

Kentucky Tonight, KET, June 4, 2012

Panelist: Rep. Jim Wayne; Rep. Bill Farmer; Terry Brooks, Kentucky Youth Advocates; and Andy Hightower, Kentucky Club for Growth.

Hightower: “Non-adequacy” goals are only true goals for tax reform. There will never be adequate funds. By using “adequacy” as a goal, you’re just seeking a reason to justify a tax increase. Gov. is asking Kentuckian’s to come forth and say what they need so he can justify a tax increase.

Brooks

- Wish Commission could focus/have serious inquiry into issue of adequacy
- To be successful, need to get some early wins and build momentum.
 - Reconfigure sales tax system (Farmer and Wayne agree)
 - State-level earned income tax credit (Lots of President’s – Republican and Democrats - have supported)
- Instead of doing nothing, let’s pick the low-hanging fruit. Might help Frankfort-deadlock.

Caller: B.T. Eicher, Ft. ?, KY

We need more than 2 rates for individual income tax. Need more progressivity.

Farmer : Yes, rates originally set decades ago. We haven’t been able to keep up so we basically have a flat income tax. Commission needs to address. Don’t think we can come up with a higher rate and pass it politically.

Hightower: Hoyt’s findings are that we have a fairly progressive system when compared to other Southern states.

Wayne: Looking at state and local taxes combined, the bottom 40% of income earners in Kentucky are paying 10-11¢ per \$1.00, but top 5% are only paying about 5¢ per \$1.00. I don’t compare to other states. These numbers (above) are *not* fair.

Farmer: I don’t look at fairness by looking within the state. I look at fairness by looking at surrounding states. I have looked at other state systems, for example, VA. They pay sales tax on food and pharmaceuticals (I think). KY – we pay tax on motor vehicles. TN – no tax on motor vehicles. Farm Bureau asked for HB 44 limit to stay in place and for agriculture exemptions. No one wants change.

Wayne: If Farm Bureau would come and say -- keep exemption because it helps us and explain and support keeping the exemption, that would be helpful.

Moderator: James Zilliac, UK, says tax reform should take into effect poverty in state. Should Tax Reform be an anti-poverty measure?

Brooks: Yes. EITC (“earned income tax credit”) is most effective anti-poverty measure used by Federal government. The folks that get the money spend it at department stores, auto repair shop, hardware stores. For every \$1 returned to a family, \$2 is spent according to US Council of Mayors.

Wayne: Take federal EITC and give 15% above would cost KY \$190M. This was part of HB 127.

Farmer: I know there are problems at the federal level. Quite a bit of fraud, but the EITC is an effective tool for folks making \$18,000-\$22,000 with 2 kids.

Terry: We need to look at poverty in Kentucky. An EITC would be a “win-win”. People hold on to more of their money, which helps poverty by allowing them to buy things they need, which puts money into the economy.

Wayne: EITC makes tax system more progressive. We need to be more competitive. Biggest drawback in state is poorly trained workforce. We are a poor, backward, unhealthy, uneducated state. Change this by investing in the state – education, job training, etc.

Hightower: We invest heavily in education in this state. There are pockets of lack of education (Wayne disagrees). We don’t have school choice, and this makes a big difference. Charter school in Evansville is 8th in country as a result of innovation that Kentucky GA won’t permit.

Caller: Charlie Kanter, Lexington

To Hightower: How would you improve education and job training? I’m on site-based council and we’re continually frustrated by lack of funds. We’re giving teachers an impossible task and then blaming them.

Hightower: There is money available for education. We need to figure out where to spend it and where not to.

Brooks: Talk is generally broad and over whether funds are adequate or inadequate. We can’t look at the state as a whole. We must look at sectors; for example, there were significant dollars in the budget just passed for child protection. This money very important.

Brooks: I’m very perplexed about the K-12 arena. Why doesn’t the significant amount of money get to the schools? There should be enough money.

Wayne: Textbooks are a line-item in the budget. These are not discretionary funds. In Paducah, a teacher spoke to the fact that they haven’t had new textbooks in years.

