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WHY TAX REFORM: KENTUCKY'S OPPORTUNITY FOR GROWTH



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The Business Community's Case for Tax Reform

- **The impact of the 2018 and 2019 reforms**
- **Why House Bill 8 is so critical to Kentucky's economic future**
- **Recommendations for future reforms**



The 2018-2019 Reforms Modernized Kentucky's Tax Code

SOME OF THE KEY PROVISIONS OF THE 2018 & 2019 REFORMS:



Eliminating income tax brackets and reducing Kentucky's individual and corporate income tax rates from 6 percent to 5 percent.



Adjusting how the state determines taxable income for businesses.



Creating a credit for businesses to offset economically-harmful taxes on inventories.



Initial steps to modernize Kentucky's sales tax base.



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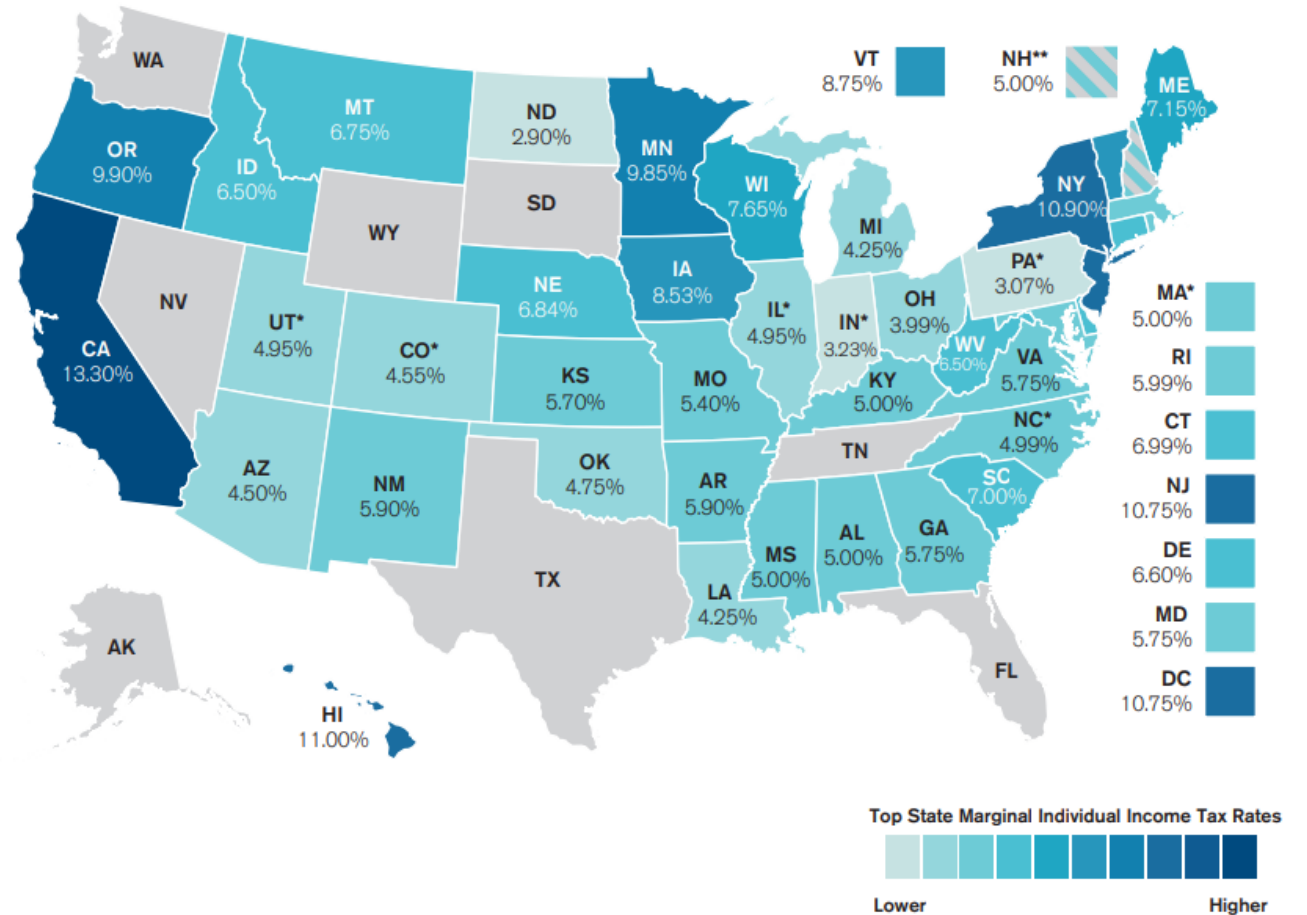
House Bill 8 positions Kentucky to compete in a 21st century economy by reducing income taxes on workers and small business owners

