

The Tax Fairness Amendment of 2009

BACKGROUND:

Many working Alabamians are finding it increasingly hard to make ends meet. As the nation's economy continues to suffer through a recession and the number of layoffs continues to climb, Alabama remains one of only two states – the other is Mississippi – that continue to offer no tax break on groceries.

HB 116, sponsored by Rep. John Knight, would amend the Alabama Constitution to make two changes. The amendment would:

- **Remove the state portion of the sales tax on groceries.** (Candy would not be exempt from sales tax.) The local sales tax still would apply, so the sales tax on groceries would be 4 percentage points lower than on other items. The amendment would prevent localities from changing their taxes on groceries alone. Any increase or decrease 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, just as it is in Georgia.
- **Cap the state deduction for federal income taxes.** In 2011, more than half of the deduction's benefits will go to the top 3 percent of taxpayers, according to the Revenue Department. The substitute amendment that Rep. Knight said he plans to bring to the floor would *allow the full deduction* for all married couples with an annual income of \$125,000 or less and for all singles with an annual income of \$75,000 or less. For taxpayers who make more, the deduction would *phase out on a sliding scale* before it disappeared entirely at \$400,000 a year for couples and \$200,000 a year for singles.

The amendment would cut taxes for more than 90 percent of Alabamians. The Legislative Fiscal Office (LFO) estimates the measure would save an average family of four \$468 a year. The LFO projects that the substitute version of the amendment would produce less than \$20 million in additional education revenue. That amount falls within the range of “revenue-neutral” for a bill that changes the source of about \$400 million in state tax revenues, according to the LFO.

Alabama voters would have to approve the amendment in 2010. The plan would go into effect on Jan. 1, 2011.

BOTTOM LINE:

- **Alabama can remove the state sales tax on groceries without increasing or decreasing revenues to the education budget.**
- **The Tax Fairness Amendment would make the state's tax system more balanced and cut taxes for the vast majority of Alabamians.**