

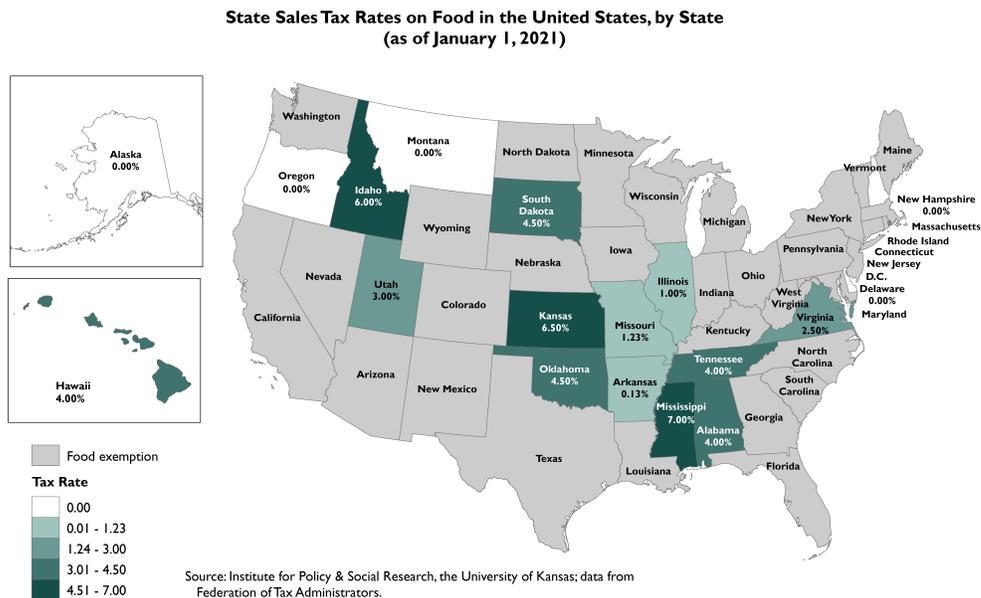
Testimony on HB 2484 and HB 2487 Food Sales Taxes in Kansas

Donna K. Ginther
Director, Institute for Policy & Social Research
Roy A. Roberts Distinguished Professor of Economics
University of Kansas
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Background and Summary:

I have served as the chief academic adviser to the Governor’s Tax Reform Council starting in 2019. One issue the Tax Council has repeatedly addressed is the regressivity of the food sales tax. A tax is regressive when the tax burden as a share of income decreases as income increases. For example, sales taxes are regressive because low-income households spend more of their income on consumption compared to high-income households. This testimony demonstrates the regressivity of the food sales tax and comments on the specific provisions of House Bill 2484 and House Bill 2487. This testimony is **Positive** on House Bill 2487 and **Neutral** on House Bill 2484 because of some unintended consequences that I discuss in this testimony.

Kansas is one of 13 states that levies a sales tax on food, and Kansas taxes food at the second highest rate in the country (Figure 1). Only Mississippi charges a higher sales tax rate on food.



These figures do not include local sales taxes. Six states (including Missouri) which totally or partially exempt food from state sales taxes allow for the imposition of local taxes on food, according to the Federation of Tax Administrators.

Grocery purchases in Kansas increase with family size and income. Using data from the Survey of Consumer Expenditures in 2020, we estimated share of annual expenditures on groceries and other taxable goods and services for a family of four. (Figure 2). The height of the bars indicates the percentage income spent on goods and services. Lower income households spend a higher share of their total income on food and other goods that are more frequently taxed, and thus pay a higher share of their income in the food sales tax than high-income households. Food is a necessity, and Kansas households cannot avoid paying the food sales tax.

