STATES SHOULD REDUCE OR ELIMINATE SALES TAXES ON GROCERIES

State policymakers looking to make their tax codes more equitable should consider eliminating the sales taxes families pay on groceries if they haven't already done so, or at least reducing these taxes or partially offsetting them through a tax credit.

Forty-five states plus the District of Columbia levy general sales taxes. While most have eliminated, reduced, or partially offset the tax as applied to food for home consumption, some holdouts remain.

- Thirty-two states plus the District of Columbia exempt most food purchased for consumption at home from the state sales tax.
- Six states (Arkansas, Illinois, Missouri, Tennessee, Utah, and Virginia) tax groceries at lower rates than other goods.
- Four states (Hawai'i, Idaho, Kansas, and Oklahoma) tax groceries at the regular sales tax rate but offer credits or rebates to offset some of the tax for some parts of the population. These credits or rebates are usually set at a flat amount per family member. Credits are less expensive than a full exemption but also less effective at protecting low-income families from the impact of the tax.
- Three states (Alabama, Mississippi, and South Dakota) continue to apply their sales tax fully to food purchased for home consumption without providing any offset for low- and moderate-income families.

About us:

The State Priorities Partnership shapes state policies that reduce poverty, advance equity, and promote inclusive economies that pave the way for widespread prosperity. It is coordinated by the Center on Budget and Policy Priorities.

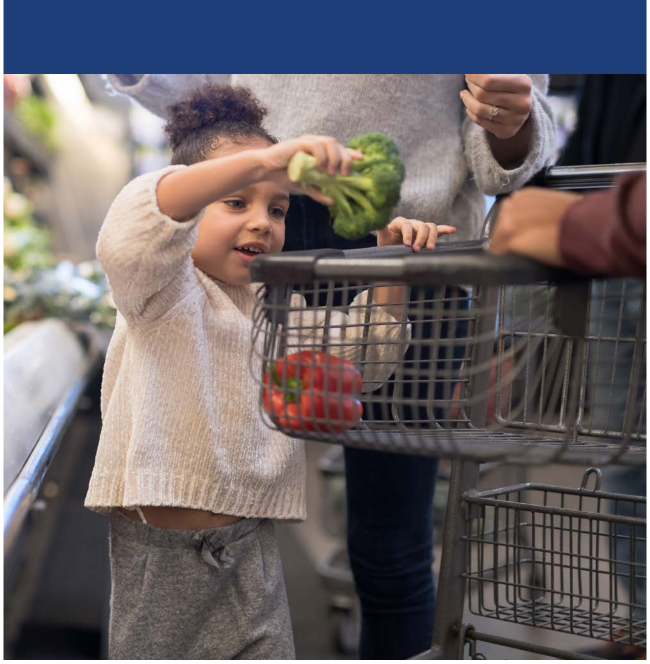
For more information, email:
statprioritiespartnership@cbpp.org

State Priorities Partnership
Analysis + Impact

Center on Budget and Policy Priorities

FOR A DEEPER DIVE, READ THE FULL REPORT AT bit.ly/cbppgrocerytax2020

SALES TAXES ON GROCERIES WORSEN INCOME AND RACIAL INEQUITIES



Low-income people – who are disproportionately people of color due to historical and contemporary discrimination – pay much more of their income in sales taxes than higher-income people do because they must spend a very large share of their income to meet basic needs. Sales taxes on groceries have an especially harmful impact on income and racial inequities since low-income families tend to spend a larger share of their income on groceries. The lowest-income fifth of families spends almost twice the share of their annual income on food at home than the highest-income fifth does: 10.3 percent versus 5.7 percent.

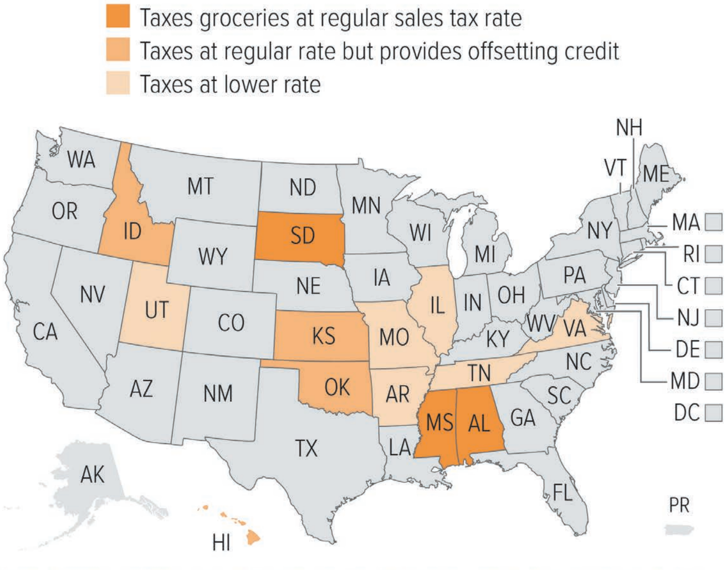
For the lowest-income families, food at home is the third-highest expenditure category as a share of income, after housing and transportation. For the highest-income families, it is the fifth, after housing, transportation, pension and Social Security contributions, and health care.

STATES HAVE BETTER WAYS TO RAISE REVENUE

States that tax groceries or are considering doing so have better ways to raise the revenues needed for public investments. For example, states can eliminate tax breaks for special interests, raise tax rates for high-income households, or expand taxes on profitable corporations.

States can also tweak their sales taxes to keep pace with a changing economy. One option is to broaden the sales tax base to include more services. Other options include enacting an "Amazon law" to require large online retailers to collect sales taxes that are legally due on online purchases but that retailers otherwise aren't required to collect, extending the sales tax to Internet downloads (such as software and music), and closing a tax loophole that allows online travel companies to collect taxes on only part of the sales taxes due on hotel room booking.

13 States Impose Sales Tax on Groceries



Note: Most households in South Dakota pay the full sales tax rate for their groceries, but the state offers a limited sales or property tax rebate that goes only to low-income seniors and individuals with disabilities.

Source: CBPP analysis

CENTER ON BUDGET AND POLICY PRIORITIES | CBPP.ORG

States shifting away from grocery taxes in the past have often chosen to raise their sales tax rate to help pay for the loss of grocery tax revenue. This can raise substantial revenue but weakens the anti-poverty impact of eliminating grocery taxes, since sales taxes also fall hardest on low-income families as a share of income.