



An Alabama state lawmaker is pushing to create a flat tax in the state.

Photographer: Julie Bennett/Getty Images

## Alabama 'Fair Tax' Proposal May Get Hearing in 2020

By Chris Marr

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- *Plan would broaden consumption tax to pay for ending income tax*
- *Similar proposals elsewhere have been unsuccessful*

An Alabama legislator aims to put a “fair tax” proposal on the 2020 ballot, predicting that high turnout in “a very red state” would give the conservative tax overhaul its best shot at success.

But first, Rep. Mike Holmes (R) will have to win over his fellow state lawmakers.

His plan would end the state’s income, sales, and use taxes and replace them with a flat-rate consumption tax on goods and services of just over 8%, said Holmes, sponsor of the legislation. It comes in two parts: a proposed constitutional amendment via H.B. 3 and implementing legislation via H.B. 4, which Holmes prefiled for the state’s 2020 legislative session that begins in February.

The idea mirrors fair tax proposals that have been offered unsuccessfully in other states and nationally, but so far no state has enacted the policy. Supporters tend to promote the idea as a way to avoid penalizing income generation and instead tax consumption, while opponents describe the policy as a regressive tax scheme that would cause lower-income people to pay a larger percentage of their incomes in taxes.

"We've got an issue with a shrinking tax base," Holmes told Bloomberg Tax on July 24. The state once taxed about two-thirds of the economy, but that figure has dropped to about one-third as more of the economy has shifted to services and digital products, rather than tangible physical goods, he said.

"If we stay on this path and don't do something, we're going to have to make drastic cuts" to state spending, which is already notably lower than its historical average, Holmes said.

His proposal makes up for lost income tax revenue by broadening the tax base to cover services, he said. The plan is designed to be revenue-neutral.

In the Alabama proposal—as with the national plan—a monthly rebate to all Alabama residents who are U.S. citizens would offset the taxes paid up to the equivalent of poverty-level spending, said Chuck Bailey, Alabama state director for Americans for Fair Taxation, an advocacy group.

Bailey said he sees the idea gaining traction with Alabama legislators, as well as lawmakers in a handful of other states. Several northern Alabama lawmakers put up money for a rate study done by the Beacon Hill Institute, he said.

"Georgia and Alabama are having a friendly competition to be the first" to enact a fair tax policy, Bailey said.

A Georgia fair tax proposal (H.B. 543) failed to get a committee hearing in 2018 before the legislative session ended.

## Long-Shot Proposal?

The idea is interesting but doesn't look likely to pass, said Bruce Ely, an Alabama tax attorney who has previously advised state lawmakers and legislative task forces on tax policy.

The policy would put Alabama out of step with the income tax policies of the federal government and 45 other states, said Ely, a partner at Bradley, Arant, Boult, Cummings LLP in Birmingham. Ely also serves on Bloomberg Tax's State Tax Advisory Board.

"This is really something that should be enacted at the national level first, then by the states, if at all," Ely said.

The uncertainty about how it would affect businesses financially could also hinder business support for the amendment, he said.

Leaders from the House and Senate didn't immediately respond to requests for comment on the proposal.

Holmes said legislative leaders have expressed interest and asked him for updates as he works on the idea, but haven't committed to it.

"Leadership is encouraging. Nobody has endorsed it," he said.