



Media Contact:
Jessica Fletcher
Communications Manager
(w) 502-848-8731
(c) 859-539-0511
jfletcher@kychamber.com

Tax talk obscures the need for spending reform

By Dave Adkisson, President and CEO, Kentucky Chamber of Commerce

As businesses across the Commonwealth continue to deal with the lingering effects of the economic downturn, legislators are wrestling with similar problems in trying to balance the state's two-year budget. With official estimates indicating \$970 million in additional cuts from current spending levels and projected needs that some estimate will cause a \$1.5 billion total shortfall, legislators have their hands full. It should come as no surprise that some legislators are talking about taxes. Most of this discussion has centered on "reforming" or "modernizing" Kentucky's tax code. Make no mistake; for most of the proponents of tax reform, the goal is to produce additional revenue to fund government programs and services.

Two proposals have been circulating for more than a year. One proposal by Rep. Bill Farmer (R-Lexington) would extend the state's sales tax to services and eliminate the state's individual and corporate income taxes. The other, by Rep. Jim Wayne (D-Louisville), would extend the sales tax to selected services, raise the income tax on individuals and small businesses making \$75,000 or more and provide relief to low-income individuals through an earned income tax credit. Recent discussions have addressed the possibility of incorporating certain aspects of both of these bills into single piece of legislation to begin deliberations on tax reform. Whether these deliberations take place in the current session of the weeks that follow adjournment, one thing is clear: companies of all sizes will need to be prepared to defend any tax exemption on which their business relies.

While the Kentucky Chamber is a willing participant in any discussion that will lead to a more competitive tax code, state spending reform is a higher priority for our organization – and it should be for all of state government. The Chamber's research on state tax and budget trends clearly shows that state government, as a percentage of the state's economy, has remained nearly constant (at approximately six percent) for more than 20 years.

In other words, General Fund spending has grown with the size of the overall economy. Spending on education, however, has not followed a similar pattern, resulting in cuts to such important programs as preschool and higher college tuition for students on the other end of the system. What is particular distressing is the fact that, while our state's investments in education have lagged over the past decade, we have witnessed alarming increases in the costs of public employee health benefits, Medicaid and corrections. These three areas continue to grow unconstrained in the public sector, while private sector employees have seen job losses and reduced benefit levels just to keep the doors open.

Fortunately, we have seen some indication that economy is beginning to rebound. But the last thing any company needs now is an increased tax burden from lost exemptions – such as an energy tax – or to have to explain increased costs to their customers through a newly imposed sales tax. Until Kentucky undertakes significant spending reform to ensure priorities like education are fully protected, business leaders are reluctant to send any more money to Frankfort.