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Calendar notes

2006 LEGISLATIVE SESSION

Tues., Jan. 10, Noon, both houses begin the session by receiving bills (some 60 House bills had been prefiled as of our press date). At 6:30 that evening (time subject to change), Governor Riley officially opens the session with his State of the State address in the Old House Chamber. Wed., Jan. 11, committees begin their work.

REP. JOHN KNIGHT TO SPEAK IN MOBILE

Mon., Jan. 23 – Arise and the Mobile Advisory Commission for the Disabled host an evening with state and local officials. Public forum on disaster evacuation begins at 5:30 pm. Legislative reception to follow at 7. Rep. Knight, House Government Finance & Appropriations chair, will speak on his plan to end the state's policy of taxing the poor deeper into poverty.

ARISE LOBBY DAY

Thur., Feb. 9, 10 am – 2 pm, Capitol Auditorium and Tunnel, Montgomery. Registration begins at 9:30 in the auditorium corridor.

ARISE MEETINGS

Mobile Mon., Jan. 8, 6:30 pm, Providence Outreach Senior Citizens' Center, 35 N. Cody Rd. (between Airport Blvd. and Old Shell Rd.)

Auburn Thur., Jan. 12, Noon – 1 pm, Auburn UU Busch Center.

Report

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December 15, 2005

An election-year strategy

Arise seeks income tax fairness

By *Jim Carnes, communications director*

How's this for a campaign promise?

"Together, we can reduce the state income tax for low- and middle-income Alabama families."

Arise will be asking legislators to make tax fairness an election-year issue – and put money back in their constituents' pockets in the process – as the 2006 legislative session gets underway next month. The proposal, sponsored by Rep. John Knight, would require voter approval if the Legislature passes the measure.

"Alabama's tax system is out of balance," said Arise state coordinator Kimble Forrister, "and it's been that way for too long. People with low incomes pay too much, while people with high incomes pay too little. Most Alabamians recognize unfairness when they see it."

A two-child family making just \$4,600 a year pays Alabama income tax. This starting point, known as the "income tax threshold," is the lowest in the nation. (In Mississippi, that same family could earn four times as much before being taxed.) The Arise plan would raise the threshold to about \$20,000.

The federal government allows a \$3,200 deduction for each child, but Alabama allows only \$300 – the same as in 1935! And here's another relic from the Depression: Under our 70-year-old income tax structure, a family at the

poverty line and the wealthiest family in the state pay at the same top rate of 5 percent. It all adds up to taxing the poor deeper into poverty.

"The 'least of these' didn't go away when voters rejected Amendment One," Forrister said. "Our members still consider it immoral for our tax system to favor the prosperous at the expense of those with lower pay."

Unlike Amendment One, the new Arise plan will address only the income tax, and it will not bring in new revenue. The narrower, "revenue-neutral" approach offers two advantages:

- It's a simpler proposal, easier to grasp than the 2003 reform package; and
- it's a winnable plan for an election year, since it has no overall tax increase.

"The fourth year of the election cycle is not the time to tackle fiscal problems," said Forrister. "Nobody wants to talk about new revenue. Putting the threshold on the table by itself will let Alabama voters see who's on the side of fairness and who's not."

Arise will present the full proposal at a January news conference. The plan would reduce or leave unaffected the income tax bill for four-fifths of Alabama tax filers, according to analysis by the Department of Revenue. About one-fifth would pay more.

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A few words from Kimble —

I was a slow convert to the idea of revenue-neutral tax reform. It seemed too easy. And as 1991 tax panel chairman Tom Carruthers told us, if you go to the effort of passing reform, you might as well get some revenue to improve education.

Rep. John Knight changed our plan. As budget committee chairman, he knows the budget woes, but says he worries about the low-wage mother, raising kids and paying the highest income tax in the nation at the poverty line. Knight thinks his colleagues will support revenue-neutral reform in an election year.

It's a brilliant strategy. We ask voters a single question in 2006: Should our income tax be fairer? The question of adequate funding can be addressed in future.

Comprehensive tax reform confuses voters. No matter how much the news explained the fairness idea – that taxes would go down for low- and middle-income taxpayers – they couldn't get past the headline: "1.2 Billion Tax Plan." Our breakthrough is to drop that label.

