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TAXES

Some States Are Considering Shelving the Grocery Tax

Five of the 13 states where groceries were taxed as of last Jan. 1 passed laws to eliminate or ease the pinch.

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By Marsha Mercer, Stateline.org (TNS)

As inflation soared in the past year, families in some states suffered a double whammy—paying food sales taxes on top of higher-priced groceries.

At least five of the 13 states where groceries were taxed as of last Jan. 1 passed laws to reduce, eliminate or ease the pinch—Kansas, Virginia, Illinois, Tennessee and Idaho. Efforts failed in several other states.

Almost all states have seen their budget surpluses grow in the past two years, thanks to federal COVID-19 relief funds and increasing corporate tax revenues as the economy recovers from the pandemic.

State officials are weighing whether this time of plenty is the moment to toss out a regressive tax—even though it would be a stable source of revenue during a recession. The grocery tax is regressive because food is a necessity, and people with less means pay a larger share of their income on food than people who are better off.

Most states don't tax groceries, Richard Auxier, senior policy associate with the Urban-Brookings Tax Policy Center, noted in an interview.

Grocery taxes that remain are “there for a reason. They're needed as part of the revenue system, or because [elected officials] would rather cut other taxes,” such as the income tax, Auxier said.

Some states took relatively small steps last year. Tennessee, which dropped its grocery sales tax from 5% to 4% in 2017, lifted the tax for a month last August. Illinois paused its grocery tax for a year, starting last July 1, and Idaho increased the state tax credit for grocery purchases.

“The basic idea is the grocery tax on food is particularly problematic to lower-income households,” said Norbert Wilson, a professor of food, economics and community at the Duke Divinity School and director of Duke University's World Food Policy Center. He has researched the correlation between grocery taxes and increased food insecurity.

The U.S. Department of Agriculture defines a household with limited or uncertain access to adequate food as food insecure. In 2021, about 13.5 million or 10% of American households were food insecure and had difficulty at some time during the year providing enough food for all members of the household.

Participants in the federal Supplemental Nutrition Assistance Program (SNAP), better known as food stamps, generally are shielded from grocery tax collected separately at the point of sale, but in some areas, tax already is included in the shelf price of some items. So, SNAP participants do pay the tax on those items. Recipients also typically run out of benefits before the end of the month. Plus, not every household with a low income is eligible or signs up for SNAP, leaving gaps in coverage, Wilson said.

Cutting or repealing the grocery tax is generally seen as making the tax code fairer and helping families with low incomes afford the food they need to live healthier lives. But not everyone sees the issue that way.

“Quite simply, politicians haven’t understood who the grocery tax exemption helps most,” said Jared Walczak, vice president for state projects at the Tax Foundation, a conservative-leaning think tank in Washington, D.C.

Politicians may think families with low incomes benefit most, he said, but it’s actually the middle class that does. That’s because even though buyers are shielded from the tax when they pay with food stamps, those with low incomes often buy prepared foods—such as rotisserie chickens, deli items and fast food—that are taxed.

Walczak argued in a recent report that a more comprehensive approach would broaden sales taxes to include groceries and consumer services (which high earners use more), paired with a grocery tax credit and income tax reductions.

Harry Kaiser, professor of applied economics and management at Cornell University, co-authored a study with Duke’s Wilson on grocery taxes and food insecurity in 2021. It found the average grocery tax was about 4.2%, which adds up for families with low incomes.

“I’m all for getting rid of the grocery tax. The problem is, it’s not easy to replace it,” Kaiser said in an interview.

Cutting or eliminating the grocery tax is expensive to the states. As grocery tax revenue typically goes toward public education, health care and transportation, if a state fails to offset the lost revenue, it could put crucial public services at risk, said Eric Figueroa, senior manager of strategic projects and initiatives at the Center on Budget and Policy Priorities, and that would especially hurt people of color and families with low and moderate incomes.

In Virginia, for example, getting rid of the state grocery sales tax is projected to cost \$399 million in the fiscal year beginning July 1, the first full fiscal year of implementation. The cost is projected to increase to \$415 million in fiscal 2028.

Virginia's new law removes the state's 1.5% state tax on groceries and certain essential items, such as diapers and feminine hygiene products.

"This will help those who can least afford food and other items," Virginia state Sen. Jennifer Boysko, a Democrat who was the measure's primary sponsor, said in an interview.

The new law leaves in place a 1% local grocery tax, with revenues going to local counties or school districts, that is largely used for education. Boysko favors leaving the local tax in place to protect education spending. State Sen. Bill DeSteph, a Republican, plans to introduce a bill to make the local tax optional.

"With the cost of everything going up, people need a break," DeSteph said in an interview. "One percent of a \$100 grocery bill is a dollar, but it's something."

States and localities sometimes struggle with which foods to exempt from tax. Prepared, ready-to-eat foods sometimes are taxed at a higher rate than cold foods that must be cooked at home.

In New York, where groceries are generally tax exempt, cookies are not taxed, but candy is.

"You tell me the difference," Kaiser said.

As state legislative sessions convene this month, governors and legislators in red and blue states are lining up to take another swipe at grocery sales taxes.

Kansas Gov. Laura Kelly, who in 2019 vetoed a bill to cut the state grocery tax, last spring signed a bill that would phase out the 6.5% tax in stages. Kelly, a Democrat, now wants to completely remove the state grocery tax by April 1 and scrap the tax on children's diapers and feminine hygiene products as well. Some Republican legislators say they support the speed-up.

But Republican state Sen. Caryn Tyson, who chairs the Kansas Senate tax committee and has been working on removing the grocery tax since 2012, would like to see the tax removed for all foods, including in restaurants, and to take a close look at other state taxes. She has not committed to the April 1 date.

In South Dakota, Republican Gov. Kristi Noem has made permanently ending the grocery tax her No. 1 legislative priority for the year.

Hawaii Gov. Josh Green, a Democrat, used his inaugural address in December to call for ending regressive taxes, including the grocery tax. Mississippi Lt. Gov. Delbert Hosemann, a Republican, suggested Jan. 3 he would be open to a cut in the state's 7% grocery tax.

Among the states that considered repealing the grocery tax last year were Alabama, Idaho, Mississippi, Missouri, South Dakota and Utah.

“I campaigned on repeal of the grocery tax since Day One,” former Idaho state Sen. Christy Zito, a Republican who sponsored a repeal bill last year, said in an interview. “This was an important issue for the people I represented. I couldn't go to a meet-and-greet where the grocery tax didn't come up.”

But when the Idaho legislature enacted a \$600 million income tax cut package last year, it did not include the grocery tax exemption. Senators refused to add Zito's grocery tax exemption to the income tax cut package.

Idaho Gov. Brad Little, a Republican, signed a bill in March increasing the annual state tax credit for groceries by \$20 to \$120 for people under 65 and \$140 for people 65 and older.

Zito won't be working on the grocery tax issue this year. She promised to leave the legislature after six years and did not run for reelection.

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