

**Neutral Written Testimony on HB 2711**  
**Positive Written Testimony on HB 2720**  
**Food Sales Taxes in 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 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 House Bills 2711 and 2720.

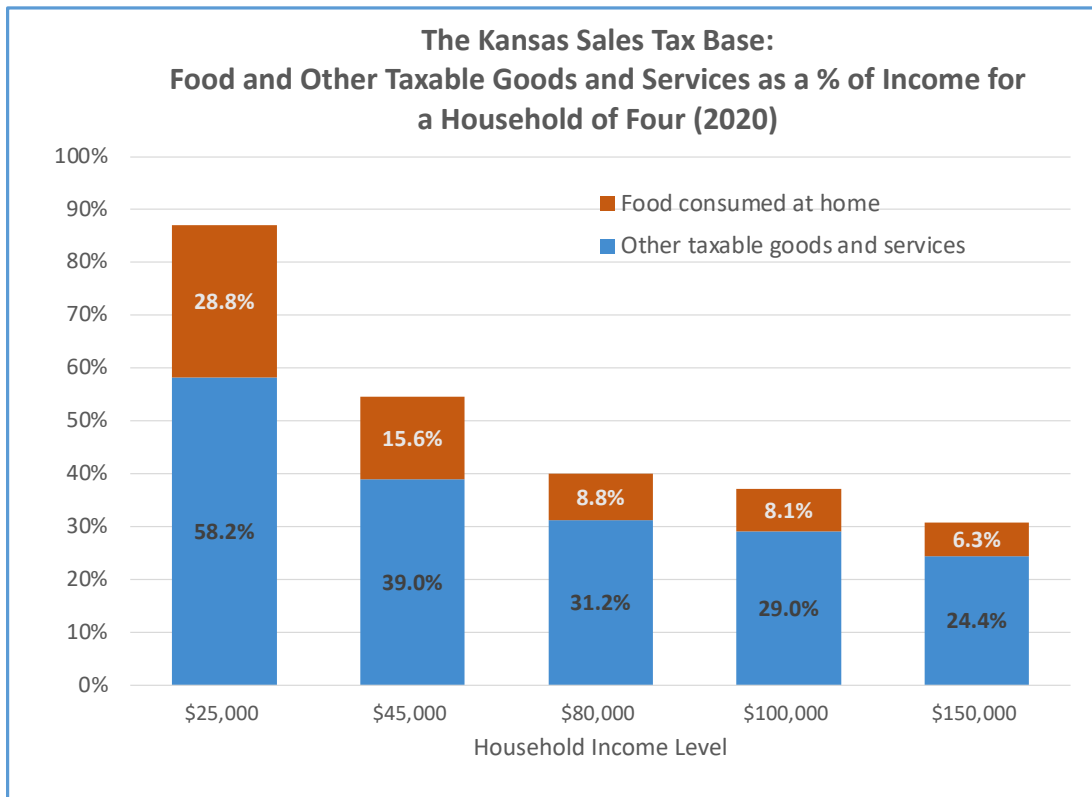
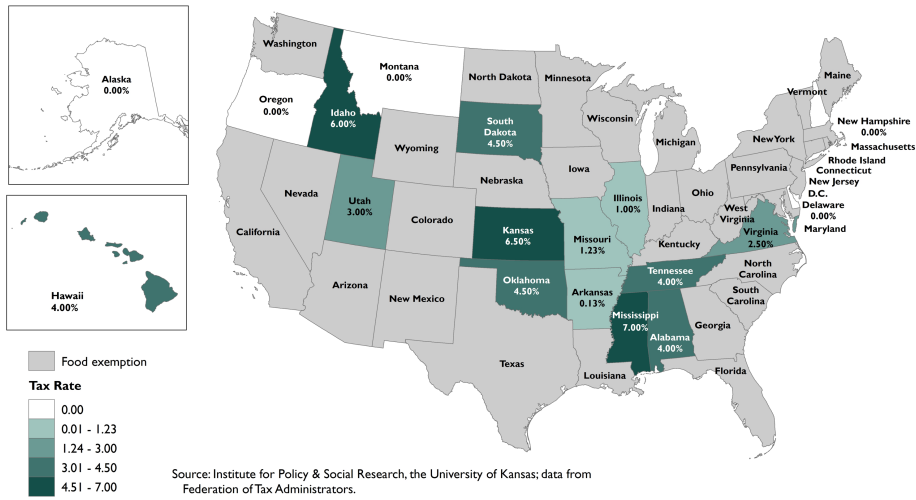
This testimony is **Neutral** on House Bill 2711 because of some unintended consequences of cutting the tax only by 3.5% initially and its detrimental impact on the state highway fund.

This testimony is **Positive** on House Bill 2720 because it eliminates the food sales tax on August 1, 2022, however I have concerns that this bill does not hold the state highway fund harmless.

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 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.