We've tested voter attitudes on repealing the deduction for federal income taxes paid. They're reluctant to give up the deduction, until they understand the math. When we explain that the deduction lowers state taxes by an average \$6,500 for the top one percent, but only \$57 for the middle fifth, they realize how skewed the benefit really is. Finally, when they learn that our plan cuts taxes for a middle-income family of four by \$300, we win their support.

Bottom line: It'll take all of us (including you!) to spread the word to Alabama voters.

With peace,

Income tax reform

[Continued from Page 1]

The Christian Coalition of Alabama (CCA) is already attempting to misrepresent the Arise proposal as a "tax increase," in spite of the fact that it will bring in no new revenue. But Forrister believes voters will see the hidden motive behind the CCA smokescreen. "Either you protect the interest of high-income taxpayers who aren't paying their fair share, or you protect 'the least of these,'" he said. "You have to choose."

A December 9 *Anniston Star* editorial put it this way:

"If we are to treat the poor fairly and at the same time provide all citizens the health, education, economic promotion and personal security a state should, someone has to pay for it. In most states the heaviest burden falls on those who are most able to pay. Not in Alabama. In Alabama, the heaviest burden falls on the poor. And John Giles and the Christian Coalition of Alabama want to keep it that way."

Supreme Court issues belated ruling on payday loan regulation

By Ron Gilbert, policy analyst

On November 18th, the Alabama Supreme Court finally issued its decision on payday lending activity in the state. The Court ruled that payday loans made between 1998 and the enactment of the Deferred Presentment Services Act in 2003 were in fact loans covered by the Alabama Small Loan Act, just as Arise had argued.

In 1998, the Alabama Banking Department issued a number of cease and desist orders to payday lenders for violating the Small Loan Act by offering loans without a license. The Alabama Check Cashers Association asked a Montgomery County Circuit Court to declare that the Alabama Small Loan Act did not apply to such transactions. Later, the Banking Department entered into a

consent decree that allowed payday loans to continue until a court or the Legislature resolved the issue.

Over the objection of Arise and other advocacy groups, the Legislature passed a law in 2003 allowing payday loans to continue in Alabama with annual percentage interest rates in excess of 450 percent. Those who drafted the bill used the term "deferred presentment instruments" for the transactions, avoiding the term "payday loans." The Supreme Court ruling clearly determined that these transactions were, in fact, subject to regulation under the Small Loans Act. The 2003 bill merely created another category of regulated transaction, for which excessive interest rates are allowed.

The Court stated that the Banking Department should never have entered into the consent decree that allowed the operation of payday lending, and therefore would not be allowed to seek fines or other damages against operators. Consumers, however, were not a party to the consent decree, and the ruling opens the door for civil actions against lenders for excessive rates charged for payday loans during the period prior to 2003.

"Arise Night at the Capri" draws lively response

By Brenda Boman, development director

Thanks to all who made the first-ever Arise movie benefit a success! A crowd of 175 converged on the Capri Theatre in Montgomery on the evening of Nov. 17 to see Robert Greenwald's documentary, "Wal-Mart: The High Cost of Low Price." It was heartening to see people turn out in such force to learn more about the plight of low-income workers. Special thanks go to Dionne Nelson, who coordinated the reception; Barbara Grant and Cynthia Jancaterino, who donated hand-crafted jewelry for the raffle; and Capri director Martin McCaffery.

Visit our website to read a new report, "Everyday Low Wages: The Hidden Price We Pay for Wal-Mart," by the Democratic staff of the U.S. House of Representatives' Committee on Education and the Workforce.

Washington update

Tax panel proposes big changes

By Mary Weidler, senior policy analyst

The President's Advisory Panel on Federal Tax Reform is calling for sweeping changes in the nation's tax code. While many (but not all) of the proposals in the panel's November report represent worthwhile efforts to make the system fairer, simpler and more pro-growth, their economic benefit would be negated by their very high costs, warns the Center on Budget and Policy Priorities (CBPP). The changes would increase long-term deficits over the next 75 years by at least three times the size of the projected Social Security shortfall, according to CBPP projections.