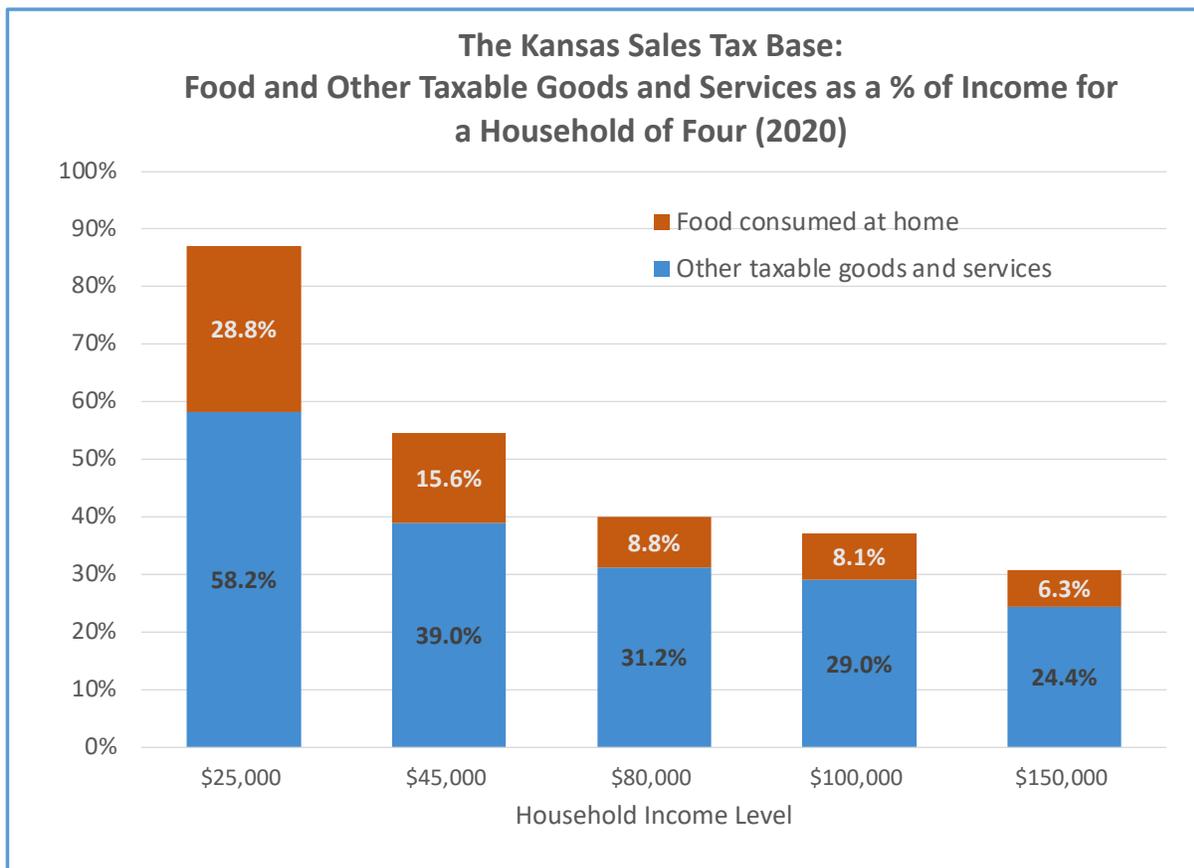


Figure 2: Estimated Food and Other Sales Taxes Paid by Household Type, Hypothetical Taxpayers, by Income for a Family of Four.

All sales taxes, and especially grocery sales taxes, are regressive, meaning that low-income families spend a larger share of their total income on food. In the case of the lowest income household considered, that household spends 29% of their income on food, whereas higher income households spend closer to 6% of income. Thus, low-income households will spend more of their income on the grocery sales tax than higher income households.

We also calculated the total dollar expenditures on food and other goods and services for these same four-member households. As before we assigned the grocery expenditures for a household

of that income from the Survey of Consumer Expenditures. A family of four spends between \$456 and \$619 on groceries. Expenditures increase with income because high-income households purchase a more expensive mix of groceries. Nevertheless, a household with four members spends \$500 on the state food sales tax in Kansas.

