

**SUMMARY OF PROPOSAL #43**  
*for consideration by the*  
**ARKANSAS TAX REFORM AND RELIEF LEGISLATIVE TASK FORCE**

**TOPIC: Sales Tax on Food and Food Ingredients**

**Summary of Proposal for Consideration**

To eliminate the reduced rate of sales tax on food and food ingredients and subject food and food ingredients to the full amount of state sales tax, effective July 1, 2019.

**Fiscal Analysis**

Based on DFA's analysis of FY2017 revenues, the reduced rate on food and food ingredients had a negative effect on state revenue in the amount of \$248,943,170 with \$190,676,068 representing lost general revenue.

**Legal Analysis**

***Background***

Under Arkansas Code §§ 26-52-317 and 26-53-145, food and food ingredients are currently taxed at a reduced state sales tax rate of 1.375% plus the additional 0.125% tax levied by Amendment 75 to the Arkansas Constitution (also known as the conservation tax). Sales of food and food ingredients are also subject to any applicable local sales taxes.

In 2005, the General Assembly enacted a law that allowed for a reduction of the sales tax on food to 0% (except for the amount going to the Property Tax Relief Trust Fund and the conservation tax) when (1) federal law allows states to collect sales tax from remote sellers and (2) those collections are at least equal to 150% of the sales tax collected on food. In 2007, the General Assembly added applicable definitions to the law; introduced a reduced rate of 2.875% on food and food ingredients (plus the conservation tax) beginning July 1, 2007; and set the distribution rates to general revenue, the Property Tax Relief Trust Fund, and the Educational Adequacy Fund. In 2009, the General Assembly reduced the sales tax rate on food and ingredients to 1.875% (plus the conservation tax), beginning July 1, 2009. In 2011, the rate was reduced to 1.375% (plus the conservation tax), beginning July 1, 2011. Finally, in 2013, the law was amended to add another contingency for reducing the sales tax rate on food and food ingredients: when the general revenue attributable to certain funds, bonds, acts, and amounts disbursed for desegregation payments declines more than \$35,000,000 over a six-month period as compared to the same six-month period the previous year, the sales tax on food and food ingredients will reduce to 0% (plus the conservation tax). It is anticipated that the desegregation payments will end this year, which would be sufficient to trigger this contingency in 2019.

***Potential Legal Issues***

None.

***Other States***

- Iowa: Exempt from all sales taxes
- Louisiana: Exempt but subject to local sales taxes

- Mississippi: Taxed at full rate of 7%
- Missouri: Taxed at a lower rate of 1.225% (compared to full rate of 4.225%)
- Oklahoma: Taxed at full rate of 4.5% (with an income tax credit provided to help offset the cost)
- Tennessee: Taxed at lower rate of 5% (compared to full rate of 7%) and subject to local sales taxes
- Texas: Exempt from all sales taxes

---

Updated March 1, 2017

## Which States Tax the Sale of Food for Home Consumption in 2017?

By Eric Figueroa and Samantha Waxman

Forty-five states and the District of Columbia levy general sales taxes. Most of those states have eliminated, reduced, or offset the tax as applied to food for home consumption. (See Figure 1.) The relief strategies include full or partial exemptions from the sales tax for food purchased for home consumption and credits or rebates to offset the food tax. Of the states with sales taxes:

- Thirty-two states and the District of Columbia exempt most food purchased for consumption at home from the state sales tax. West Virginia is the state that most recently eliminated its sales tax on food (effective July 1, 2013).
- Six states tax groceries at lower rates than other goods; they are Arkansas, Illinois, Missouri, Tennessee, Utah, and Virginia.<sup>1</sup>
- Four states — Hawaii, Idaho, Kansas, and Oklahoma — tax groceries fully but offer credits or rebates offsetting some of the taxes paid on food by some portions of the population.<sup>2</sup> These credits or rebates usually are set at a flat amount per family member. The amounts and eligibility rules vary, but may be too narrow and/or insufficient to give eligible households full relief from sales taxes paid on food purchases.
- Three states continue to apply their sales tax fully to food purchased for home consumption without providing any offsetting relief for low- and moderate-income families. They are Alabama, Mississippi, and South Dakota.<sup>3</sup>

Local governments, which in many states levy their own sales taxes, usually exempt food if food is fully exempt at the state level. Major exceptions include localities in Arizona, Colorado, Georgia,

---

<sup>1</sup> Food sales tax rates in these states are as follows: Arkansas: 1.5 percent, Illinois: 1 percent, Missouri: 1.225 percent, Tennessee: 5 percent, Utah: 3 percent, and Virginia: 2.5 percent.

<sup>2</sup> For more details on food tax exemptions and credits, see Nicholas Johnson and Iris J. Lav, "Should States Tax Food? Examining the Policy Issues and Options," Center on Budget and Policy Priorities, May 1998, <http://www.cbpp.org/sites/default/files/atoms/files/stfdtax98.pdf>.

<sup>3</sup> Sales tax rates in these states are as follows: Alabama: 4 percent, Mississippi: 7 percent, South Dakota: 4.5 percent. South Dakota offers a limited refund of either sales or property taxes to eligible seniors and disabled residents. Most households in the state pay the full sales tax rate on food.

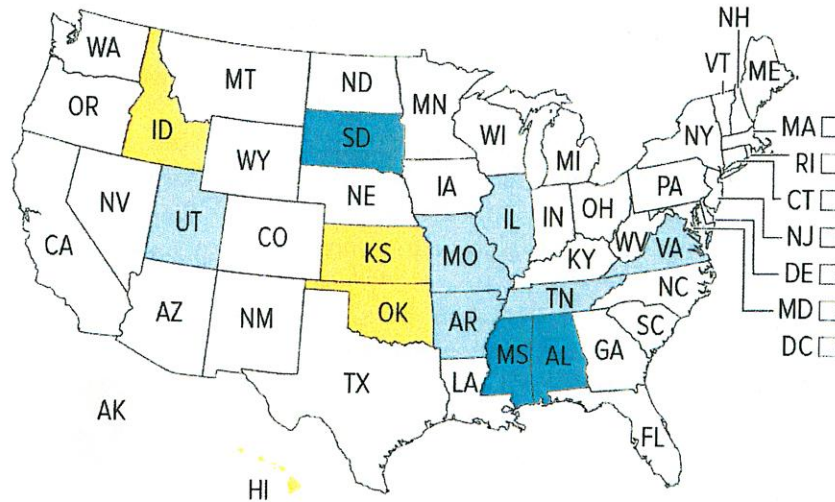


Louisiana, North Carolina, and South Carolina. Grocery food purchases in those states are fully or partially exempt at the state level, but typically taxed at the local level.

FIGURE 1

## Most States Provide Relief From Sales Tax on Groceries

■ States taxing groceries at regular sales tax rate    
 ■ States providing offsetting credit    
 ■ States taxing groceries at lower rate



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

Source: CBPP analysis