

Neutral Testimony on SB 248
Eliminating Food Taxes in Kansas at the State and Local Levels

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Background and Summary:

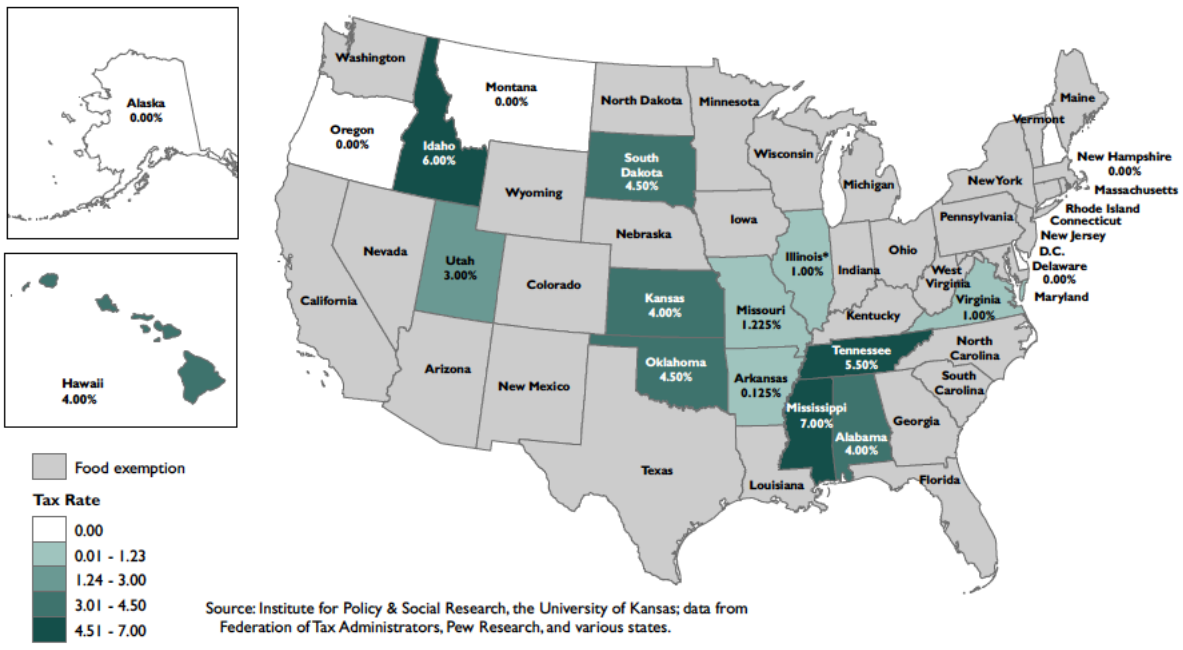
I have served as the chief academic adviser to the Governor’s Tax Reform Council starting in 2019. One issue the Tax Council has repeatedly addressed is the regressivity of the food sales tax. A tax is regressive when the tax burden as a share of income decreases as income increases. For example, sales taxes are regressive because low-income households spend more of their income on consumption that is more frequently subject to taxation compared to high-income households. This testimony demonstrates the regressivity of the food sales tax and comments on the specific provisions of Senate Bill 248.

This testimony is **Neutral** on Senate Bill 248 with the proviso that two changes are made to the bill. First, the bill should not eliminate local sales taxes (I explain that rationale below). I also recommend changing the implementation date to July 1, 2023.

Kansas is one of 13 states that levies a sales tax on food, and the state currently taxes food at 4%, one of the highest rates in the country (Figure 1). Of the surrounding states, only Oklahoma 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 the 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 of 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 on the food sales tax than high-income households. Food is a necessity, and Kansas households cannot avoid paying the food sales tax. Likewise, diapers are a necessity for young children and feminine hygiene products are a necessity for women. Lower income families will spend a larger share of their income on these products and pay a higher share of their income in taxes for these necessities.

