

TAX REFORM: WHAT'S BEING DONE TO SOLVE THE PROBLEM?

Change was the theme of the 2002 elections. Every politician seeking a vote wanted to change the way the state conducted business, funded education, and ran the state government. We are encouraged that the voters seemed to respond to the calls for change, and we are pleased to report that a number of groups have emerged to lend a helping hand in this effort. While seasoned veterans of the tax reform wars such as AEA and The Public Affairs Research Council of Alabama ("PARCA") continue to provide leadership in these areas, brand new groups such as the Campaign for Alabama and the Citizens' Commitment have emerged as ready, willing, and able to put a shoulder to the wheel. We have discussed the woeful state of Alabama's tax system and its adverse effect on the education budget over the last several weeks, but we need to express our cautious optimism that significant restructuring of the failing tax system is highly possible within the next few months. Let's look at some of the groups and the ideas being developed.

THE CAMPAIGN FOR ALABAMA: COULD BUSINESS FAVOR TAX REFORM?

The Campaign for Alabama may be the most intriguing tax reform group to emerge. It was formed in the Fall of 2002, by members of the Alabama business community to push for comprehensive reform to find sustainable revenue to fund the essential services of state government. With this being said, the Campaign for Alabama

also pledged to build a “higher level of confidence in governmental spending”. Though this means budget cuts, cautious optimism may be warranted.

The Campaign for Alabama enlisted Bill O’Connor, Jr. as its manager and Sid McAnally as its assistant manager and director of policy development. Bill O’Connor is an established leader in this state, having run the Business Council of Alabama (the “BCA”) for half a decade. While our most recent and vivid memory of his effectiveness in this state is his valiant and successful defense of the BCA membership during Governor Siegelman’s December 2001 Special Session addressing our corporate tax system, we have to realize Mr. O’Connor’s keen awareness of the funding problems from his long tenure with the University of Alabama. Also be aware that Alabama Arise, an advocacy group for the poor, is a member of the Campaign for Alabama.

Sid McAnally is an attorney from Decatur with an impressive pedigree in the area of reform as well. Sid previously served as Governor Jim Folsom’s Policy Director, and he has pushed for reform through service on many different organizations including his service to the Alabama Citizens for Constitutional Reform. Mr. McAnally is charged with shaping policy for this group, and he has shown an interest in all options. Mr. McAnally also understands the constitutional problems surrounding tax reform, and this knowledge will add tremendously to the effort.

The businesses backing the Campaign include some of the state's largest employers, and they should have a vested interest in the education of their future workforce. This group includes Bellsouth, Energen, Protective Life, Royal Cup, Southtrust, and Vulcan Materials. Thus far, the Campaign seems to be considering every option available to stabilize our revenue sources, and is not interested in any measure that will diminish teachers' salaries. This open mindedness toward the problems at hand must be encouraged, and I applaud the Campaign for keeping everything on the table.

Mr. O'Connor, the manager of the Campaign for Alabama, was quoted when he assumed the post as saying, "Alabama's future is tied directly to the quality of education in this state." He is right on target. Although the Campaign has not produced any definitive policy proposals to date, and mislead initially by suggesting that residential property tax increases may make up the tax shortfall, it is refreshing to note this group's willingness to discuss the need for change. The Campaign also understands that we cannot dig our way out of this hole with budget cuts.

The Campaign has not shied away from discussions of changes to the ad valorem tax system or the income tax system. The group realizes these changes will take constitutional amendments and votes by the people, but the Campaign for Alabama's willingness to keep these revenue sources in discussion is important. This group seems to understand that everyone owning property will feel the bite of property tax. I sincerely hope that the Campaign for Alabama will stand firm in opposing the push of certain

segments to target the ad valorem burden only on the backs of the residential homeowner. The path of least resistance will be to unfairly allow the large landowners again to wiggle out from paying their share.

The Campaign for Alabama has also expressed an interest in reforming the state income tax to a system that is less oppressive to the working poor. When raising the threshold on payment of personal income tax from \$4600 for a family of four, we have to make up the lost revenue. The idea developed by some, and not rejected by the Campaign for Alabama, is to eliminate the state income tax deduction for Federal income tax. We need to watch this measure closely to make sure that the same rule applies to corporate as well as individual income tax. The necessary referendum ballot should clearly describe the changes we are making.

Finally, the Campaign for Alabama apparently recognizes the need for home rule. If we can simply get the decisions regarding local school systems into the hands of the people living with the local school systems, Alabama will be in the home stretch of the race for excellence. Everyone should welcome the Campaign for Alabama into the discussion, and we must avail ourselves of their resources as we work to finally overhaul the car's engine instead of fixing the flats.

THE BCA: THE OLD GUARD FOR BUSINESS ADMITS THE NEED FOR CHANGE.

According to its website, the Business Council of Alabama represents nearly 5,000 businesses and industries across the state, and it has committed itself to tax reform. A poll of BCA's members shows tax reform to be the utmost concern for the 2003 Legislative Session. As it has been said over and over, these members represent the largest consumer of the products of our state's educational system, so they should be concerned about the quality of the ingredients.

