



March 2, 2022

Emily Fetsch, Director of Fiscal Policy
Kansas Action for Children
Verbal testimony in support of HB 2711
House Committee on Taxation

Chairman Smith and members of the Committee:

Thank you for the opportunity to provide testimony in support of HB 2711. Kansas Action for Children is a nonprofit advocacy organization working to make Kansas a place where every child has the opportunity to grow up healthy and thrive. We work across the political spectrum to improve the lives of Kansas children through bipartisan advocacy, partnership, and information-sharing on key issues, including early learning and education, health, and economic security for families. We support the lowering of the food sales tax, at the state-level, because Kansas families shouldn't struggle to put nutritious food on the table – and the state is now in a financial situation to prioritize this change.

KAC believes the answers to practical questions about taxes – like how high or low they should be, who should pay and how much, and what should be taxed – flow from strong and equitable principles. These are broadly recognized as the foundation of a system that works. KAC evaluates tax policy by looking at six measures. Below, we will evaluate if the lowering of the state food sales tax achieves these measures.

Adequacy: The lowering of the food sales tax will reduce revenue significantly, but this bill alone won't impact vital services

Lowering the food sales tax will be costly, whether immediate full elimination or a gradual reduction. However, Kansas has been experiencing strong revenues for more than a year. The lowering of the food sales tax, on its own, does not appear to put Kansas in a bad fiscal position in the coming years.

However, since we testified on other food sales tax bills in the House Taxation Committee, the Legislature passed SB 347, a significant tax incentive bill. KAC is concerned SB 347 has made it more difficult to pass the full elimination of the state-level sales tax on food without jeopardizing the state budget in the next few years. KAC is disappointed to lose confidence in the state being able to implement immediate full elimination of the state-level food sales tax, while also fulfilling the state's fiscal obligations created in SB 347 and ensuring the state



maintains a healthy ending balance in future years. Due to this concern, we support this bill's approach of gradually reducing the state-level food sales tax contingent on maintaining a \$100 million balance in the Budget Stabilization Fund. While we would prefer to see a continued increase in the Budget Stabilization Fund over the next several years, KAC is pleased to see that the Fund will maintain a strong balance.

Fairness: This proposal will help every Kansan put food on the table

The past two years have been difficult for many Kansans, particularly Kansas families with children. Food insecurity shadowed too many Kansas families before COVID-19 and the related economic downturn, and we continue to see too many families struggle to meet their nutritional needs.

According to the U.S. Census Bureau Household Pulse Survey:

- 21 percent of households with children reported their children were not eating enough in the past week because food was unaffordable.
- 9 percent of adults with children living in the household say their household sometimes or often did not have enough food to eat in the past week.

Note: The most recent data is from Dec. 29, 2021-Jan. 10, 2022.

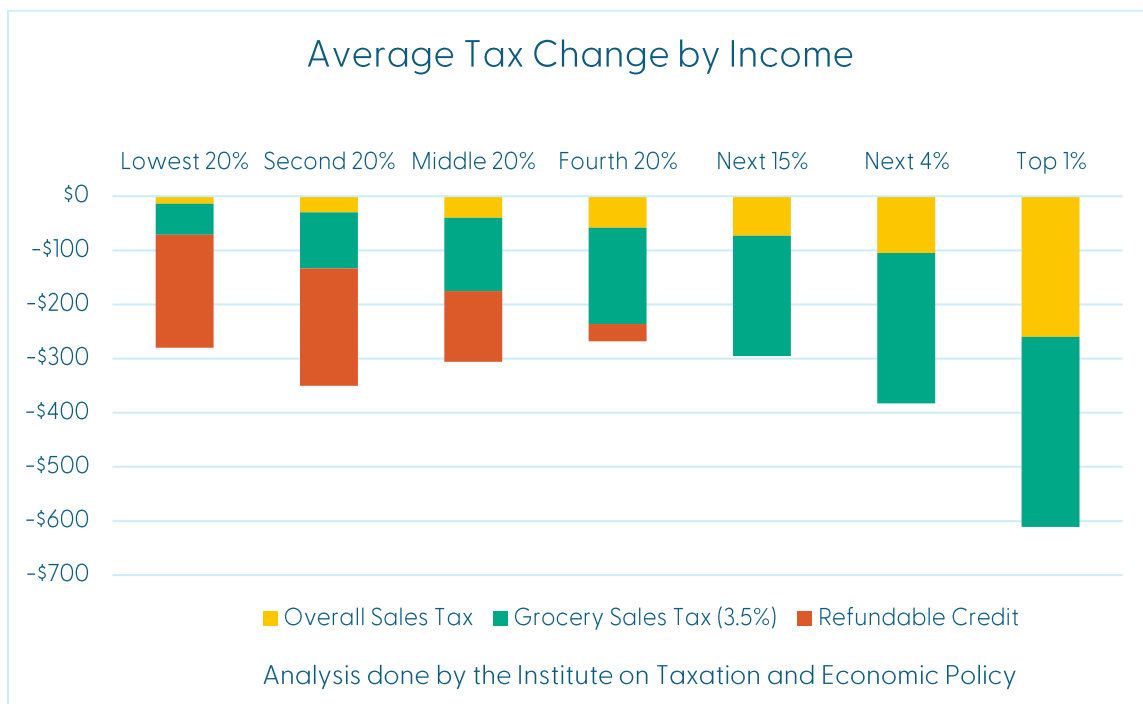
We know low- and moderate-income families are the most likely to experience food insecurity. Since this bill gradually reduces the state-level sales tax on food, it is essential this bill includes reinstating refundability of the food sales tax credit until full elimination.

