

# Alabama's Upside Down Taxes and Inadequate Budgets

Arise Citizens' Policy Project

P.O. Box 1188

Montgomery, AL 36101

334-832-9060

[kimble@alarise.org](mailto:kimble@alarise.org)

# Fair and Adequate Taxes

- Everyone needs to help pay for the public structures that support the common good.
- For Alabama to move forward, we must fix our outdated, upside-down tax system.
- Alabama should not tax people deeper into poverty.

# Adequate State Budgets

- Strong public services are good for Alabama's quality of life and good for economic growth.
- Funding (education, health care, human services) is still struggling to recover from the Great Recession.
- Without significant new revenues, it will get harder to maintain current service levels.

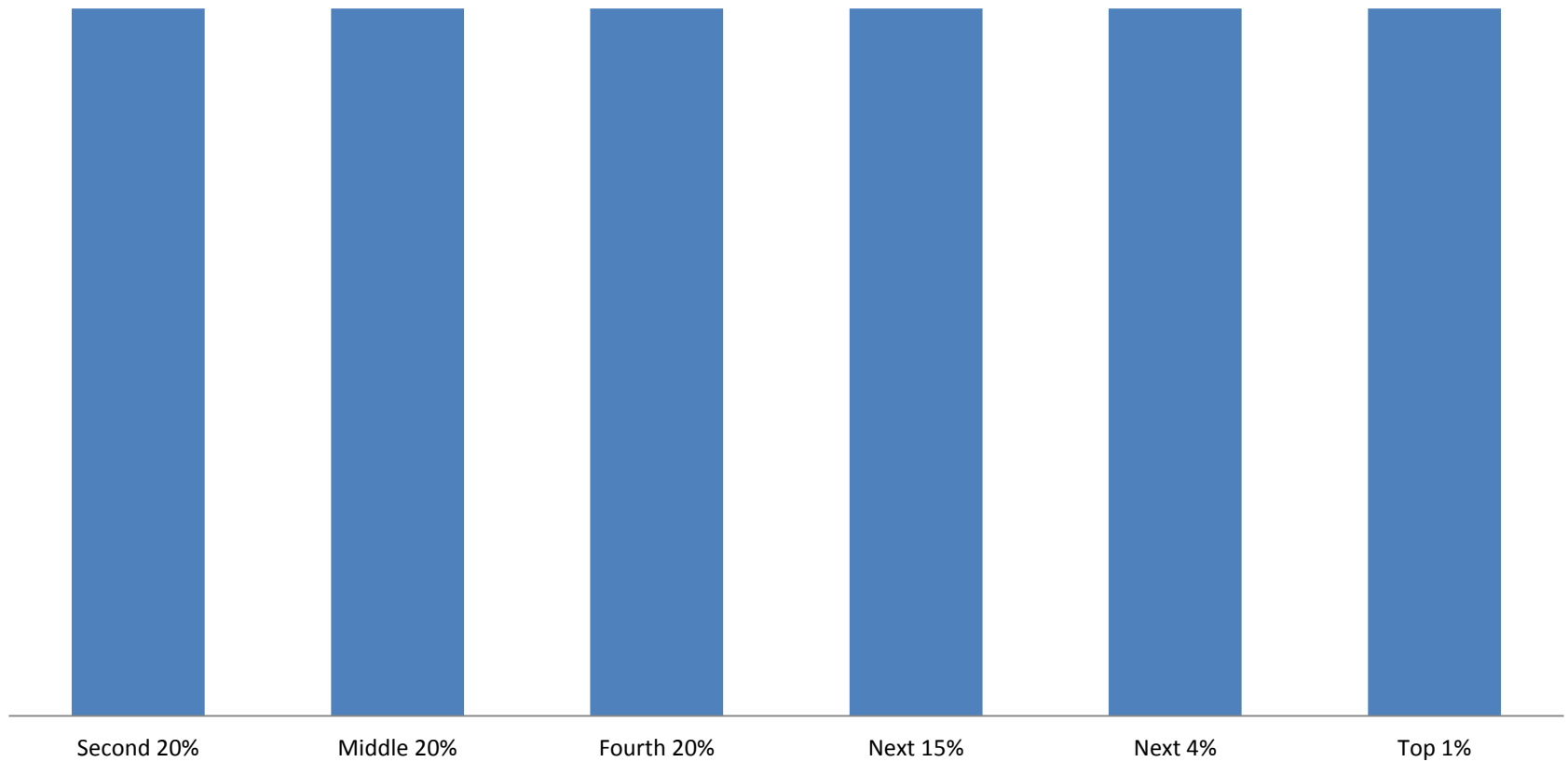
# Fair and Adequate Taxes



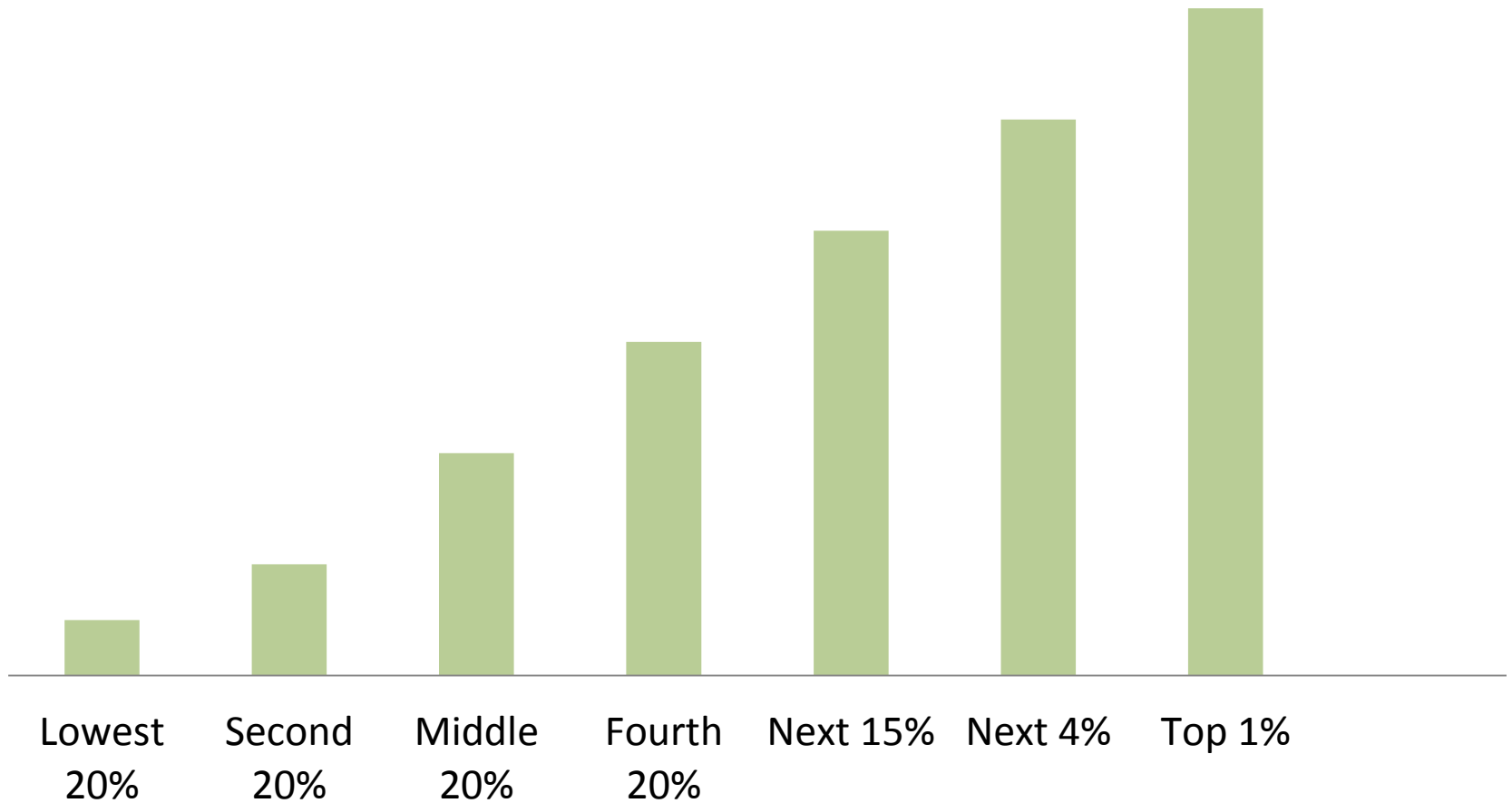
# Four Legs of a Stable Tax System

- **Income Tax**- Alabama's is 17% lower than avg state income tax, yet it is higher for low-income workers than in any other state.
- **Sales Tax**- 21% higher than avg state.
- **Property Tax**- 64% lower than avg state property taxes. Lowest in the nation.
- **Business Taxes** – Lower than most states.

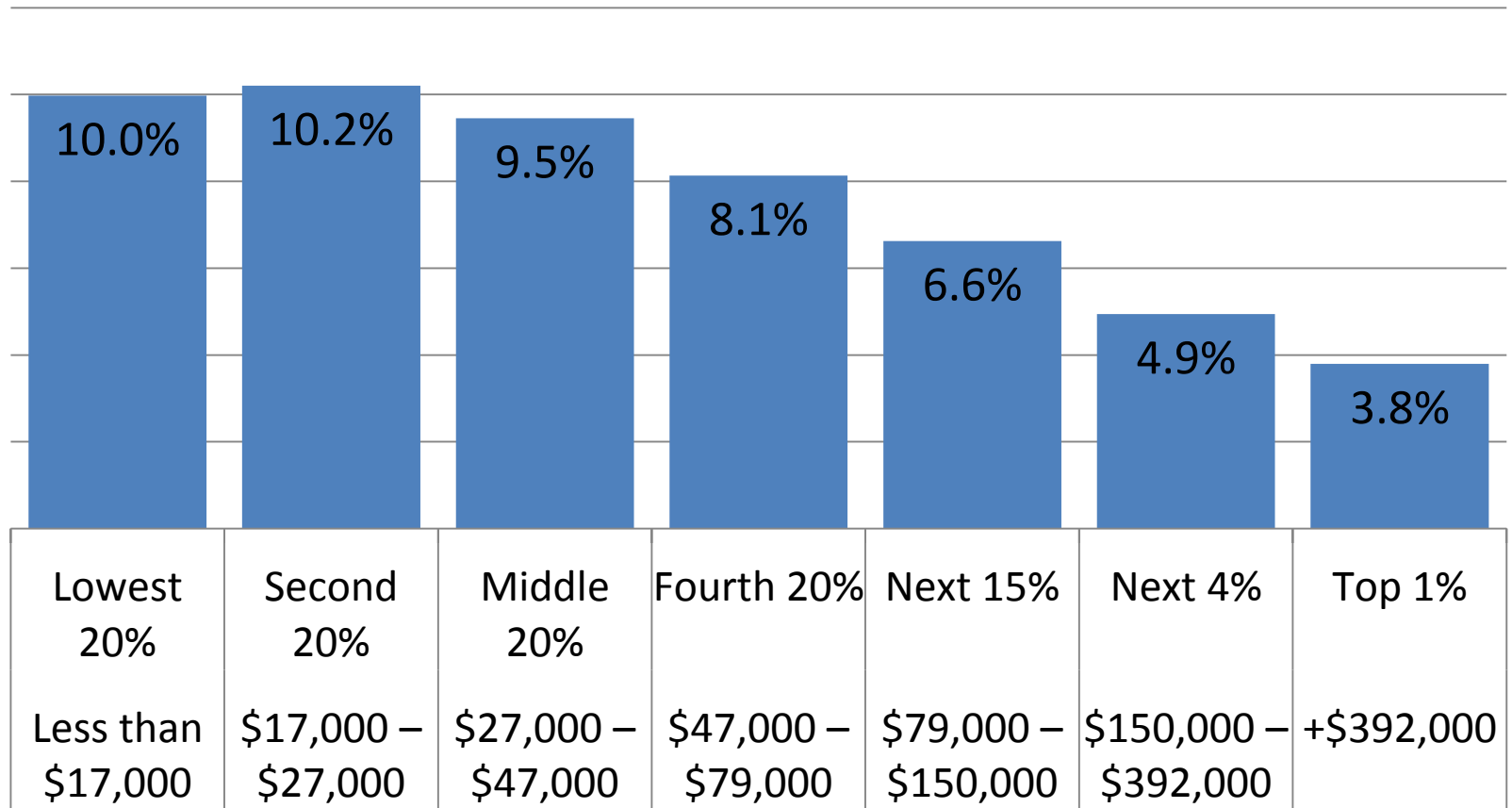
# What's Fair? Proportional Taxes?