One of the measures supported by the BCA whose time has definitely come is the streamlined sales tax initiative, which would allow sales tax on Internet sales, and requires Congressional and state approval. As I pointed out in a previous article, we as a nation lose \$19 billion a year in sales tax revenue on Internet sales. The BCA's support of this system is most welcome, and its influence in Washington will hopefully prove helpful when Congress votes on this initiative.

History has taught us, however, to scrutinize carefully any "tax reforms" advocated by BCA. Recently, at a Birmingham Tax Forum meeting, BCA counsel presented some tax "reforms" which would largely be tax reductions for big business.

The BCA supports another "reform" measure on its website, that is a singularly bad idea. There has been a move afoot for some time to create a separate Tax Court headed by a judge with specific training in tax matters, instead of having the State's tax judges serve at the pleasure of the Revenue Commissioner under present law. I dismiss

this idea as folly because of the possible pitfalls. Those persons “trained in tax matters” to fill this department would for the most part be tax preparers who have represented taxpayers or former Department of Revenue employees who have shown their protaxpayer colors.

A better way to accomplish the goal of the BCA is to train Special Masters in tax for the existing Courts. These individuals could not have any taxpayer clients, and they could be employed by the Court system.

THE CITIZENS’ COMMITMENT HELPS BRING THE PEOPLE TO THE TABLE.

The Citizens Commitment is a broad based group of nonprofit organizations from throughout the State of Alabama advocating the interests of the impoverished and children during the tax reform discussions. The group was convened by VOICES for Alabama’s Children and Alabama Arise, and continues to grow in membership and support. The colloquium advocates a tax system that is fair, efficient, reliable, simple, transparent, adequate, and revenue-positive. As this is the only tax reform advocate with a defined statement, let’s try to apply its criteria to the tax problems addressed in previous articles.

The system must be fair. The system must be progressive and based on ability to pay. It should be broad-based and not exacerbate the tax burden on the working poor.

Examples of this would be to reform the income tax thresholds and diversifying our revenue sources to include intangibles and other items currently not taxed.

Efficiency and reliability go hand in hand. The system must operate without unnecessary waste of time or other resources, and the system must produce a steady source of revenue affected little by changes in the economy. Ad valorem tax is the most logical source of steady, reliable income.

Simplicity must be the hallmark of any new system. Compliance with the tax requirements must not be complicated or burdensome, and all affected must be able to understand the tax code. An example of simplicity would be to base our ad valorem system on a comprehensible measure of fair market value rather than the inscrutable millage. We should assess so many cents per certain amount of value.

Transparency in the tax system will satisfy everyone involved that all taxpayers are paying their fair share. Information should be readily available to all taxpayers, and measures must be in place to assure compliance.

An adequate system will be a revenue-positive system. The system must produce enough revenue to adequately fund the needed services, and this will necessarily mean that the new system produces more than our current system.

We applaud these criteria for tax reform and challenge our Governor and Legislature to use them as a yardstick with which to judge success.

The Citizens' Commitment is eager to discuss all options produced by any other reform group, the Legislature or the Governor. In fact, it is exciting that the Campaign for Alabama has invited at least two Citizens' Commitment board members to serve on the Campaign's board. I am indeed pleased to note such an appearance of cooperation between two of the leading groups advocating long overdue tax reform.

THE CITIZEN'S CONSTITUTION COMMISSION: A LICK AND A PROMISE.

Another group that will ultimately have to address tax reform is Governor Riley's Citizens' Constitution Commission. Co-chaired by former Secretary of State Jim Bennett and Birmingham attorney Lenora Pate, this Commission is not necessarily interested in rewriting our antiquated centenarian Constitution, but has pinpointed a few areas for examination. Two targeted issues directly affecting our tax reform efforts are home rule and a tax supermajority measure.

The Commission's most recent home rule proposal seems to provide a mechanism for counties to raise their own revenue through referendum vote. However, the power to raise ad valorem tax is eviscerated by the constraints of Section 217 of the 1901 Constitution. I.e., the lid bill. Under the Governor's home rule proposal, South

Alabama would continue to be a tree farm of big business, which would avoid its fair tax burden. It is high time we removed the yoke of our old Constitution once and for all. As Fob James, the last Governor to try to rewrite the Constitution, said, "Let's start clean." I urge the Commission to revisit its toothless home rule proposal to establish more representative forms of local government unfettered by the fear of progress.

Another backward proposal by the Commission is to require a 60% supermajority on any Legislative measure raising revenue. As we have discussed previously, this will have a chilling effect on this state's ability to adapt to our State's changing needs and responsibilities. The better approach may be to restructure the procedure and required vote for an override of the Governor's veto, which now only requires a majority vote of the Legislature.

CONCLUSION: GET INVOLVED.

We are excited by the interest and diligence of the groups studying tax reform in this state. At the same time, however, we must be vigilant that the job is done correctly.

We encourage you to support the groups intent on better funding our schools. The only way to change Alabama's tax system is by revolution, with each citizen having a duty to participate.

The Governor and the Legislature must be encouraged to address a broad range of problems concerning the tax system, and they should know that we are all ready to help.

I've enclosed a scorecard that lists the areas that need changing, and urge you to note who is for and against each change. Praise those who help us and urge the wayward to get back on track.