



6 things to know about the FICA deduction

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The Alabama Legislature may consider removing the state FICA income tax deduction during this month's second special session. Without significant new General Fund revenue, the state may make enormous cuts to Medicaid, child care, public safety and other vital services. As lawmakers decide how to address the General Fund shortfall, here are six things to know about the FICA deduction:

1. Alabama law now allows taxpayers who itemize to deduct FICA (a.k.a. Social Security and Medicare) taxes they pay to the federal government on their state income taxes.
2. Only six states allow taxpayers to deduct federal taxes when calculating their state income taxes. Only one other Southern state (Louisiana) allows this deduction.
3. The deduction is only available to taxpayers who itemize their taxes. But 40 percent of Alabama taxpayers do not itemize and do not benefit from the deduction at all.
4. Most Alabama taxpayers would pay few or no additional taxes if the state ended the FICA deduction. Only 42 percent of families would have a tax increase, according to the Institute on Taxation and Economic Policy. Fewer than 15 percent of families with incomes below \$50,000 would pay additional taxes, because people below that income level typically claim the standard deduction instead of itemizing.
5. Elimination of the FICA deduction would **not** tax retirees' Social Security benefits. Social Security benefits would continue to be exempt from state income tax.
6. Ending the FICA deduction would generate at least \$182 million in new revenue for the Education Trust Fund (ETF) and help offset a transfer of use tax revenues from the ETF to the General Fund.