Hightower: Why are “new textbooks” decided by the Kentucky General Assembly?

Wayne: To protect funding from bureaucracy.

Moderator: With Tax Modernization in 2005, there was a focus on being “revenue-neutral.” Have we moved away from “revenue-neutral”? Does tax reform mean someone will pay more in 2013?

Wayne: HB 127 is a blend – some paying too much, others not paying enough. People on panel – we’re probably in top 20% - we should pay more.

KY Chamber says it wants reform to be revenue-neutral. Hogwash! Social services strained, prisons strained, health care strained, pension deficit We need money.

Caller: Andy Gamblin

Owensboro

Cut taxes from top to bottom. Why don't you do this? It would help businesses and everybody and would get the state moving again.

Hightower: That would be an approach and would move Kentucky. You cannot raise taxes to an amount sufficient. You can only control spending by controlling revenue stream.

Wayne: Most Kentuckian's probably do need a tax reduction, but some people are not paying their fair share. If you're going to invest in the state and improve job training, you must put money there. How would you pay for it, Mr. Gamblin? You make sure the higher income earners pay more. We need more money for state universities. Students are practically paying private school tuition.

Brooks: Fox said in his 2002 report that a state's budget is a reflection of state's priorities and values. These items are not on anyone's agenda. These core issues are not being addressed, and therefore, we can't judge what is adequate and what is not adequate.

Moderator: Rep. Farmer, you have proposed eliminating individual and business income taxes, and increasing sales tax to 7% expanding the application of the tax. Will this give the job done?

Farmer: I don't think this would generate adequate funds. Wayne will say regressive. But, if we expand sales tax to services purchased by high income individuals, then tax will be less regressive.

Caller Larry Hopkins, Lexington

Panel seems to be well-informed. I'm expert on what I think. We need a solid proposal on tax reform. We've been studying this for over 12 years. We need results. I'd like to appoint a Wayne-Farmer Commission to come up with a proposal to get us off square one. We're getting in worse and worse shape.

Wayne: Rep. Farmer and I do share some common ground. I agree that the services area of our economy has grown and we need to tax services. There is a list in HB 127. This will add flexibility to the tax code.

Hightower: I think there is even more common ground. Telling people how to consume via exemptions is wrong. Let economy work. Eliminate exemptions – apply tax equally to all sectors of the economy. Expand to things taxed by our neighbors.

Wayne: We've never looked at how/whether these exemptions work.

Brooks: Simpson-Bowles Commission – widely applauded at inception, then disregarded, now being resurrected by Pres. Obama and Mitt Romney. Let's imagine a scenario where KY Senate will not embrace a proposal of Gov. appointed commission, can we learn from Simpson-Bowles Commission? Bi-partisan leadership not running for office.

Moderator: Probability of passage of proposal by Commission –Will GA have political will, spend political capital to pass tax reform?

Wayne: It will take a considerable amount of skill on the parts of Gov. and Lt. Gov. The tax commission is just getting started. Timing is an important factor. If they can build enough momentum by November, there is a window with some lame-duck legislators that you might be able to get reform accomplished. 2013 Session is not an option because it would take a supermajority.

Farmer: Yes, I think Special Session is the only way reform can be accomplished. Could not get a supermajority of the House (60/100) in 2013. I am still deeply concerned about whether Gov/Lt Gov can get 20 in Senate in a Special Session. Governor needs to get out in front and lead the bull by pulling it by the horns. The bull is a 138 legislators. I can see Commission coming out with report and legislators picking and choosing from the recommendations. Commission is not tasked with coming out with a legislative proposal.

Wayne: Abramson has excellent political skills. Look at economic development in Louisville. Hopefully those skills will translate to Frankfort.

Brooks: What if Commission shared a report that said, “Here are the questions that need to be answered before we can propose tax reform? Don’t know adequacy or inadequacy for k-12.” This would be a tremendous outcome.

Hightower: Prediction - if it’s a tax increase, it has no chance. If revenue-neutral, it will take tremendous leadership. I think the idea of using a bunch of “unaccountable, lame-duck legislators, is the worst I’ve ever heard.”