



1325 G Street, NW, Suite 950 • Washington, D.C. 20005 • 202.464.6200 • taxfoundation.org

**Testimony on House Bills 2484 and 2487 (Neutral)
Submitted to the House Committee on Taxation**

January 25, 2022

**Katherine Loughead, Senior Policy Analyst
Tax Foundation**

Chairman Smith and Members of the Committee:

My name is Katherine Loughead, and I am a Senior Policy Analyst at the Tax Foundation. I appreciate the opportunity to speak with you today in a neutral capacity regarding House Bills 2484 and 2487.

For those unfamiliar with the Tax Foundation, we are a nonprofit, nonpartisan tax policy research organization that has monitored fiscal policy at all levels of government since 1937. While we take no position on legislation, I plan to share some of our research on sales taxes and the economic evidence surrounding the issue of exempting groceries from the sales tax base.

House Bills 2484 and 2487 would remove grocery foods from the state sales tax base and repeal the food sales tax credit. Under both bills, groceries would continue to be taxed at the local level.

While extending tax relief to Kansans is a laudable goal, different types of tax relief produce different economic effects. It is important to consider the effects of—and alternatives to—the proposals before you today.

There is broad consensus among economists that a well-structured retail sales tax applies to a broad base of final personal consumption—including most, if not all, final goods and services—while exempting business inputs to prevent tax pyramiding. While no state's sales tax perfectly adheres to this ideal, the best-structured sales taxes are those that maintain a broad base and a competitively low rate. Currently, Kansas' sales tax has a relatively narrow base and a high rate. Only 36 percent of Kansans' personal income is spent on purchases that are subject to the sales tax, and as of July 2021, Kansas had the ninth highest combined state and average local sales tax rate in the country.

Grocery purchases are a major category of personal consumption. Creating an exemption for grocery foods would substantially narrow Kansas' sales tax base, putting upward pressure on rates and making tax rate increases more likely in the future. A more neutral approach would be to keep groceries in the sales tax base while reducing the general sales

tax rate that applies to *all* taxable goods and services, including groceries, or by modifying the existing food sales tax credit.

Sales tax exemptions for groceries are often cited as a progressive reform designed to provide tax relief to lower-income households. But most of the benefit of a sales tax exemption for groceries would go to middle- and higher-income consumers who spend more on groceries and tend to buy more expensive brands and products. It is important to keep in mind, moreover, that under federal law, sales taxes may not be imposed on products purchased with SNAP and WIC benefits, so many lower-income Kansans already benefit from tax-free groceries.

More research needs to be conducted to establish a consensus on this topic. But some public finance scholars have found that, if a state is able to commit to sales tax relief, lowering the general rate actually benefits lower-income consumers more than exempting groceries. Lower-income households spend more of their total incomes—and not all of it just on groceries—than higher-income households, so a lower overall sales tax rate (with continued exemption of SNAP and WIC purchases) is more beneficial than a poorly-targeted grocery exemption.

Should policymakers wish to provide additional targeted tax relief to lower-income households while keeping groceries in the sales tax base, several changes could be made to the existing food sales tax credit. For example, the credit amount and income eligibility thresholds could be annually adjusted for inflation, and the credit could be extended to households with income below a certain level, regardless of age, disability, or dependent status. The income threshold could also be adjusted based on filing status to avoid a marriage penalty.

Tax relief can take many different forms, but not all tax cuts have the same effects. Ultimately, maintaining broad tax bases while reducing tax rates is a more neutral and less complex approach than further narrowing an already-narrow sales tax base.

#