

Who's looking out for the little guy?

By Kimble Forrister

Watching the crowd of business lobbyists - who were in turn watching the legislators amending Alabama's business taxes - I started doing a little simple arithmetic. Simple arithmetic your sixth-grader could do, but the numbers had a lot of zeros.

I was trying to calculate who would benefit if legislators cap the privilege tax at \$1 million per company, instead of the \$2 million cap the governor requested. The thing about caps is, they usually help the big guy.

But first let me explain the business privilege tax. This tax was created in 1999 as a tax corporations and other businesses would pay for the privilege of doing business in Alabama.

It was created in 1999 to replace the business franchise tax, which was capped at \$3 million. Under the 1999 system, businesses would be taxed less on the privilege of doing business and more on their income. Thus the privilege tax was capped at \$15,000 and the top rate of the corporate income tax grew from 5 percent to 6.5 percent.

Now the governor wants big business to pay the lion's share of the \$160 million shortfall in education funding this year. He proposes to bring in \$100 million of that by changing the privilege tax. He would raise the cap from the current \$15,000 to \$2 million for the biggest corporations. He also wants to double the top rate - applied to businesses worth over \$7.5 million - from \$1.75 per \$1,000 of net worth to \$3.50 per \$1,000. Small businesses worth between zero and \$200,000 would pay only \$1 per \$1,000 of net worth; the ones between \$200,000 and \$7.5 million would pay on a sliding scale that runs from \$1.25 to \$2.75 per \$1,000.

Using simple arithmetic, I calculate that a business worth \$10 million would pay \$35,000 and one worth \$100 million would pay \$350,000. Fair enough.

Small businesses worth less than \$200,000 would pay only \$1 per \$1,000 of net worth. So the \$200,000 company would pay \$200 a year. Fair enough.

But how about the business worth \$1 billion? When legislators dropped the maximum privilege tax from the governor's proposed \$2 million to \$1 million, the giant \$1 billion company's effective rate dropped from \$2 per \$1,000 to \$1.

The \$1 billion company winds up paying the same \$1 rate as the \$200,000 business.

Just out of curiosity, I decided to divide the \$1 million cap by the \$3.50-per-\$1,000 rate. I came up with \$286 million. That's where a corporation will hit the \$1 million cap. Any company worth over \$286 million will pay just \$1 million, which means its effective rate declines as its net worth grows toward that billion dollar mark.

I looked around, and I wondered if every business worth \$286 million or more had its own lobbyist in the room.

I also wondered: Why would the little ol' \$10 million businesses agree to give the \$286-million-plus behemoths a lower tax rate? Surely the little guys far outnumber the giant corporations.

I suspect that they fell victim to a fast-talking lobbyist. It sounds good: Let's cap this tax at \$1 million, not \$2 million. But did it occur to the mid-sized businesses that they were granting the big boys a lower rate than they themselves were paying?

For example, maybe the \$200 million company doesn't mind paying three-and-a-half times the rate of the \$200,000 company. After all, it's a thousand times bigger. But is it also willing to pay three-and-a-half times what the billion-dollar company pays?

I asked my friend, a business lobbyist, to explain it. He answered, "That's why they say, 'Look out for the little guy, because the big boys look out for themselves.'"

As this package winds its way through the House and the Senate, if this \$1 million cap survives in place of the \$2 million cap, it might have something to do with the big boys who look out for themselves.

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