Center for Economic Development and Business Research

W. Frank Barton School of Business

Short Term Effect of the Recent Kansas Sales Tax Increase

There have been two increases in the Kansas state sales tax rate in the last nine years. In July 2002, the sales tax rate was increased from 4.9 percent to 5.3 percent. In July 2010, there was a one percent sales tax increase, from 5.3 percent to 6.3 percent. In the seven months of available data following the most recent increase, average taxable retail sales remained steady, and there was an increase in sales tax collections.

Consumers, generally, do not immediately adjust their spending patterns based on a change in sales tax. The increases are typically too small, on a per purchase basis, to change buying habits. The increased cost of goods will accumulate and reduce consumers' expendable income over time. Spending habits may be adjusted when consumers become aware of the accumulated effect of the sales tax increase. However, if the sales tax increase is offset by an increase in income, over the same period of time, there may not be a change in spending patterns.

On average, the most recent Kansas state sales tax increase will have had only a small impact on most residents. The average annual expenditures of a consumer unit[i] in the Midwest are $46,551[ii], approximately 35 percent of which are spent on taxable goods. Based on these figures, the impact of the sales tax increase would be about $160 a year, or 0.34 percent of the average annual wage of $47,283. This is not enough to cause a significant shift in consumer's consumption of taxable retail products. This is shown in the aggregated state level data in figure one.

Taxable retail sales have remained considerably unchanged since the sales tax increase, while there has been an increase in sales tax collections. The revenue from state and local sales and use taxes increased from 38.8 percent of total revenue in 2009 to 39.8 percent of total revenue in 2010. This was offset by the decrease in revenue from individual income taxes which fell from 41.1 percent of total revenue in 2009 to 39.9 percent of total revenue in 2010. Overall, total revenue was down $3.24 million from 2009 to 2010.