In 2013, the food sales tax credit was made nonrefundable, along with accompanying changes in eligibility. The credit previously had been refundable, meaning it made it easier for families to realize the full value of the credit. Kansas Action for Children is concerned about the nonrefundable food sales tax credit, because it dramatically decreased the number of filers able to benefit from the credit. We believe a child's ability to access nutritious food should not be contingent on their family's annual income. Refundability of the food sales tax credit helps the lowest-income Kansans put food on the table.

Sales taxes worsen income inequality as low-income people must pay a higher share of their income on basic needs like groceries. Research shows “the lowest-income fifth of American families spend almost twice the share of their annual income on food at home



than the highest-income fifth do: 10.3 percent versus 5.7 percent.¹ Lower-income households shouldn't pay a higher share of their income in taxes than high-income households. The refundability of the food sales tax credit will help ensure low-income families don't have to spend a bigger chunk of their paycheck than higher-income families on groceries at the state level.

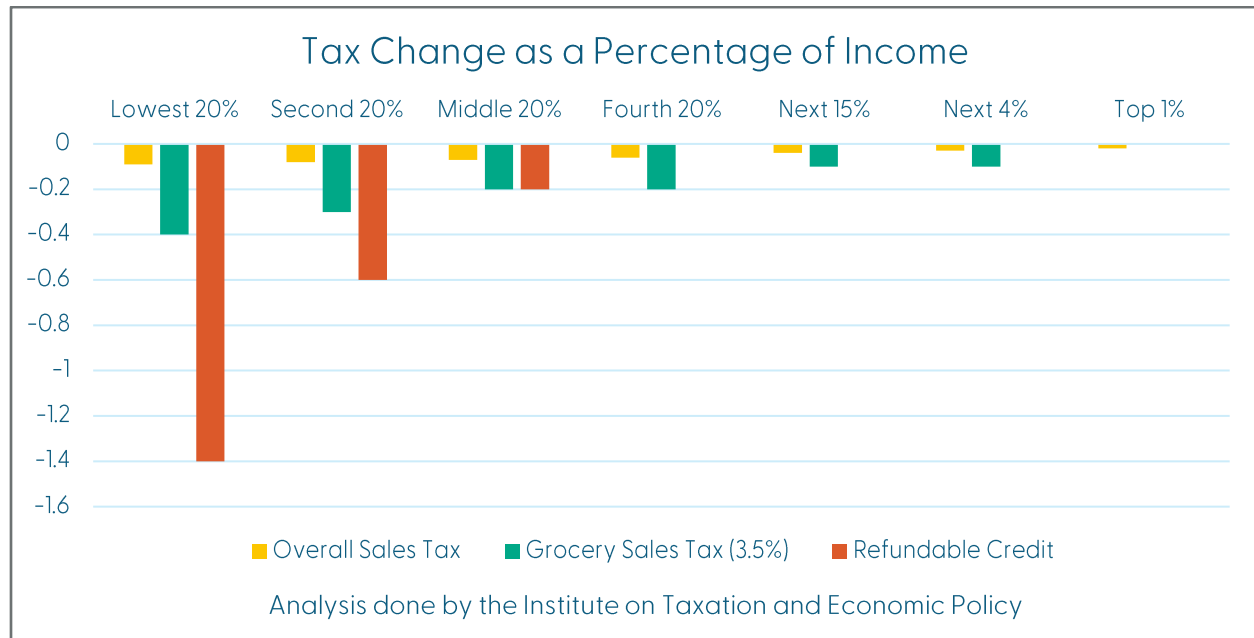


The chart above shows how much the average tax change is for components of the bill by varying income levels. As you can see in the chart above, the top 1 percent stand to benefit the most from the change, more than twice than the Kansas residents at the lowest 20 percent of income (\$611 compared to \$280 in average tax changes), since this population tends to buy more goods overall (including food). Without the refundable food sales tax credit, the top 1 percent would still receive \$611 in average tax benefit and Kansas residents at the lowest 20 percent of income would only see a \$71 benefit. With the refundable tax credit, the bottom 80 percent of Kansans would see comparable overall benefit, with an average range of \$280 to \$350 in tax benefit.

