

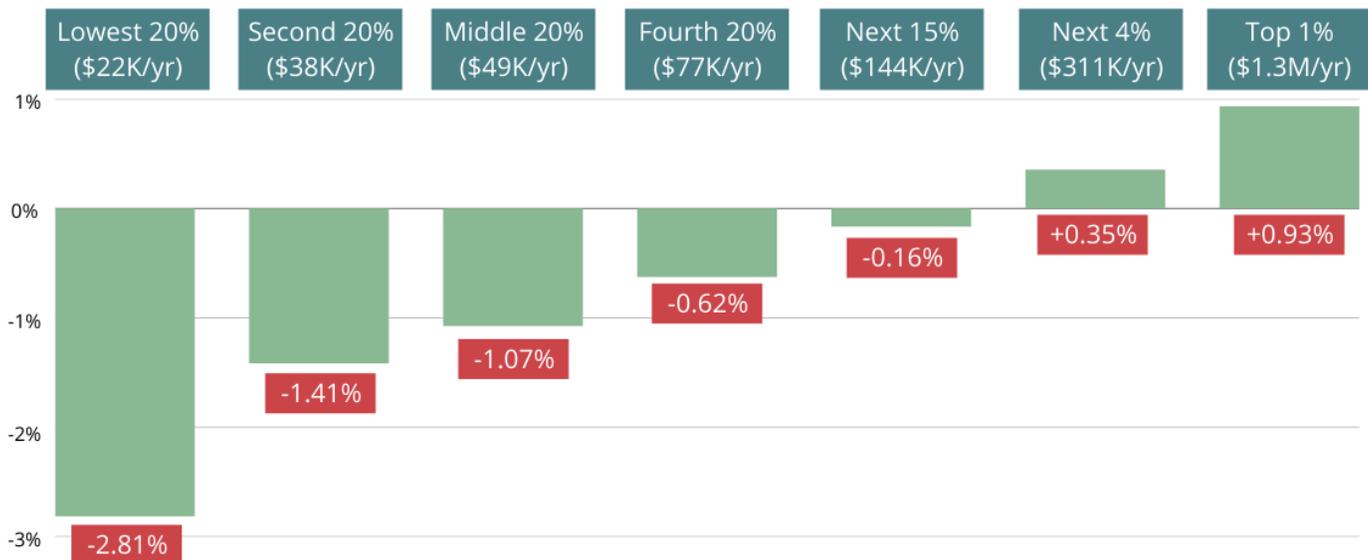
Eliminating state grocery tax would make life better for Alabama families

Alabama's sales tax on groceries is a cruel tax on survival, particularly in times of economic insecurity. It increases hunger rates and drives struggling Alabamians deeper into poverty.

Two bills in the 2022 regular session – SB 43 by Sen. Andrew Jones, R-Centre, and HB 173 by Rep. Mike Holmes, R-Wetumpka – would end the state grocery tax while protecting school funding. The graph below shows how millions of Alabamians would benefit.

Most Alabamians would get a tax cut under HB 173 and SB 43

Estimated net tax change as a share of income if Alabama capped its federal income tax (FIT) deduction and eliminated its state sales tax on groceries



Sources: Institute on Taxation and Economy Policy, January 2022; Alabama Arise calculations based on USDA Cost of Food at Home at Three Levels, U.S. Average, December 2021. Grocery tax savings are based on USDA food costs for a family of four with two children ages 4-5 and 9-11 (using low-cost food plan for the bottom 40% of taxpayers, moderate-cost plan for the next 55% of taxpayers and liberal plan for the top 5%). Dollar amounts are the average income in each group. HB 173 and SB 43 would cap the annual FIT deduction at \$4,000 for single and head of household filers and \$8,000 for married couples.

Untaxing groceries is the right path for Alabama

Alabama lawmakers have a real opportunity this year to end the state's sales tax on groceries in a responsible way. Here's why it needs to happen during the 2022 regular session – and how the state can do it:

- Alabama is one of only three states with no tax break on groceries.
- The state grocery tax is 4%, equal to two weeks' worth of groceries each year.
- Alabama can and should untax groceries quickly and responsibly. That means replacing revenue for public schools in a way that doesn't harm struggling families.
- Alabama can protect education funding by limiting or ending its state income tax deduction for federal income taxes (FIT). The FIT deduction is a skewed tax loophole that overwhelmingly benefits rich households.

A pair of companion bills would untax groceries and protect education funding by capping the FIT deduction. Jones' SB 43 and Holmes' HB 173 both would end the state grocery tax and cap the FIT deduction for individuals. The cap for Alabamians who file as single, head of household or married filing separately would be \$4,000 annually. For married couples filing jointly, the FIT deduction limit would be \$8,000 a year. The plan would require voter approval of a constitutional amendment.

Both sales tax revenue and individual income tax revenue go to the Education Trust Fund. By capping the amount of the FIT deduction, these bills would allow Alabama to untax groceries without cutting school funding. This plan would be a significant tax cut for nearly all Alabamians, and the largest benefit would go to people with low and middle incomes who need it most. The Alabama Legislature should pass this proposal this year and send it to voters for final approval.

Bottom line

Untaxing groceries quickly and responsibly would boost economic and food security for all Alabamians. By ending the state grocery tax and capping the FIT loophole, lawmakers could protect funding for public schools and make life better for families across our state.