

**NORTH CAROLINA GENERAL ASSEMBLY**

**LEGISLATIVE FISCAL NOTE**

**BILL NUMBER:** HB 22 (First Edition)

**SHORT TITLE:** Lower Food Tax Another 1 cent

**SPONSOR(S):** Representative Rayfield

<b>FISCAL IMPACT</b>					
	<b>Yes (X)</b>	<b>No ( )</b>	<b>No Estimate Available ( )</b>		
	<b>(\$ Millions)</b>				
	<b><u>FY 97-98</u></b>	<b><u>FY 98-99</u></b>	<b><u>FY 99-00</u></b>	<b><u>FY 00-01</u></b>	<b><u>FY 01-02</u></b>
<b>REVENUES</b>					
GENERAL FUND	(37.8)	(89.6)	(92.3)	(95.0)	(97.9)
<b>PRINCIPAL DEPARTMENT(S)/PROGRAM(S) AFFECTED:</b> Department of Revenue, Sales Tax Division					
<b>EFFECTIVE DATE:</b> January 1, 1998					

**BILL SUMMARY:** The bill reduces the state sales tax on food by an additional one cent. Food is defined in this bill as those items eligible for purchase with Food Stamps and intended for at-home consumption.

**ASSUMPTIONS AND METHODOLOGY:** The original source of data for this estimate is a 1961 field survey conducted by field auditors of the Department of Revenue assigned to tabulate the impact of eliminating the tax exemption on food. Over the years these numbers have been updated for growth with data from the monthly "type of business establishment" reports of the Department of Revenue. As a check on the data, estimates of food tax exemptions from other states have been reviewed. Furthermore, the estimates are consistent with nationwide food consumption data compiled by the U. S. Department of Commerce (and allocated to North Carolina).

Future year estimates are based on 3% annual growth in food tax purchases. With a January 1 effective date and a lag between the retail sale and the remittance of the tax, the revenue loss in the first fiscal year is less than half of the full year impact. The full year cost of the one cent reduction will be in FY 1998-99.

REDUCE STATE FOOD TAX TO 2%

(\$MILLIONS)

	STATE FISCAL YEAR				
	<u>97-98</u>	<u>98-99</u>	<u>99-00</u>	<u>00-01</u>	<u>01-02</u>
<b>BACKGROUND INFORMATION (1) :</b>					
CURRENT TAX YIELD (3% effective 1/1/97)	\$260.9	\$268.7	\$276.8	\$285.1	\$293.6
1 CENT	\$87.0	\$89.6	\$92.3	\$95.0	\$97.9
<b>REDUCE TO 2.0% (1/1/98) (2)</b>	(\$37.8)	(\$89.6)	(\$92.3)	(\$95.0)	(\$97.9)

NOTES:

- (1) Assumes annual growth of 3%
- (2) The effect is less than 50% in the first year due to a lag between the retail sale and the remittance.

**FISCAL RESEARCH DIVISION**  
**733-4910**

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**DATE:** February 17, 1997



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