

## **Alabama Stands Alone**

by Kimble Forrister

The Alabama-Kentucky rivalry is finally over. For years we've competed to be Number One in unfair taxation, but they gave up first.

Kentucky finally passed an income tax break for low-income working people. That will leave Alabama as the only state to charge over \$500 in income tax on a family of four at the poverty line (\$19,311). We'll be the only state to charge over \$400 for a family of three at the poverty line (\$15,071). And we'll be the only state that imposes any income tax at all on families of three or four with incomes under \$10,000.

We're also the only state with an income tax that hasn't enacted any tax cuts for the poor in the last 15 years.

We tax people deeper into poverty, and most people think that's wrong. Most of our leaders, Governor Bob Riley included, think it's wrong.

Ironically, one reason we haven't changed our tax structure is that so many people think "tax reform" means "tax increase."

It doesn't have to be that way.

The most appealing path to tax fairness is to eliminate unfair tax breaks, gaining millions of dollars, and replace them with fairer deductions that will lower the tax bill for middle- and low-income taxpayers.

What's the most unfair tax break? It's the deduction for federal income tax paid, which cuts \$382 million from the tax bills of people who aren't poor. It gives an average \$132,000 deduction for the top one percent of tax filers, a group whose average income is \$640,000. By contrast, parents only get a \$300 deduction for each child – the same \$300 our great-grandparents got in the 1930s.

If the 2003 tax reform plan had passed, the unfair deduction would have been removed and the fairer deduction would be expanded. Parents would be getting a deduction of more than \$2,100 per child.

Imagine: We could trade in a deduction that's blatantly tilted toward the rich, and gain enough money to expand a democratic deduction! Whether rich or poor, every parent's child would be worth the same \$2,100 on the tax form.

Actually, Kentucky followed a different path toward fairness, and it's a path that causes less heartburn for state budget-writers. Instead of expanding deductions for everyone, Kentucky targeted "the least of these" with a special credit for families in poverty. It's simply cheaper than expanding the dependent deduction for every child in the state.

The most appealing approach for Alabama is to blend these strategies. Here's what needs to be negotiated by visionary leaders:

- Abolish the deduction for federal income tax paid, both for individuals and for corporations. This would add about \$430 million a year to the state budget.
- Provide a modest increase in the dependent deduction. We can agree that \$300 per child is inadequate, and we can't afford the \$3,100 per child on the federal return, so we need to negotiate a point in between.
- Increase the standard deduction. This is another way to help middle- and lower-income families. We should expand this deduction to a point that allows over half of filers to pay less in income tax.
- Create a new state income tax credit for parents who work, have incomes below the poverty line, and support at least one child. This credit should be calibrated to lift the income tax threshold, now \$4,600, to the poverty line.
- Earmark the additional revenue from these changes not only to teachers' salaries, but also to Medicaid. Budget writers need a revenue flow that can sustain a reasonable salary increase for school employees, but they must also cover growing health care costs for children and the elderly.

Tax fairness means not only tax cuts for those who have paid too much, but also increases for those who have paid too little. It's a shame that we tax low-income workers deeper into poverty, but it's worse still that we give a huge tax break to the rich. Poll numbers show that four out of five Alabamians want rich individuals and corporations to pay more.

Some statewide coalitions, including Alabama Arise, VOICES for Alabama's Children, and the Alabama Poverty Project, are trying to improve the public's basic tax literacy. An informed public can discern the values that underlie policy decisions about tax fairness and adequacy.

Carving out the income tax as the first project in tax reform will allow us to make a giant step toward fairness. Even though the plan will have several moving parts, we can explain it in a single page. And it's high time. The poverty line rose past Alabama's income tax threshold in 1973; now, 32 years later, it's time to undo the damage. . .and overtake Kentucky in the march toward fairness!

- - -

**Kimble Forrister is Executive Director of Arise Citizens' Policy Project, a coalition of 136 congregations and community groups that promotes fairer public policy. He also serves on the board of the Alabama Poverty Project.**