



# **VIEWPOINTS: A reset button needed for outmoded taxes**

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Alabama residents can afford a well-funded, modern state government.

We can afford to staff our state historical museum. We can afford to regulate air pollution, restaurant cleanliness, and the safety of nursing homes and child-care centers. We can afford to ensure that our schools have \$10,000 per pupil to provide strong education programs.

Most of us already pay more than our share of the cost of such public essentials. About four-fifths of us make less than \$80,000 a year and pay between 8.2 and 10.2 percent of our incomes in state and local taxes. Compared to low- and middle-income people in neighboring states, we're in the same ballpark -- certainly not "taxed to death," but as we know, our property taxes are low, our grocery taxes are high and our income taxes are high from middle incomes on down. By contrast, the top 1 percent are paying only 4 percent of their incomes in state and local taxes. And when I say we can afford a well-funded, modern state government, I mean we can afford it if those at the top pay a reasonable share, compared to what they would pay in neighboring states.

Partly through neglect, partly through design, our state's tax system has become a lopsided system that tilts toward the rich. How much longer can we drain the resources of the many and enrich the few? We now have one of the largest income gaps in the country, and it widens every year. It's simply not sustainable.

Restoring balance to our economy and our tax system will take years to accomplish, but a bill (HB480) by Rep. John Knight, D-Montgomery, would take three giant steps toward state budgets that reflect our values and aspirations.

In the face of a slow economic recovery, Knight offers a revised proposal to untax groceries, address our education budget gap and restore a measure of balance to our state income tax system. Everyone would get a 4 percent reduction in the cost of groceries, putting money in consumers' pockets and boosting our retail economy. His plan would also direct \$240 million to help keep teachers in the classrooms, keep drivers in school buses and keep college tuition

affordable. And to pay for these benefits, Knight would end the most lopsided component of our state income tax.

Alabama's income tax was designed in 1935 to apply only to income above the reasonable costs of raising a family; the first \$3,600 for a family of four was exempt from taxation. By the 1960s, workers were paying a 5 percent tax on most of their income after they deducted personal exemptions, mortgage interest, charitable deductions, etc. By law, that 5 percent tax provided the salaries of tens of thousands of teachers.

In 1965, voters approved a plan to give up a fifth of our income tax revenue by creating a state deduction for federal income taxes. Unlike other deductions that were equal by family size at all incomes, the federal deduction was small for middle-income families and huge for those at the top.

Fast-forward to 2011, and the federal deduction has become even more lopsided. For the middle fifth of taxpayers, it lowers the annual tax bill by \$53 on average. For the top 1 percent, it lowers taxes by \$8,039 on average. It's arguably the main reason why our income tax is so far out of balance. It removes \$565 million from the education budget and awards 81 percent of that sum to the top 20 percent of earners. That imbalance is the reason most states shy away from the federal income tax deduction. Only Alabama, Iowa and Louisiana offer the full deduction.

Knight believes the current budget crisis offers the state a chance to push the reset button on our tax system. Are voters willing to give up the federal deduction and pay modestly higher taxes so thousands of teachers could keep their jobs? A strong majority say yes.

But if you talk to your legislators, you may find that their top concern is "job creators" might pay higher taxes. The fact is, most business owners make less than \$100,000 a year and would benefit from untaxed groceries. But some legislators believe that most jobs are created by higher-income business owners, and they're keen to protect business income from taxes.

Their concern is misplaced. Business owners don't pay income taxes on the costs of employee payrolls, and Knight's proposal doesn't change that. It simply applies to the income they take home to support their families. That's the income all of us report on our tax forms.

We can't be fooled by the rhetoric that calls every millionaire a "job creator." Some millionaires don't create jobs and shouldn't get tax breaks. The proper tax break to offer to a true job creator is the one that's already in place: If your business creates jobs, you deduct the workers' pay as a business expense, and you pay taxes only on your take-home pay.

Just like our grandparents in the 1930s and our parents in the 1950s, Alabamians ought to pay 5 percent of their incomes (after reasonable deductions) to support the teachers who prepare the next generation for success. Whether you work in the front office or back in the shop, take-home pay is take-home pay and should be taxed the same. A lopsided deduction must not continue to divert money from the classroom.

Knight's plan gets the arithmetic right. By ending our biggest lopsided deduction, we can afford to lower the grocery tax and cushion our school children from the brunt of budget cuts. And it will help ensure that everyone pays a reasonable share of the cost of a well-funded, modern state government.

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