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Food Taxes and Their Impacts on Food Spending

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What Is the Issue?

State and local governments levy sales taxes to raise revenue for essential public services like schools and fire and police departments. These taxes typically apply to products bought at retail stores or online, such as clothes, computers, and automobiles. Most State and local governments exempt food purchases; some do not. Grocery taxes are more common in Southeast and Midwest States, such as Alabama, Arkansas, Kansas, Mississippi, Missouri, and South Dakota. The average grocery tax rate in counties that tax groceries is between 4 and 5 percent. Most State and local governments, by contrast, do not exempt restaurant meals and other types of food-away-from-home (FAFH). Indeed, restaurant taxes typically meet or exceed the general sales tax rate, which averages 6.6 percent across counties that impose a sales tax.

Food taxes can affect a household's relative costs for eating at home versus dining out, which can in turn affect diet quality. Restaurant meals are generally more calorie-dense and can be nutritionally poorer (often lower in fiber, calcium, and iron) than meals prepared at home. If such taxes were to encourage households to consume more FAFH and less food-at-home (FAH), they might have unintended implications for consumers' caloric intake and overall diet quality.

What Did the Study Find?

Restaurant and grocery taxes can affect a household's food spending. However, households are not homogeneous. How they respond to each type of tax may depend on income and if they participate in the U.S. Department of Agriculture's (USDA) Supplemental Nutrition Assistance Program (SNAP). Among the key results, we find that:

- Grocery taxes are negatively associated with FAH spending among households that are income eligible for SNAP but do not participate in the program. A 1-percentage-point increase in grocery taxes from 3 to 4 percent (a 33-percent increase), for example, is associated with spending 0.7 percent less on FAH.

- No clear relationship exists between grocery taxes and FAH spending among SNAP recipients, likely because these households' benefits are shielded from grocery taxes. Federal laws and USDA regulations exempt food purchases made with SNAP benefits from State and local sales taxes.

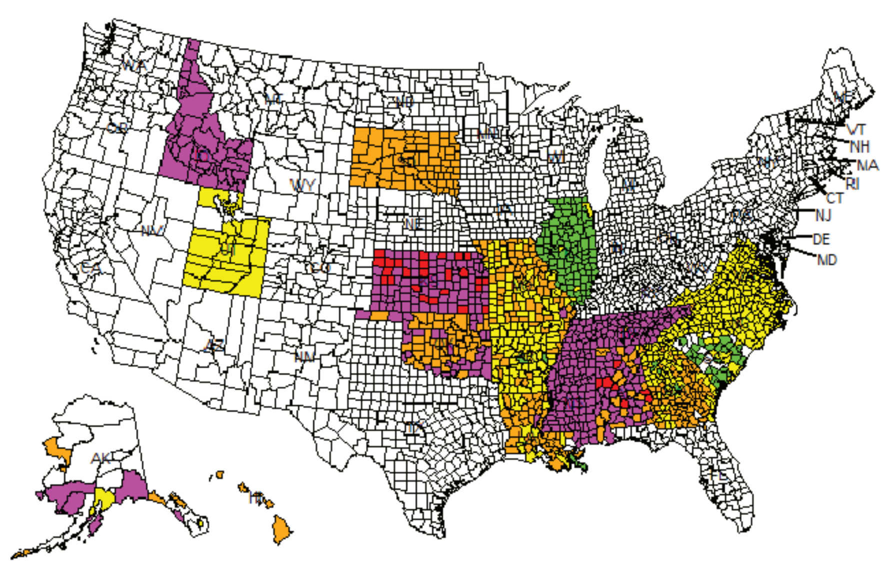
- No clear relationship is found between grocery taxes and food spending among higher-income households. Higher-income households may be less sensitive to such taxes because food represents a smaller portion of their total budgets.

- Restaurant taxes are positively associated with FAH spending among SNAP households, although no significant relationship was detected between restaurant taxes and FAH spending among the two other groups of households considered in this study. A 1-percentage-point increase in restaurant taxes from 7 to 8 percent (a 14-percent increase), for example, is associated with spending about 3.9 percent more on FAH among SNAP households.

How Was the Study Conducted?

This study combines county-level sales tax data with data from USDA's National Household Food Acquisition and Purchase Survey (FoodAPS) and estimated statistical models to isolate the relationship between food taxes and food spending while controlling for potentially confounding factors. The control factors in the models accounted for a household's income and demographic characteristics, geographic variation in food prices, and other aspects of the food environment. Moreover, because different types of households can react differently to tax and price changes, the researchers estimated separate models for three distinct household types: SNAP participants, households that are income-eligible for SNAP but do not participate in the program, and households that are not income-eligible for SNAP (mostly higher-income households).

Consumers in about one-third of U.S. counties face grocery taxes, 2019



Source: USDA, Economic Research Service and collaborator calculation compilations from public sales tax sources and State and county departments of revenue. These are the combined State and county tax rates. They do not reflect that some cities may impose additional taxes in addition to State and county taxes.