¹ Figueroa, Eric and Julian Legendre. April 1, 2020. *States That Still Impose Sales Taxes on Groceries Should Consider Reducing or Eliminating Them*. Center on Budget and Policy Priorities. www.cbpp.org/research/state-budget-and-tax/states-that-still-impose-sales-taxes-on-groceries-should-consider



While the highest income Kansans will have the largest tax change, in dollars, lower-income Kansans will benefit as the tax changes – particularly the refundability of the food sales tax credit – makes up a larger share of their income in benefits.



Equity: A start to help close the racial wealth gap

Eliminating the state sales tax on food would particularly help households of color, given their disproportionate concentration at the lower end of the income scale due to historical and current structural barriers.

In Kansas, sales and excise taxes are worsening disparities in income by race and ethnicity. Sales tax is a regressive tax, meaning low-income Kansans pay a higher share of their income on the tax compared to their higher-income counterparts. According to the Institute on Taxation and Economic Policy:

- Black households in Kansas pay an average effective sales and excise tax rate (4.7 percent) that is **27 percent above** the average rate (3.7 percent) and 31 percent above the rate faced by the average white household (3.6 percent).
- Hispanic households pay an average rate (4.5 percent) that is 22 percent above average and **25 percent above** the rate faced by the average white household.



The lowering of the state sales tax on food could assist making the average effective sales and excise tax rate more equitable.

Simplicity: The gradual reduction, rather than full elimination, is not the simplest choice.

However, given the concerns KAC mentioned above about the unknown fiscal impact of SB 347 and the fiscal impacts of additional legislation not yet passed, we believe it is in the state's best interest to pursue a gradual reduction at this time. If events shift, for example, and the business being recruited through the measures in SB 347 does not come to Kansas, this could reignite the opportunity to pursue full elimination of the state-level sales tax on food.

Sustainability: It is important to ensure the elimination of the food sales tax is affordable for the state for the long-term

Policymakers should avoid unpredictable, large fluctuations in the amount of revenue collected each year. This proposal would lead to a large fluctuation by lowering the revenue collected but coincides with higher-than-average revenue receipts.

Additionally, it is likely lower-income families will put the savings from the lowering of the state food sales tax immediately back into the economy. The past few months have shown that when lower-income families have additional money, like through the federal stimulus checks or the monthly child tax credit payments, most spend the money immediately, with nine in 10 Kansas families with low incomes spending it on basic necessities.²

Kansas Action for Children would prefer the Budget Stabilization Fund continue to grow in the coming years. The Governor's Budget proposal suggests a \$600 million deposit into the Budget Stabilization Fund. Having that deposit, and maintaining it, would be a responsible step. In addition, we would also encourage the committee to ensure that, in addition to the minimum in the Budget Stabilization Fund, the food sales tax elimination is also contingent on meeting a 7.5% ending balance.

² Zippel, Claire. October 21, 2022. *9 in 10 Families with Low Incomes Are Using Child Tax Credits to Pay for Necessities, Education*. Center on Budget and Policy Priorities. www.cbpp.org/blog/9-in-10-families-with-low-incomes-are-using-child-tax-credits-to-pay-for-necessities-education



Elasticity: The proposal will not achieve elasticity, as the loss in the potential revenue could continue to increase as the economy expands.

Given the merits of lowering the state food sales tax, ones that would more effectively benefit lower-income Kansans, we believe it is the right choice as long as the state is able to continue to fund vital services.

Kansas Action for Children supports the lowering of the food sales tax because it will help every Kansas family put food on the table. We are happy to answer any questions you may have. You may reach me by email at emily@kac.org

KAC Tax Policy Rubric

Adequacy	A tax system needs to pay for the services necessary to promote economic growth and education, to support basic needs, and to provide for many other important functions that contribute to a thriving community. Both short- and long-term adequacy are critical.
Fairness	Lower-income households shouldn't pay a higher share of their income in taxes than high-income households and profitable corporations do. People and companies in similar economic situations should pay roughly similar taxes. The fiscal "rules of the game" shouldn't place artificial constraints – like caps on income tax rates – that prevent policymakers from raising the revenue needed to finance public investments and to promote shared prosperity.
Equity	Equity needs to be built into fiscal policy. That means recognizing that tax policy is not race-neutral. Every policy impacts racial equity. It is important to assess fiscal policies for their impact on racial equity and to pursue policies that deliver anti-racist outcomes.
Simplicity	Tax systems should facilitate compliance by avoiding overly complicated provisions and narrowly applied loopholes.
Sustainability	A tax system needs to be constructed in ways that avoid – as much as possible – unpredictable, large fluctuations in the amount of revenue collected each year.
Elasticity	The amount of revenue collected should increase as the economy expands, reflecting the increased needs of education, transportation, and many other public services.