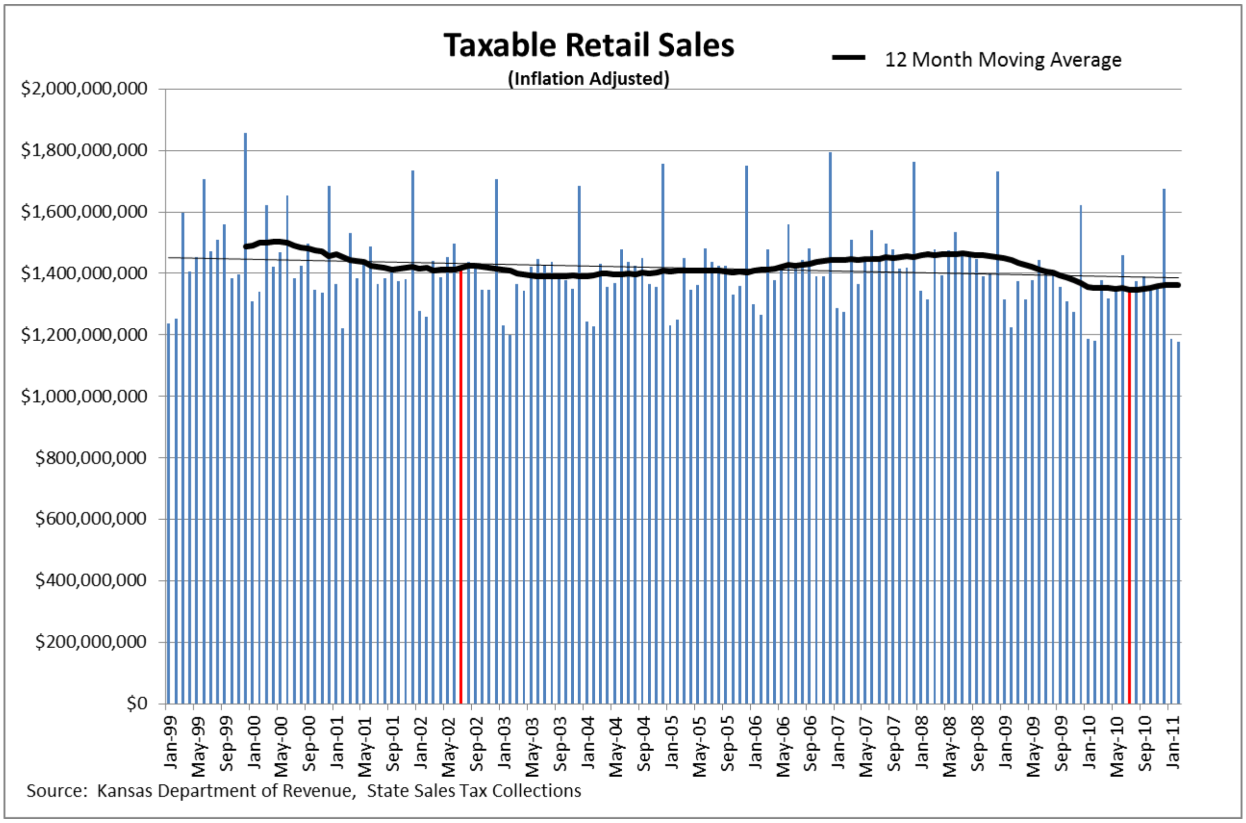

Figure 1. Note: State sales tax increases are indicated by the red bars.

