



SOUTH

JUNE 2023

Q of M

Question of the Month



As inflation continues to bite into household expenses, what actions did states take during the 2023 legislative sessions to offset the high price of food?

Like many everyday essentials that have been impacted by the current inflationary environment, the elevated price of food has hit household pocketbooks everywhere. According to the U.S. Government Accountability Office, retail food prices rose by 11 percent from 2021 to 2022, the largest annual increase in more than 40 years.¹ A May 2023 report from the U.S. Department of Agriculture (USDA) similarly found that grocery store and supermarket food prices were 7.1 percent higher in April 2023 compared to the prior year, and they are projected to increase between 4.5 percent and 8.1 percent on an annual basis for all of 2023.²

Higher food prices are particularly burdensome for lower-income households, which spend a disproportionately higher share of their budgets on food. The USDA found that households in the lowest income quintile spent approximately 30 percent of their budgets on food in 2021, before most of the recent price increases hit shoppers, compared to only 7.6 percent for households in the highest income quintile.³ The higher expenses impose additional barriers for low-income households and make it difficult to cover other important daily necessities, thereby worsening existing inequalities.

The majority of states exempt groceries from sales taxes to offset the cost of food – as CSG South highlighted in the December 2022 Question of the Month – a practice that began prior to the current inflationary period. In the South, most groceries are exempted from the state tax base in Florida, Georgia, Kentucky, Louisiana, North Carolina, South Carolina, Texas, Virginia and West Virginia. Of these, Virginia was the latest to eliminate the state sales tax on groceries, effective January 1, 2023. Importantly, several states exclude certain food items, such as sodas and candy, from the exemptions, and local governments generally are able to impose their own taxes even when the state does not.

¹"Food Prices: Information on Trends, Factors, and Federal Roles," U.S. Government Accountability Office, accessed June 6, 2023, <https://www.gao.gov/products/gao-23-105846>.

²"Food Price Outlook, 2023," U.S. Department of Agriculture, accessed June 5, 2023, <https://www.ers.usda.gov/data-products/food-price-outlook/summary-findings/>.

³"Food Prices and Spending," U.S. Department of Agriculture, accessed June 6, 2023, [https://www.ers.usda.gov/data-products/ag-and-food-statistics-charting-the-essentials/food-prices-and-spending/?topicId=2b168260-a717-4708-a264-cb354e815c67#:~:text=In%202021%2C%20households%20in%20the,representing%207.6%20percent%20of%20income\).](https://www.ers.usda.gov/data-products/ag-and-food-statistics-charting-the-essentials/food-prices-and-spending/?topicId=2b168260-a717-4708-a264-cb354e815c67#:~:text=In%202021%2C%20households%20in%20the,representing%207.6%20percent%20of%20income).)

Heightened inflation prompted the remaining Southern states where groceries are subject to reduced or full tax rates to consider various efforts during the 2023 legislative sessions to ease the ongoing burden on shoppers. Alabama, Arkansas, Oklahoma, Missouri, Mississippi and Tennessee all considered such measures this year.

Alabama took the most significant step in 2023 to reduce grocery taxes with the passage of House Bill 479. The legislation permanently cuts the state tax on SNAP-eligible food items from 4.0 percent to 3.0 percent beginning September 1, 2023, followed by another 1.0 percent cut in 2024 if the state’s Education Trust Fund – which receives approximately \$600 million annually from the full 4.0 percent sales tax – grows by at least 3.5 percent during the preceding fiscal year. Meanwhile, Tennessee opted for short-term relief after passing House Bill 323, which suspends all grocery taxes from August 1 – October 31, 2023. Both state and local taxes will be suspended during the three-month holiday, with the state agreeing to reimburse local governments for tax revenues lost as a result of the exemptions.

Similar legislation in Arkansas, Mississippi, Missouri and Oklahoma, where state taxes on groceries range from as little as 0.125 percent up to 7.0 percent, was introduced in 2023, but was not enacted. However, given the strong interest from many lawmakers, along with ongoing efforts to help households struggling with decades-high inflation, it is likely that similar measures will continue to be considered in states where the state grocery tax has not been reduced or eliminated.

Figure 1. State Tax on Groceries in Southern States

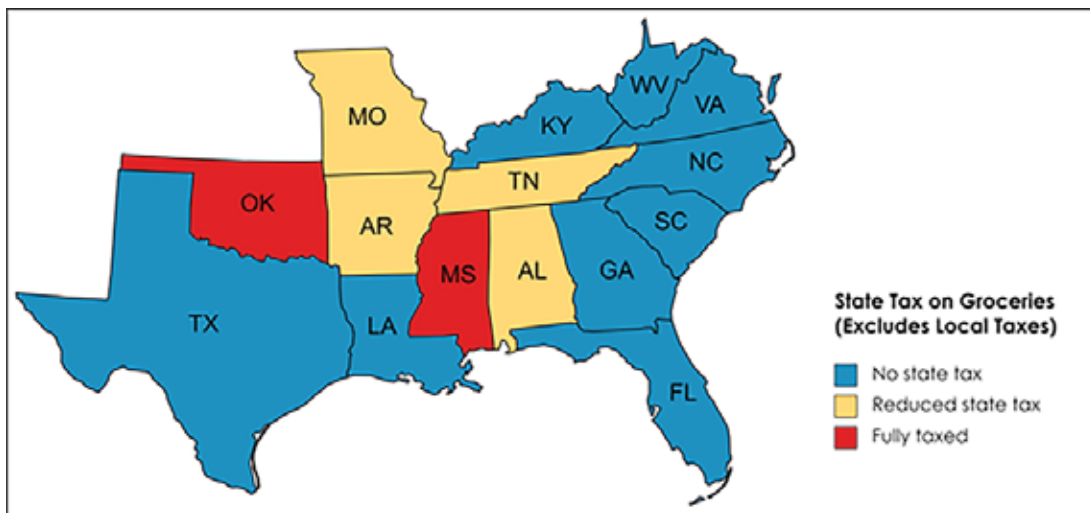


Figure 2. State Tax Rates on Groceries in Southern States

State	State Tax Rate on Groceries (Excludes Local Taxes)
Alabama	3.0 percent (effective September 1, 2023)
Arkansas	0.125 percent
Florida	0 percent
Georgia	0 percent
Kentucky	0 percent
Louisiana	0 percent
Mississippi	7.0 percent
Missouri	1.225 percent
North Carolina	0 percent
Oklahoma	4.5 percent
South Carolina	0 percent
Tennessee	4.0 percent
Texas	0 percent
Virginia	0 percent
West Virginia	0 percent