

March 13, 2019

Adrienne Olejnik, Director of Government Relations  
 Kansas Action for Children  
 Verbal, Neutral Testimony on House Bill 2302  
 House Taxation Committee

Chairman Johnson and Members of the Committee:

Thank you for the opportunity to provide neutral testimony on House Bill 2302. Kansas Action for Children’s vision is to make Kansas the best state to raise a child and to be a child, and our organization shapes health, education, and economic policies that benefit Kansas children and their families.

Kansas Action for Children supports fiscally responsible strategies for helping low- and middle-income Kansans make ends meet. At this time, as we continue to rebuild after years of economic challenges, we encourage policymakers to consider more targeted policy solutions to help working families in our state. One such approach is to reinstate the refundability of the food sales tax credit.<sup>1</sup>

Comparison of Food Sales Tax Credit—Refundable/Non-Refundable

During the 2012 legislative session, Senate Substitute for HB 2117 was passed and signed into law. Section 40 of the bill provided that effective January 1, 2013, the food sales tax refund statutes were repealed.<sup>2</sup> During the 2013 legislative session, HB 2059 was passed and signed into law. New Section 7 of this bill provided an *income tax credit* for certain individuals who purchased food in Kansas. The credit was made effective January 1, 2013, and would be claimed on the individual’s Kansas income tax return.<sup>3</sup> HB 2302 essentially resets the clock and returns the eligibility levels and refundability to the food sales tax credit.

	<b>Food Sales Tax Refund (before 1/1/2013)</b>	<b>Food Sales Tax Credit (after 1/1/2013)</b>
<b>Must have purchased food in Kansas</b>	Yes	Yes
<b>Maximum income for eligibility</b>	\$36,700	\$30,615
<b>Lived in Kansas the entire year</b>	Yes	Yes
<b>Taxpayer must be either:</b>		
<b>A person having a disability, regardless of age</b>	Yes	Yes
<b>A person who is 55 years of age or older</b>	Yes	Yes
<b>A person who is younger than 55 years of age who claims an exemption for one or more dependent children under 18 years of age</b>	Yes	Yes
<b>Amount of credit per exemption</b>	\$47/\$94*	\$125
<b>Applies to KS tax liability</b>	Yes**	Yes
<b>Refundable</b>	Yes	No

\*Two income tiers were present to determine the amount of refund (\$0-18,350 received \$94/exemption; \$18,351-36,700 received \$47/exemption)

\*\*Could also be submitted on separate form created by KDOR

<sup>1</sup>I use “refund” and “credit” in the same sense throughout the testimony. A “refund” implies refundability; a credit can be either refundable or non-refundable.

<sup>2</sup> Statutes repealed were K.S.A. 79-3633 through 3639

<sup>3</sup> Kansas Department of Revenue, Notice 13-12 “Food Sales Tax Credit.” July 1, 2013

709 S Kansas | Suite 200  
 Topeka, KS 66603

P: 785-232-0550 | F: 785-232-0699  
 kac@kac.org | www.kac.org

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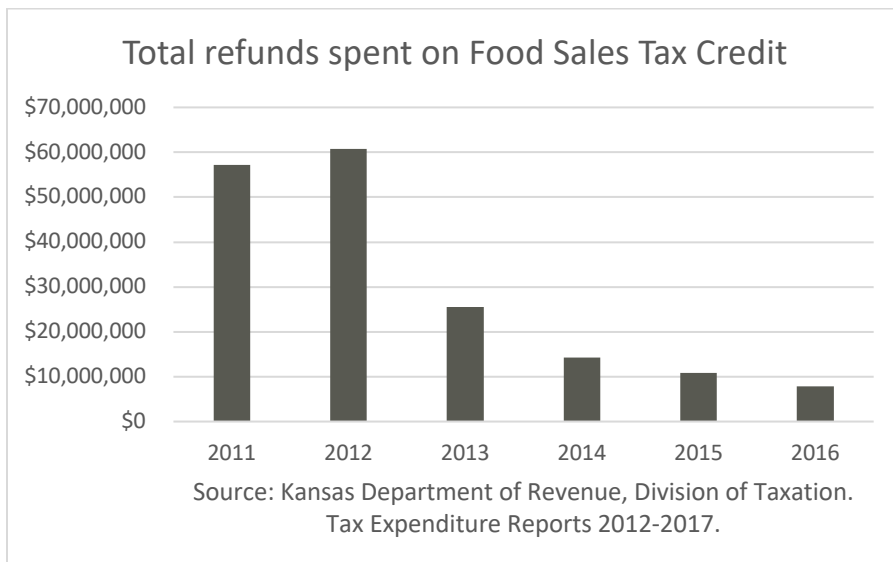
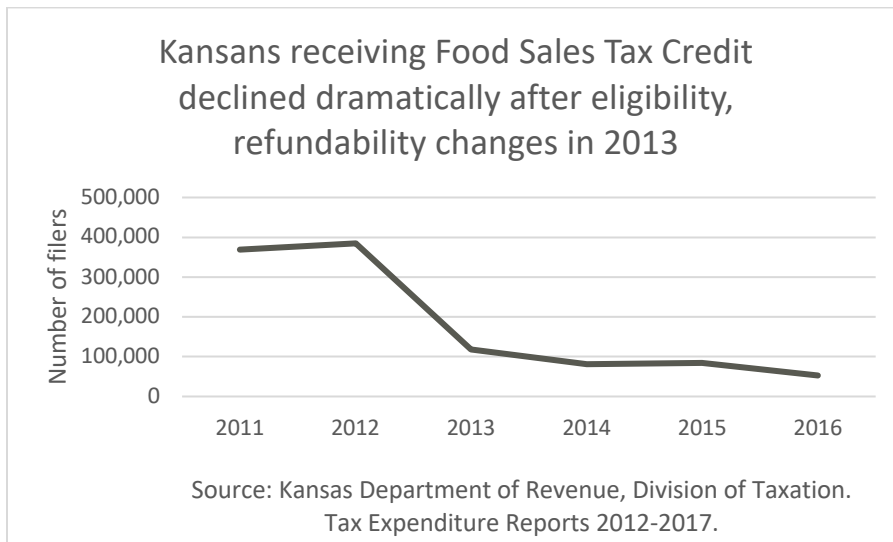
The credit was previously refundable, meaning filers whose credit amount exceeded their tax liability could receive the difference. Non-refundable credits are less helpful for low-income earners, who often do not have high levels of tax liability to benefit from the credit. These changes dramatically decreased the number of filers able to benefit from the credit.

