

Continue to Phase-Out the Grocery Tax

Democratic Gov. Mike Beebe in 2007 proposed a 50 percent reduction in the state sales tax on groceries. The tax cut, enacted by the General Assembly reduced the grocery tax from six to three cents. The grocery tax was reduced from three to two cents in 2009. Gov. Beebe would like to cut the grocery tax by a half-cent, a very modest proposal given state revenues, which have improved in the current fiscal year and allow lawmakers to reduce the tax by another cent. Reductions in the grocery tax are one factor in Arkansas' recent improvement in per capita personal income from 48th to 44th in the U.S. But there is another compelling reason to phase-out the grocery tax: it is an *immoral tax* that falls disproportionately on the weakest members of civil society.

A 2002 Policy Foundation memo noted free market economists have opposed food taxation for more than two centuries:

"The outstanding example is France in the last quarter of the 18th Century. The French economist A.R.J. Turgot (1727-1781) held the important office of Intendant or Comptroller of the Finances of France for three years (1774-1776). During that period, Turgot attempted to stop the French government's dependence on sales taxes and the *corve'*, a form of forced labor used against the poor. Government economists and special interest groups who profited from the regressive tax system and *corve'* opposed him."

The majority of states, recognizing the tax's regressive nature, have repealed it. "The sales tax on groceries," we noted (*North Pulaski Leader*, Aug. 9, 2006), "is the cruelest tax levied by Arkansas government on its citizens, who have consistently ranked in the national basement in per capita personal income."

Arkansas liberal commentators have been among the grocery tax's biggest proponents, arguing the state could not afford a phase-out. Their legacy is assured: future historians will record they defended, like Gov. Bill Clinton and Mike Huckabee before them, a regressive tax on society's weakest members while others fought to successfully end it.

The state Department of Finance and Administration, prior to 2007, failed to understand this issue. Fortunately, this has been corrected under Gov. Beebe.

Arkansas is in a position to join states that have repealed their grocery tax. The grocery tax can be reduced by one cent this year. The current 2.0 percent state rate can be reduced to 1.00 percent. A gradual phase-out of the grocery tax is preferable to the alternative: raising other state taxes to force immediate repeal.

Recommendation

- Reduce the sales tax on groceries by one cent in 2011.