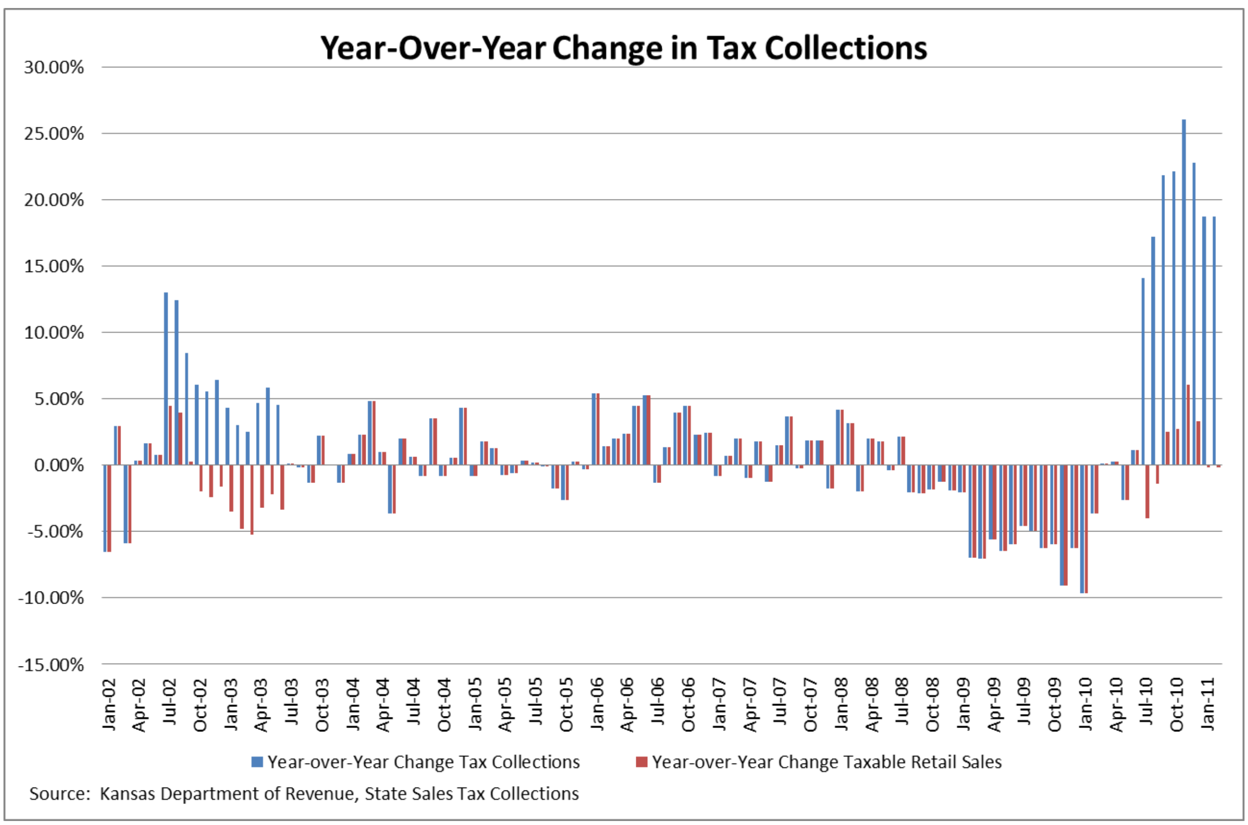

Figure 2.

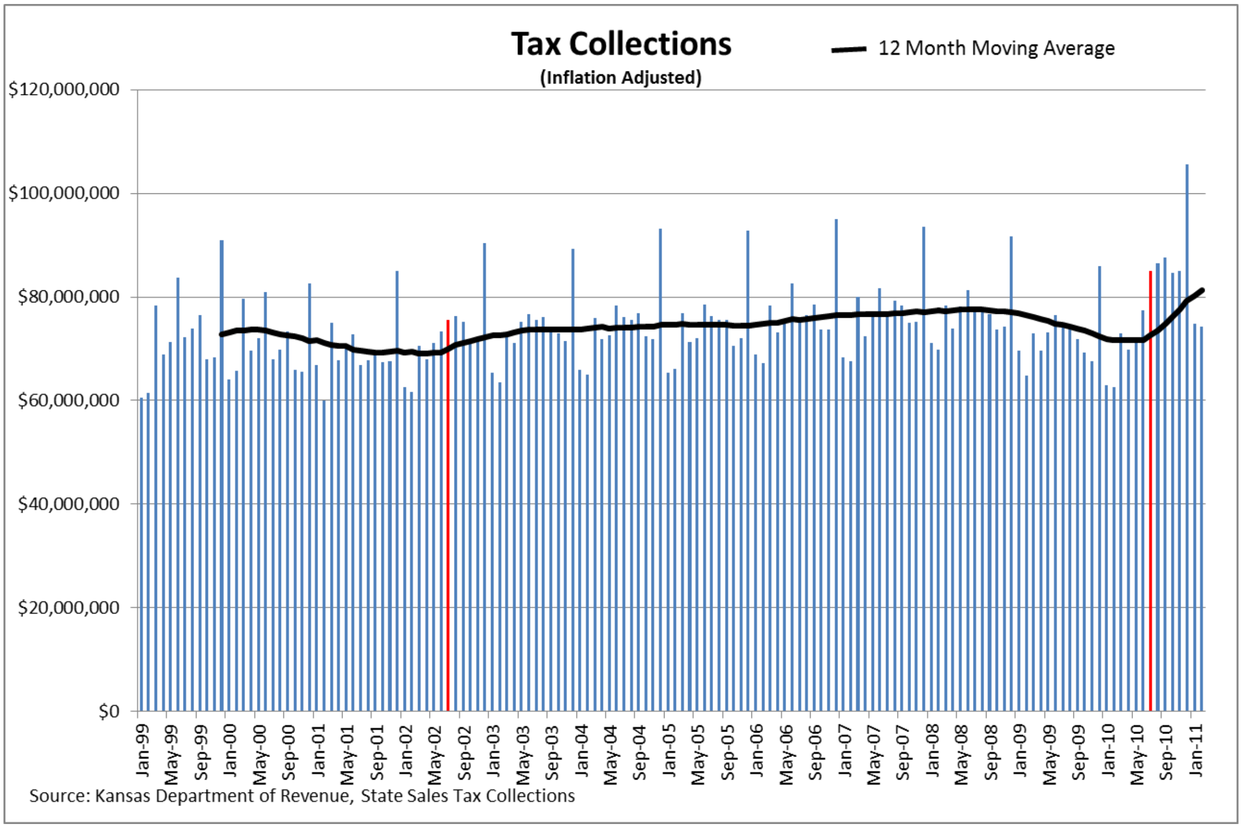

Figure 3. Note: State sales tax increases are indicated by the red bars.