The devilish detail behind the drastic increase in the deficit is the panel's description of its plan as "revenue neutral," or having neither a positive nor a negative effect on total money collected by the government. The baseline the panel used for calculating costs and revenue includes all the present and proposed Bush Administration tax cuts, assuming them to be permanent. It also includes the President's proposed Retirement Savings Accounts, Lifetime Savings Accounts and other tax breaks benefiting the well-off, which Congress has so far refused to enact.

Further, the panel's definition of "revenue neutral" applies only for the first ten years of the proposed plan. After that time, the so-called reforms would bring in even less revenue than the baseline. CBPP estimates that the proposals would lower national income by about 8 percent over 50 years, likely reducing economic growth rather than increasing it.

The panel's plan would also reduce revenue going to the Social Security and Medicare Trust Funds. The resulting larger shortfalls would move up the dates at which these funds would become insolvent, leading to cutbacks in benefits and services or increases in payroll taxes.

"Taxes are necessary because they fund the services provided by government," states the opening page of *Understanding the Tax Reform Debate*, a Government Accounting Office (GAO) publication. (The document, GAO-05-1009SP, appears online at www.gao.gov). While not as entertaining as our *Alabama Tax & Budget Handbook* (no cartoons, for example), it is a reasonably objective overview of what should be considered when evaluating tax policy at the national level. Stay tuned in the coming year for many more details and lots of political debate.

FOCAL study shows

Child care system "coming undone"

By Jim Carnes, communications director

Alabama promotes two unequal systems of child care, enforcing strict standards of care for some children while leaving others unprotected under the law. This stark assessment from a new study by the Federation of Child Care Centers of Alabama (FOCAL) points to the critical need for reform in the state's licensing policy.

There are currently 1,324 licensed day care centers and 768 exempt centers in Alabama, as recorded by the Department of Human Resources (DHR). The recorded exempt facilities are

"faith-based" programs, entitled to receive federal and state funding even if they fail to meet licensing standards. These figures do not include informal or "underground" facilities that operate without documentation.

"The State's support of exempt care directly contradicts its efforts to raise the quality of child care in Alabama," notes the FOCAL report, titled *Coming Undone*.

The report measures the impact of recent regulatory changes on licensed child care centers, family homes, and family group homes. For example, in order to meet new training requirements and higher minimum staff-to-child ratios, 57 percent of the licensed centers surveyed report increasing their monthly fees. As a result, many lower-income families are moving their children to lower-priced unlicensed centers. Half of the licensed facilities surveyed showed a decline in enrollment.

Loss of fee revenues, in turn, is forcing licensed centers to cut back their programs. According to the study, 37 percent of currently operating child care programs surveyed report that they do not or may not have sufficient funds to continue to operate.

Twenty percent of programs reported eliminating services, especially transportation, supplies, enrichment activities, and infant care.

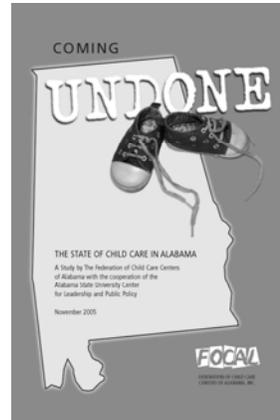
Compounding the effect of these changes is the fact that reimbursement rates for child care providers who serve children from low-income families have not increased since

2001. Reimbursements – as low as \$52 a week per child – cover only a portion of program costs, and many providers make up the difference with fees from other parents, or with their own contributions of time and money.

"We owe a huge debt to these women and men who are protecting our future in the face of a state system that often works against the best interest of children and families," said FOCAL executive director Sophia Bracy Harris.

In conducting the survey, FOCAL collected data from 560 licensed child care facilities, serving more than 24,000 children in 61 counties. More than 7,000 of these children are enrolled in the Alabama child care subsidy program.

To obtain the free report, call the FOCAL office at (800) 300-0232 or visit www.focalfocal.org to download a copy.



We appreciate our contributors!

Your gifts throughout 2005 have helped us host two policy conferences, research our legislative priorities, produce The Alabama Tax & Budget Handbook, and hold listening sessions and issue briefings around the state. **Please consider a tax-deductible end-of-year contribution to give us a jump-start on the busy legislative session ahead!**

Every new gift extends our message about the need to change our state's tax system. ACPD thanks the following individuals and organizations for their generous gifts (including contributions by check for the Arise movie benefit) received between Nov. 1 and Dec. 12, 2005:

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