



April 05, 2018

The Honorable Matt Bevin  
Governor  
Commonwealth of Kentucky  
700 Capital Avenue, Suite 102  
Frankfort, KY 40601

Dear Governor Bevin:

On behalf of National Taxpayers Union (NTU) and our members in Kentucky and across the country, I write to offer comments on proposed changes to Kentucky's tax code that await your signature. NTU is supportive of many provisions in House Bill (HB) 366; notably the changes to the individual and corporate tax rate, which would enhance economic growth and personal savings. However, NTU is concerned that the bill amounts to a \$487 million tax hike. The tax increases included in this legislation would burden many consumers, particularly those with limited means. We urge you to oppose this legislation in its current form and to work with the Legislature to improve the bill to the benefit of all Kentucky taxpayers.

NTU supports efforts to lower and flatten the corporate income tax rate. The proposed 5 percent flat tax rate will greatly improve competitiveness over the existing three brackets. Importantly, no neighboring state with a corporate income tax has a rate as low as 5 percent. The nonpartisan Tax Foundation [estimates](#) these and other changes to business tax provisions would improve Kentucky's ranking in the State Business Tax Climate Index from 33rd to 18th overall.

By standardizing the corporate rate at 5 percent, businesses will see a sizeable reduction in their tax liability. Such an action will free up capital to invest in workers, equipment, or expand their footprint in the Commonwealth. This will boost employment opportunities, increase take-home pay for employees, and make businesses more productive.

Tax reform will also have a direct impact on the wallets of individual taxpayers. Like the corporate income tax change, this legislation moves Kentucky away from the progressive personal income tax rate to one that is flat at 5 percent. With this change, all taxpayers carry the same responsibility and group of taxpayers are unequally burdened. Since most taxpayers are in the highest or second highest tax bracket (6 and 5.80 percent, respectively), they will receive a substantial tax cut. The Tax Foundation also estimates these changes would improve Kentucky's ranking in the State Tax Climate Index from 29th to 17th overall.

However, there are provisions that will negatively impact taxpayers across the Commonwealth. Due to Kentucky's ongoing budget deficit and spiraling pension crisis, lawmakers have crafted a bill that would raise taxes by nearly a half a billion dollars.

If enacted, HB 366 would broaden the sales tax base to include many services. Base-broadening typically yields a simpler, fairer tax code. However, the additional revenues generated by doing so should be used to reduce tax rates, not to address other, unrelated fiscal problems.

Additionally, we are concerned about the proposed cigarette tax hike included in this legislation that would nearly double the tax to \$1.10 per pack, up from 60 cents. Given that most of Kentucky's neighbors levy significantly lower cigarette taxes, this proposal could encourage buyers to drive across state lines to buy cheaper cigarettes. Not only would the cigarette tax hike lead to greater smuggling, but cigarette taxes are regressive, meaning the burden of this tax would fall disproportionately on poorer Kentuckians. The proposal also implements a new 15 percent tax on e-cigarette purchases, further burdening smokers who want to transition to less harmful nicotine products.

Tax reform done correctly will reduce the burdens on individuals and businesses and boost economic growth. This legislation has many pro-growth provisions that will benefit the commonwealth for the long-term; however, this growth will be mitigated due to the numerous revenue-raisers that are tucked in. We urge you to veto this legislation so the Legislature can amend the bill and pass a tax reform package that benefits all Kentuckians.

Sincerely,

Thomas Aiello  
Policy and Government Affairs Associate

CC: Members of the Kentucky General Assembly