# Progressive Taxes Are Fairest

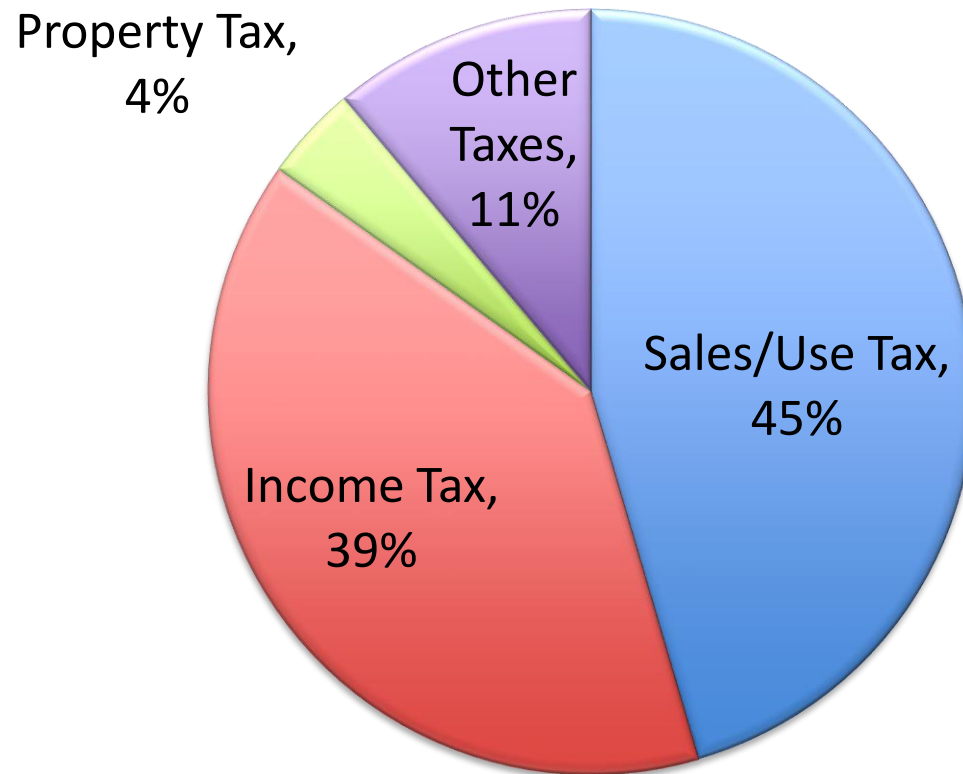


# Alabama's State and Local Taxes Are Unfair and Regressive

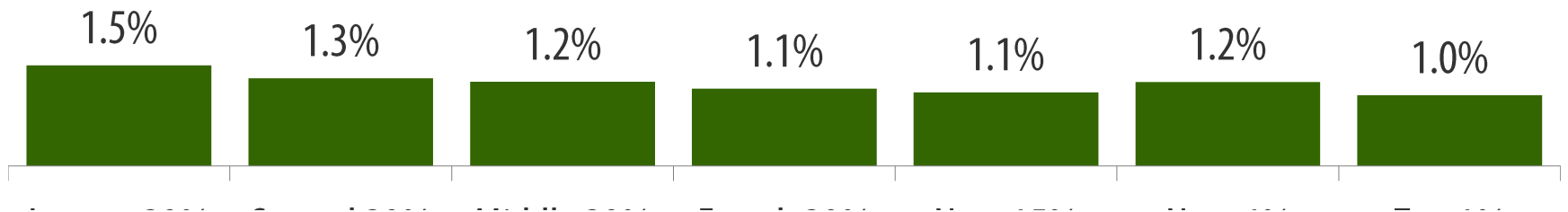




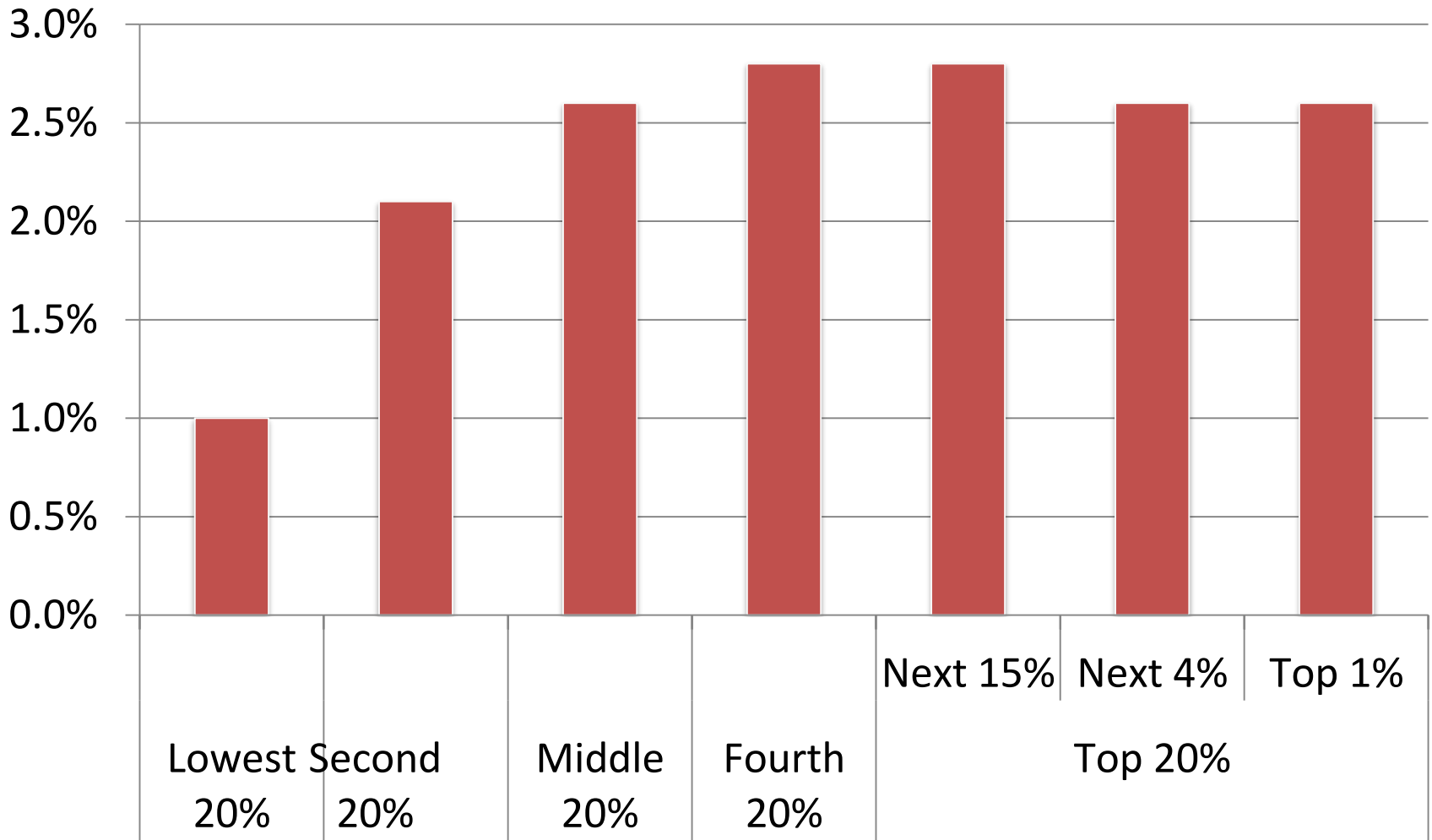
# What State Taxes Do Alabamians Pay?



