

**NORTH CAROLINA GENERAL ASSEMBLY**

**LEGISLATIVE FISCAL NOTE**

**BILL NUMBER:** SB 1400 (First Edition)

**SHORT TITLE:** Repeal State and Local Food Tax

**SPONSOR(S):** Senator Clark

<b>FISCAL IMPACT</b>					
	<b>Yes (X)</b>	<b>No ( )</b>	<b>No Estimate Available ( )</b>		
	<b>(\$million)</b>				
	<b><u>FY 1998-99</u></b>	<b><u>FY 1999-00</u></b>	<b><u>FY 2000-01</u></b>	<b><u>FY 2001-02</u></b>	<b><u>FY 2002-03</u></b>
<b>REVENUES</b>					
<b>General Fund</b>					
<b>2% State Repeal 1/1/99</b>	<b>(78.0)</b>	<b>(184.4)</b>	<b>(190.0)</b>	<b>(195.7)</b>	<b>(201.6)</b>
<b>2% Local Repeal 1/1/99</b>	<b><u>(78.0)</u></b>	<b><u>(184.4)</u></b>	<b><u>(190.0)</u></b>	<b><u>(195.7)</u></b>	<b><u>(201.6)</u></b>
<b>Total General Fund</b>	<b>(156.0)</b>	<b>(368.8)</b>	<b>(380.0)</b>	<b>(391.4)</b>	<b>(403.2)</b>
<b>EXPENDITURES</b> (See Technical Considerations)					
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> Department of Revenue - Sales Tax Division					
<b>EFFECTIVE DATE:</b> Section 4 (sales tax reimbursement) becomes effective July 1, 1999. The remaining sections are effective January 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 bill repeals the remaining 2% state sales tax on food and repeals the 2% local sales tax on food. The bill directs the state to reimburse local governments for the resulting revenue loss from the 2% local food tax repeal.

**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.

With a January 1 effective date, the first year revenue loss is for six months minus a lag between the retail sale and the remittance of the tax in November. The full year cost of the repeal will be in FY 1999-00.

	(\$Millions)				
	<b>STATE FISCAL YEAR</b>				
	<u>98-99</u>	<u>99-00</u>	<u>00-01</u>	<u>01-02</u>	<u>02-03</u>
<b>BACKGROUND INFORMATION (1)</b>					
CURRENT TAX YIELD (4% effective 7/1/98)	\$358.4	\$368.8	\$380.0	\$391.4	\$403.2
1 CENT	\$89.6	\$92.2	\$95.0	\$97.9	\$100.8
<b>Repeal 2% state sales tax 1/1/99 (2)</b>	(\$78.0)	(\$184.4)	(\$190.0)	(\$195.7)	(\$201.6)
<b>Repeal 2% local sales tax 1/1/99 (2)</b>	(\$78.0)	(\$184.4)	(\$190.0)	(\$195.7)	(\$201.6)
<b>Total General Revenue Fund Loss</b>	(\$156.0)	(\$368.8)	(\$380.0)	(\$391.4)	(\$403.2)

**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.

**TECHNICAL CONSIDERATIONS:**

Food Tax - The Department of Revenue estimates that each change in the sales tax rate cost the department \$100,000 to hire temporary employees to review error returns and process assessments generated by errors. The Department also estimates that another \$19,000 is spent on accounting and computer system changes. **However , it should be noted that when the food tax reduction from 4% to 3% was implemented in 1997, the administrative cost was absorbed in the Department's budget. There was also no appropriation made for the food tax reduction scheduled for July 1, 1998.**

**FISCAL RESEARCH DIVISION  
733-4910**

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