

End the State Grocery Tax Now 2-25-09

By Kimble Forrister

My dad, Vardaman Forrister, would have turned 90 years old on Feb. 27. His parents, Joe and Ethel, were tenant farmers in Marion and Franklin counties. Daddy was the fifth of eight kids, but he was first to finish high school, first to lead a migration of his buddies to factory jobs in Illinois, and then the only one to finish college and become a professor and preacher. Thanks to inspiring teacher-mentors, he became a teacher-mentor for hundreds of students and church members.

Daddy was still on the farm when the Great Depression forced Alabama to implement new taxes to pay teachers. First came the income tax, but it didn't affect the Forristers much. Alabama only taxed a family of 10 if it made more than \$5,400; Joe Forrister rarely touched as much as \$300 in a year. Then came the sales tax, but Ethel Forrister grew her own food, and the store was a long way off, so the retail economy was not a big factor in the family budget.

Things have changed since the 1930s. Over the last two decades, Alabama Arise has asked why Alabama was still one of the nine states that still fully taxed groceries. By the time we published *The Alabama Tax & Budget Handbook* in 2005, only five states were on the list. Now there are two. The rest of the states have decided not to tax the necessities of life fully, but Alabama and Mississippi stubbornly persist.

Alabama Arise has long agreed that the state's schools would suffer if the grocery tax were abolished without replacing the hundreds of millions of dollars of lost revenue. Our conceptual breakthrough came when we realized we could balance our books by closing a giant income tax loophole at the top.

Only three states – Alabama, Louisiana and Iowa – still allow a full deduction for federal income taxes on their state returns. The deduction will cost Alabama \$770 million in 2011, according to the Department of Revenue. Less than half of that sum will go to the 2 million tax filers who make less than \$200,000. More than half will go to the 60,000 taxpayers who make more than \$200,000.

Why do the top 3 percent get more than half of the benefit, while the other 97 percent share the smaller amount? It's because we're giving a deduction based on the progressive federal income tax. The federal income tax requires more from those who make more, so the state deduction is *giving* more to those who make more. It puts our income tax all out of whack. We apply our top income tax rate of 5 percent to all taxable income above \$6,000 a couple, but this tax loophole effectively reduces the 5 percent rate by a third for those at the top.

By closing this loophole at the top, we can afford to lower the grocery tax by 4 percent for everyone who buys groceries. The main benefit will go to families in the middle, who make too much to buy groceries with food stamps. Under legislation now under consideration, the only people who would lose the full deduction are couples making more than \$400,000 a year and singles making more than \$200,000.

Some legislators question why we should pay for the grocery tax reduction by raising taxes on someone else. I suppose someone needs to defend the 3 percent who make more than \$200,000, but

legislators need to understand that high earners in 47 other states get along without this loophole. If this measure passes, taxes on the top group will rise by less than 1 percent of income. That leaves them paying about 5 percent of their incomes in state and local taxes.

For families in the middle, the effect will be profound. A family of four will have about \$468 a year more to meet the family budget. These are families who won't hoard that money; they need to spend it to make ends meet, and they'll spend it in corner stores and shopping centers across the state. Overall, it can be a \$400 million economic stimulus that Alabama needs sooner than later.

This can be Alabama's biggest shift toward a balanced tax system in 90 years. My dad's generation would be proud of us. The question for lawmakers now is whether they stand with the 60,000 top earners or with the 2 million who are having a harder time making ends meet.

Kimble Forrister is state coordinator of Alabama Arise, a coalition of 150 congregations and organizations that promote fairer public policies toward low-income Alabamians.