# Sales Taxes on Food

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The general sales tax in effect last year in 45 States and the District of Columbia[1] was the most important source of revenue for about one-fourth of these jurisdictions.

In 1977, about 1 of every 6 tax dollars collected by States and localities came from the general sales tax, slightly more than from income taxes but less than from property taxes. Twenty-five of the States with a sales tax plus the District of Columbia exempt food for home consumption (food at home), and six States, including two with food exemptions, provide for a credit against income taxes.

The sales tax is a popular source of revenue largely because it can be efficiently collected and is not easily avoided. Some critics argue that while it is an efficient revenue generator, the sales tax—and especially the food sales tax—is inequitable because higher income individuals can more easily page than those with lower incomes.

### Sales Taxes and Food Prices

Who bears the burden of a sales tax—the consumer through higher expenditures or the retailer through lower profits? ESCS research has shown that the demand for food tends to be inelastic—that is, as prices increase, consumers do not decrease their purchases by as large a percentage. This, coupled with high elasticity of the food supply in the long run (quantity supplied shifts relatively more than did price), tends to reinforce the belief that all, or most, of the tax is passed on to consumers in the form of higher prices.

The way the U.S. sales tax is applied to food makes it even more likely that the cost is passed on to consumers. Generally, the sales tax is added to the consumers' total purchase at the checkout counter, hence the perception that the tax is added on rather than a component of price. The Europeans rely on the Value Added Tax (VAT), a tax similar in many ways to the sales tax. But the price printed or stamped on the product usually includes the VAT, thus it may be viewed as part of the price paid for the product. So it is more likely that the retailers absorb a larger portion of the VAT than a comparably sized sales tax.

[1] Delaware, Alaska, Montana, Oregon, and New Hampshire have no sales tax.

**State Sales Tax, January 1, 1980[1]**

| State | Rate | Exemption for food at home | Related income tax credit | State | Rate | Exemption for food at home | Related income tax credit |
|---|---|---|---|---|---|---|---|
| AL | 4 | | | NE | 3 | | x |
| AZ | 4 | | | NV | 3 | x | |
| AR | 3 | | | NJ | 5 | x | |
| CA | 4.75 | x | | NM | 3.75 | | x |
| CO | 3 | x | | NY | 4 | x | |
| CT | 7 | x | | NC | 3 | | |
| FL | 4 | x | | ND | 3 | x | |
| GA | 3 | | | OH | 4 | x | |
| HI | 4 | | x | OK | 2 | | |
| ID | 3 | | x | PA | 6 | x | |
| IL | 4 | 2 | | RI | 6 | x | |
| IN | 4 | x | | SC | 4 | | |
| IA | 3 | x | | SD | 4 | | |
| KS | 3 | | | TN | 3 | | |
| KY | 5 | x | | TX | 4 | x | |
| LA | 3 | x | | UT | 4 | | |
| ME | 5 | x | | VT | 3 | x | x |
| MD | 5 | x | | VA | 3 | | |
| MA | 5 | x | x | WA | 4.5 | x | |
| MI | 4 | x | | WV | 3 | x | |
| MN | 4 | x | | WI | 4 | x | |
| MS | 5 | | | WY | 3 | | |
| MO | 3.125 | | | DC | 5 | x | |

[1]Does not include maximum local tax rate allowed.
[2]Illinois—3 percent.

Source: Federation of Tax Administrators.

### The Food Exemption

The trend in recent years has been to exempt food from the sales tax. In 1975, 21 States with sales taxes exempted food. By the end of 1979, the District of Columbia and 25 States exempted food. In addition, legislation to exempt food has recently been introduced in four other States.

One reason for exempting food at home from the sales tax is that the tax on these items falls more heavily on lower income consumers. Findings of the 1972-73 Consumer Expenditure Survey (CES), conducted by the Bureau of Labor Statistics, indicate that there is relatively little difference in per capita spending for food at home regardless of income. Preliminary data from the 1977-78 Nationwide Food Consumption Survey support the CES finding (See *National Food Review*, NFR-7).

The lowest income group spent $425 per person on food used at home while the highest income group spent $445. While the per capita spending was relatively constant across income groups, food-at-home spending as a percentage of income, ranged from 6.5 percent for the highest income group to 27.3 percent for the lowest income group.

Expenditures for food away from home are more reflective of income. As income rises, spending on food away from home rises sharply. In dollar terms, the away-from-home food expenditures ranged from $100 per capita for the lowest income group to $259 per capita for the highest. In terms of percentage of income spent on food away from home, the range was much narrower—3.8 percent for the highest income group versus 6.4 percent for the lowest. Consequently, food away from home is rarely exempt from the sales tax because it is less regressive[2] than a tax on food purchased for at-home use. In several jurisdictions food eaten out is subject to a higher tax rate than food sold for at-home use.

