Strengthening the Grocery Tax Credit would provide fiscally smart tax relief to working Oklahomans

Oklahoma can effectively eliminate the state and local sales tax on groceries for most low-income families by strengthening the Sales Tax Relief Credit. At a time when many Oklahomans are struggling to put food on the table and are at risk of eviction, a more robust Sales Tax Relief Credit can help put money back into the pockets of those who need it most. Doing so would bolster family finances, make purchasing food more cost-effective, and stimulate our local economies.

Oklahoma is one of the only states that fully taxes groceries.

Oklahoma has earned the dubious distinction as one of the Institute on Taxation and Economic Policy’s “Terrible 10” for states with the most regressive tax policies. A regressive tax policy means lower-income Oklahomans pay a higher tax rate than their wealthier counterparts. Oklahoma’s heavy reliance on the sales tax contributes to this regressivity, and it is made worse by the fact that Oklahoma is one of only seven states that fully tax groceries.

Just 13 states, including Oklahoma, impose sales tax on groceries

Source: Center on Budget and Policy Priorities, Hawaii Tax Fairness, Idaho Center for Fiscal Policy, and the Kansas Department of Revenue.
Four states – Hawaii, Idaho, Kansas, and Oklahoma – offer a tax credit to offset the cost of the sales tax on groceries. The credits range from $40 per person in Oklahoma to $125 per person in Kansas, and each state has different eligibility requirements for its credit. These credits are a good first step towards reducing taxes on necessities for people who need the help the most.

**Oklahoma’s Sales Tax Relief Credit is due for an update.**

Unfortunately, the value of Oklahoma’s Sales Tax Relief Credit, — commonly known as the “grocery tax credit,” has significantly decreased since its creation in 1990. The credit amount – $40 per person – has never been adjusted for inflation and thus has lost about 60 percent of its buying power in the last 30 years.

The value of Oklahoma’s Sales Tax Relief Credit is shrinking

<table>
<thead>
<tr>
<th>$40.00</th>
</tr>
</thead>
<tbody>
<tr>
<td>value in 1990</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>$16.09</th>
</tr>
</thead>
<tbody>
<tr>
<td>value in 2021</td>
</tr>
</tbody>
</table>

Source: Oklahoma Policy Institute

Similarly, the eligibility limits to qualify for the credit have not been updated since 1998. This means the threshold to qualify for this tax relief has not kept pace with inflation and doesn’t adequately reflect today’s economic realities. Currently, tax filers who are elderly, have a physical disability, or who claim a dependent can qualify with incomes up to $50,000, and everyone else qualifies with incomes up to $20,000 annually.
Lawmakers in 1990 created the Sales Tax Relief Credit because they recognized the need to offset the cost of groceries for low-income Oklahoma families. Without making regular adjustments to account for inflation, lawmakers are not living up to the commitment Oklahoma made to ensure working Oklahomans can keep food on the table.

**Expanding the credit amount and the qualifying income limits will provide a tax cut to many low-income Oklahomans.**

To eliminate or substantially reduce the state and local sales tax on groceries for most low-income taxpayers, Oklahoma can increase the credit from $40 to $180 per person and slightly increase the qualifying income limits with a phase-out, as shown below.

<table>
<thead>
<tr>
<th>Annual Income</th>
<th>$30,000 or below</th>
<th>$35,000</th>
<th>$40,000</th>
<th>$45,000</th>
<th>$50,000</th>
<th>$55,000</th>
<th>$60,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Adult</td>
<td>$180</td>
<td>$90</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
<td>$0</td>
</tr>
<tr>
<td>Adult who is elderly, has a disability, or claims dependents</td>
<td>$180</td>
<td>$180</td>
<td>$180</td>
<td>$135</td>
<td>$90</td>
<td>$45</td>
<td>$0</td>
</tr>
</tbody>
</table>

These changes would strengthen the credit and provide a substantial tax refund to many Oklahomans.
Most low-income Oklahomans would see a tax cut if the Sales Tax Relief Credit is raised to $180/person

Single person
Annual Income: $25,000
Currently pays $231 PER YEAR in Grocery Sales Tax
Would pay $51 PER YEAR with expanded credit

Senior Couple
Annual Income: $40,000
Currently pays $267 PER YEAR in Grocery Sales Tax
Would pay $0 PER YEAR with expanded credit

Family of 3
Annual Income: $45,000
Currently pays $283 PER YEAR in Grocery Sales Tax
Would pay $0 PER YEAR with expanded credit

Source: OK Policy calculations of data from the Bureau of Labor Statistics and the Institute on Taxation and Economic Policy
While this approach would provide targeted grocery tax relief to the Oklahomans who need it most, it also has the added benefit of protecting the state’s ability to maintain the services on which all Oklahomans rely. If Oklahoma were to entirely eliminate the sales tax on groceries, it would result in $235 million of lost state revenue annually, according to analysis by the Institute on Taxation and Economic Policy. Because the Sales Tax Relief Credit is targeted tax relief for low-income residents, strengthening the credit will cost the state less and provide more targeted relief.

**It is past time to support working Oklahomans.**

The lowest income households can spend about a third of their income on food eaten at home, making it one of the largest household expenses for these families. If Oklahoma lawmakers leverage the Sales Tax Relief Credit to reduce or eliminate the impact of grocery taxes, this would represent a fiscally prudent way to deliver meaningful support to our friends and neighbors who most need tax relief. Expanding the Sales Tax Relief Credit and adjusting the qualifying income limits to include a phase-out of the credit will help put money back into the pockets of working Oklahomans without cutting state revenue that might never return.