The Governor’s Proposal: A First Step in Alabama’s Journey to Fair Taxes

By Susan Pace Hamill

More than a century after Alabama’s 1901 Constitution created a tax structure that oppresses our most dispossessed, we have finally been offered a first step - a solid single that clearly gets us on first base - towards real tax reform in Alabama. On May 20, 2003 Governor Bob Riley unveiled a comprehensive tax and accountability plan because “we have no other choice”.

Governor Riley is right. Even during better economic times Alabama’s state and local taxes still imposed the greatest burdens on the poorest Alabamians while allowing the wealthiest Alabamians to avoid paying their fair share. While most of our neighbors improved, Alabama’s lowest per capita in the nation revenues, especially property tax revenues, kept most of our public schools and other critical services grossly underfunded leaving Alabama at or near the bottom in all quality of life measurements. Now being faced with an unprecedented budget shortfall that cannot be completely erased by accountability measures the Governor’s Proposal, which promises to raise $1.2 billion of new revenues, wisely recognizes that additional revenues are needed, not just to cover the shortfall, but also to move Alabama forward.

The proposal exempts the poorest Alabamians from income taxes, a vast improvement from taxing them on wages as low as $4,600 a year. The additional income taxes required of upper income Alabamians is a small price for those who can most afford it. Changes to the state property tax structure, which will apply a reduced rate to fully valued property while increasing the homestead and other exemptions, will lower property taxes for owners of modestly valued property while raising property taxes on expensive homes and commercial property. These, along with other taxes on cigarettes, motor vehicles, stocks and bonds and mortgages will reduce the overall tax burden of the poorest Alabamians, with the middle class largely unaffected, while increasing the burden to those at greater levels of income and wealth. And Alabama’s state and local taxes will still be among the lowest in the nation.

So why is the Governor’s Proposal only a first step to a truly fair tax system?

The Governor’s Proposal does nothing about the punishing high sales tax rates, reaching levels as high as 11 percent, that apply to all consumer purchases even the most basic necessities such as food at the grocery store. Until Alabama follows Georgia’s example by both limiting how high sales tax rates can climb and exempting basic necessities, we will continue to oppress the poorest and the lower middle class even if the income tax structure is fair. A frustrated blue collar worker expressed it best: “They tax you for everything you buy. They tax you for this, they tax you for that.”

The Governor’s Proposal also leaves significant inequities buried in the property tax structure and fails to require the largest landowners to pay their fair share. Local property taxes, which make up the lion’s share of property tax revenues, still limit the property tax base to as little as 10 percent of the value, while Georgia includes 40 percent. Even worse current use valuation, the principal reason why timber pays less than 2 percent of the property tax despite covering 71 percent of Alabama’s land, is still allowed for all owners of timber and agriculture. Unlike Georgia, which limits current use to small landowners and family
farms, Alabama allows the largest pine corporations owning thousands of acres the same current use privileges as a family farm of a few hundred acres. This prevents Alabama’s vast rural areas, which have the highest poverty rates and the worst public schools, from imposing fair property taxes.

Over the past century Alabama’s struggle to achieve real tax reform has resembled a scoreless baseball game. Many attempts of the past have failed to get us even close to first base, although a couple of times we should have made it but were robbed. Alabamians disappointed that the Governor’s Proposal does not go far enough should remember that more ball games are won with singles than with home runs. At the same time we must also remember that a single followed up by nothing will never win the ball game. We should all support the Governor’s Proposal while steadfastly continuing our efforts, for as long as it takes, to complete the job of establishing fair taxation in Alabama - not just because we have no other choice but because it is the right thing to do.

Susan Pace Hamill, a Professor of Law at the University of Alabama School of Law, can be reached at shamill@law.ua.edu or http://www.law.ua.edu/directory/bio/shamill.html. She recently published a paperback book, THE LEAST OF THESE: FAIR TAXES AND THE MORAL DUTY OF CHRISTIANS, available at Books-A-Million.