

Guest Column: Reliance on sales tax causes an imbalance

Tennesseans should tell their legislators they're against a prohibition on state income tax because it ensures the highest earners pay the most.

By Erica Thomas, Special to Viewpoint

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How we fund our state government -- and who pays for it -- are key concerns for all Tennesseans. Gov. Bill Haslam, who will unveil his 2011-12 budget proposal on Monday, has indicated the state will face a revenue shortfall of up to \$1 billion. At the same time, Sen. Brian Kelsey, R-Germantown, and Rep. Glen Casada, R-Franklin, would continue class war on the working people of Tennessee with passage of a proposed constitutional amendment that would forever require Tennesseans with the least income to pay the biggest share of state taxes.

While Tennesseans grapple with the potential loss of state services and funding to our communities, Kelsey and Casada are sponsoring a measure that would permanently remove one revenue option from ever being considered in the state, locking Tennessee into what could be a perpetual revenue shortfall. On Feb. 8, Kelsey introduced Senate Joint Resolution 18 that would enshrine in the Tennessee Constitution a prohibition against any tax on incomes or payroll. The Senate approved the measure Wednesday and the House will soon take up the issue.

Tennesseans for Fair Taxation has long advocated a system of taxation that requires those with the greatest ability to pay and who benefit most from our government to pay more of the cost of government. According to the Institute on Taxation and Economic Policy's "Who Pays?" report in November 2009, Tennesseans earning less than \$17,000 a year pay 11.7 percent of their meager income in state and local taxes while those earning \$228,000 annually pay only 4.5 percent of their abundant income. Tennessee's tax structure is the fourth most regressive tax system in the nation -- meaning that incomes are more unequal after taxes than before. It is our excessive reliance on sales and other consumption taxes that causes the imbalance. The only way to correct this "upside-down" tax structure is to add a broad-based income tax and simultaneously reduce the oppressive sales tax.

The state already taxes some forms of income. The Tennessee Code states that "an income tax in the amount of six percent (6%) per annum shall be levied and collected on incomes derived by way of dividends from stocks or by way of interest on bonds of each person, partnership, association, trust and corporation in the state of Tennessee" (67-2-102). The state Constitution is ambiguous on the possibility of taxing other income, but we believe implementation of a personal income tax could be structured in such a way that an additional \$1 billion in revenue could be collected while two-thirds of Tennesseans would actually pay less in taxes each year.

Kelsey's resolution, however, would amend the Constitution by adding this language: "... (T)he Legislature shall not levy any tax upon personal income or payroll or any tax measured by personal income or payroll, except that the Legislature may levy a tax upon incomes derived from stocks and bonds that are not taxed ad valorem."

The ambiguity in Tennessee's Constitution on the question of whether the state has the power to levy a tax based on income other than dividends and interest was intended to leave the use of an income tax open. SJR0018/HJR0010 would state unequivocally that the state does not have that power.

If carried to completion, the proposed amendment would forever limit wealthy Tennesseans' contributions to the cost of government and would prevent Tennessee from ever implementing a just tax system that could truly address its revenue needs.

Our present tax system punishes the poor and rewards the rich. We're not advocating a reversal of that system, only a move toward a more just balance -- instead of the move away from justice represented by the proposed amendment.

Amending the Constitution is an appropriately difficult process. Approval requires first a majority vote in both houses of the General Assembly, followed by a public notice prior to the next election of members of the legislature, then a vote by a two-thirds majority in both houses of the subsequent legislature, and a ballot measure in the next gubernatorial election, requiring positive votes of one-half plus one the number of votes cast in the governor's race.

The entire process takes at least 2 1/2 years. If this resolution ultimately results in a constitutional amendment, it would take another four years or more to undo the action, and it could potentially tie the hands of Tennessee's elected officials in ever pursuing a more just and effective tax structure to meet the unforeseeable needs of our residents in the future.

It is not hard to imagine circumstances that would call for an income tax. An economic depression or another severe recession might reduce revenue to the extent that an income tax becomes essential to the continuation of a state government that serves its citizens adequately. A natural disaster such as an earthquake on the New Madrid Fault or a severe outbreak of tornadoes could require funding for a relief and reconstruction effort that exceeds the capacity of the existing tax structure. And the question with either of these potential disasters is more likely to be one of "when" it will occur, rather than "if" it will occur.

That is why you should contact your state senator and representative and tell them to keep our options open. Now, more than ever, Tennessee needs a tax system with justice for all.

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