

Alabama 2010 Legislature: Plan would cut state sales tax on food, some drugs

By David White -- The Birmingham News

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MONTGOMERY -- Alabama lawmakers will debate a new plan for eliminating Alabama's 4 percent sales tax from food and over-the-counter drugs and paying for it by raising income taxes on the state's top earners.

Under the plan to be debated Wednesday by a legislative committee, individual taxpayers making \$100,000 a year or less and couples making \$200,000 a year or less would see the amount they pay overall in state taxes lowered.

The plan would let state voters decide Nov. 2 whether to rewrite the state constitution to remove the 4 percent state sales tax from groceries and over-the-counter drugs. If approved, the plan also would raise state income taxes on individuals with adjusted gross incomes of more than \$100,000 a year or \$200,000 for couples. The plan would not raise income taxes on people with lower incomes.

Only 3.7 percent of individuals or couples who file state income taxes -- 78,700 of 2.1 million filers -- would make enough money to pay higher income taxes under the plan, the Legislative Fiscal Office estimates.

Those higher-income people would benefit along with everyone else from not paying the state sales tax on groceries and over-the-counter drugs, but most likely would pay more in extra state income taxes than they would save in sales taxes.

All other people who buy groceries and over-the-counter drugs in Alabama would save money under the plan by no longer paying the 4 percent state sales tax and not paying more state income tax because of it.

The Education Appropriations Committee of the state House of Representatives on Wednesday plans to debate the plan, House Bill 1, by Rep. John Knight, D-Montgomery.

"It is a well-balanced bill, and one that would serve 90 percent of Alabamians very, very well," said Rep. Richard Lindsey, D-Centre, who chairs the committee.

If passed by the Legislature and then by voters, the plan would remove the state sales tax on groceries and over-the-counter drugs starting Jan. 1. The plan would not lower city or county sales taxes.

The plan also, for all tax years starting after Dec. 31, would phase out for higher income people the ability to deduct federal income taxes they pay from their taxable state income.

For singles with adjusted gross incomes of more than \$100,000 a year and couples making more than \$200,000, the deduction gradually would be reduced as incomes rose. The deduction would be eliminated for individuals making more than \$150,000 a year and couples making more than \$300,000 a year.

Others would keep the entire deduction for federal income taxes paid.

Knight for years has tried to pass similar plans to remove the state sales tax from groceries. Some earlier plans eliminated the state deduction for federal income taxes for many more taxpayers.

Many House Republicans opposed Knight's earlier plans.

But Rep. Mike Hubbard, R-Auburn, leader of the 44 Republicans in the 104-member House, said Republicans still were evaluating Knight's latest plan.

"We're keeping an open mind," Hubbard said. "We're going to get some independent verification of the numbers. We're having that done right now."

Kimble Forrister, state coordinator of Alabama Arise, a group that lobbies for lower-income people, said Knight's plan would "help families make ends meet."

"This bill will be a substantial step toward tax fairness," Forrister said.