

### Retail Grocery Purchases Should Be Exempt From Idaho Sales Tax

The Idaho Interfaith Roundtable Against Hunger believes that the time has come to remove the sales tax from retail grocery purchases.

Groceries have been taxed in Idaho since the introduction of the sales tax in 1965. Recognizing that taxing basic foods is questionable public policy, the Legislature enacted a Grocery Tax Credit (GTC) which is intended to offset the grocery tax by refunding an equivalent amount to Idaho taxpayers at the time they file their tax returns. The amount of the tax credit was raised several times over succeeding years to maintain parity with increases in the sales tax.

In 2008, the Legislature amended the Idaho Code (1) to provide access to the Grocery Tax Credit for residents not required to file an income tax return and (2) to establish annual increases in the tax credit to a maximum of \$100 per Idaho resident plus an additional \$20 for residents over the age of sixty-five, subject to certain limitations.<sup>1</sup>

In 2016 the maximum credit of \$100 was reached and the 2016 GTC should roughly offset 2016 food sales tax revenues.<sup>2</sup> Thus, if the GTC and the food sales tax are removed now, the change should be nearly revenue neutral. However, if nothing is done, the GTC will over the years keep falling behind as food prices and the corresponding sales tax rise with inflation. The sales tax on food then will become increasingly regressive over the years.

Now that the GTC has leveled off at the \$100 maximum, new forward-looking legislation of some kind is imperative. If the GTC and the food sales tax are kept in place, then at the very least the GTC should be indexed to the rising cost of food. Otherwise, as noted above, the tax credit will fall further behind taxes actually paid and the burden will fall increasingly on Idaho's low income residents. This is not the result which the Legislature intended.

Throughout its history, IIRAH has worked with the Legislature and stakeholders to keep the GTC adequate and to make it accessible to all Idahoans. Our preference, however, is to exempt groceries entirely from the sales tax, as a majority of other states do. This would eliminate the need for the GTC and remove the defects that have remained in the present system.. For example, the Idaho Tax Commission understandably has no data on how many residents qualify to receive the GTC but for one reason or another do not apply for it. There is every reason to believe that this occurs. The GTC is a refund of taxes already paid, and the tax payer is required to apply for it. Thus the most disadvantaged of Idahoans, particularly those with language and mobility limitations, are least likely to receive this refund. Another example is that eligibility to receive the GTC is restricted to residents who have not received help from the Supplemental Nutritional Assistance Program (SNAP) in the months for which they apply for the GTC, even though SNAP is *supplemental* and does not cover even a modest food budget. Thus the most vulnerable Idahoans are contributing proportionally more to the state budget than many who are much more able.

IIRAH believes in traditional Idaho values. These include personal responsibility to maintain oneself and one's family above the level of poverty, dependency, and hunger. We all want to live in healthy and flourishing communities. To this end, citizens in all income categories should pay their fair share of taxes because this is how we pay for essential state services. Public policy ought to encourage both of these

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<sup>1</sup> <https://legislature.idaho.gov/legislation/2008/H0588.html>. Residents not required to file a tax return must apply to the Idaho Tax Commission to receive the Grocery Tax Credit.

<sup>2</sup> Statement of Purpose, RS 18028, passed and signed by the Governor as H0588, 2008

objectives. A sales tax of 6% on a family's food budget is not much to middle and upper income households; but in households whose entire budget is devoted to absolute necessities, 6% of their food expenditures is very significant.

We acknowledge that, given the current fiscal structure of the state, removing the sales tax from food might result in a temporary net loss to the state budget. Analyses of the fiscal consequences of exempting food from taxation and terminating the GTC suggest that the 2008 expectation has not been met: removing both the sales tax and the GTC at the same time are likely to reduce revenues in 2017 and beyond. Removal of the sales tax would also eliminate the 6% contribution to Idaho's treasury that out of state visitors make when they buy groceries. It is also true that donations to the cooperative welfare fund that supports heating supplements for low-income families would be reduced because taxpayers would no longer have a GTC to donate. . We believe that these losses can be appropriately offset by other revenue adjustments.

In any case, whatever is lost to the state treasury would be recovered directly by taxpayers as more purchasing power would be left in the hands of shoppers.

The path to implementation must also be considered. All Idaho grocery retailers would be affected. Corner markets, convenience stores, independent grocers, large and small supermarket chains – all would be required to convert bookkeeping, tax reporting, cash registers, and other related aspects of their operations. While the Idaho Tax Commission would see costs associated with administering the GTC eliminated, it might also experience an increased workload in other departments, such as those that monitor compliance and perform audits. Clear definition of exempt foods will be needed, perhaps using the definition of foods eligible for purchase with federal SNAP benefits, or the definitions proposed by the Streamlined Sales Tax Agreement.<sup>3</sup>

Every policy change entails both costs and benefits. IIRAH believes that the benefits of correcting inequities in practice, unintentional as they have been, along with putting more food money in the hands of people who are at the margin of food security, make the exemption of groceries from taxation the best solution to the sales tax – GTC conundrum.

The Legislature should take appropriate action in the 2017 session. Delay means adding to the tax burden of all Idahoans, through the growing inadequacy of the GTC.

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<sup>3</sup> <http://www.streamlinedsalestax.org>