

**NORTH CAROLINA GENERAL ASSEMBLY
LEGISLATIVE FISCAL NOTE**

BILL NUMBER: HOUSE BILL 1189
SHORT TITLE: FOOD TAX DOWN/ALCOHOL TAX UP
SPONSOR(S): REP. DECKER

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 1997-98*</u>	<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>
REVENUES (\$ Mil.)					
STATE GENERAL FUND:					
Beverage Tax Share Increase	+78.4	+86.5	+88.1	+89.8	+91.6
Less: Food Tax Reduction	-57.9	-87.0	-89.7	-92.3	-95.1
Net-State Impact	+20.5	-.5	-1.5	-2.5	-3.6
Local Government:					
General Share of Revenue	-1.2	.0	.0	.0	.0
Restricted Share**	+40.8	+93.7	+95.4	+97.2	+99.2
Total-Local Impact	+39.6	+93.7	+95.4	+97.2	+99.2
PRINCIPAL DEPARTMENT AFFECTED: All of the taxes are collected by the Department of Revenue.					
EFFECTIVE DATE: October 1, 1997					
* For the first year the match-up of dollars will differ from later years due to the partial year impact and the way one-quarter lag between the collection of the beverage tax and the distribution to local units.					
** Funds to be spent only on designated purposes.					

BILL SUMMARY: (1) Raises the state excise tax on beer and wine as follows:

<u>Beverage</u>	<u>Current Tax Rate</u>	<u>Proposed Tax Rate</u>
Beer	5.0 cents/12 oz.	16.5 cents
Unfortified Wine	21.0 cents/liter	42.0 cents
Fortified Wine	24.0 cents/liter	48.0 cents

(2) Change formulas for earmarking of state tax to local units as follows:

Current Law:	<u>Beer</u>	<u>Unfortified Wine</u>	<u>Fortified Wine</u>
State Share	76.25%	38.00%	78.00%
Local Share-Unrestricted	23.75%	62.00%	22.00%
Local Share-Restricted	—	—	—
Total	100.00%	100.00%	100.00%
House Bill 1189			
State Share	57.74%	44.00%	64.00%
Local Share-Unrestricted	7.4%	31.00%	11.00%
Local Share-Restricted	<u>35.86%</u>	<u>25.00%</u>	<u>25.00%</u>
Total	100.00%	100.00%	100.00%

ASSUMPTIONS AND METHODOLOGY:

- (1) The food tax reduction cost estimates are based on the same methodology as that used in the 1996 legislation reducing the state tax from 4% to 3%. This method is based on a 1961 special study of food sales by classes of merchants, adjusted over time for the growth in sales tax collections of those categories of merchants. In addition, the estimates were compared to numbers from selected states, adjusted for income and population differences. Another check was a proration of U. S. Department of Commerce estimates of nationwide purchases of food for off-premises consumption to North Carolina. Finally, preliminary data from the 1996 reduction in the food tax (effective January 1, 1997) indicates that the 1996 methodology is sound. The annual growth of taxable sales is estimated at 3%.
- (2) The beverage tax estimates start with tax collection detail furnished by the Department of Revenue for the 1995-96 fiscal year. This data is projected to future years based on in-house Fiscal Research Division estimates of the responsiveness of each tax to state economic growth. The estimates of state economic growth for the upcoming 5 years reflects a consensus between Fiscal Research Division and the Office of State Budget and Management.

TECHNICAL CONSIDERATIONS:

FISCAL RESEARCH DIVISION (733-4910)

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DATE: May 6, 1997



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