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February 14, 2019

To: Chair Linehan and Members of the Revenue Committee
From: Julia Tse, Policy Coordinator for Economic Stability and Health
RE: Opposition to LB 497 – Adopt the School District Property Tax Authority Act and change revenue and taxation provisions

Hunger during childhood is detrimental to physical and mental health. Voices for Children in Nebraska opposes the elimination of the sales tax exemption for groceries in LB 497 because it would disproportionately have a negative effect on Nebraska families' bottom lines.

Lower-income families spend a much larger share of their income on meeting basic needs. Consumption taxes, such as the one proposed by LB 497 on food for home consumption, are inherently regressive. Last year, the lowest quintile of Nebraska taxpayers spent 6.1% of their income on sales and excise tax, compared to 0.8% for the top 1% of taxpayers.ⁱ In recognition of the regressive nature of this tax, only 7 states apply sales tax to groceries and 6 others apply a lower rate to groceries.ⁱⁱ

Federal law prohibits the taxation of food purchased through the Supplemental Nutrition Assistance Program (SNAP). This exemption fails to adequately shelter low-to moderate-income families from the broader impact of taxes on groceries. Not all families who have unstable access to food are eligible for or receiving SNAP. In Nebraska, income eligibility for SNAP is far from a living wage for most families.ⁱⁱⁱ As a result, many food-insecure children who may need food assistance are unable to receive it. Moreover, SNAP benefits are only intended to *supplement* family income for food expenditures. The benefit calculation for SNAP assumes that families will spend 30% of their net income on food. Most families receive a very modest amount in SNAP benefits—an average of \$1.25 per person per meal^{iv}—and those purchases only represent a portion of their monthly grocery budget.

Typical household expenditures vary significantly by family composition. In the case of food, families with teenagers would be particularly affected by the elimination of this exemption. For example, a family of 4 in Nebraska living at 140% of the federal poverty level (FPL) would expect to spend a quarter of their income on food, or \$764 monthly.^v Because of our low eligibility threshold for SNAP, they would not be eligible for food assistance, and would therefore, spend \$504 in additional taxes annually under LB 497.

One recent study examining the application of state and local sales tax to groceries found a statistically significant relationship between grocery tax rates and levels of food insecurity. Even after controlling for demographic and socioeconomic variables, researchers found that each 1 percentage point increase in grocery taxes increases the probability of household food insecurity by 0.60 % among families living at 200% of FPL, and 0.56% among families living at 150% of FPL.^{vi}

We recognize that the Legislature has before it a Herculean task in balancing the state budget and addressing lagging revenue growth, but our resolution cannot be one that places the greatest burden on children and families in lower-income households. Alternative options that other states have adopted include targeted credits or rebates to families by income and household composition.^{vii} While the credits offer their own administrative disadvantages, they are less costly when compared to the outright exemption and offer a buffer for families who need it.

We thank Senator Friesen and appreciate his time and commitment in coming to broad solution for the state but are opposed to an approach that rests on the backs of low-income children and their families. We respectfully urge the committee to not advance this provision of LB 497. Thank you.

ⁱ “Nebraska: State and Local Tax Shares of Family Income for Non-elderly Taxpayers,” *Who Pays? A Distributional Analysis of the Tax Systems in All 50 States, 6th Edition*, Institute on Taxation & Economic Policy, October 2018, <https://itep.org/wp-content/uploads/itep-whopays-Nebraska.pdf>.

ⁱⁱ Of the 7 states that apply sales tax fully to groceries, 4 states offer credits or rebates to offset taxes paid on food for certain households. Eric Figueroa and Samantha Waxman, “Which States Tax the Sale of food for Home Consumption in 2017,” Center on Budget and Policy Priorities, March 2017, <https://www.cbpp.org/sites/default/files/atoms/files/3-16-06sfp3.pdf>.

ⁱⁱⁱ “Broad-based Categorical Eligibility,” United States Department of Agriculture, October 2018, <https://fns-prod.azureedge.net/sites/default/files/snap/BBCE.pdf>.

^{iv} “Nebraska: Supplemental Nutrition Assistance Program,” Center on Budget and Policy Priorities, December 2018, https://www.cbpp.org/sites/default/files/atoms/files/snap_factsheet_nebraska.pdf.

^v Estimate for a 4-person household with 2 adults, 1 preschooler, and 1 teenager in an urban county in Nebraska. *Family Bottom Line*, Voices for Children in Nebraska, <https://familybottomline.com>.

^{vi} Norbert L.W. Wilson et al., “Do Grocery Food Sales Taxes Cause Food Insecurity?” Presented at the 2016 Agricultural & Applied Economics Association Annual Meeting, 2016, https://ageconsearch.umn.edu/record/235324/files/Wilson_%20Zheng_%20Burney_%20Kaiser%20-%20Do%20Grocery%20Taxes%20Cause%20Food%20Insecurity.pdf.

^{vii} Aidan Davis, “Options for a Less Regressive Sales Tax in 2018,” September 2018, <https://itep.org/options-for-a-less-regressive-sales-tax-in-2018/>.