**State Sales Tax Rates on Food in the United States, by State
(as of January 1, 2023)**



Source: Institute for Policy & Social Research, the University of Kansas; data from Federation of Tax Administrators, Pew Research, and various states.

* Illinois 1% sales tax on unprepared food is suspended until July 1, 2023.

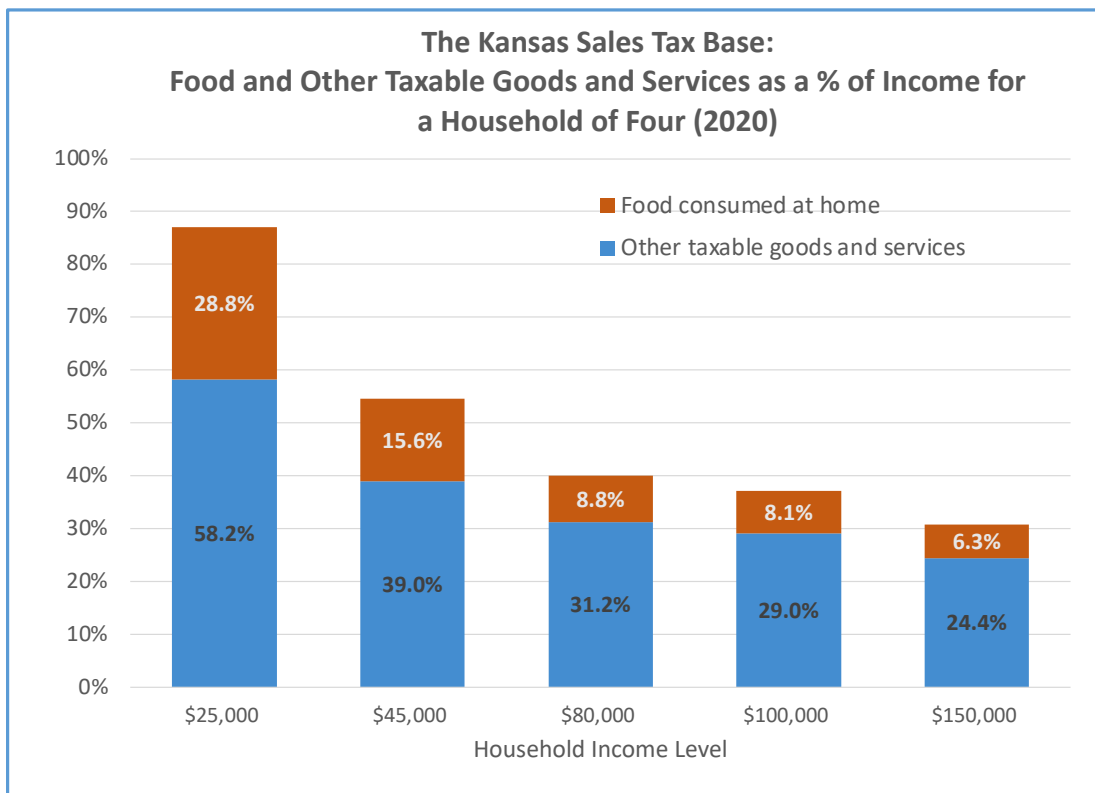


Figure 2: Estimated Food and Other Sales Taxes Paid by Household Type, Hypothetical Taxpayers, by Income for a Family of Four.

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. The lowest income household considered spends 29% of their income on food, whereas higher income households spend closer to 6% - 8% of income. Thus, low-income households will spend more of their income on the grocery sales tax than higher income households.

Thus, the elimination of food sales taxes immediately at the state level will be good for households. However, elimination of the food sales tax at the local level will effectively force local governments to increase property taxes. The city of Lawrence receives over \$1 million in revenue from the local food sales tax. Many local governments have enacted local sales taxes as a way of keeping property taxes lower. In order to fund operations, municipalities and counties would need to increase property taxes.

To illustrate this challenge, Figure 1 is reproduced from the *Governor’s Council on Tax Reform Final Report*. This map shows that the average sales tax rate including local sales taxes is 8.81%. In other words, cities and counties on average are leveraging an additional 2.31% in sales taxes to fund operations.