***Idaho: 6%**

***Arkansas: 4.9%**

***South Carolina: 6.5%**

Top Individual Income Tax Rates, 2022



Source: Tax Foundation



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Population Growth in Kentucky has Underperformed the Nation and Neighboring Tennessee for the Past 70 Years

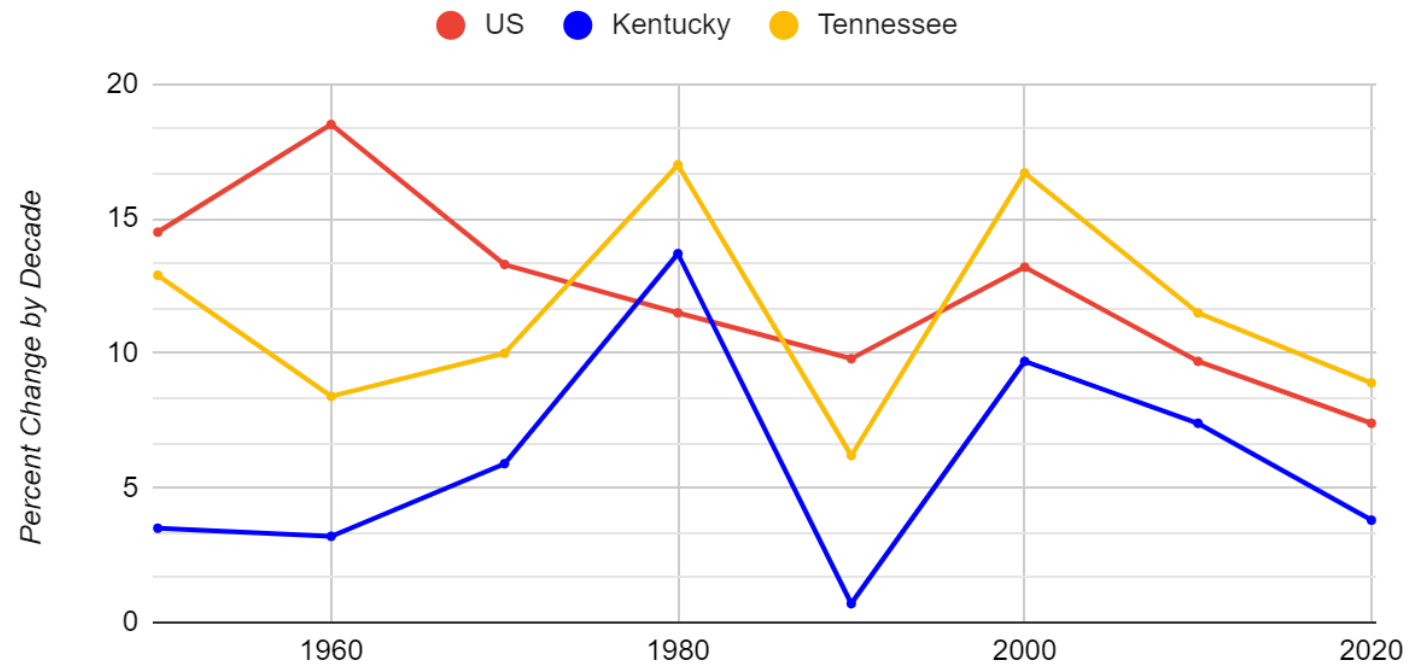
• KY Population

- 1950: 2,944,806
