

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: H.B. 1474 Local Option Food Tax

SHORT TITLE: Local Option Food Tax

SPONSOR(S): Rep. Cary Allred

FISCAL IMPACT

Yes () No () No Estimate Available (X)

FY 1999-00 FY 2000-01 FY 2001-02 FY 2002-03 FY 2003-04

REVENUES

General Fund

* No General Fund Impact *

Local Government

* See Assumptions and Methodology *

PRINCIPAL DEPARTMENT(S) &

PROGRAM(S) AFFECTED: Local Governments and the North Carolina Department of Revenue, Sales Tax Division.

EFFECTIVE DATE: When it becomes law.

BILL SUMMARY: Currently most food items are exempt from state sales taxes but are subject to a local sales tax of 2%. This bill authorizes county governments to exempt the same food items as are exempted from state tax, from county sales tax. The legislation requires public notice and a hearing before the county can exempt food from the tax. After appropriate notice and hearings, the county may exempt food by resolution. The bill requires that the tax exemption become effective on the first day of a calendar month. It also requires a lag of at least three months between the time the resolution is passed and the time the exemption becomes effective. Finally, it requires counties to notify the Secretary of Revenue of the new exemption immediately after the resolution is passed.

ASSUMPTIONS AND METHODOLOGY: During the 1998 Legislative Session the General Assembly repealed the remaining state sales tax on food. This repeal became effective on May 1, 1999. The sales tax exemption applies only to foods that can be purchased with food stamps. The Department of Revenue continues to collect and distribute the local sales tax on food. The Department reports distributing \$88.5 million statewide for each 1% of the sales tax on food. This distribution was based on FY 1997-98 food sales. (This is the first year for which this type of data is available). Since the county sales tax is at the rate of 2%, the FY 1997-98 county revenue from food was approximately \$177 million.

Assuming food sales grow at their historic rate of 3%, and every county in the state repealed the tax immediately the potential full fiscal year revenue loss from exempting food will be as follows:

FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
187,705,036	193,336,188	199,136,274	205,110,362	211,263,672

No exact fiscal estimate is possible on this bill. Because the legislation is permissive, each individual county can decide when and if it will exempt qualifying food from the local sales tax. Fiscal Research cannot determine, reliably, which counties will actually decide to participate or when they will chose to implement the exemption.

FISCAL RESEARCH DIVISION 733-4910

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