












## ALABAMA AT A GLANCE

Alabama has a long way to go to create a truly progressive tax structure. It should, however, be lauded for curbing some corporate tax loopholes and taking some steps to improve accountability.

Has the state...	YES	NO	More Work Needed
1. Broadened sales tax base?		<input checked="" type="checkbox"/>	
2. Modernized sales taxes?		<input checked="" type="checkbox"/>	
3. Raised cigarette tax to US average?		<input checked="" type="checkbox"/>	
4. Enacted Earned Income Tax Credit?		<input checked="" type="checkbox"/>	
5. Modernized income tax bracket?	<input checked="" type="checkbox"/>		
6. Dealt with hidden income tax increases?		<input checked="" type="checkbox"/>	
7. Rethought senior tax preferences?		<input checked="" type="checkbox"/>	
8. Eliminated corporate loopholes?	<input checked="" type="checkbox"/>		
9. Linked property taxes and ability to pay?		<input checked="" type="checkbox"/>	
10. Strengthened accountability?	<input checked="" type="checkbox"/>		
11. Conducted a performance review?		<input checked="" type="checkbox"/>	

## A better Alabama...

**Idea 1: Broaden the sales tax base.** Alabama should abolish its sales tax holiday and review sales tax exemptions to eliminate those that don't meet contemporary economic needs. Its new sales tax holiday will cost an estimated \$3.4 million.

**Idea 2: Modernize sales taxes for the new economy.** Alabama should modernize its policy on taxing services. In 2004, it taxed 37 out of 168 possible services. It also should approve the Streamlined Sales and Use Tax Agreement.

**Idea 3: Raise cigarette taxes to promote public health.**

Alabama should raise its 43-cent-per-pack cigarette tax to the national average of \$0.92 per pack to reduce smoking and promote public health. Research shows that doing so likely would cause 16,600 current adult smokers to quit. Long-term health savings from both adult and youth smoking declines would be \$584 million.

**Idea 4: Enact a state Earned Income Tax Credit.**

Alabama should enact a refundable earned income tax credit to help bring working families' incomes above poverty. Some 473,872 Alabama taxpayers in 2003 claimed the federal earned income tax credit for a total of \$966,598,821. A refundable state EITC would cost an estimated \$95 million if set at 10 percent of the federal credit.

**Idea 5: Modernize state income brackets.**

Although Alabama modernized part of its income tax structure in 2006, it failed to expand its income tax brackets or create a new top tax rate. Alabama's top tax bracket is 5 percent for income over \$3,000 for single filers.

**Idea 6: Account for inflation.**

Alabama should enact strategies to adjust taxes for inflation. The state does not index personal exemptions, standard deductions or brackets for inflation.

**Idea 7: Rethink senior tax preferences.**

Alabama should redesign tax codes to provide fair relief to seniors based on *ability-to-pay* instead of age alone. The state, which will grow to having a senior population of 21 percent in 2030, currently provides seniors with a full exemption for Social Security income, a private pension income exemption and property tax preferences.

**Idea 8: Eliminate corporate tax loopholes.**

While Alabama does not require combined reporting, it does restrict the use of the passive investment company (or Delaware-holding company) loophole. In addition, Alabama is one of the few Southern states to enact a throwback rule.

**Idea 9: Connect property taxes and *ability-to-pay*.**

If Alabama insists on property tax reform, it should use a property tax circuit breaker to shield residents from excessive taxation and connect property taxes with *ability-to-pay*. The state had the lowest property taxes in the nation when measured per capita and as a percent of personal income in 2002.

**Idea 10: Strengthen accountability.**

Alabama has a tax expenditure report, but it is limited to sales. Alabama should work to incorporate all tax expenditures into an annual report that includes cost projections and is readily available to lawmakers and the public.

**Idea 11: Review the performance of government.**

Alabama should conduct a comprehensive performance review to boost government efficiency, save money and improve customer service. The state has not done a statewide performance review in the last five years.