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IDAHO IS THE ONLY STATE TO EXCLUDE LOW-INCOME FAMILIES FROM ITS GROCERY TAX CREDIT

By Phillip Oliff and Nick Johnson

Idaho is one of seven states that taxes groceries at the same rate as other goods. It is one of five states that offer a credit or rebate to mitigate the tax. But even though the tax falls most heavily on low-income families, Idaho—unlike any other state—excludes many poor families (mostly working families) from receiving the credit. This uniquely flawed policy has no policy justification. It would be simple and relatively inexpensive to make all Idaho families eligible for the credit.

Idaho Excludes Poor Families from its Grocery Credit

For those who are eligible to receive it, Idaho's grocery tax credit provides a flat $20 per person for individuals under the age of 65 and $35 per person for individuals age 65 and older. While the amount of relief provided by the credit is modest, it can help to mitigate the impact of the highly regressive grocery tax on the budgets of low-income families.

Poor families, however, are generally barred from receiving the credit. Specifically, households with incomes below the threshold at which they are required to file an Idaho income tax return ($17,500 for a married couple filing jointly or $8,750 for a single person in 2007) are ineligible to receive the credit. The only exceptions to this income requirement are people over age 62, blind people, and disabled veterans, who can receive the credit if their incomes are below the threshold.[1]

Idaho's Credit Differs from Credits/Rebates in Other States

Idaho is one of five states that tax food and provide tax credits or rebates to offset the impact of the sales tax on food.[2] In contrast to Idaho, all of the other states target their credits or rebates to lower-income households. Some even structure their credits or rebates so that the lowest-income families receive the largest credits, in recognition of the particular burden that food taxes place on low-income families. The characteristics of these credits or rebates are described below.

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[1] The filing threshold for married filing separately is much lower, but few low-income Idahoans use this status.

[2] Two states—Alabama and Mississippi— fully tax food and offer no credit. All other states exempt food partially or fully from sales tax.

Hawaii: Hawaii's food tax credit is available to all households with adjusted gross income below $20,000 through 2007 and below $50,000 after 2007. The amount of the credit ranges from $10 to $35 through 2007 and $25 to $85 after 2007, and varies according to income, with lower-income households receiving larger credits.

Kansas: Kansas offers a food tax refund to families with children, the elderly and disabled people with qualifying household income less than $29,700. The amount of relief is $78 per exemption if qualifying income is less than $14,850, and $38 per exemption if qualifying income is between $14,851 and $29,700.

Oklahoma: Oklahoma provides a food tax credit to families with gross incomes below $50,000 and to single people and married couples with no dependents with gross incomes below $20,000. The amount of the credit is a flat $40 per exemption.[3]

South Dakota: South Dakota provides a sales tax on food refund to all households with incomes at or below 150 percent of the federal poverty level (which for a family of four in 2008 equals slightly more than $30,000). The amount of the credit varies according to family size. For the period spanning July through December of 2007 the average quarterly rebate paid under the program was approximately $25.[4]

None of these states requires recipients to have incomes over a certain level, so the credits are fully available to all low-income families. Hawaii, Kansas and Oklahoma administer their food tax credits through the income tax, but families that have incomes too low to meet the filing requirement are allowed to claim the credit anyway, either by filing a tax return or by filing a special form created for this purpose.[5]

Who Is Excluded from Receiving Idaho's Credit?

By excluding many low-income families from claiming the credit, Idaho's grocery tax credit excludes the families and individuals who need the credit the most. Low-income families pay a higher percentage of their income in food tax than higher-income families. They are the households that are most likely to have trouble paying their bills or putting food on the table. Many of the households that the credit excludes are working families struggling to make ends meet. In 2006, for example, over 14,000 married Idaho households with at least one working member had income under $17,500. In that same year over 70 percent of married households in Idaho with income under $17,500 had at least one working member. Moreover, with the exception of the blind, the

[3] For a very small percentage of low-income Oklahomans, specifically those receiving Temporary Assistance for Needy Families, the sales tax credit is rolled into their benefit payment rather than being provided directly.

[4] South Dakota's refund is issued quarterly and is based on an estimate of how much sales tax a household spent on food during the quarterly period (using a tax rate of 5.9 percent). When the state calculates the amount that households receiving food stamps spend on food, it subtracts their monthly food stamp benefit from their estimated food stamp expenditure. This is because households do not pay sales tax on purchases made with food stamps.

[5] Note also that many families in Idaho and elsewhere who are not required to file income taxes do so anyway in order to claim refunds of withholding taxes. Under current law in Idaho, such families cannot get the credit, but it would be administratively simple to allow them to do so.

No State Excludes Food Stamp Recipients from Its Grocery Tax Credit

All five of the states that provide grocery tax rebates or credits allow participants in the federal Food Stamp Program to receive the credit. This is because food stamps are designed so that recipients are expected to spend 30 percent or more of their available income on groceries. In addition, many food stamp recipients participate in the program for only part of the year. As a result, although purchases made with food stamps are not subject to state sales tax, most food stamp recipients spend a substantial share of their own money each year on groceries and therefore pay substantial tax.

credit is also unavailable to low-income disabled Idaho residents whose earning power may be limited by the nature of their disabilities.

The structure of the credit can also create perverse incentives and rewards. Beyond excluding poor households, the grocery tax credit's eligibility requirements also impose a marriage penalty. To see why this is true, take the example of a single Idaho resident with an annual income of $15,000. As long as this individual stays single he is eligible to receive Idaho's grocery tax credit, because his income is above the $8,750 income threshold for single filers. However, if he marries a non-worker he will no longer be eligible for the credit even though his income remains the same (and he is now supporting a family with that income). This is because his $15,000 household income falls below the $17,500 income threshold for married couples filing jointly.

Why Fixing Idaho's Credit Should Be a Priority

As is evidenced above, every other state that offers food tax benefits recognizes that low-income families have the greatest need for those benefits. At the very least Idaho lawmakers should act promptly to assure that its most vulnerable citizens have access to the same food tax relief as everyone else. After all, even Idaho millionaires have access to Idaho's $20 per person grocery tax credit. It makes no sense that the families who stand to benefit the most from the credit are excluded from receiving it.