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## A few words from Kimble —

I remember two times in our history when Arise Lobby Day coincided with floor debate. I hope you can join us at the State House on Thursday for the rare treat of hearing our legislators debate House Bill 116. We're always surprised by the wide range of quality in the arguments.

**Please call now! We need to make our best case to our legislators.** The vote is likely to be close. For us, the bill is less than we wanted. It's now a Democratic-Republican hybrid, combining parts of Rep. John Knight's and Rep. Robert Bentley's plans, but it still shifts a whopping \$364 million in the direction of a balanced tax system. As Sen. Bobby Denton said, "I don't know why we need to apologize for taking taxes off people who can't afford to buy food. I don't know why we need to apologize for making that up with people that make hundreds of thousands of dollars a year."

**It's striking to compare taxpayer income under and over \$200,000.** A balanced system would treat the bottom two million of us just as well as the 60,000 who make more than \$200,000. But the top few now get more than half of the \$770 million deduction for federal income tax. HB 116 will remove that tax break at high incomes and use the resulting revenue to lower taxes for everyone who buys groceries. The question becomes: Will you help the two million make ends meet, or will you protect the tax breaks of the 60,000?

With hope for a new day dawning,

# Report

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## Compromise bill goes to House floor

# Lobby Day vote on grocery tax?

*By Chris Sanders, policy analyst*

**A bill to end the state sales tax on groceries is moving quickly in the Alabama House.** The Tax Fairness Amendment, sponsored by Rep. John Knight, D-Montgomery, is likely to reach the House floor on Thursday, Feb. 26, which is Alabama Arise's annual Lobby Day.

**The amendment, House Bill 116, would remove the 4 percent state sales tax on groceries and cap the state deduction for federal income tax.** Under the current House bill, married couples making \$100,000 or less and single people making \$50,000 or less would continue to claim their full deduction for federal income tax. (The Senate version, Senate Bill 115, would double those amounts to \$200,000 for couples and \$100,000 for singles.) For taxpayers who make more, the deduction would phase out on a sliding scale and disappear entirely at \$400,000 for couples and \$200,000 for singles.

**The measure differs from last year's version because its sponsors sought compromises on several points.** This year's bill would not address Alabama's income tax threshold and would phase out the deduction for federal income tax

instead of ending it entirely. The bill also would not exempt candy and soft drinks from sales tax.

**HB 116 would prevent localities from changing their sales tax on groceries alone.** Any change in the local sales tax would have to apply across the board, so the overall sales tax on groceries would remain 4 percentage points lower than the sales tax on other items.

**Arise supports efforts to make the plan revenue-neutral,** meaning it would not add or subtract money from the Education

Trust Fund. The current House bill would result in a net \$62 million in revenue for the ETF, which some opponents cite as a deal-breaker. But changes made this week to the Senate version sponsored by Sen. Hank Sanders, D-Selma, would reduce that amount to about

\$16 million. The Legislative Fiscal Office says the Senate bill falls within the range of revenue neutrality. Knight has said he would welcome changes to make the House bill revenue-neutral.

**More than 95 percent of Alabamians would get a tax cut under the Senate version of the bill,** according to LFO estimates. The plan would take effect on

**Urgent Action: Call your state representative and senator now and urge them to vote for the tax fairness bill (House Bill 116/Senate Bill 115),** which would lower the grocery tax and cap the deduction for federal income tax. You'll find contact information at the "Legislation" link on [www.alarise.org](http://www.alarise.org). **Be ready to respond if your legislators raise concerns about revenue neutrality.** Please e-mail [pres@alarise.org](mailto:pres@alarise.org) and tell us how your conversation went!

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## Grocery tax bill

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Jan. 1, 2011, if the Legislature passes it and state voters OK it in 2010.

Some opponents of the plan have said they prefer a proposal to phase out the grocery tax using growth in the education budget. Senate Bill 377,

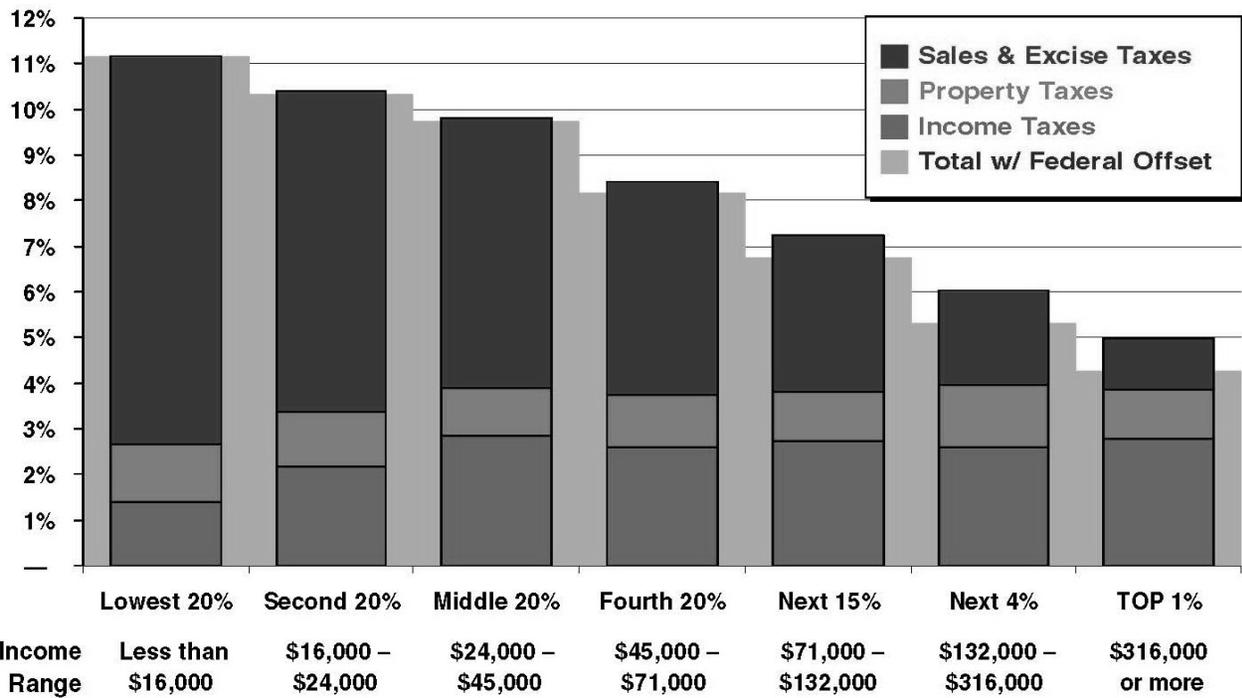
sponsored by Sen. Scott Beason, R-Gardendale, would remove 1 percentage point of the state sales tax on groceries in each year in which ETF revenue growth exceeds 3 percent. SB 377 does not offer any replacement revenue for the education budget.

**Low-income Alabamians pay a bigger piece of their income in state and local taxes** than higher-

income residents do. The bottom fifth of the state's earners pay 11.2 percent of their income in state and local taxes, while the top 1 percent pay an effective rate of 4.3 percent (see chart below). The Tax Fairness Amendment would bring the state's tax system closer to balance by slightly increasing the income share paid by high-income earners and slightly decreasing the share paid by low-income earners.

### Alabama State & Local Taxes in 2008

Shares of family income for non-elderly taxpayers



Institute on Taxation and Economic Policy, 2008

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**URGENT: Grocery tax vote – call your legislators now!**  
(Details inside)