# Alabama's property taxes are flat



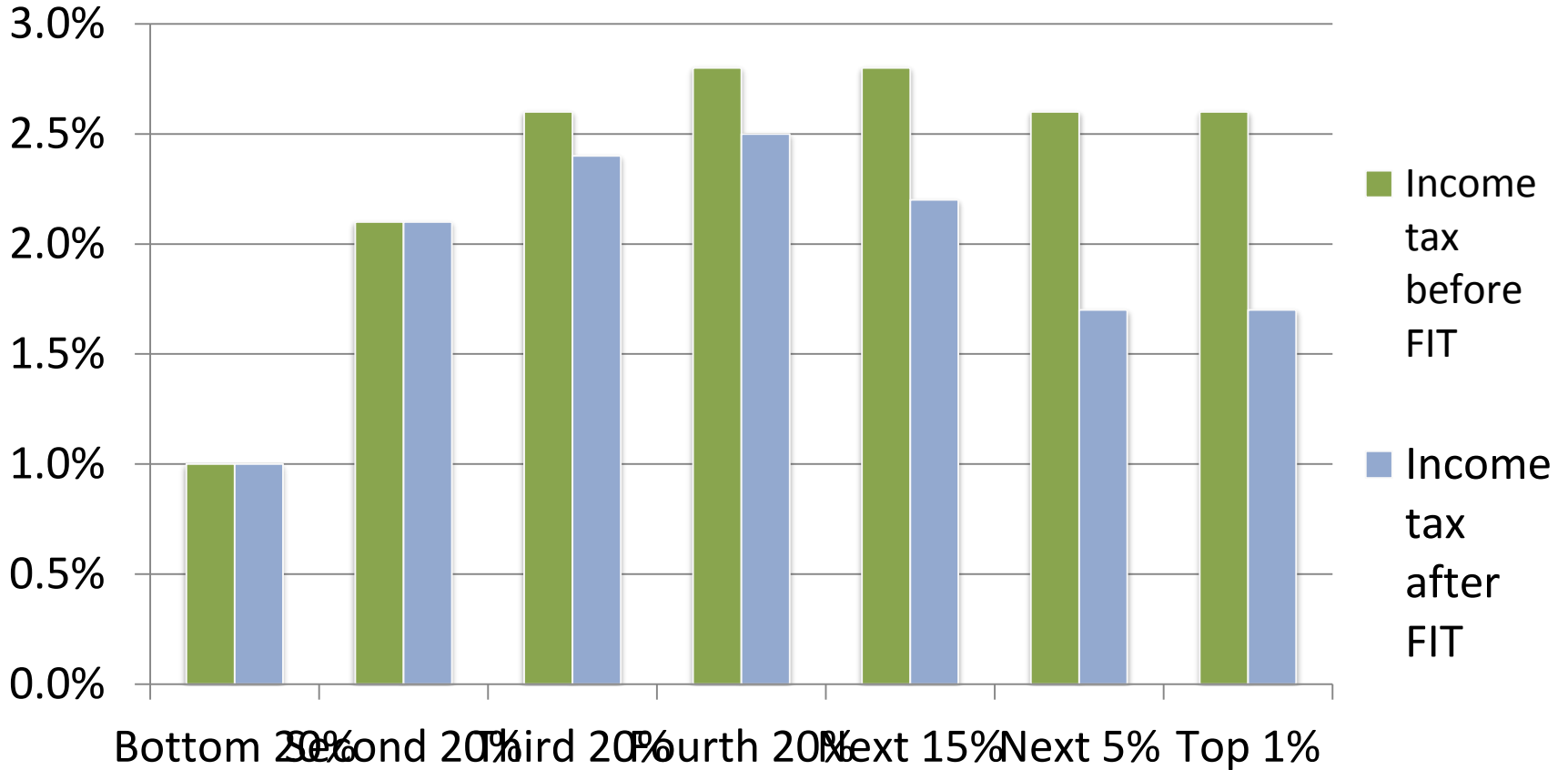
# And Our Income Taxes Are Nearly Flat



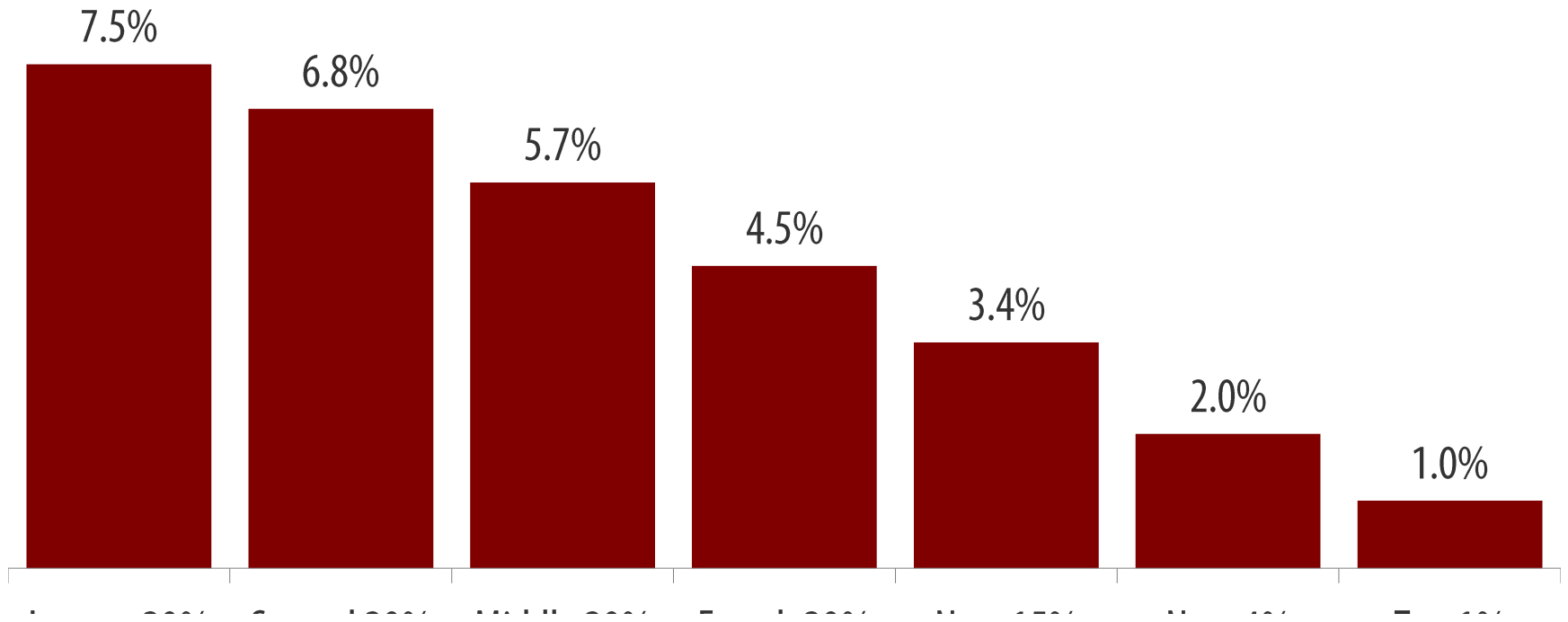
# Once upon a time: 1935

- **A new tax to address a funding crisis**
- **Alabama's income tax was progressive**
  - **\$1,500 personal exemption for adults**
  - **\$300 deduction per child**
  - **2% tax on first \$1,000 of income per couple**
  - **4% on next \$5,000**
  - **5% tax on income above \$6,000**

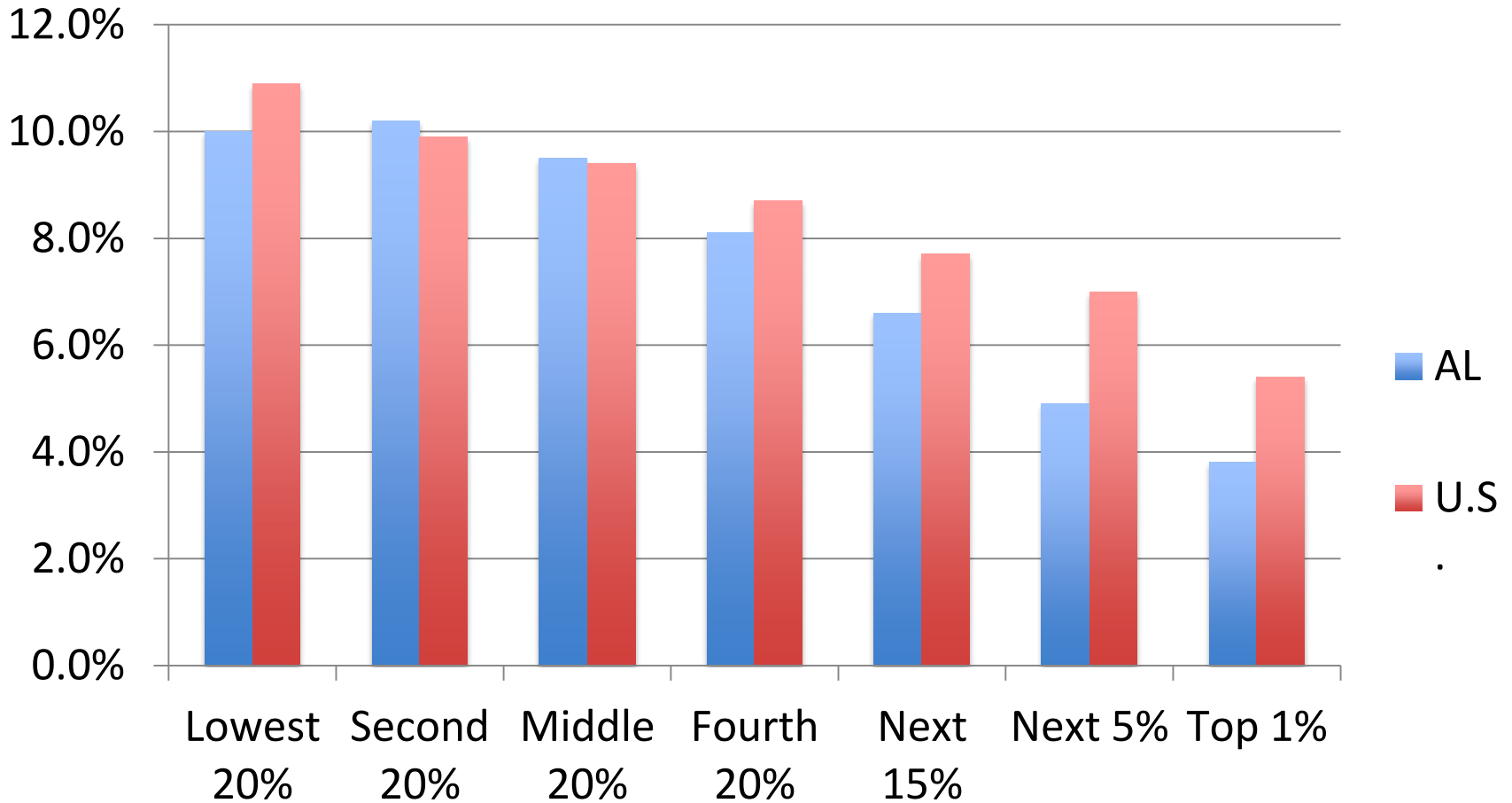
# Alabama's Unusual, Lopsided State Deduction for Federal Income Tax Paid



