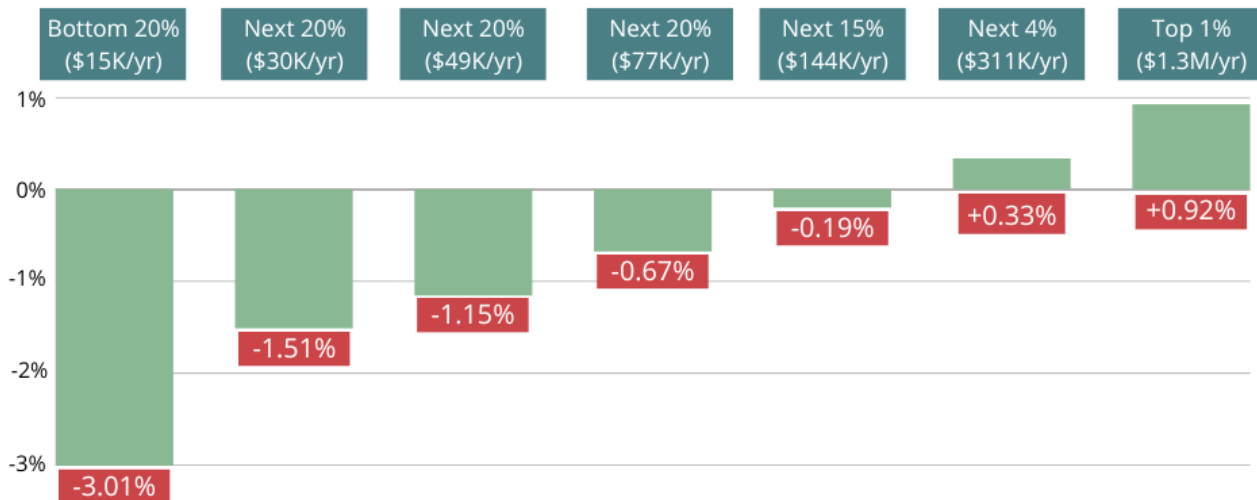


A revenue-neutral plan to untax groceries in Alabama

Alabama Arise supports legislation that would end the state sales tax on groceries and over-the-counter (OTC) drugs and protect school funding. By capping the state income tax deduction for federal income taxes, the plan would bring in **\$520 million a year**, the Legislative Services Agency (LSA) estimates. That would replace the revenue from ending the sales tax on groceries and OTC drugs, which the LSA estimates at **\$513 million a year**. The graph below shows how millions of Alabamians would benefit from untaxing groceries.

Most Alabamians would get a tax cut under the untax groceries bill

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, August 2022; Alabama Arise calculations based on USDA Cost of Food at Home at Three Levels, U.S. Average, May 2022. 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. Calculations are based on capping 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'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. Here's why legislators need to end the state sales tax on groceries – and how they 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 revenue-neutral plan to improve Alabamians' lives

Arise supports legislation to end the state sales tax on groceries and over-the-counter medicines at an annual cost of \$513 million, according to the LSA. (Local sales taxes on groceries and OTC medicines would not be affected.) To replace that revenue, the plan would cap the state FIT deduction for individuals. That change would generate \$520 million a year, the LSA estimates.

The cap for Alabamians who file as single, head of household or married filing separately would be \$3,500 annually. For married couples filing jointly, the FIT deduction limit would be \$7,000 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 FIT deduction, Arise's plan 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 incomes who need it most.

Bottom line

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