

1/13/06

Arise op-ed on income tax reform plan

By Kimble Forrister

It's been common wisdom in Montgomery that legislators won't consider tax reform in an election year. In this uncommon political year, Governor Riley has stirred interest in a plan to lift Alabama's income tax threshold. Alabama Arise is pleased that he's addressing the problem, but we have a proposal that would surpass the Governor's goal and get there faster, without shifting money away from schools.

As the year begins, Alabama has the most unfair income tax in the nation. Our state literally taxes families into poverty. A mother who tries to support two kids at a poverty-line wage (\$15,219 a year) has to pay \$443 in state income tax - more than she would pay in any other state.

Overall, our tax system is regressive: The bottom fifth of workers pay 10.6 percent of their incomes in state and local taxes, while the top one percent pay only 3.8 percent (Page 18, *The Alabama Tax & Budget Handbook*).

Both low and middle-income families stand to gain from a revenue-neutral tax reform plan. For families with children, a permanent \$300, \$500 or \$700 reduction in taxes per year can mean new shoes, a warm house, and a pair of eyeglasses. It's a change that is long overdue.

For the last 70 years, Alabama has failed to update the most basic components of its income tax. When my grandparents were raising eight kids on a cotton farm in Franklin County in the 1930s, a \$300-per-child deduction was enough to shield their entire annual income from taxation. But that deduction has stayed frozen at \$300 ever since, not only on our tax forms, but also in the Alabama Constitution.

In recent years, tax reform efforts have failed because they tried to do too much. When one giant plan aims to raise taxes overall while lowering them for many, voters find it confusing. It's simply not practical to address all of our tax issues at once. If the logjam is to be broken, it has to be dismantled a few logs at a time.

We can credit Rep. John Knight for the strategic breakthrough. He knows that legislators on both sides of the aisle can support a tax

reform plan that does not raise tax revenue overall. The place to start is where most people can agree, and that's on the issue of fairness.

What makes Knight's idea work is a basic principle: **Tax fairness requires not only lower taxes for those who pay too much, but also higher taxes for those who pay too little.** If the income tax restructuring is revenue-neutral and we give a break to families at low and middle incomes, those at the top must make up the difference.

Most families with children have been paying too much for decades. Over the same decades, a favored few have been gaining huge tax cuts from the deduction for federal income tax paid, a deduction they would receive in only two other states. Knight's plan, House Bills 291 and 292, would end the favoritism. The top fifth of taxpayers would pay about \$230 million more, while the bottom four-fifths would pay about \$230 million less. Even with this shift, the top one percent will still pay less than 5 percent of their incomes in state and local taxes – about half of what the bottom fifth will pay.

By removing the tax break at the top, we will be able to update our \$300-per-child deduction, increasing it to \$3,200. Instead of giving windfall amounts to the top one percent (they get an average \$130,000 deduction for federal taxes paid), we can give a \$3,200 deduction to every man, woman, girl and boy in the state. It's simply a restructuring of our income tax deductions, and it won't increase or decrease the total income tax revenue coming into the state budget. According to calculations by the Department of Revenue, this restructuring would lower the taxes of three-fifths of tax filers and increase the taxes of one-fifth. Another fifth would see no change.

Remember the woman raising two kids on a poverty-line salary? She will pay \$443 less to the state, and that's money that she will spend on Main Street. Towns and cities throughout the state will reap the benefits.

Remember Alabama's \$4,600 income tax threshold, the worst in the nation? It will rise to \$22,800 for a family of four. Even if you aren't poor, you won't pay tax on your first \$22,800 of income.

Alabama's income tax is a 1935 clunker. It's time to trade it in for a new, efficient model that ends the windfall for the wealthy and

makes it easier for low- and middle-income workers to support their families.

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