# Alabama's Sales Tax is Regressive



# So, In Alabama, the Poor Pay the Most



# How Could Our Sales Tax Be Fairer?

- Remove the tax on groceries, or
- Rebate the grocery tax for low-income people, and
- Extend the sales tax to cover services, and
- Tax internet purchases



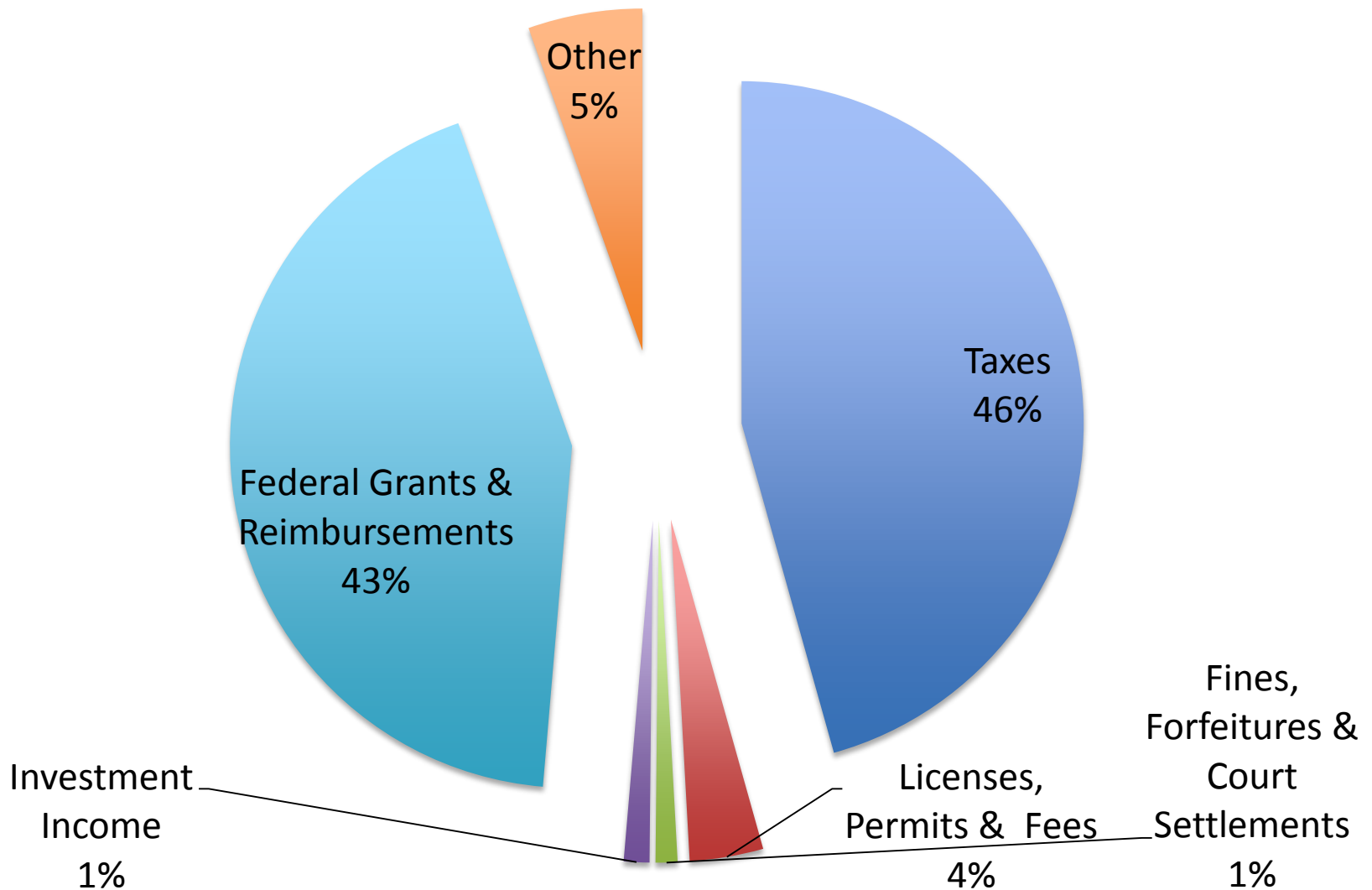
# How Could Our Income Tax Be Fairer?

- Raise the personal exemption, and
- Raise the standard deduction, and
- Raise the dependent deduction, and
- Link these benefits to federal levels, and
- Eliminate the state deduction for federal income taxes paid, and
- Create a new rate structure: 6 percent on income above \$150,000 per couple (\$75,000 for singles) and 5 percent below that level.

