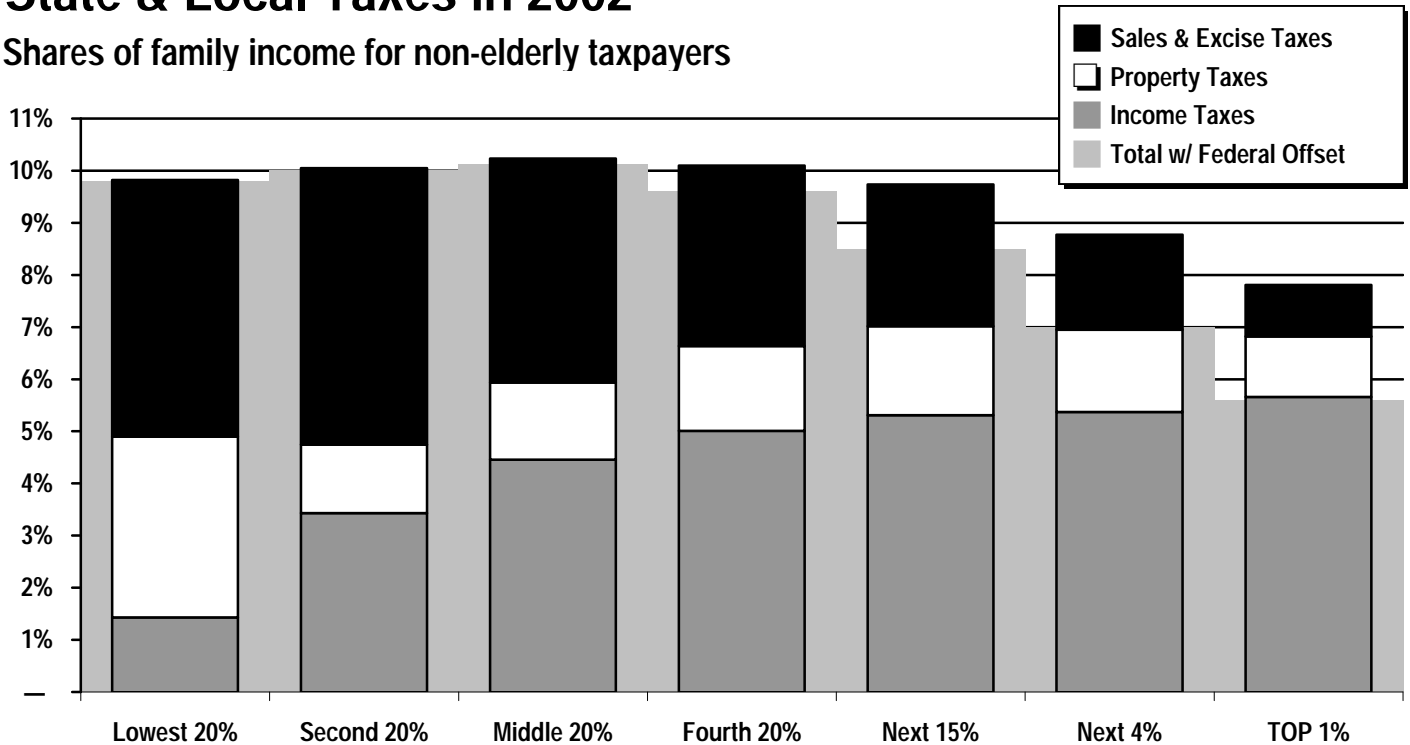
The findings published in the study detail state and local taxes paid by non-elderly couples and individuals. The study includes all major state and local taxes: personal and corporate income taxes, property taxes, and sales and excise taxes.

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# Kentucky

## State & Local Taxes in 2002

Shares of family income for non-elderly taxpayers



Income Group	Lowest 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Income Range	Less than \$12,000	\$12,000 – \$23,000	\$23,000 – \$38,000	\$38,000 – \$61,000	\$61,000 – \$113,000	\$113,000 – \$243,000	\$243,000 or more
Average Income in Group	\$7,400	\$17,400	\$29,400	\$47,900	\$79,400	\$150,000	\$602,000
<b>Sales &amp; Excise Taxes</b>	<b>4.9%</b>	<b>5.3%</b>	<b>4.3%</b>	<b>3.5%</b>	<b>2.7%</b>	<b>1.8%</b>	<b>1.0%</b>
General Sales—Individuals	3.0%	3.3%	2.7%	2.3%	1.8%	1.2%	0.7%
Other Sales & Excise—Ind.	0.6%	0.7%	0.6%	0.4%	0.3%	0.2%	0.1%
Sales & Excise on Business	1.3%	1.4%	1.0%	0.8%	0.6%	0.4%	0.2%
<b>Property Taxes</b>	<b>3.5%</b>	<b>1.3%</b>	<b>1.5%</b>	<b>1.6%</b>	<b>1.7%</b>	<b>1.6%</b>	<b>1.2%</b>
Property Taxes on Families	3.4%	1.3%	1.4%	1.6%	1.6%	1.4%	0.7%
Other Property Taxes	0.1%	0.0%	0.0%	0.1%	0.1%	0.2%	0.4%
<b>Income Taxes</b>	<b>1.4%</b>	<b>3.4%</b>	<b>4.5%</b>	<b>5.0%</b>	<b>5.3%</b>	<b>5.4%</b>	<b>5.7%</b>
Personal Income Tax	1.4%	3.4%	4.4%	5.0%	5.3%	5.3%	5.4%
Corporate Income Tax	0.1%	0.0%	0.0%	0.0%	0.1%	0.1%	0.2%
<b>TOTAL TAXES</b>	<b>9.8%</b>	<b>10.0%</b>	<b>10.2%</b>	<b>10.1%</b>	<b>9.7%</b>	<b>8.8%</b>	<b>7.8%</b>
Federal Deduction Offset	-0.0%	-0.0%	-0.1%	-0.5%	-1.2%	-1.8%	-2.2%
<b>TOTAL AFTER OFFSET</b>	<b>9.8%</b>	<b>10.0%</b>	<b>10.1%</b>	<b>9.6%</b>	<b>8.5%</b>	<b>7.0%</b>	<b>5.6%</b>