- 2020: 4,505,836

• TN Population

- 1950: 3,291,718
- 2020: 6,910,840

Population Growth: U.S., KY, & TN, 1950-2020



Source: U.S. Census

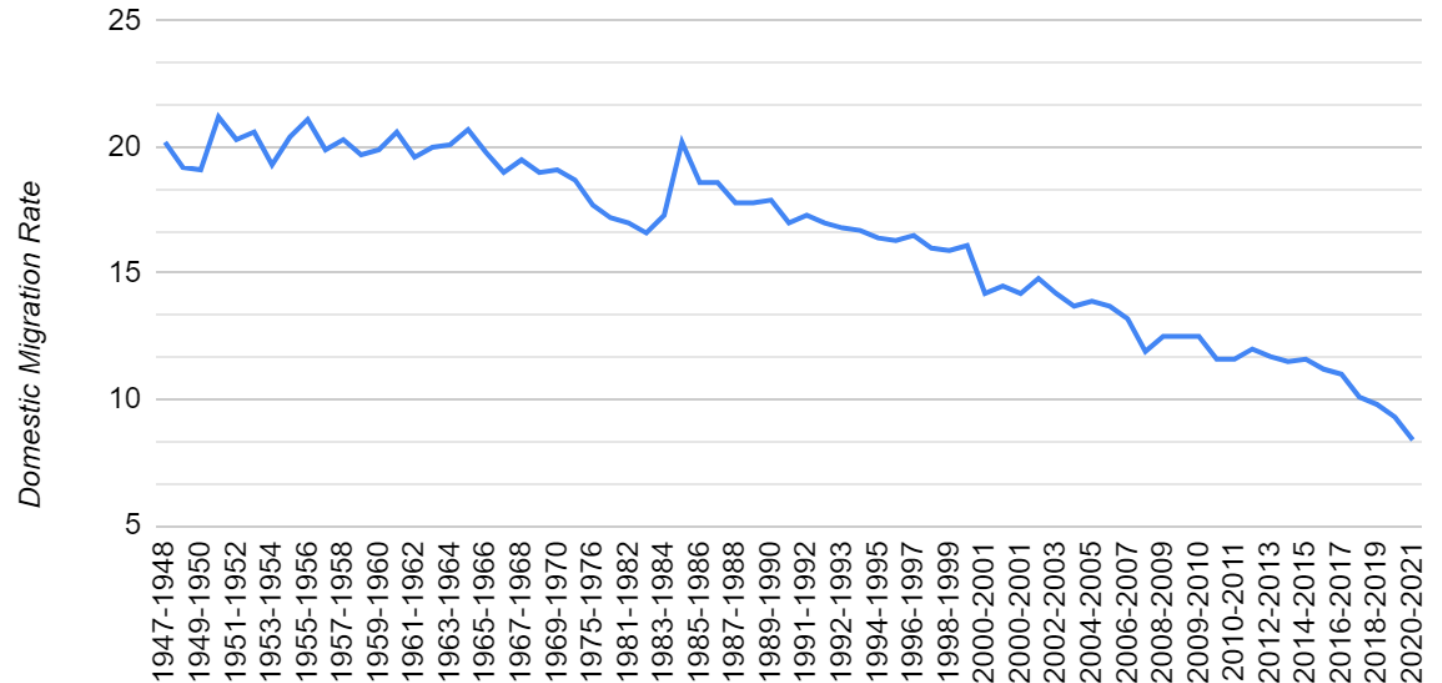


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Competition among states for new residents has intensified in recent decades as domestic migration rates have decreased