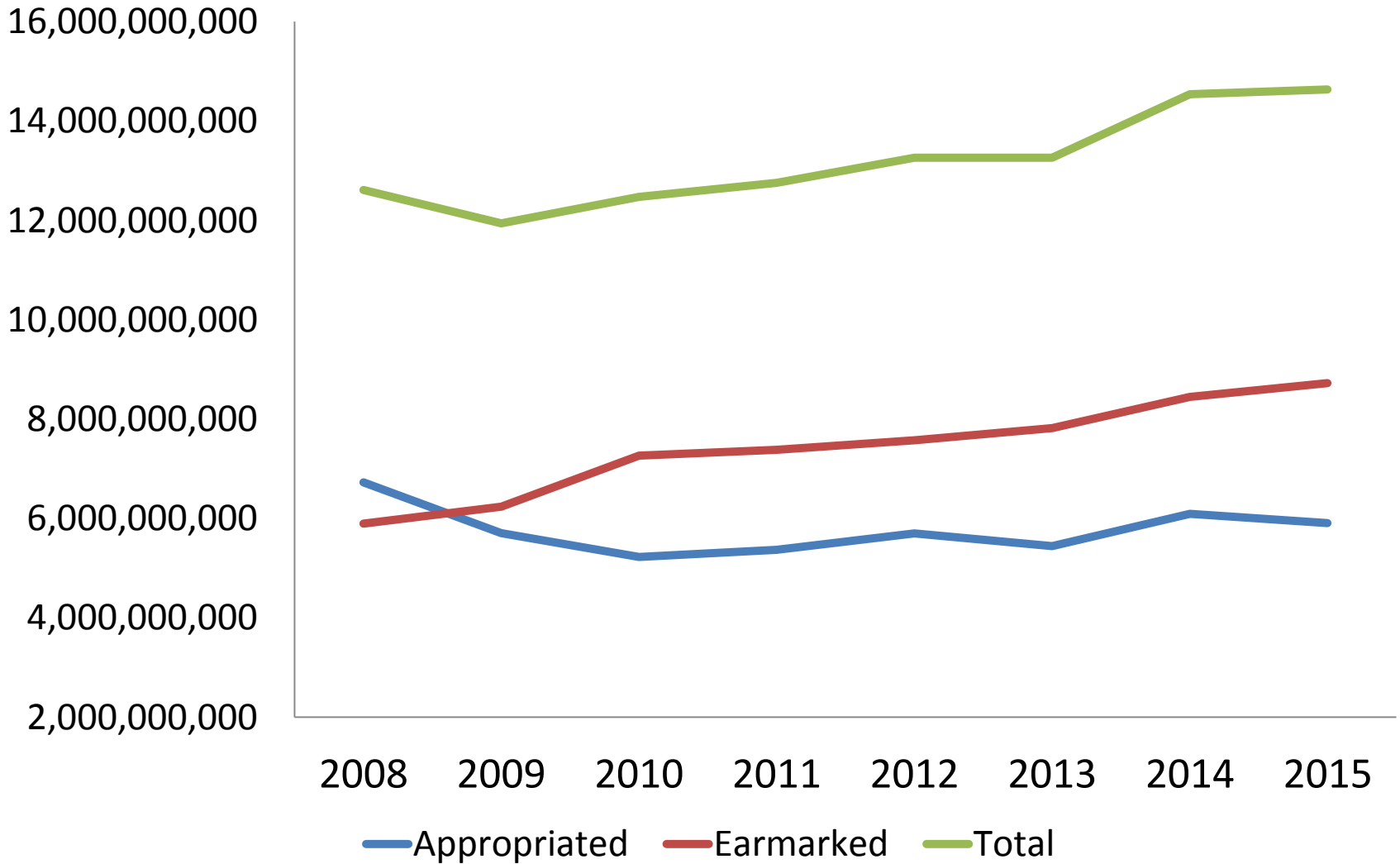
# Adequate State Budgets



# Where Does the State Get Its Money?



# ETF BUDGET, 2008-15

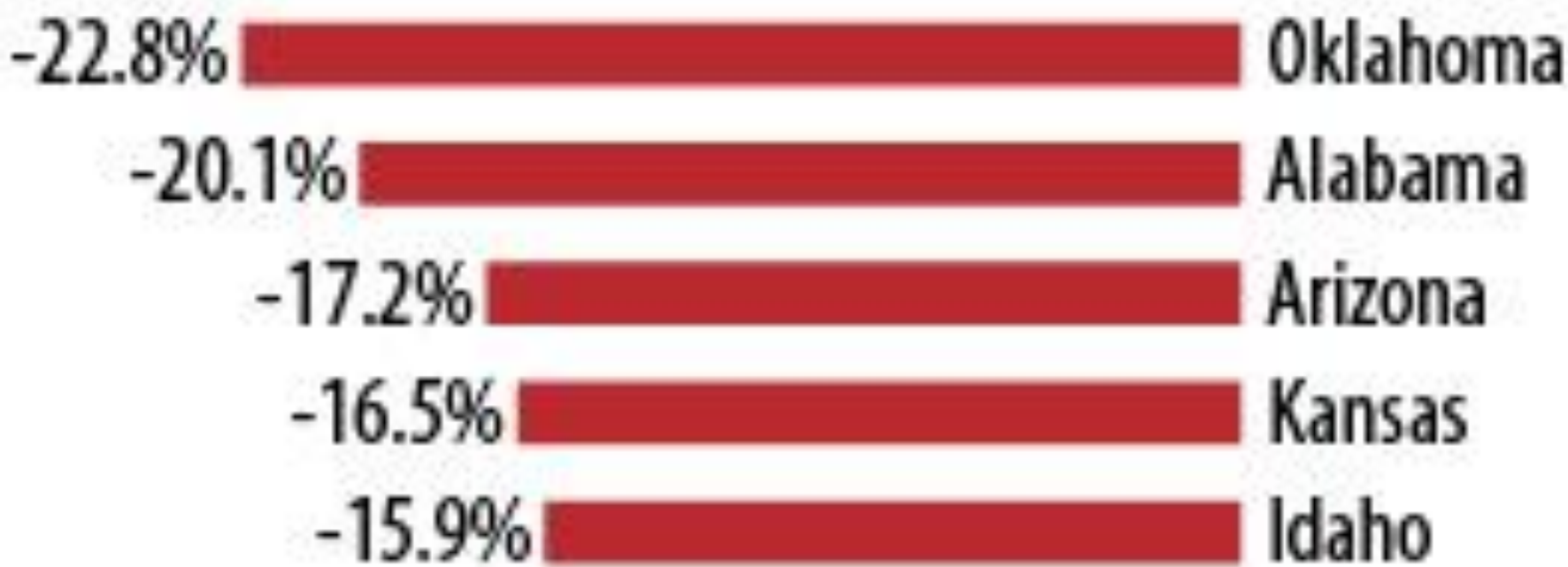


# Decline in Education Spending

- Revenue slowly recovering from recession
- Rolling Reserve Act
- Repaying loans from Alabama Trust Fund
- General Fund expenses
- So-called “Alabama Accountability Act”

