

January 27, 2021

KC Healthy Kids
Proponents for House Bill 2091
Committee on Assessment and Taxation

Dear Chairman Smith and members of the Committee on Taxation,

KC Healthy Kids is a non profit agency serving metro Kansas City. We rally the people in our communities to improve access to affordable fresh food and safe places to walk and play. We offer this letter of support for HB 2091.

The events of the last year have increased the cost of groceries as well as the number of people experiencing income disruption. As a result, the number of Kansans experiencing food insecurity has risen sharply. Now more than ever, it is important that the state legislature take swift action to reduce the food sales tax.

Food is not a luxury. That's one of the reasons that so few states tax food at the same rate as other purchases. In fact, Kansas is one of only seven which do so. In addition to paying the state sales tax rate of 6.5% when buying food, Kansans must also pay additional local taxes, bringing the total to 10% in some areas.

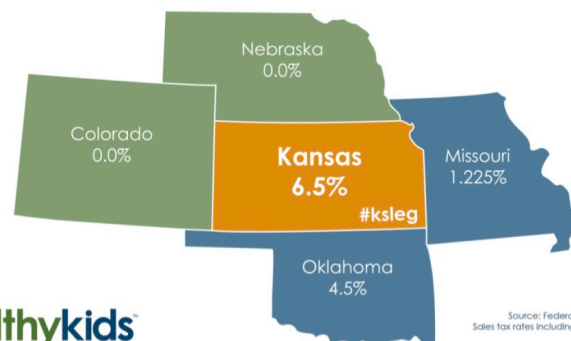
Taxing food is bad for Kansas. KC Healthy Kids commissioned the Kansas Public Finance Center at Wichita State University to examine the impact of the sales tax on food. The full reports can be viewed on our website, www.kchealthykids.org/3-part-series-kansas-damaging-grocery-tax/. The Kansas Public Finance Center found that:

It hurts rural grocers and their employees. Taxing food costs the average rural Kansas grocer close to \$18,000 per year by reducing grocery sales and forcing customers to purchase lower-quality, less expensive items.

It puts an unfair burden on low income families. A household in the lowest income group pays anywhere from 2.7 percent to 8.4 percent more of their income in taxes on groceries than does a household in the highest income level.

It drives shoppers across state lines to buy food. The study found the current sales tax drives shoppers across state and county lines to save money on food, resulting in slowed sales growth in counties on the state line, and cannibalization of income among Kansas counties. Of the state's 105 counties, 40 share at least one border with neighboring states, all of which exempt food purchases or tax them at a lower rate than Kansas, as depicted below.

SALES TAX RATES ON FOOD



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Source: Federation of Tax Administrators, Sales tax rates including food & drug exemptions

HB 2091 moves in the right direction by providing a refundable income tax credit for the food sales tax. Prior to tax policies adopted in 2012 and implemented in 2013, eligible Kansans were able to apply for a refundable tax credit for the sales tax on food. HB 2091 reverses that error.


The refundable tax credit was an imperfect tool for dulling the negative impacts of the food sales tax, but it did provide relief to those for whom the sales tax is an unfair burden. Waiting for an annual refund made it unlikely the tax credit enabled struggling Kansas to secure a healthier diet throughout the year; money later won't buy carrots, milk and bread today. Likewise, the tax credit could not effectively help Kansas grocers compete with stores in lower-tax states because it was not immediate and was not available to all shoppers. However, the refundable tax credit did ensure that eligible Kansans eventually got their money back, including those who pay the largest share of their household income on the food sales tax, as described earlier in this testimony.

In 2012 the tax credit was made non-refundable and eligibility for the tax credit changed. As a result, participation in the tax credit plummeted from 384,725 in tax year 2012, to just 52,866 in tax year 2018.

Reestablishing refundability of the food sales tax credit is a first step toward addressing the harmful policies now in place. More will be needed. Lowering the food sales tax to a level that is competitive with neighboring states would produce greater returns for the Kansas economy and for grocers by reducing loss of sales, and is the only way to ensure that state taxes and paperwork do not continue to be a barrier to nutritious meals. Reducing the food sales tax remains the most effective, comprehensive solution. In the mean time, a refundable tax credit will at least put dollars back into the hands of Kansas shoppers who need it most.

We encourage the committee to support HB 2091 as a first step.

Respectfully,

A handwritten signature in cursive script that reads "Beth Low-Smith". The signature is written in black ink and is positioned below the word "Respectfully,".

Beth Low-Smith

VP Policy, KC Healthy Kids

Director, Greater Kansas City Food Policy Coalition