In tax year 2012, the final year the food sales tax refund program allowed refundability, 384,725 eligible filers received \$60,754,843 in food sales tax refunds. In the most recently available Tax Expenditure Report from process year 2017, the food sales tax credit only benefited 52,776 filers with \$7,855,278 worth of credits.

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The food sales tax refund can provide more meaningful tax relief to low-income families when compared to a minimal reduction in the sales tax on food. For a family of four that spends the lowest amount considered necessary for a nutritious diet and

lives in Kansas, sales taxes on food cost around \$506 a year. That amount is more than a week's income for a family at the poverty line.<sup>4</sup>

For this family of four at the federal poverty level, they would receive an eight-times greater benefit from the food sales tax refund than a 1% reduction in food sales tax. (See Appendix 1 for comparison chart)

Low-income seniors would also benefit from a reinstatement of refundability. Many seniors rely on Social Security income and minimal retirement distributions and often are below an income tax return filing requirement threshold. Prior to the change in the food sales tax refund, these seniors would file returns in order to receive the needed benefits of the food sales tax refund and homestead refund (for owners and renters) that would help them make ends meet.

A senior without SNAP benefits living on a thrifty food plan of \$161/month would only receive a \$19 annual benefit from a 1% reduction in food sales tax, yet could receive a \$47 or \$94 food sales tax refund under HB 2302. For a senior receiving the \$94 refund, you would have to reduce the state sales tax on food by 5% to nearly 1.5% in order to reap the same level of food sales tax relief.

A refundable food sales tax credit would likely return to the economy directly. Food assistance programs like SNAP and refundable credits like the Earned Income Tax Credit (EITC) have been proven to boost economic activity. It is estimated that "in a weak economy, \$1 in SNAP benefits generates \$1.70 in economic activity." SNAP dollars are able to create economic activity because they are spent so quickly after they are received. Nearly all (97 percent) of SNAP benefits are spent in the month they are received, with over half (59 percent) being spent in the first week, meaning SNAP funds are going back into the economy almost immediately. Similarly, the EITC generates economic activity, with "every EITC dollar a recipient earns, they return \$1.50-\$2.00 to the economy, supporting not only their families but also their communities."<sup>5</sup> We believe a refundable food sales tax credit would also create similar economic activity.

Thank you for the opportunity to discuss House Bill 2302, and please do not hesitate to contact me at [adrienne@kac.org](mailto:adrienne@kac.org) if you have any questions.

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<sup>4</sup> For a family of four, defined as a couple (male & female) between 19-50 years and children that are 6-8 and 9-11 years, they spend \$7,788 on the USDA "thrifty plan" of food. State sales tax on that level of food spending in Kansas would be \$506.22 a year. The federal poverty level for a family of four is \$25,750 or \$495.19 a week.

<sup>5</sup> Nckaho, Catlin and Lexi Cai. "A Closer Look at Who Benefits from SNAP: State-by-State Fact Sheets (Kansas)." Center on Budget and Policy Priorities. December 3, 2018. <https://www.cbpp.org/research/food-assistance/a-closer-look-at-who-benefits-from-snap-state-by-state-fact-sheets#Kansas>; Center on Budget and Policy Priorities. "Chart Book: SNAP Helps Struggling Families Put Food on the Table." February 13, 2018. <https://www.cbpp.org/sites/default/files/atoms/files/3-13-12fa-chartbook/pdf>; and Caines, Roxy. "5 Ways the EITC Benefits Families, Communities, and the Country." Center on Budget and Policy Priorities. January 26, 2017. <https://www.cbpp.org/blog/5-ways-the-eitc-benefits-families-communities-and-the-country>

