

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: HB 123
SHORT TITLE: ELIMINATE FOOD TAX
SPONSOR(S): REP. DECKER

FISCAL IMPACT

(\$ Millions)

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					
STATE GENERAL FUND	(37.7)	(128.4)	(224.5)	(285.1)	(293.7)

**PRINCIPAL DEPARTMENT(S) &
PROGRAM(S) AFFECTED:** Department of Revenue, Sales Tax Division

EFFECTIVE DATE: January 1, 1998

BILL SUMMARY: The 1996 General Assembly reduced the state sales tax on certain food items from 4% to 3%, effective January 1, 1997. The bill phases out the remaining 3% tax over a 3-year period by reducing the tax rate by 1% on January 1 of each year, beginning in 1998. Like the 1996 bill, food would be defined as those items eligible for purchase with Food Stamps and intended for home consumption. The bill does not affect the 2% local sales tax.

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. The revenue loss for the first fiscal year is a partial-year number based on methodology developed by the Department of Revenue and the revenue loss for the next two years is a combination of the annual impact of the prior reductions plus the partial-year impact of the next reduction.

FISCAL RESEARCH DIVISION (733-4910)

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APPROVED BY:

DATE: FEBRUARY 27, 1997.



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