Note: Table shows 2002 tax law at 2000 income levels.

# Kentucky Tax Trends

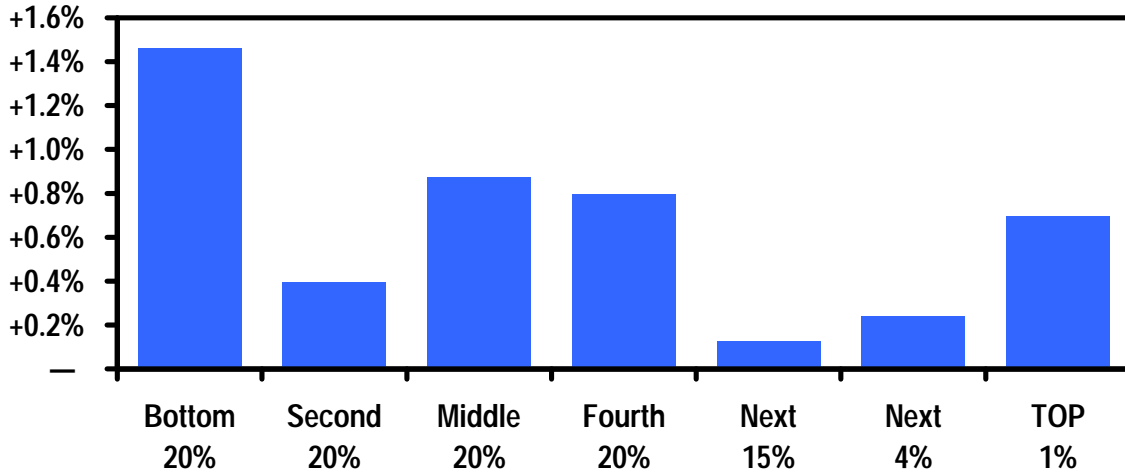
## Progressive Features

- ✓ Low-income tax credit
- ✓ Groceries exempt from sales tax

## Regressive Features

- ✗ Virtually flat income tax
- ✗ Tax brackets, exemption credits not indexed

### Changes in Taxes as Shares of Income, 1989 – 2002

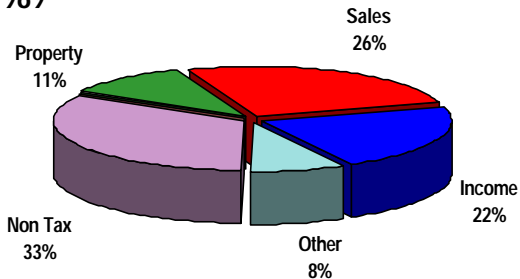


	Bottom 20%	Second 20%	Middle 20%	Fourth 20%	Top 20%		
					Next 15%	Next 4%	TOP 1%
Sales & Excise	+0.3%	+0.4%	+0.3%	+0.2%	+0.2%	+0.1%	+0.1%
Property	+1.6%	+0.2%	+0.4%	+0.3%	-0.1%	-0.2%	-0.1%
Income	-0.5%	-0.2%	+0.3%	+0.6%	+0.6%	+1.0%	+1.9%
Federal Offset	-0.0%	-0.0%	-0.1%	-0.3%	-0.5%	-0.7%	-1.1%
Overall Change	+1.5%	+0.4%	+0.9%	+0.8%	+0.1%	+0.2%	+0.7%

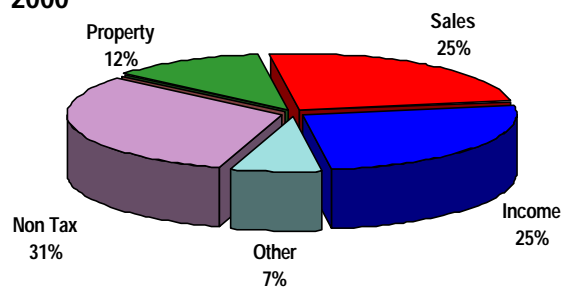
The Kentucky income tax was made more progressive by adopting the federal itemized deduction phase-out, the elimination of the federal tax deduction, the adoption of a low-income tax credit, and the expansion of the standard deduction. Sales tax changes included an expansion of the base and a 1% tax hike.

## Composition of Revenues

1989



2000



Source: Government Finances, US Department of Census