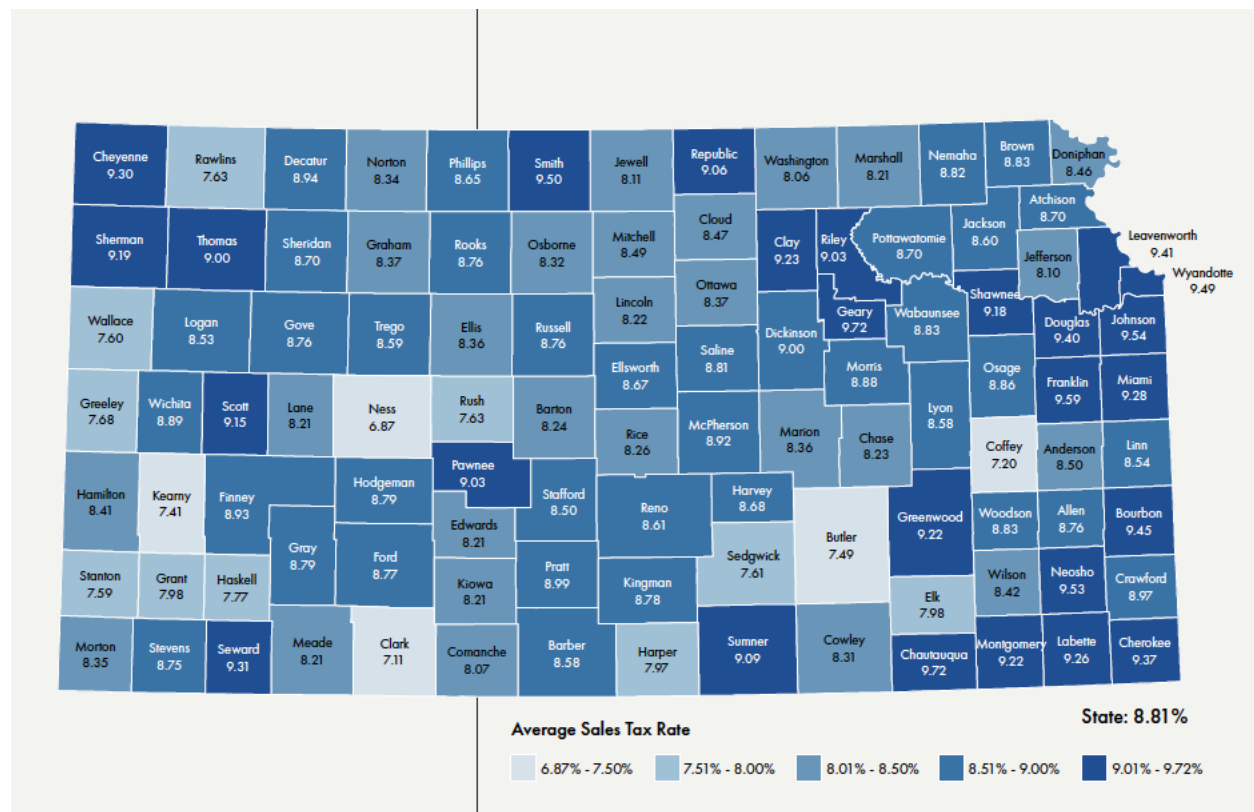


Figure 1: Average Sales Tax Rates by County, 2020. Source: the *Governor’s Council on Tax Reform Final Report*.

Furthermore, property values have increased significantly in Kansas following the COVID-19 pandemic. According to Redfin, median Kansas housing prices have increased by almost 20% since 2020. Figure 2 shows the average mill levies as of 2020 from the *Governor’s Council on*

Tax Reform. Mill levies tend to be higher in Southeastern and Southwestern Kansas. Many of these counties have total average sales taxes of above 9%, indicating their reliance on the sales tax. Eliminating food sales taxes at the local level will significantly shrink that tax base and likely cause increases in property taxes at a time when those taxes may have increased due to higher property values.

