

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: HB 1271

SHORT TITLE: Repeal State Food Tax

SPONSOR(S): Representative Rayfield

FISCAL IMPACT				
Yes (X)	No ()	No Estimate Available ()		
(\$Millions)				
<u>FY 1998-99</u>	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>
REVENUES				
General Fund				
2% Repeal 7/1/99	(172.6)	(190.0)	(195.8)	(201.6)
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Revenue- Sales Tax Division				
EFFECTIVE DATE: The act is effective July 1, 1999.				

BILL SUMMARY: The 1996 General Assembly lowered the state sales tax on food items intended for home consumption (defined as those items eligible for purchase with Food Stamps) from 4% to 3%, effective January 1, 1997. The 1997 General Assembly lowered the sales tax on food from 3% to 2% effective July 1, 1998. This proposed bill reduces the state tax from 2% to 0 on July 1, 1999.

ASSUMPTIONS AND METHODOLOGY: The original source of data for the estimate was 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. Data from a special tabulation of the Department of Revenue for February and March 1997 indicates that the estimates used in previous fiscal notes are on target. 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 by the Fiscal Research Division). Based on federal data, the estimated 3% annual growth in food tax purchases is also on target.

The July 1, 1999 reduction will produce less than 12 months of revenue loss due to a lag between the retail sale and the remittance of the tax. The full year cost of that 2 cent reduction will be in FY 2000-01.

REPEAL STATE FOOD TAX (\$MILLIONS)

	STATE FISCAL YEAR				
	<u>98-99</u>	<u>99-00</u>	<u>00-01</u>	<u>01-02</u>	<u>02-03</u>
BACKGROUND INFORMATION (1)					
CURRENT TAX YIELD (2% effective 7/1/98)	\$179.1	\$184.5	\$190.0	\$195.7	\$201.6
1 CENT	\$89.6	\$92.2	\$95.0	\$97.9	\$100.8
REDUCE TO 0% (7/1/99) (2)		(\$172.6)	(\$190.0)	(\$195.8)	(\$201.6)

NOTES:

- (1) Assumes annual growth of 3%
- (2) The effect is less than 100% 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: May 13, 1998



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