

Grocery Tax Credit

Frequently Asked Questions

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IDAHO

Center for
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Policy Perspective

In recent years, the Idaho State Legislature has considered various proposals to exempt groceries from the sales tax and eliminate the grocery tax credit. Over the last two decades, the grocery tax credit has been revised to expand its access and increase the credit value. Policymakers and the public should take into account considerations outlined in this document about the credit and the important role of the sales tax on groceries in Idaho's revenue and budgeting.

1. What is the grocery tax credit?

The grocery tax credit is a tax refund for Idahoans to offset some or all of the sales tax residents pay on groceries. It is known as a 'refundable' tax credit because residents can receive the full value even if they do not owe any state income taxes. The credit helps families with relatively low earnings pay for necessities.

2. How much is the grocery tax credit worth?

The credit provides \$100 per individual. Idahoans aged 65 and older receive an additional \$20. This means a family of two adults and three children receives a credit of \$500, while an elderly couple would receive a credit of \$240. Individuals who do not file a tax return because their income doesn't meet the threshold for filing may claim the full amount of the credit using Form 24.

3. Are all Idahoans eligible for the grocery tax credit?

No. While Idahoans of any income level are eligible to claim the credit, participation in the Supplemental Nutrition Assistance Program (SNAP, also known as food stamps) reduces or eliminates the credit. Idahoans who receive SNAP benefits are not eligible to claim the credit for the months in which they receive benefits (the credit is prorated equally for each month). For example, a family of five that received food stamp benefits for four months during a year would see its tax credit reduced from \$500 to \$333. People who are incarcerated are eligible for the credit only in the months they are not confined. Part-year residents of Idaho are eligible to claim a refund for the months they reside in the state using Form 43.

Filers Claim Credit in Three Ways

Form	Number of Returns	Total Credit Claimed
Form 40 Idaho Individual Income Tax	697,744	\$139,535,678
Form 24 Idaho Grocery Credit Refund	20,797	\$3,216,160
Form 43 Idaho Part-Year Resident & Nonresident Income Tax Return ¹	114,115	\$2,498,254

Source: Idaho Tax Commission

4. What is funded with revenue from the grocery portion of the sales tax?

The majority of sales tax revenue goes to the General Fund, and a smaller share is distributed to local government. Education represents the biggest slice of General Fund expenditures at 63 percent.

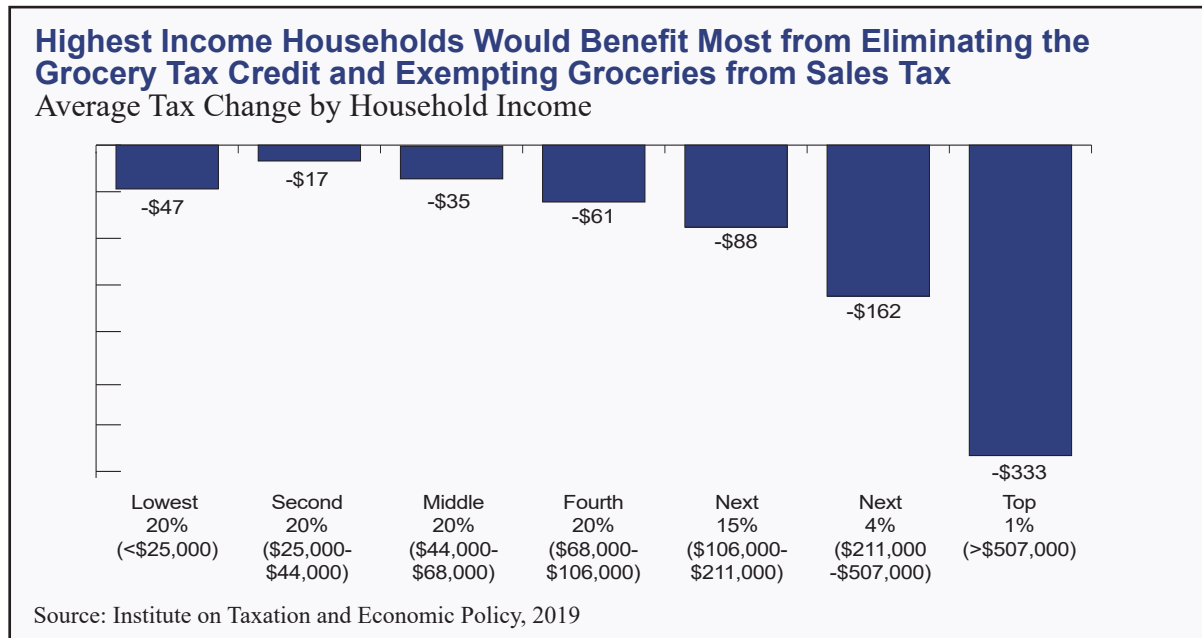
5. How would the elimination of the sales tax on groceries and the grocery tax credit impact the General Fund and education funding?

Idaho spends less on the grocery tax credit than it collects from sales tax on grocery purchases. If groceries were exempted from the sales tax and the grocery tax credit were eliminated, Idaho would forgo an estimated \$48 million to \$52.8 million in revenue.² Because local governments are entitled to a portion of revenue from the sales tax, prior proposals included 'revenue-replacement' funds, with General Fund dollars. Revenue-replacement adds an estimated \$26.2 million to the annual cost, and would bring the total cost to between \$74.2 million and \$79 million annually. That would mean \$74.2 to \$79 million fewer dollars flowing into the General Fund. At 63 percent of the state budget, the education budget would receive \$47 to \$50 million less, if the reduction were distributed proportionally.

6. How would exempting groceries from sales tax and ending the grocery tax credit impact Idaho family budgets?

Households that purchase pricier groceries would reap a disproportionate share of the benefits because the reduction in sales tax paid is directly related to how much a household spends on groceries. Middle-income Idaho households would gain \$35 from a grocery tax swap on average, while households in the top 1 percent of the income distribution, who are likely to buy costlier food in more expensive stores, would receive nearly ten times that amount on average. The top 20 percent of households would receive 38 percent of the tax benefits from this type of proposal.

Tourists and other non-residents currently pay sales tax on groceries but cannot claim the grocery tax credit. Lost revenue from non-residents would be \$5 million.



7. Are there any benefits to taxing groceries?

Yes. Because groceries are purchased year-round and the overall amount is fairly stable even as the economy ebbs and flows, the revenue from the sales tax on groceries is relatively predictable and makes state budgeting more reliable. The sales tax on groceries also brings in revenue from out-of-state individuals passing through or vacationing in Idaho.

9. Are there other tools available to reduce taxes for Idahoans who earn low incomes?

Some have expressed an interest in eliminating the credit and exempting groceries as a way of putting more money into the pockets of Idahoans who struggle to make ends meet. If the goal is to reduce the taxes paid by Idahoans while disproportionately benefiting low-income Idahoans, the tax credit could be increased to a higher amount for all Idahoans or for those in lower income brackets. Alternatively, or in addition to this approach, the credit could also be tied to inflation in the cost of food, ensuring its value to all Idahoans from year to year.

¹ While nonresidents file Idaho tax returns, they are not eligible for the grocery tax credit.

² The low estimate was modeled by the Institute on Taxation and Economic Policy and the high estimate by Idaho Legislative Services Office on 2017 House Bill 67 aaS, aaS.

