

Arise Policy Choices 2010

A Bill to Remove the State Grocery Tax

BACKGROUND:

Tough times have made it harder for many Alabama families to make ends meet.

As the nation recovers from an economic recession that has driven the state's unemployment rate into the double digits, Alabama remains one of only two states – the other is Mississippi – that continue to offer no tax break on groceries.

The planned substitute version of HB 1, sponsored by Rep. John Knight, would amend the Alabama Constitution to make two changes. The bill would:

- **Remove the state portion of the sales tax on groceries and over-the-counter medicines.** The overall sales tax on groceries and OTC medicines would be 4 percentage points lower than on other items. Local sales taxes still would apply, but the bill would bar localities from changing their taxes on groceries and OTC medicines alone. Any increase or decrease in the local sales tax would apply across the board, so the overall sales tax on those items would remain 4 percentage points lower than the sales tax on other items.
- **Cap the state deduction for federal income taxes.** Only two other states (Iowa and Louisiana) allow a full state deduction for federal income taxes. In 2011, more than half of the deduction's total benefits will go to the top 3 percent of taxpayers, the state Revenue Department estimated last year. HB 1 would allow married couples with an annual income of \$200,000 or less and singles with an annual income of \$100,000 or less to *keep their full deduction*. The bill would *eliminate the deduction* for couples above \$300,000 a year and singles above \$150,000 a year. Taxpayers in between those amounts would *retain a partial deduction*.

HB 1 would cut taxes for more than 96 percent of Alabamians. The Legislative Fiscal Office (LFO) estimated last year that a similar measure would save an average family of four \$468 a year. Those average savings now would be \$452 using the most recent federal estimates of food costs — or roughly \$100 per person a year. The LFO says HB 1 would increase income tax revenues by \$407 million and decrease sales tax revenues by \$405 million. LFO analysts say that difference means the bill is effectively “revenue-neutral” — neither increasing nor decreasing taxes overall.

Alabama voters would have to approve the plan at the polls in 2010. The measure would take effect on Jan. 1, 2011.

BOTTOM LINE:

- **Alabama can remove the state sales tax on groceries without cutting the education budget or increasing taxes overall.**
- **HB 1 would cut taxes for more than 96 percent of Alabamians and bring the state's tax system more in line with those of its neighbors.**