AMERICANS for TAX REFORM

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To: Members of the Kentucky Legislature

From: Americans for Tax Reform

Re: Reject calls to raise taxes

Dear Members of the Kentucky Legislature,

On behalf of Americans for Tax Reform (ATR) and our supporters across Kentucky, **I urge you to reject the tax and budget bills— which includes around a whopping $500 million tax increase on hardworking Bluegrass State residents.** Your constituents have been hit with 20 federal Obamacare tax increases over the last decade. The last thing individuals, families, and employers across Kentucky need is to have lawmakers in Frankfort pile on with further tax hikes at the state level.

Under Gov. Matt Bevin's leadership, you and your colleagues have taken courageous steps to enact bold reforms that not only empower workers across the state but have also made the commonwealth more conducive to economic growth and job creation. To name a few, hair braiders are now liberated from unnecessary cosmetology licensing laws; reformed offenders face fewer hurdles to employment; and thanks to enactment of Right to Work, workers are no longer forced to pay dues to a union as a condition of employment, a reform that has resulted in $9.2 billion in business investment thus far. These are just a few of the reforms that have made Kentucky a model for other states to follow, something that couldn't be said as recently as two years ago.

Although the current tax proposal would lower the corporate income tax and individual income tax to a flat rate of 5 percent, it also increases cigarette taxes by $0.50-per-pack, imposes a massive sales tax expansion, and makes other changes in a manner that is not revenue neutral. **This proposal, which is a Trojan horse for a net tax increase, is misguided and unnecessary in the context of what is a clear overspending problem. As such, I urge lawmakers to reject this net tax hike.**

First of all, it's clear that there are some who have mistakenly looked to tax reform as a vehicle to raise more revenue for state government. The purpose of tax reform is not to serve as a Trojan Horse for a net tax increase to raise revenue for state government. Rather, the goal of tax reform should be to make the state more attractive to investment, more conducive to economic growth, and allow households to keep more of their hard-earned income. Ronald Reagan recognized this when he signed into law revenue-neutral tax reform in 1986 that reduced rates and broadened the base, but did not increase the amount of money the federal government takes from taxpayers on net.

Second, these proposed tax increases would counteract the positive effects of the federal tax reform package signed into law by President Trump in December, clawing back much of the relief that the Tax Cuts and Jobs Act has provided to your constituents. In response to federal tax reform, companies of all sizes in Kentucky have already announced bonuses and raises, as well as investments to expand operations. Imposing a net state tax increase would surely counteract these benefits.

Third, these proposed tax hikes, particularly the tobacco tax hike, would disproportionately harm the state's most vulnerable populations: low and middle-income households. Extensive studies suggest that cigarette tax hikes punish the poor without reducing smoking. As a result of regressive cigarette taxes, many smokers minimize the impact of cigarette tax increases by seeking out lower priced or untaxed cigarettes, or smoking fewer cigarettes more intensively.

Further, in addition to disproportionately harming low and middle-income households, cigarette tax hikes also promote black markets for smuggled tobacco products. It's no coincidence that the state with the highest tax on tobacco products, New York, also has the nation's highest rates of cigarette smuggling. As a result, cigarette tax revenue can be extremely volatile. According to the Tax Foundation, when Illinois nearly doubled the cigarette tax rate in 2012, cigarette smuggling rates dramatically increased from 1.1 percent to 20.9 percent in the first year. Other states have had similar experiences as well, which explains why only three out of the 32 state tobacco tax increases enacted between 2009 and 2013 met or exceeded tax revenue estimates. This is why tobacco tax hikes often serve as a placeholder for further tax hikes on the broader populace in the future.

Avoiding tax hikes and finding ways to provide pro-growth tax relief isn't just good politics; it's good policy. There is ample evidence that higher taxes make states less competitive and harm economic growth. John Hood, chairman of the John Locke Foundation, a non-partisan think tank, analyzed over 680 peer-reviewed academic journal articles dating back to 1990. Most of the studies found that lower levels of taxation and spending correlate with stronger economic performance. When Tax Foundation chief economist William McBride reviewed academic literature going back three decades, he found "the results consistently point to significant negative effects of taxes on economic growth, even after controlling for various other factors such as government spending, business cycle conditions and monetary policy."

ATR will be educating your constituents and all Kentucky taxpayers as to how lawmakers vote on the budget and bill and other pressing fiscal and economic matters throughout the legislative session. I urge lawmakers to remain a steadfast ally to hardworking taxpayers across the state by voting No on the budget and tax bills. Please look to ATR as a resource on tax, budget, and other policy matters pending before you. If you have any questions or if ATR can be of assistance, please contact Miriam Roff, ATR's state coalitions manager, at (202) 785-0266 or mroff@atr.org.

Sincerely,

Grover G. Norquist
President
Americans for Tax Reform