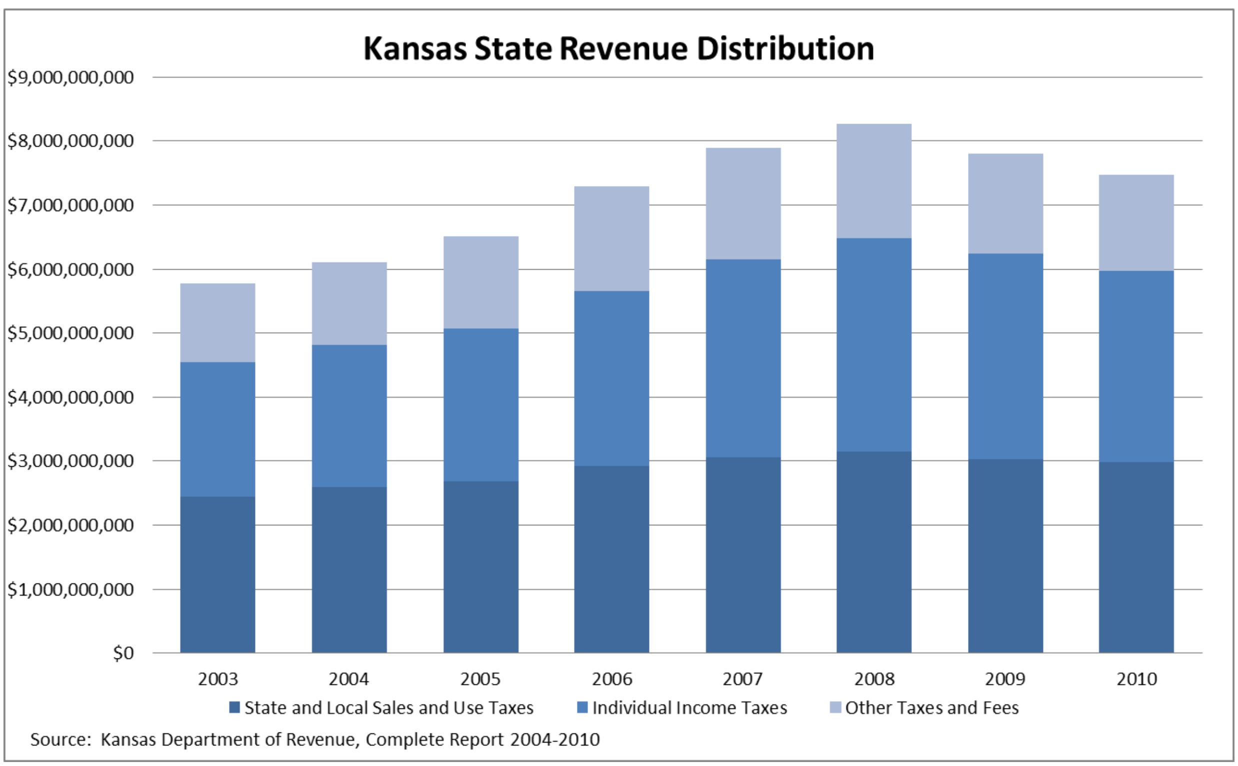

Figure 4.

[i] A consumer unit consists of any of the following: (1) All members of a particular household who are related by blood, marriage, adoption, or other legal arrangements; (2) a person living alone or sharing a household with others or living as a roomer in a private home or lodging house or in permanent living quarters in a hotel or motel, but who is financially independent; or (3) two or more persons living together who use their incomes to make joint expenditure decisions. Financial independence is determined by spending behavior with regard to the three major expense categories: Housing, food, and other living expenses. To be considered financially independent, the respondent must provide at least two of the three major expenditure categories, either entirely or in part.

[ii] Consumer Expenditure Survey, U.S. Bureau of Labor Statistics, October 2010