

It's time for the next step in tax reform

By Kimble Forrister

Over the weekend, even the comic pages anticipated Tax Day. The dad in "Family Circus" counted his children as they played: "One thousand, two thousand, three thousand..."

That dad must be in another state.

This is the last year for Alabama filers to count, "Three hundred, six hundred, nine hundred..." The \$300-per-child deduction our grandparents received in the 1930s has finally changed, despite the long despair of the cynics. For 2007 income, the deduction will be \$1,000 per child for nearly half of Alabama filers – those who make less than \$20,000. For those who make between \$20,000 and \$100,000, the deduction will rise to \$500 per child.

But if Rep. John Knight has his way, the deduction will rise again in 2009, and parents at all incomes will be able to count, "Two thousand, four thousand, six thousand..." And that's not the only good news for taxpayers in Knight's proposal. He's ready to cut the grocery tax as well.

When Arkansas cut its grocery tax in half this year, it left Alabama and Mississippi as the only states that still charge a sales tax on groceries without any rebate or reduced rate.

Alabama's regressive tax looks most unfair as you cross the Florida line. When you buy \$100 worth of groceries in Montgomery or Mobile, you pay \$110. When you buy \$100 worth of groceries in Pensacola, you pay \$100.

This tax on groceries is "only" 10 cents on the dollar, but it adds up, week after week, month after month. If Montgomery shoppers limit their family food budgets to \$100 a week, they pay \$520 a year that they wouldn't pay in Florida.

Of all the elements of tax reform, the proposal to reduce the grocery tax is probably the most popular. People don't think we should tax the essentials of life. We exempt prescription drugs, so why do we still tax groceries?

One reason is that we've disagreed on how to fill the budget gap if we didn't. To replace the four-percent state portion of the tax, we need to find about \$300 million for public education. For the local remainder, it's more complicated. In some counties, the supermarket is a major source of revenue for public safety and education.

Our neighboring states have each taken a different approach. Florida has no grocery tax; Tennessee reduced the sales tax on groceries by one percent, which doesn't give much relief; and Georgia exempted groceries from the state portion of the sales taxes, but left them subject to local sales taxes. That means that in a given county you might pay two percent on groceries and six percent on detergent or toothpaste.

Of all these ideas, the most viable for Alabama is Georgia's approach, removing the state tax and leaving the local portion alone. Since our county and local governments have such a variety of needs and capacities, filling their revenue shortfalls would be too complex for a one-size-fits-all solution.

But replacing the four-percent state portion raises a different challenge: Where can we find a \$300 million funding source?

The answer proposed by John Knight is to close an income tax loophole that has outgrown its usefulness: the income tax deduction for federal income tax. It sounds good, but in fact it's an unfair deduction. This deduction will cost Alabama \$540 million next year, and about 80 percent of that amount will go to the top one-fifth of earners.

Consider how this deduction differs in its effects on high- and middle-income earners. For the top one percent – those with incomes over \$320,000 a year – the deduction reduces state income taxes by an average \$9,425. For the middle fifth, who make between \$25,000 and \$40,000, it averages a modest \$66 tax cut.

If we swap the deduction for federal income tax for a four-percent reduction in the grocery tax, middle-income families will trade in that \$66 tax cut for a \$208 cut in their grocery taxes over a year's time. It's going to be important for voters to understand the swap, because they will have to approve it in a constitutional amendment.

If Alabama ends the \$540 million deduction for federal income tax and fills the \$300 million hole left by the grocery tax, we will have \$240 million left over. Knight proposes to use this balance to expand the dependent deduction to \$2,000 per child and the standard deduction to \$10,700 per couple.

That means that a two-parent family of four that can deduct the first \$12,500 of income on its 2007 return would be able to deduct \$17,700 in 2009, the year after voters approve the change.

These changes can mean an income tax cut as large as \$485 for middle income families. Put that together with a \$208 savings on groceries, and it adds up to a modest improvement in the family budgets of a million Alabamians.

Last year we broke the logjam for tax reform. This year we have the chance to take the next giant step toward fairness by reducing the grocery tax and expanding family-friendly deductions. Don't you like the sound of it? "Two thousand, four thousand, six thousand..."

Kimble Forrister is state coordinator of Alabama Arise, a coalition of 152 congregations and community groups that promote fairer state policies for low-income Alabamians.