U.S. Domestic Migration Rate, 1947-2021



Source: U.S. Census

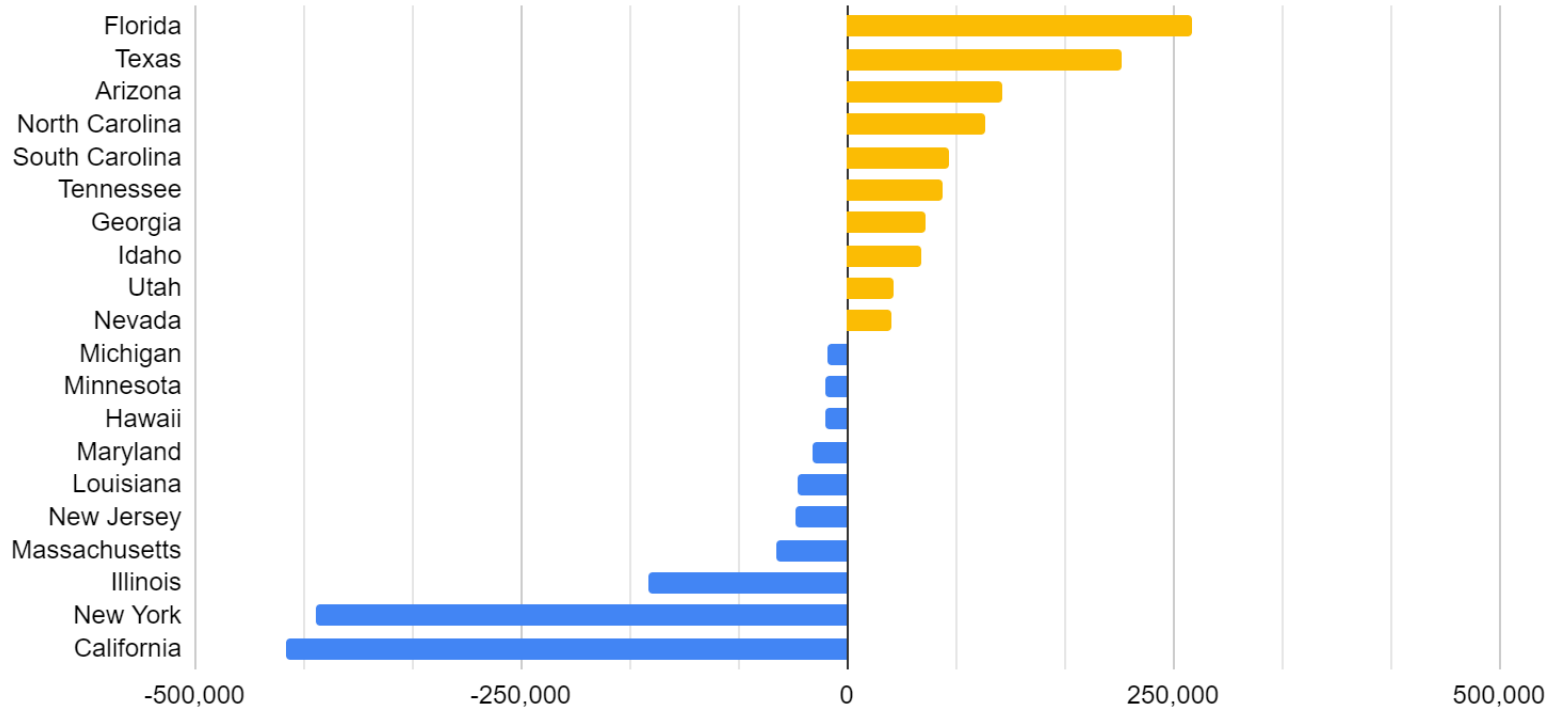


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Some states are attracting more in-bound domestic migration than others

Net Domestic Migration, Cumulative April 1, 2020, to July 1, 2021
Top 10 Inbound and Top 10 Outbound States