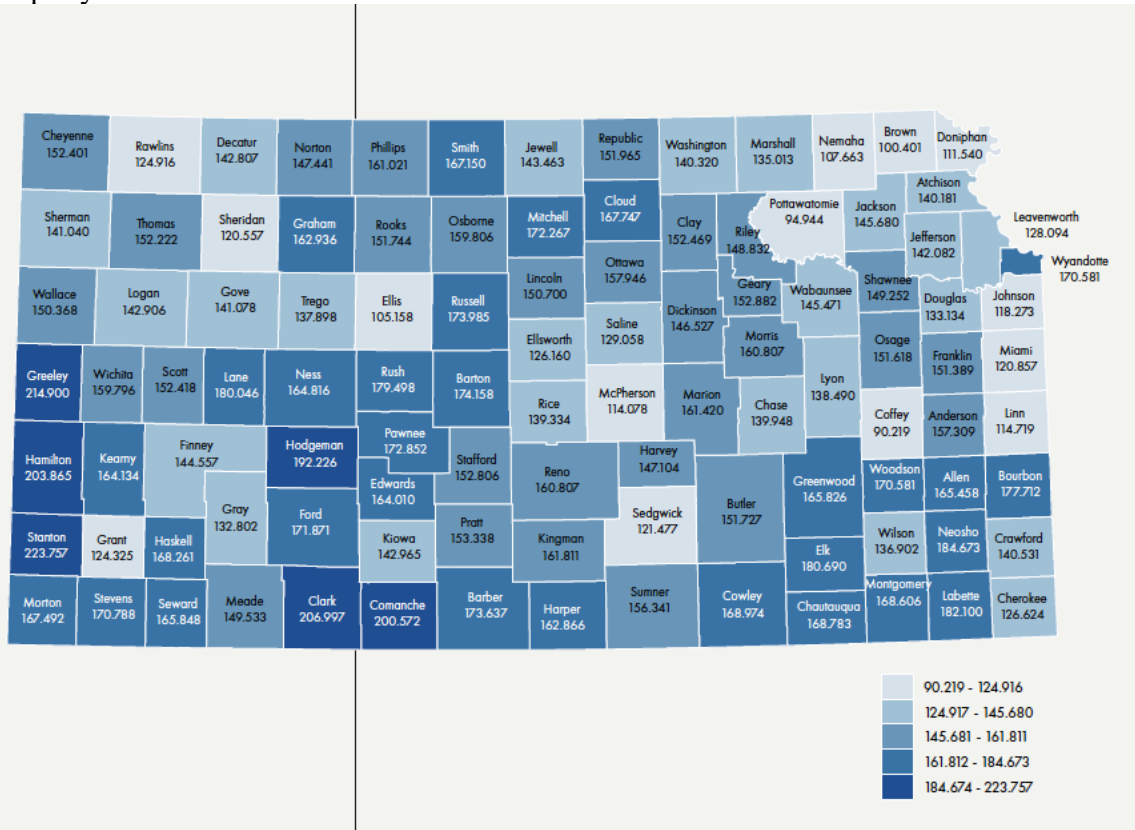


Figure 2: Average Property Tax Mill Levies by County, 2020. Source: *Governor’s Council on Tax Reform Final Report.*

In addition, a large percentage of sale tax revenue is from non-residents. The elimination of the local sales tax on food and subsequent increase in property taxes puts more of the burden of financing local infrastructure and other projects on residents and businesses. Cutting the local sales tax on food unilaterally at the state level could potentially jeopardize local government funding agreements that rely on bonding.

Instead of Senate Bill 248, I endorse HB 2111 that eliminates food and feminine hygiene product sales taxes at the state level only.

References:

Governor’s Council on Tax Reform Final Report.
https://ipsr.ku.edu/CSTEP/PDF/Tax_Council_Final_April2022.pdf.

Kansas Housing Market: <https://www.redfin.com/state/Kansas/housing-market>