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## Appendix 1

Food Sales Tax Refundability is More Effective than Food Sales Tax Decrease in Reducing Food Costs for Low-Income Kansans		
HB 2302 would create two levels of refundability (less or equal to \$18,350 and \$18,351 to \$36,700)		
Upper limit of first level		
Income Scenario		\$18,350
Amount of exemption (per person)		\$94
Annual food cost (USDA thrifty food plan)		\$7,788
Average annual SNAP benefits (FY 2017)		\$5,472
Food costs minus SNAP benefits		\$2,316
6.5% food sales tax (on food costs minus SNAP benefits)		\$151
Food costs plus 6.5% food sales tax (minus SNAP benefits)		\$2,467
Percent of their income spent on food		13.44%
Food costs minus SNAP benefits plus reduction (6.5% to 5.5%)		\$2,443.38
Savings from Food sales Tax Reduction		\$23.16
Percent of their income spent on food with food sales tax reduction		13.32%
Savings from refundable credit		\$376.00
Food costs with refundable credit, SNAP benefits, and 6.5% tax		\$2,090.54
Percentage of income spent on food with refundable credit		11.39%
Mid point of second level		
Income Scenario		\$27,525
Amount of exemption (per person)		\$47
Annual food cost (USDA thrifty food plan)		\$7,788
Average annual SNAP benefits (FY 2017)		\$5,472
Food costs minus SNAP benefits		\$2,316
6.5% food sales tax (on food costs minus SNAP benefits)		\$151
Food costs plus 6.5% food sales tax (minus SNAP benefits)		\$2,467
Percent of their income spent on food		8.96%
Food costs minus SNAP benefits plus reduction (6.5% to 5.5%)		\$2,443.38
Savings from Food sales Tax Reduction		\$23.16
Percent of their income spent on food with food sales tax reduction		8.88%
Savings from refundable credit		\$188.00
Food costs with refundable credit, SNAP benefits, and 6.5% tax		\$2,278.54
Percentage of income spent on food with refundable credit		8.28%
Upper limit of second level		
Income Scenario		\$36,700
Amount of exemption (per person)		\$47
Annual food cost (USDA thrifty food plan)		\$7,788
Average annual SNAP benefits (FY 2017)		\$0
Food costs minus SNAP benefits		\$7,741
6.5% food sales tax (on food costs minus SNAP benefits)		\$503
Food costs plus 6.5% food sales tax (minus SNAP benefits)		\$8,294.22
Percent of their income spent on food		22.60%
Food costs minus SNAP benefits plus reduction (6.5% to 5.5%)		\$8,216.34
Savings from Food sales Tax Reduction		\$77.88
Percent of their income spent on food with food sales tax reduction		22.39%
Savings from refundable credit		\$188.00
Food costs with refundable credit, SNAP benefits, and 6.5% tax		\$8,103.18
Percentage of income spent on food with refundable credit		22.08%
Median Household Income		
Income Scenario		\$57,872
Amount of exemption (per person)		\$0
Annual food cost (USDA thrifty food plan)		\$7,788
Average annual SNAP benefits (FY 2017)		\$0
Food costs minus SNAP benefits		\$7,741
6.5% food sales tax (on food costs minus SNAP benefits)		\$503
Food costs plus 6.5% food sales tax (minus SNAP benefits)		\$8,294.22
Percent of their income spent on food		14.33%
Food costs minus SNAP benefits plus reduction (6.5% to 5.5%)		\$8,216.34
Savings from Food sales Tax Reduction		\$77.88
Percent of their income spent on food with food sales tax reduction		14.20%
Savings from refundable credit		\$0.00
Food costs with refundable credit, SNAP benefits, and 6.5% tax		\$8,291.18
Percentage of income spent on food with refundable credit		14.33%
Lower limit for highest income quintile		
Income Scenario		\$111,000
Amount of exemption (per person)		\$0
Annual food cost (USDA thrifty food plan)		\$7,788
Average annual SNAP benefits (FY 2017)		\$0
Food costs minus SNAP benefits		\$7,741
6.5% food sales tax (on food costs minus SNAP benefits)		\$503
Food costs plus 6.5% food sales tax (minus SNAP benefits)		\$8,294.22
Percent of their income spent on food		7.47%
Food costs minus SNAP benefits plus reduction (6.5% to 5.5%)		\$8,216.34
Savings from Food sales Tax Reduction		\$77.88
Percent of their income spent on food with food sales tax reduction		7.40%
Savings from refundable credit		\$0.00
Food costs with refundable credit, SNAP benefits, and 6.5% tax		\$8,291.18
Percentage of income spent on food with refundable credit		7.47%

Sources: Average annual SNAP benefits in Kansas: <https://www.cbpp.org/research/food-assistance/a-closer-look-at-who-benefits-from-snap-state-by-state-fact-sheets#Kansas>

USDA Thrifty food plan annual cost (Family of four: Couple (Male & Female), 19-50 years and children 6-8 and 9-11 years): <https://www.cnpp.usda.gov/sites/default/files/CostofFoodJan2019.pdf>