CENTER ON BUDGET AND POLICY PRIORITIES

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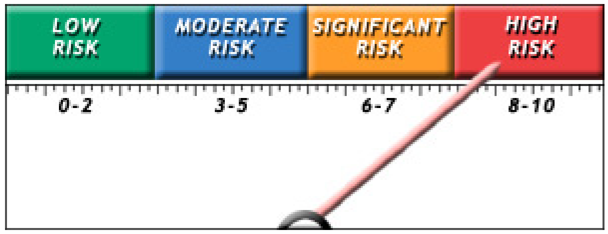
KENTUCKY

Most states have structural weaknesses in their tax systems that put them at risk of experiencing gaps between revenues and necessary expenditures in coming years. The Center evaluated each state's likelihood of facing a structural deficit by determining how many of ten "risk factors" applied to each state. Kentucky is rated as having a high risk of a structural deficit based on its score of eight on the risk scale for structural deficits.



- Kentucky's sales tax covers less household services than the average state.

- Kentucky has significant loopholes in its corporate income tax.

- Kentucky could lose an estimated $259 to $404 million in revenue a year due to the growth of e-commerce. This loss is greater than the national average as a share of total revenue.

- Kentucky's income tax preferences for its seniors exceed the US average. Moreover, Kentucky provides preferences to seniors in its property tax, regardless of their income level.

- Kentucky faces spending pressures from: the number of non-elderly disabled people, the number of students with special needs, and the number of high school graduates potentially entering college.

- Between 1994 and 2000, Kentucky made a number of changes to its tax system. It lowered its income tax by excluding some pension income, increased its gasoline tax and broadened its sales tax base. On net, this is problematic because these changes likely slowed the rate of growth over the long term.

- Kentucky has a limit on local property tax revenues and a supermajority requirement to increase all taxes in off-budget years.

- Kentucky remains linked to the federal phase-out of the estate tax, which eliminates a rapidly growing revenue source and costs the state an estimated $53 million per year.