

Arise legislative update 4-17-13

Senate panel OKs higher sales tax to pay for grocery tax repeal

Alabama would end the state sales tax on groceries and increase the sales tax on everything else over the next four years under a bill the Senate's education budget committee approved 9-0 Wednesday. The full Senate could consider SB 279, sponsored by Sen. Gerald Dial, R-Lineville, as soon as next week.

Shifting sales tax from one aisle to the other

The plan simply would replace one regressive tax with another and would be little help for low-income people, Alabama Arise state coordinator Kimble Forrister told lawmakers in testimony against the bill. "We would be shifting the tax from the food aisles to the paper goods aisles or the hardware aisles," Forrister said. "Folks would still be paying the money, and it would still fall hardest on low-income folks."

Dial's bill would repeal Alabama's 4 percent sales tax on food and increase the sales tax on other items by 1 percentage point to replace the lost education revenue. The bill would phase in the changes over four years and would not require a public vote. By September 2016, the state sales tax on most consumer items would be 5 percent. That higher rate would apply to a host of non-food necessities, including clothes, toiletries, school supplies and over-the-counter (OTC) medicines.

The state sales tax increase, combined with existing local taxes, would drive the overall sales tax rate to 11 percent in Birmingham, Montgomery and elsewhere, Forrister noted. He also said the bill would not address the state's upside-down tax system, which requires low- and middle-income people to pay twice the share of their incomes in state and local taxes that the richest households pay.

Alabama's high sales taxes are the biggest driver of that gap, because low-income families must devote more of their household budget to food, clothes and other necessities subject to the tax. Alabama's sales taxes are even more regressive than most because it is one of only four states that tax groceries fully with no credit or rebate.

Necessities: Bread, but not socks?

Dial's bill would bring in \$91.9 million in new sales tax revenue annually to offset the \$74.5 million of grocery tax revenue lost each year through 2016, according to a Legislative Fiscal Office (LFO) estimate. The Education Trust Fund (ETF) would receive an additional \$70 million every year afterward, the LFO projects. Dial's bill requires lawmakers to adjust the plan in 2017, if necessary, to ensure it remains revenue-neutral. That would mean it neither increases nor decreases ETF revenues.

Swapping the state grocery tax for an even higher general sales tax would help low-income Alabamians because the sales tax applies to many items people do not need, Dial said. To illustrate, he held up a loaf of bread and a pair of socks. Taxes on the bread would fall by 4 percent under his plan, Dial said, while

taxes on the socks would increase by 1 percent. “It’s time for this body and this Legislature to take some action to get the food tax removed,” Dial said.

Bread and milk are necessities, Dial said, but a new tie and a new pair of socks are not. Some lawmakers laughed, but none directly challenged his statement on the merits.

Arise’s preferred grocery tax approach

Arise supports a plan that would cut the grocery tax immediately without raising taxes on low-income Alabamians in other ways, Forrister said. HB 202, sponsored by Rep. John Knight, D-Montgomery, would end the state sales tax on groceries and OTC medicines and offset the revenue loss by repealing Alabama’s income tax deduction for federal income taxes (FIT), which largely benefits high-income taxpayers. Only two other states offer a full FIT deduction, and the top 3 percent of Alabama taxpayers received more than half of its savings in 2011.

HB 202 would require voter approval because the FIT deduction is written into the state constitution. The bill has struggled to gain legislative traction in recent years, with many lawmakers rejecting the idea of limiting or ending the FIT deduction. Dial did not mention the FIT deduction by name, but [he wrote earlier this month](#) that past grocery tax repeal efforts “have pitted one element of our society against another, creating class warfare.”

Time is running short for either grocery tax bill to clear the House and Senate this year. The Legislature will return Thursday for its 22nd of 30 allowable meeting days during the 2013 regular session.

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