The relative regressiveness of sales taxes on food at home versus food away from home has been examined. Consumers living in jurisdictions levying a 4-percent tax on sales of food for home use spend an estimated 0.26 to 1.09 percent of their incomes on the tax, with the lower income consumers spending the larger percentage. In

[2] A tax is said to be regressive if the tax as a percentage of the tax-payer's income falls as the level of income rises. Sales taxes generally, and food sales taxes specifically, tend to fit this definition.

jurisdictions that levy a 4-percent tax on sales of food consumed away from home, consumers spend an estimated 0.15 to 0.26 percent of their incomes on the tax. Again, the lower income consumers spend the largest percentage while the higher income consumers spend the smallest. So, comparing the percentages, consumers in the lowest income group spend nearly four times as much of their income on the tax on food used at home as those in the highest income group. For food consumed away from home, consumers in the lowest income group spend almost twice as much of their income on the tax as those in the highest income group.

### Sales Tax as a Revenue Generator

About a fifth of the American population live in jurisdictions which levy a sales tax on food purchased for at-home consumption. Assuming these persons accounted for a pro rata share of the $200 billion spent on food for home use in 1979, about $40-45 billion of the overall expenditure was subject to sales tax.

The $200 billion figure includes expenditures for soft drinks, candy, and chewing gum, as well as for prepared foods such as meals sold in a delicatessen section of a grocery store. Some States and localities which exempt food from a sales tax do not exempt purchases of candy and/or soft drinks. The same population-based, pro rata procedure yields an estimate of an additional $6 to $7 billion of candy, gum, and soft drinks which are subject to a food sales tax in States which exempt other food.

Thus, approximately $45-50 billion of consumer expenditures for food used at home was subject to sales tax in 1979. The average, combined State and local tax rates on food consumed at home, candy, gum, and soft drinks cannot be calculated with precision since even different localities within some States levy taxes at different rates. Available data suggest that the rate is approximately 4 percent. Thus, total sales taxes paid in 1979 on expenditures for food at home were about $2 billion.

In 1979, about $80 billion was spent by consumers eating out. Based on a 4-percent sales tax rate, another $3 to $3½ billion was collected from this source of food spending. Not included is the estimated $1 billion derived from sales taxes on alcoholic beverages consumed away from home.

**Per Capita Food Expenditures as a Percent of Income**

| Income group | Per capita income | Per capita expenditure food at home | Income spent on food at home | Per capita expenditure food away from home | Income spent on food away from home |
|---|---|---|---|---|---|
| | dollars | dollars | percent | dollars | percent |
| 1st | 1,557 | 425 | 27.3 | 100 | 6.4 |
| 2nd | 2,478 | 397 | 16.0 | 124 | 5.0 |
| 3rd | 3,393 | 396 | 11.7 | 156 | 4.6 |
| 4th | 4,227 | 404 | 9.6 | 176 | 4.2 |
| 5th | 6,895 | 445 | 6.5 | 259 | 3.8 |
| Average | 3,948 | 398 | 10.0 | 172 | 4.3 |

[1]Income groups are ranked from lowest to highest with the 1st group having the lowest income.

Source: Changes in Food Expenditures by Income Group, ESCS-57, USDA.

**Simulated Per Capita Food Sales Tax Expenditures as a Percent of Income (4-Percent Sales Tax assumed)**

| Income group[1] | Per capita income | Sales tax on food at home | Percent of income | Sales tax on food away from home | Percent of income |
|---|---|---|---|---|---|
| | dollars | dollars | | dollars | |
| 1st | 1,557 | 17.00 | 1.09 | 4.00 | 0.26 |
| 2nd | 2,478 | 15.88 | 0.64 | 4.96 | 0.20 |
| 3rd | 3,393 | 15.84 | 0.47 | 6.24 | 0.18 |
| 4th | 4,227 | 16.16 | 0.38 | 7.04 | 0.17 |
| 5th | 6,895 | 17.80 | 0.26 | 10.36 | 0.15 |
| Average | 3,948 | 15.92 | 0.40 | 6.88 | 0.17 |

[1]Income groups are ranked from lowest to highest with the 1st group having the lowest income.

In total, between $5 and $6 billion is estimated to have been collected from sales taxes on food in 1979.

Sales taxes are relatively efficient revenue generators. Retailers act as collection agents for States and localities, minimizing collection costs for the governments. Also, the revenue base (sales), unlike property taxes and income taxes, is rather straightforward. A tax assessor or a set of rules defining income, exemptions, or deductions is not required in order to levy a sales tax.

### How Consumers See It

Despite criticism for being regressive, the State sales tax was ranked third (15 percent) behind the Federal income tax (37 percent) and the local property tax (27 percent) by consumers who were asked which tax is "least fair."[3]

[3] Survey conducted by the Advisory Commission on Intergovernmental Relations, May 1979. The survey did not specifically address the perceived fairness of sales taxes on food.

Perhaps one reason for this response is that taxpayers consider the overall tax and expenditure system in their assessment of fairness. A sales tax may be regressive by definition, but when one considers the total tax package of which it is but one part, the uses of the revenue generated by the tax, and possible alternative taxes, the overall budget impact may be one which is considered quite fair by the taxpayer. ■

### References

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