# Five States with Sharpest Declines in K-12 Education Spending

Percent change in spending per student, inflation-adjusted, FY08 to FY14

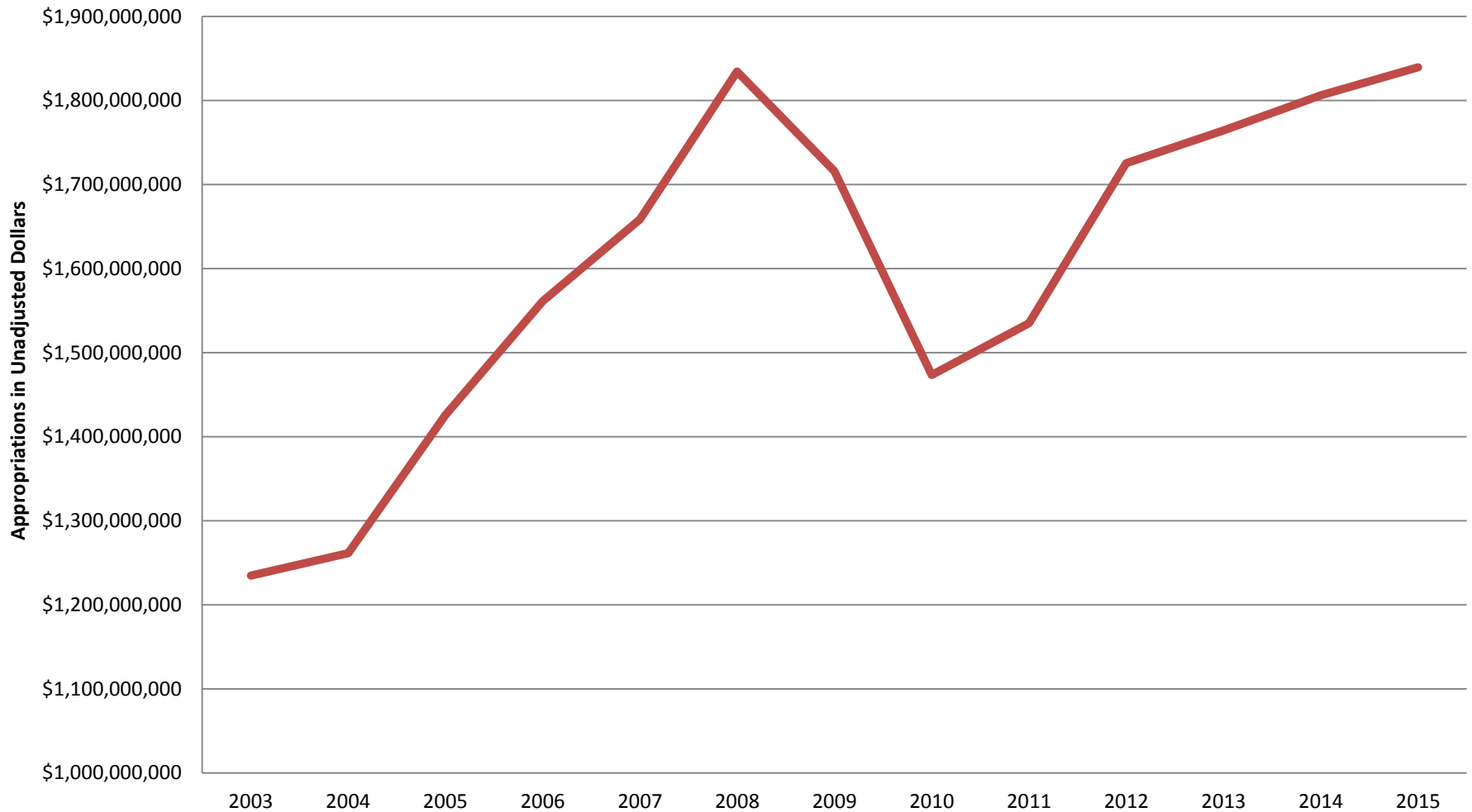


Sources: CBPP budget analysis and National Center for Education Statistics enrollment estimates.

# General Fund 2003-15

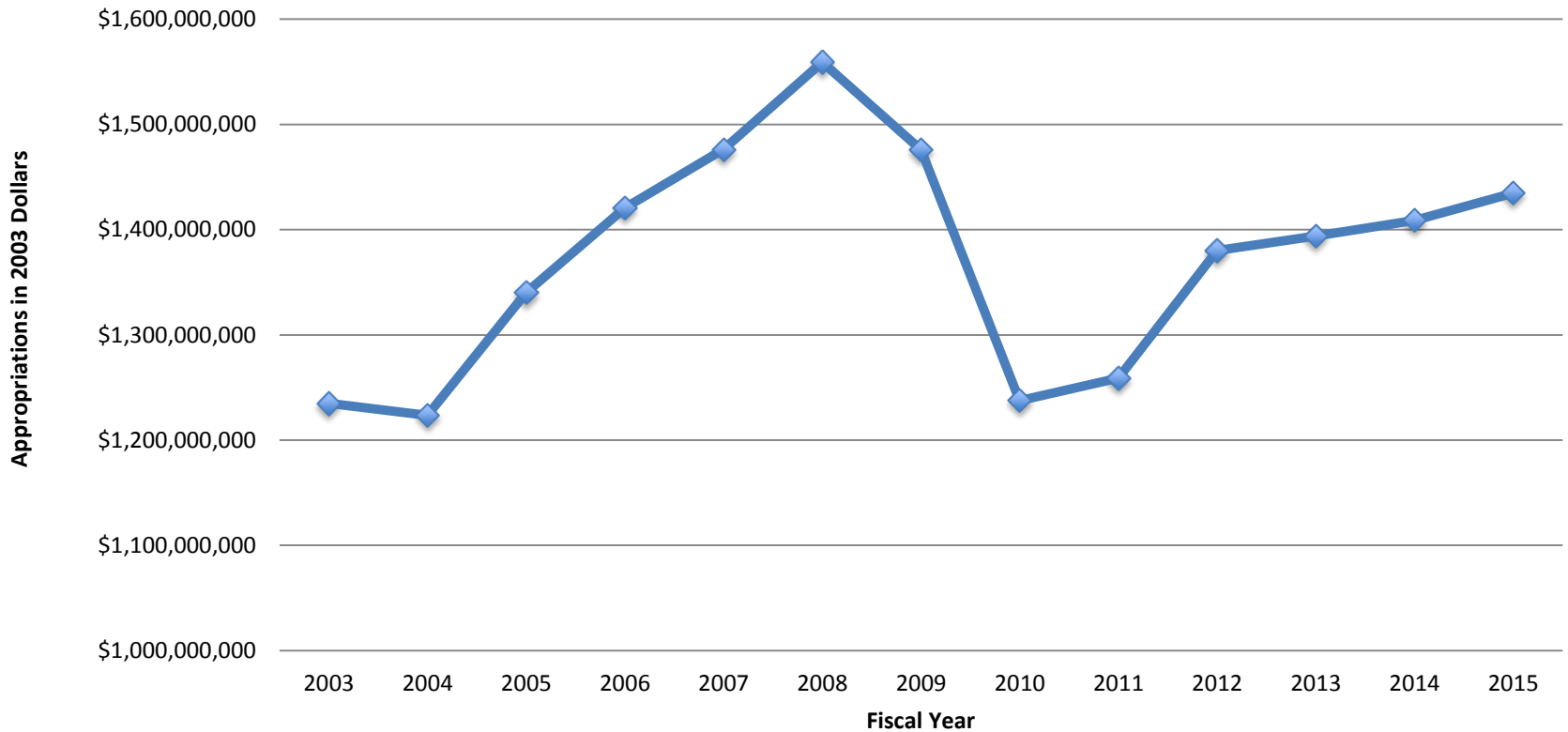
## Unadjusted Alabama General Fund Appropriations, 2003--2015

(Data courtesy of Alabama Legislative Fiscal Office)



