

## Think tank: Tennessee state income tax would help fixed-income families

By Josh Flory

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This probably isn't the best day to bring it up, but a Washington, D.C., think tank has an idea for cutting the tax burden on Tennessee's fixed-income families: impose a state income tax.

The proposal comes from the Institute on Taxation and Economic Policy, which argues that the lack of a state income tax deprives Tennesseans of the opportunity to take advantage of the federal deduction offered for state and local income taxes paid.

Today, of course, is the deadline for filing federal income tax returns, and the idea of adding another tax to their to-do list may be unappealing to many Tennesseans. But the institute argues that if the Volunteer State imposed a revenue-neutral, graduated state income tax - that is, a plan that cuts sales taxes by an equal amount - state residents would enjoy \$338 million in federal income tax savings.

Matthew Gardner, the institute's executive director, said the budget-balancing tools available to Tennessee lawmakers come down to increasing existing taxes that hit low-income families hard - such as the sales tax - or cutting spending. An income tax, he said, "is a revenue-neutral way of reducing the impact on the folks who are hit hardest by the tax system right now."

That line of thinking doesn't appear to be gaining much political traction, though. The four leading candidates for governor - three Republicans and a Democrat - are opposed to a state income tax, and opponents can also wield studies that back their position.

A report from the American Legislative Exchange Council, for example, found that the nine states with the lowest marginal personal income tax rates on average had gross state product growth of 86 percent from 1998 to 2008 and population growth of nearly 16 percent, compared to a U.S. average of 66 percent and 10 percent, respectively. (On the other hand, the study found that Tennessee lagged the national average by nearly 10 percent in GSP growth, and had population growth of only 12 percent.)

"For states to improve their economic brands, lawmakers must navigate these challenging budget times while avoiding the economically damaging tax increases that will assuredly make things worse," said the ALEC report. "While it should be intuitive, states cannot tax, borrow, or spend their way to prosperity."

Whatever the prospects for a state income tax, residents had best get right with Uncle Sam before midnight tonight.

Dan Boone, a spokesman for the Internal Revenue Service, said one issue that has caused some problems for taxpayers this year involves Schedule M, a new schedule related to the Making Work Pay tax credit.

Among other hang-ups, Boone said many retirees who worked last year are eligible for the credit, but also received an economic recovery payment of \$250 in the spring or early summer of last year. That payment is supposed to be reported on Schedule M, he said, but many people don't remember if they got it.

The solution? Boone said taxpayers can call 866-234-2942 or visit the IRS Web site at <https://sa2.www4.irs.gov/irfof-mwp/start.do> to determine if they received the payment. Both tools will require taxpayers to submit their Social Security number, date of birth and the zip code from their last federal return.

Boone said 2.69 million filers are expected in Tennessee this year, and around 2 million returns are expected to be filed electronically. Through April 8, 1.66 million Tennesseans had filed electronically.

While many Tennesseans are filing electronically, others are waiting until today to file. The U.S. Postal Service advises that filers will have until 11:59 p.m. today to postmark their returns to meet the deadline.

Business writer Josh Flory may be reached at 865-342-6994.



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