

Senate Taxwriters Considering Flat Tax Bill

by Eric Yauch — eric.yauch@taxanalysts.org

A proposed constitutional amendment under review in the Alabama Senate Committee on Finance and Taxation Education would implement what some practitioners are calling a flat tax for personal and corporate income taxes.

SB 409, known as the Simplified Flat Tax Act of 2015 and introduced on April 23 by Sen. Bill Hightower (R), would amend the state constitution and implement a flat 2.75 percent tax on resident and nonresident individual income and a 4.59 percent tax on corporate income.

Alabama's three individual income tax rates begin at 2 percent on income over \$500 and top out at 5 percent on income over \$6,000; the corporate income tax rate is a flat 6.5 percent.

Gov. Robert Bentley (R) has publicly stated that lawmakers should focus on raising taxes to address the state's budgetary shortfalls. He has proposed raising the sales tax on cars and car rentals, eliminating credits and exemptions, and moving to combined reporting. (Prior coverage: *State Tax Notes*, Mar. 9, 2015, p. 579.)

"A simplified flat tax in Alabama is long overdue, especially for individuals," said Bruce Ely of Bradley Arant Boult Cummings LLP. He noted that the Alabama individual income tax doesn't piggyback off federal adjusted gross income. "We instead cherry-pick many Internal Revenue Code provisions while exempting certain types of income and granting additional deductions that the federal code doesn't. It's a nightmare for CPAs," Ely said.

Jeannine Birmingham of the Alabama Society of CPAs said she thinks practitioners would like using the federal AGI as a starting point for determining Alabama taxable income because they've already put in a lot of effort in the federal return.

The proposed amendment also says that an "individual may not claim any deduction, credit, or exemption unless it is a deduction for charitable contributions, is required under federal law, or is pursuant to a deduction, credit, or exemption adopted pursuant to Part VII" of the proposed amendment. However, Part VII says that credits, deductions, and exemptions for individuals and corporations can be passed "only by enacting a general law by an 80 percent vote in each house."

The proposed amendment must be approved by both legislative chambers before it can be put to a vote in the next statewide primary or general election, which is in March 2016. ☆