# Adjusted General Fund 2003-15

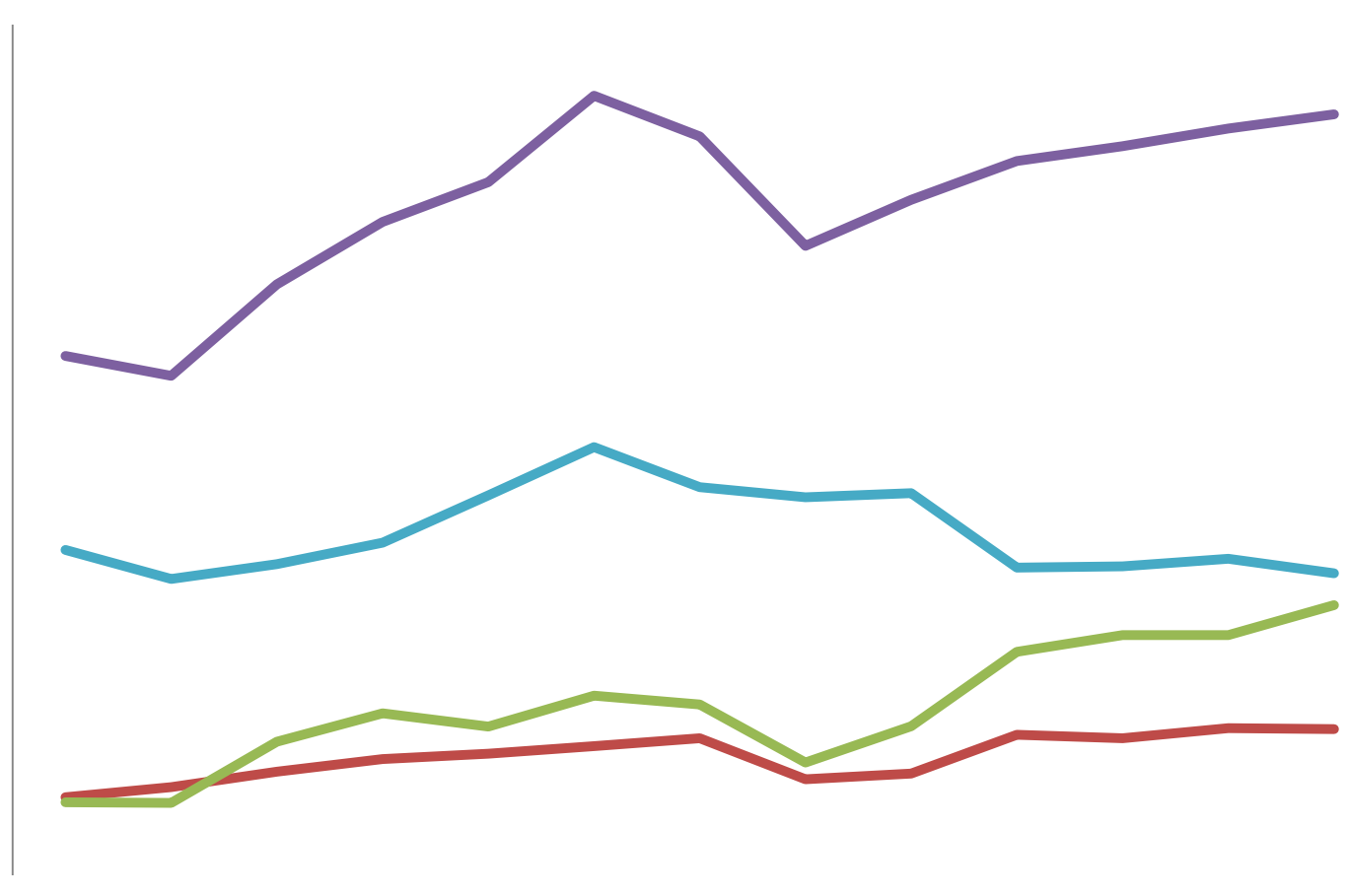
## Alabama General Fund Appropriations in 2003 Dollars, 2003-2015





# General Fund, Medicaid, and Corrections 2003-2015

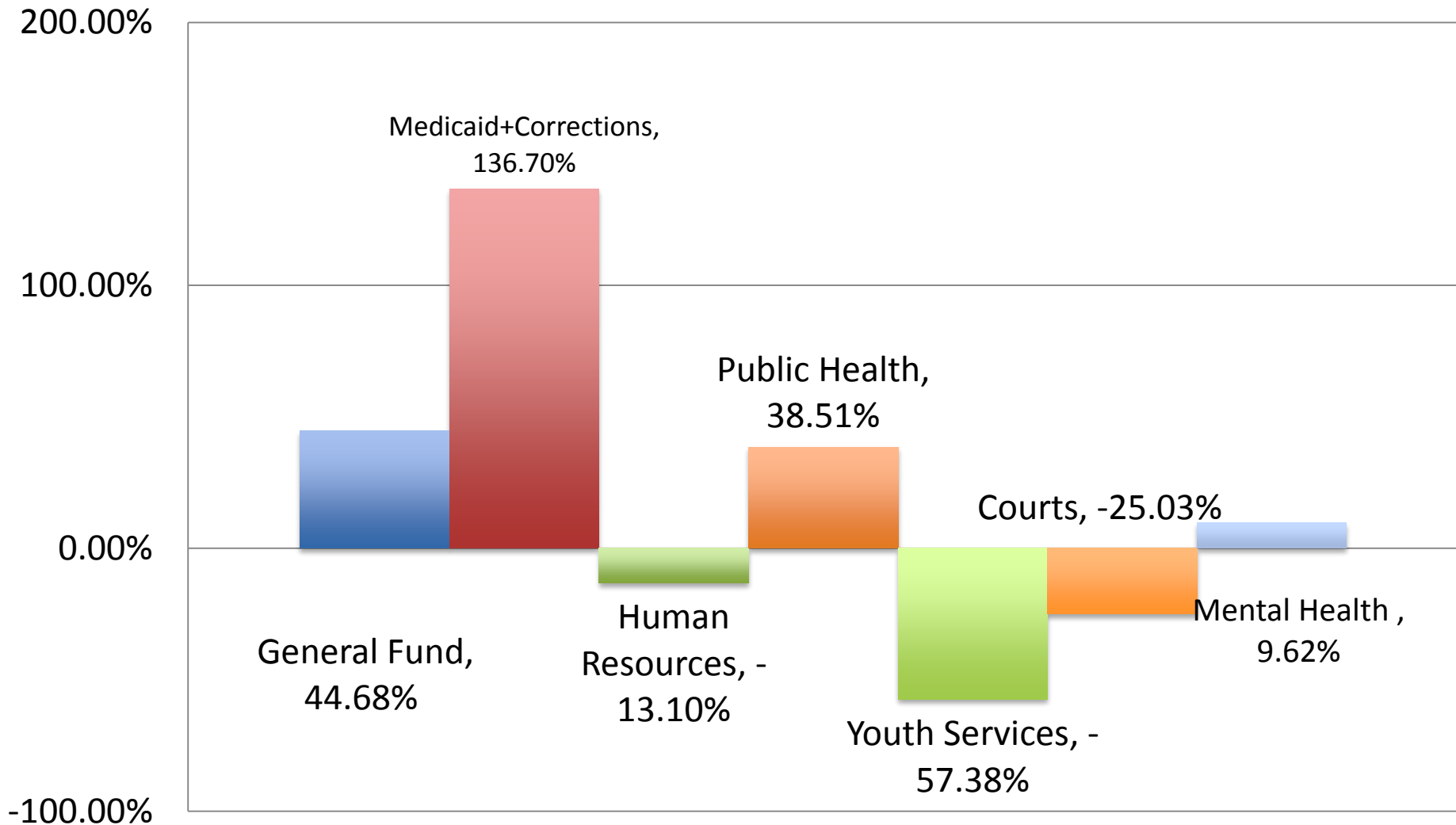
2,050,000,000  
1,850,000,000  
1,650,000,000  
1,450,000,000  
1,250,000,000  
1,050,000,000  
850,000,000  
650,000,000  
450,000,000  
250,000,000  
50,000,000



— Corrections  
— General Fund

— Medicaid  
— General Fund Less Medicaid/Corrections

# Change in General Fund Agency Appropriations, 2003-15



# Budget Outlook for FY 2016 & Beyond

- General Fund structural deficit remains.
  - Sluggish revenue growth
  - Robust growth in costs, especially health and corrections
- FY16 budget deficit \$265 million-\$700 million.
- Medicaid expansion:
  - Can we afford expansion?
  - Can we afford *not* to?
- The choice:
  - Struggle to maintain status quo? Or raise more revenue?

**Will 2015 be the year for  
tax reform and new  
revenue?**