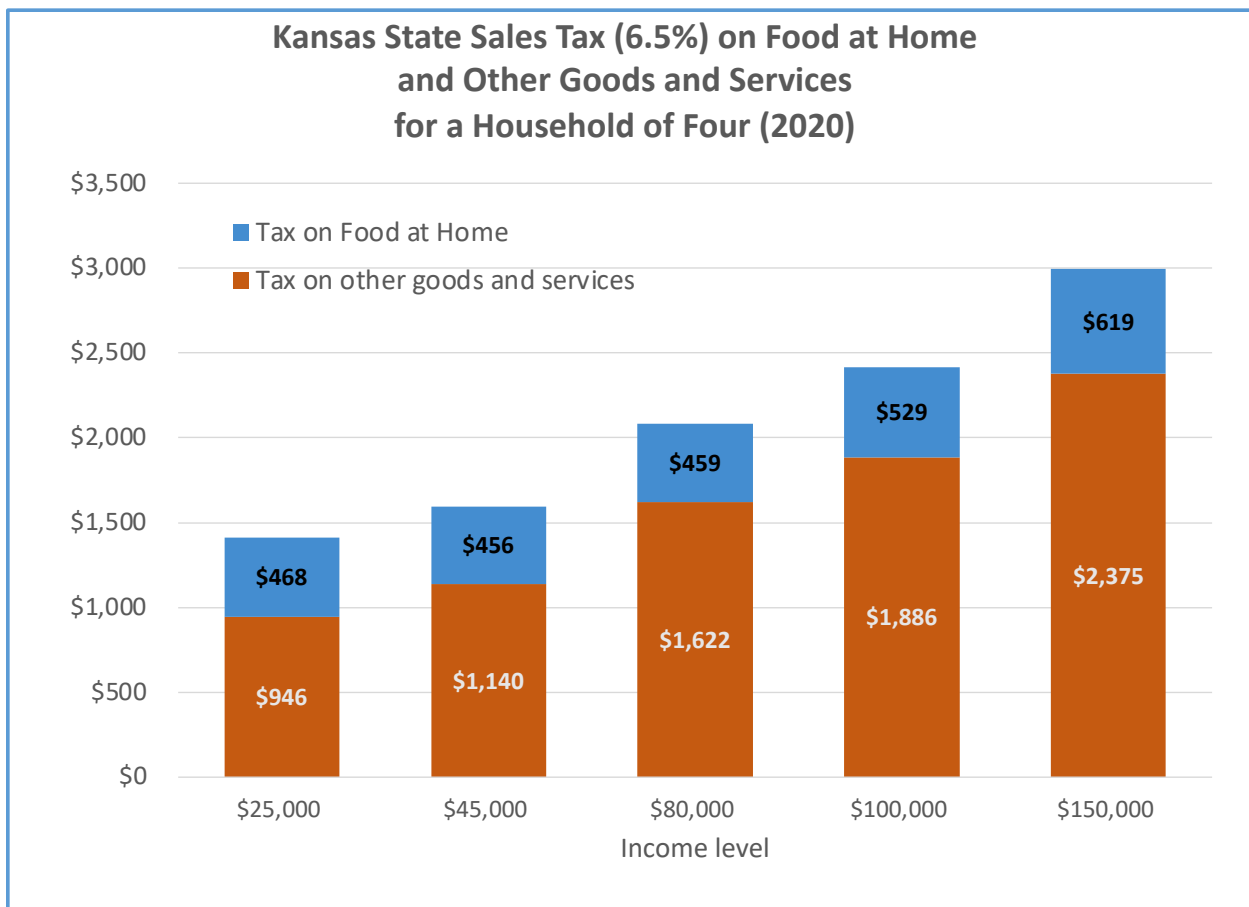
**State Sales Tax Rates on Food in the United States, by State**  
(as of January 1, 2021)



**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.

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 about \$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.<sup>1</sup> He found that when states

<sup>1</sup> 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

*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.

#### **Comments on House Bill 2711:**

This testimony is **neutral on HB 2711** because it includes a number of provisions that will have unintended consequences. First, the partial cut to the food tax (3.5%) initially will retain the highly regressive food tax for additional years. Presumably the goal of this approach is to maintain sufficient ending balances. Given that tax receipts continue to come in over the estimates, and a projected ending balance with the elimination of the food sales tax of \$671.2 million, the state can afford to eliminate the food tax immediately. Furthermore, multi-year tax policies have often become derailed in Kansas. For example, the 2010 increase in the state sales tax to 6.3% was supposed to drop to 5.7% in 2013, but the law sunsetting the higher rate was repealed, and by 2015, the state sales tax rate had been increased to 6.5% to pay for other policies. The partial cut to the food tax increases the probability that the regressive food tax will not be fully eliminated.

Second, HB 2711 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 2711 would cut KDOT's budget by approximately \$115 million through 2027 and cause disruption to the IKE transportation plan.

#### **Comments on House Bill 2720:**

This testimony is **positive on HB 2720** because it eliminates the food sales tax this calendar year. I suggest that it be amended to hold the State Highway Fund harmless. Because HB 2711 does not eliminate the regressive food sales tax immediately, it opens the door to the food sales tax remaining on the books like in previous cases where a planned sales tax reduction was taken away from Kansans in favor of other policies. It also has a gradually increasing negative effect on the State Highway Fund, jeopardizing future transportation projects. Because it is important for us to do the most that we can to reduce prices for staple goods for Kansans at a time when food prices are rising, **HB 2720 is preferred to HB 2711.**

#### **References:**

US Department of Agriculture, (2019). Definitions of Food Security. Available online at: <https://www.ers.usda.gov/topics/food-nutrition-assistance/food-security-in-the-us/definitions-of-food-security.aspx>

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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.

Gundersen, C., B. Kreider, and J. Pepper. 2018. Reconstructing SNAP to More Effectively Alleviate Food Insecurity in the U.S. RSF: The Russell Sage Foundation *Journal of the Social Sciences* 4(2).

Gundersen, Craig, and James Ziliak. "Food Insecurity and Health Outcomes." *Health Affairs* 34, no. 11 (2015): 1830-839