

*Testimony concerning Senate Bill 166—Ray Ring*

Thank you, Mr. Chairman/Senator Johns. I'm Ray Ring, from Vermillion, representing only myself. I've been asked to comment on Senate Bill 166, to exempt food for home consumption from South Dakota's sales tax base. I've testified for similar bills several times before.

To understand how important this bill is, you need to know that South Dakota has one of the most regressive tax systems in the nation, largely because of our heavy dependence on sales and excise taxes. "Regressive" means it takes a higher percent of income from people with lower incomes. One study ranks us #4 of the "terrible ten" state tax systems. The poorest one-fifth of our population pays over eleven percent of their income in taxes, while the top one percent pays only 2.5 percent. That means the poorest one-fifth pays more than four times the share of their incomes in taxes than does the top one percent. Stated another way, the poorest one-fifth of South Dakota families bears about the same tax burden as the poorest one-fifth of all Americans, but the top one percent in South Dakota bears about one-third the burden that their counterparts bear nationally.

**Taxes as a percent of income**

STATE	low 20%	2 <sup>nd</sup> 20%	3 <sup>rd</sup> 20%	4 <sup>th</sup> 20%	next 15%	next 4%	top 1%
South Dakota	11.2%	9.8%	8.9%	7.4%	5.8%	4.0%	2.5%
ALL STATES	11.4%	10.1%	9.9%	9.5%	8.9%	8.0%	7.4%

Only seven states (including South Dakota) continue to tax food at home at their full sales tax rate; six others tax food at much lower rates, some at around one percent. None of our six adjacent states tax food at all.

Taxing food adds significantly to our overall tax system's high regressivity. Because taxes on gasoline, tobacco, alcohol, and utilities are also very regressive and we get more than 80 percent of state tax revenue from sales and excise taxes, we have one of the nation's most regressive tax structures. And I haven't even mentioned the lottery, which isn't considered a tax, but researchers find that gambling is more regressive than most taxes.

[[https://www2.census.gov/govs/pubs/classification/2006\\_classification\\_manual.pdf](https://www2.census.gov/govs/pubs/classification/2006_classification_manual.pdf), p. 4-41.]

I understand there is also a bill to lower the overall sales tax rate back to four percent. I won't specifically address that proposal, except to say that I think it's a bad idea. However, I do want to compare exempting food to lowering the overall rate.

Not only will the tax relief from exempting food go to lower income folks, it will almost all go to South Dakotans. Most tourists eat at restaurants, which SB 166 will not affect. Some people save the tax on food by buying it out of state. Exempting food would give folks more incentive to shop in South Dakota. While they're buying food, they'll buy other groceries and probably go to other stores while they're shopping. All that additional spending stimulates South Dakota's economy.

A lower overall tax rate will of course lower taxes on consumer purchases, but also on business purchases of inputs like utility bills and various types of equipment. Out-of-state businesses selling in-state will collect less tax, and may be able to increase prices to raise their own profits. In-state businesses with out-of-state owners might also see higher profits that go out of state. In other words, part of the state's lost revenue will go out of state, not to the hardworking people of South Dakota. Tax relief going out of state won't stimulate the state's economy like lowering the food tax will.

Exempting food will not only make our tax system more burdensome on poor people, it will also keep more of the tax relief in South Dakota.