



March 31, 2009

The 2009 Tax Fairness Amendment: Answers to Some Common Questions

What would the Tax Fairness Amendment do?

- Remove the 4 percent state sales tax on groceries.
- Cap the state income tax deduction for federal income taxes paid.
- Continue to allow the full deduction for all married taxpayers with adjusted gross income (AGI) of \$125,000 or less per year and all single taxpayers with AGI of \$75,000 or less per year. Above those income levels, the deduction would shrink on a sliding scale before it disappeared entirely at \$400,000 for couples and \$200,000 for singles.
- Take effect on Jan. 1, 2011, if approved by legislators and voters.

Would the amendment increase the amount of overall state tax revenues?

- No. The amendment would change the source of about \$400 million in Education Trust Fund (ETF) revenue.
- The change would be close to an even swap, with a difference of about \$6 million out of the total \$400 million. The Legislative Fiscal Office (LFO) considers this difference to be within the range of “revenue-neutral” for a measure of this size, meaning the amendment would neither increase nor decrease revenue coming into the ETF.

Would the amendment result in a large tax increase for a lot of people?

- No. More than 90 percent of state taxpayers would receive a tax *cut* under the amendment, according to the LFO. The measure would increase state income taxes for about 8.4 percent of filers, some of whom would see an overall tax cut because of grocery tax savings and an increased federal deduction for state income taxes paid, according to the LFO.
- A single person making \$100,000 would pay \$10 less in overall annual taxes, and a family of four making \$200,000 would pay \$158 less, according to the LFO.
- For a single filer making \$200,000 a year, the total tax increase would be \$1,301, and for a family of four making \$300,000, the total increase would be \$801, according to the LFO.

Don't the richest people pay most of the state and local taxes?

- No. The top 20 percent of Alabama income earners pay 47 percent of the state and local taxes – but they *make* 57 percent of the state's income, according to the Institute on Taxation and Economic Policy (ITEP).
- The bottom fifth of Alabama's earners, who make less than \$16,000 a year, pay 11.2 percent of their income in state and local taxes, according to ITEP.
- The middle fifth pay 9.7 percent of their income in state and local taxes, according to ITEP.
- The top 1 percent, who make \$316,000 or more a year, pay an effective state and local tax rate of 4.3 percent after the federal offset for state income taxes paid, according to ITEP.

Is the amendment a "Robin Hood" plan to redistribute wealth?

- No. Alabama's current tax system requires middle-income families to pay twice the share of their income in state and local taxes that those at the top pay.
- Even after this bill went into effect, high-income taxpayers still would pay a smaller share of their income in state and local taxes than middle-income and low-income people.

Food stamps aren't taxed, so how could the amendment help the lowest-income Alabamians?

- The amendment would help middle-income Alabamians the most, but it also would help many low-income people.
- About 400,000 Alabamians who qualify for food stamps do not receive them, according to the Department of Human Resources (DHR). They pay the full grocery tax.
- For many food stamp recipients, the benefits do not cover the total cost of feeding their families. They pay the full grocery tax on any food they buy after their benefits run out.

Could Alabama eliminate the state grocery tax without increasing taxes on anyone?

- Yes, but it would hurt education. Alabama's education budget receives about \$400 million in revenue annually from the state sales tax on groceries. Eliminating the state grocery tax or offering a low-income grocery tax credit without replacing the revenue would leave a hole in an ETF budget that is in proration this year and is expected to shrink again next year.
- The state grocery tax could be phased out over time without replacing the revenue and without increasing anyone's taxes, but such a phase-out would deprive the education budget, over time, of \$400 million that it otherwise would have had. A phase-out also would take several years to eliminate the state grocery tax completely.

If the state were to eliminate its 4 percent sales tax on groceries, could cities or counties cancel out the cut by raising their local sales taxes by 4 percentage points just on groceries?

- No. The amendment would prevent local governments from changing their sales taxes on groceries alone. Any increase or decrease in the local sales tax would have to apply across the board to all taxable items.

How much could Alabamians save under the amendment?

- An average Alabama family of four would save \$468 a year if the state sales tax on groceries were repealed, according to the LFO.
- The LFO estimated the grocery tax savings based on the U.S. Department of Agriculture's moderate-cost food plan for November 2008, which assumes a family of four spends about \$8 per person per day on groceries.

Would undocumented immigrants still pay taxes if the state were to repeal its grocery tax?

- Yes. Undocumented immigrants still would pay sales taxes on the same things that everyone else does. Most employers are required to withhold taxes from undocumented immigrants' paychecks as well.
- The Pew Hispanic Center estimated Alabama's undocumented immigrant population was between 30,000 and 50,000 in 2005. Even if the number were double or triple that today, it still would be a small percentage of the state's total population of more than 4.6 million.

Would the amendment increase taxes on small businesses?

- Some small business owners would pay more, but most likely would not. Nationwide, about 90 percent of tax filers with small business income report incomes of \$200,000 or less, according to the Tax Policy Center.
- The LFO estimates that married small business owners who report twice that amount – \$400,000 a year – on their personal tax return and have two children would pay \$2,551 more in total taxes under the measure. That amount is less than 1 percent of total income.

Could the amendment have an effect on federal income taxes?

- Yes. The measure could reduce federal taxes for the filers whose state taxes would increase.
- Under the amendment, a family of four making \$300,000 a year would pay \$1,894 more in state income taxes, according to the LFO, but would save \$625 by deducting that amount on federal income taxes. After a \$468 grocery tax cut, the net tax increase would be \$801.
- Singles who make \$100,000 a year would pay \$10 less in overall taxes, according to the LFO. They would pay \$154 more in state income taxes but would save \$164 from the grocery tax cut and an increased federal deduction for state income taxes paid, according to the LFO.

What are other states' policies on taxing groceries and deducting federal income taxes paid?

- Alabama and Mississippi are the only two states that impose the full state sales tax on groceries without any credits or reduced rates.
- Of the 42 states with a broad-based income tax, Alabama, Iowa and Louisiana are the only three that allow all taxpayers to take a full state deduction for federal income taxes paid.
- A handful of other states allow limited deductions, but the majority of states do not allow any state deduction for federal income taxes paid.