Source: U.S. Census



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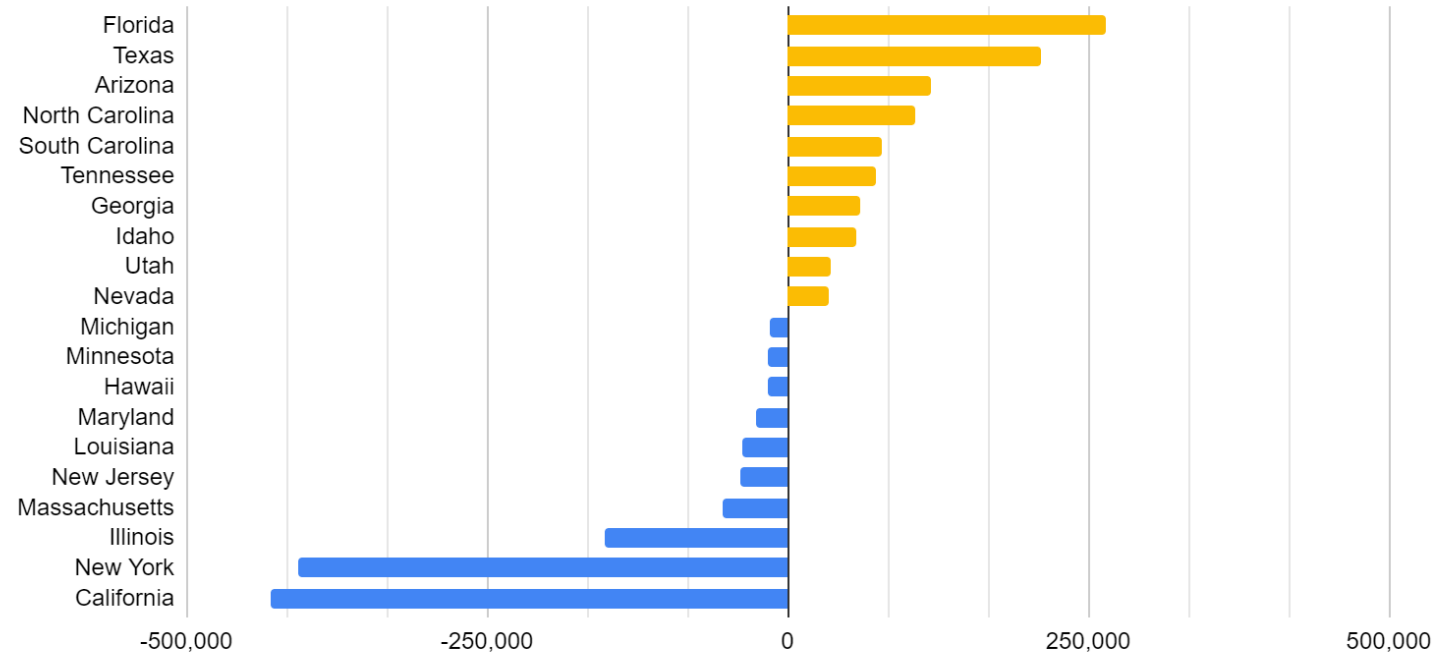
People Move for Various Reasons, Including Taxes

- Housing costs, family, relationships, friends, job opportunities, amenities, natural spaces, change of lifestyle, retirement, overall cost of living, schools, education, weather and climate, etc.
- *“There is growing evidence that taxes can affect the geographic location of people both within and across countries. This migration channel creates another efficiency cost of taxation with which policymakers need to contend when setting tax policy.”*
 - Kleven, H. et al, “Taxation and Migration: Evidence and Policy Implications, *Journal of Economic Perspectives*, Spring 2020



Low or no-individual income tax states, on the whole, are attracting more domestic migration than higher-individual income tax states

Net Domestic Migration, Cumulative April 1, 2020, to July 1, 2021
Top 10 Inbound and Top 10 Outbound States