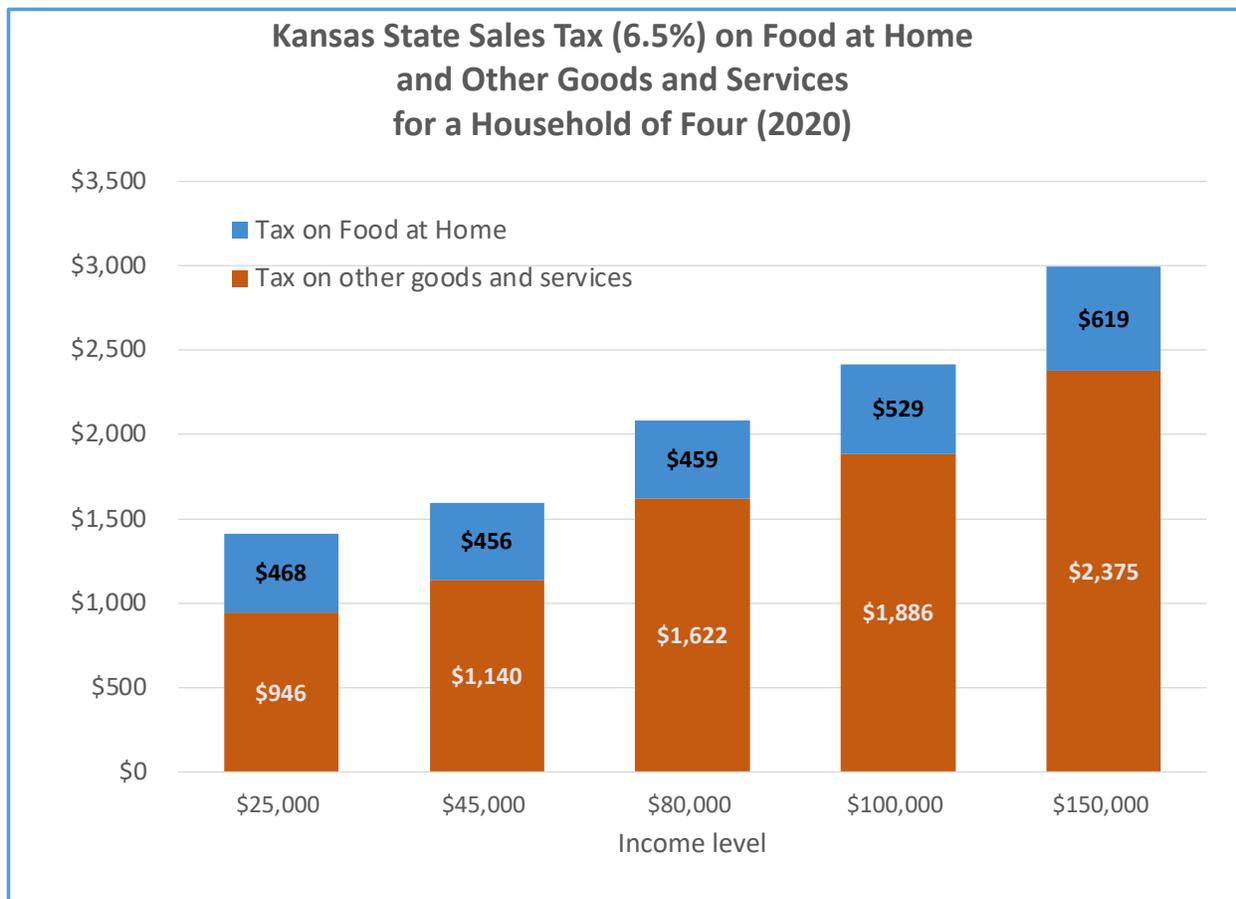


Figure 3: Estimated Food and Other Sales Taxes Paid by for a Four-Person Household, by Income.

Research by Kegan O’Connor, now employed at the Kansas Department of Revenue, investigated the impact of grocery sales taxes on food insecurity.¹ He found that when states *decreased* the grocery sales tax, it resulted in a **39% reduction** in food insecurity. Several researchers have found that food insecurity is associated with poor health in both children and adults (Gundersen and Ziliak 2015 and Gundersen, et al, 2018).

The *Wayfair* Decision, coupled with closing the Marketplace Facilitator’s loophole in SB-50, broadened the sales tax base significantly in Kansas. This provides the opportunity to potentially reduce or eliminate the most regressive tax in the state, the grocery sales tax.

¹ The USDA defines food insecurity as lack of consistent access to enough food for an active, healthy life (USDA 2019). O’Connor defined households as food insecure if they answered yes to one of two questions: Low Food Security: reports of reduced quality, variety, or desirability of diet. Little or no indication of reduced food intake. Very Low Food Security: reports of multiple indications of disrupted eating patterns and reduced food intake.

Comments on the two proposed bills:

This testimony is **positive and in support of HB 2487** because it provides sales tax relief for all Kansans from the regressive food sales tax. It is a clean bill and passing it as soon as possible will allow the Department of Revenue to implement these changes and provide relief starting July 1, 2022. This timing is consistent with the recommendations from the Governor's Tax Reform Council to implement this tax cut as soon as possible.

This testimony is **neutral on HB 2484** because it includes a number of provisions that will have unintended consequences. First, every state that has a sales tax (and even New Hampshire that does not) tax prepared foods. Kansas would be unusual in exempting prepared foods from the sales tax. This exemption would also increase the cost of the tax cuts. Second, HB 2484 does not hold the Kansas Department of Transportation (KDOT) harmless. According to estimates by the Kansas Department of Revenue, the tax cuts proposed in HB 2484 would cut KDOT's budget by approximately \$100 million per year, and cause disruption to the IKE transportation plan. Taken together, HB 2484 would have a higher fiscal note and harm Kansas transportation infrastructure investments. Thus, **HB 2487** is preferred to this alternative.

References:

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