Source: U.S. Census

Average IIT in the top 10 inbound states: 3.8%

Average IIT in the top 10 outbound states: 8%

4 of the top 10 inbound states have no IIT



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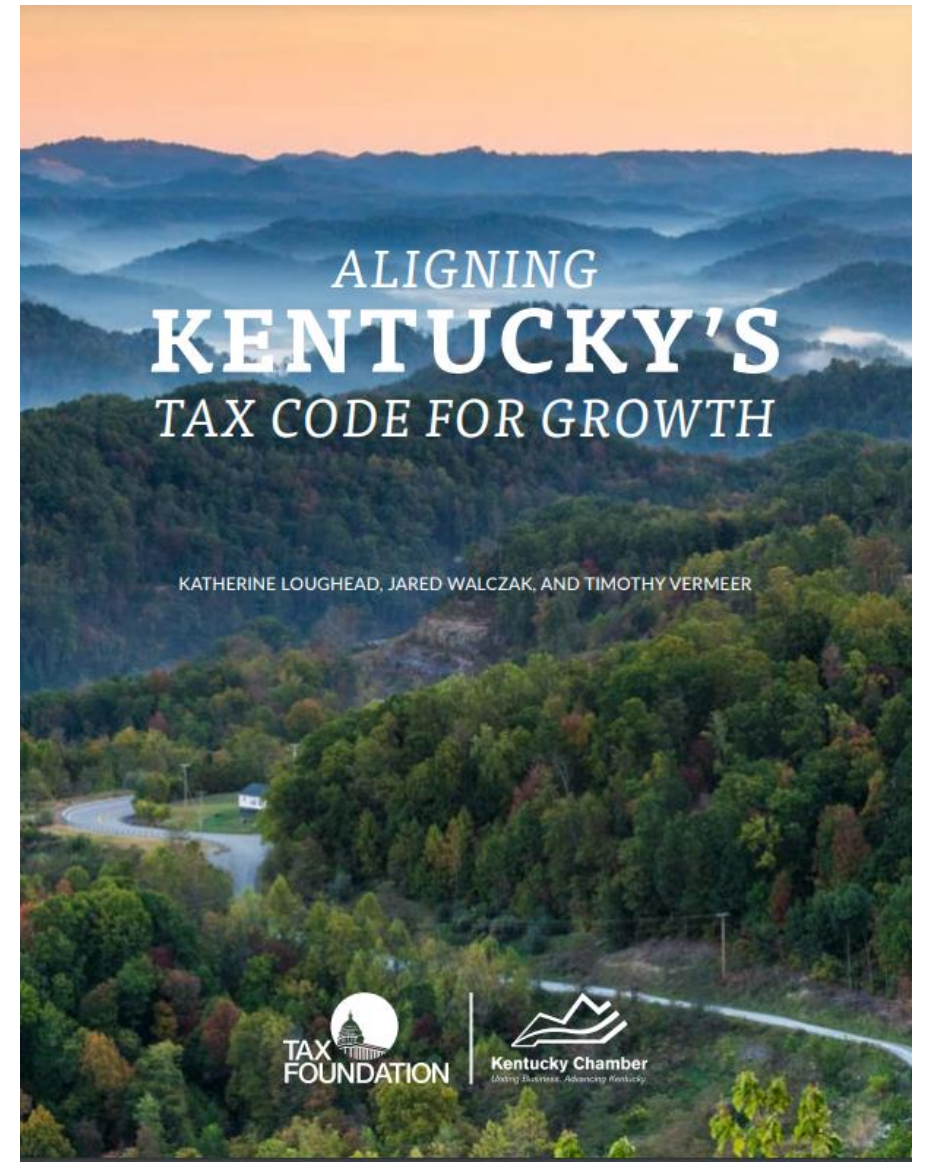


Next Steps to Continue Reforming Kentucky's Tax Code

1. **Follow through on House Bill 8** and implement improvements when opportunities arise.
2. **Improve cost recovery** in Kentucky by allowing businesses to expense more (or all) of major investments in the year in which a cost is incurred.
3. **Repeal Kentucky's outdated Limited Liability Entity Tax**, which produces minimal revenue while adding layers of complexity.
4. **Make the inventory tax credit fully refundable** to effectively repeal taxes on inventory.
5. **Allow local taxing jurisdictions to phase out occupational licensing taxes** on employee payrolls and business net profits and replace them with local sales and use taxes.



The Kentucky Chamber's Partnership with the Tax Foundation



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