

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: SB 440 No Food Tax/Funds for Local Governments

SHORT TITLE: No Food Tax/Funds for Local Governments

SPONSOR(S): Senator Ballantine

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 1999-00</u>	<u>FY 2000-01</u>	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2003-04</u>
REVENUES:					
<u>State Impact</u>					
50% Increase in Distribution	(332.5)	(698.3)	(733.2)	(769.8)	(808.3)
Food Stamp Reim. Repeal	<u>6.4</u>	<u>6.4</u>	<u>6.4</u>	<u>6.4</u>	<u>6.4</u>
TOTAL STATE	(326.1)	(691.8)	(726.8)	(763.4)	(801.9)
Local Impact:					
50% Increase in Distribution	332.5	698.3	733.2	769.8	808.3
Food Tax Repeal	(128.6)	(193.3)	(199.1)	(205.1)	(211.3)
Food Stamp Reim. Repeal	<u>(6.4)</u>	<u>(6.4)</u>	<u>(6.4)</u>	<u>(6.4)</u>	<u>(6.4)</u>
TOTAL LOCAL	197.5	498.5	527.6	558.3	590.6

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Revenue, Sales Tax Division and Local Governments.
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EFFECTIVE DATE: Repeal of Food Stamp Reimbursement: July 1, 1999, Tax Sharing: January 1, 2000, Food Tax Repeal: October 1, 1999.
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BILL SUMMARY: The bill makes three significant changes to existing sales tax policy. First, it increases the sales tax distribution to counties by 50%. Second, it repeals the local tax on food. Third, it repeals the state’s reimbursement to counties for the revenue lost by exempting food stamp purchases from local sales tax.

ASSUMPTIONS AND METHODOLOGY:

Increase Sales Tax Distribution by 50%: In FY 1997-98 the state distributed \$1,375,359,374 of sales tax revenue to county and city governments. This is approximately \$687.7 million, per penny of sales tax. Approximately ½ of this amount was distributed to counties on a per capita basis, and ½ was distributed on a point of origin basis. In FY 1999-00 the distribution is expected to **decrease** to \$665 million as a result of the food tax repeal. Assuming that sales tax revenue continues to grow at 5% the fiscal year transfers from the General Fund to localities will be as follows (in millions):

FY 1999-00	665.0*
FY 2000-01	698.3
FY 2001-02	733.2
FY 2002-03	769.8
FY 2003-04	808.3

*The actual FY 1999-00 transfer has been adjusted to account for the effective date and the lag time in collections. As such, the actual revenue change is ½ the fiscal impact noted above.

Repeal Local Food Tax: According to the Department of Revenue, in FY 1997-98 the state collected approximately \$265 million in food tax. This collection is at the three percent (3%) rate. Thus, each one-cent of food tax raised approximately \$88.3 million. Repealing the local food tax in FY 1997-98 would have resulted in a \$176.9 million **loss** to localities. Assuming food tax revenue grows at three percent (3%) per year, the FY 1999-00 losses, in millions, would be as follows:

FY 1999-00	(187.7)*
FY 2000-01	(193.3)
FY 2001-02	(199.1)
FY 2002-03	(205.1)
FY 2003-04	(211.3)

*The loss estimate on the first page of this note includes an adjustment for the effective date and a lag in collections. As such, the actual revenue change will be slightly less than approximately $\frac{3}{4}$ for FY 1999-00.

Food Stamp Reimbursement Repeal: Under G.S. 105:164.13(38), food and other items lawfully purchased with food stamp coupons are exempt from sales tax. Since October 1, 1985 the state has been reimbursing counties for the local sales tax lost as a result of this exemption. In 1989-90 the reimbursement was frozen at approximately \$6.41million (\$6,406,639.30.). Since that time the Department of Revenue has been distributing that amount to the counties on a proportion formula. This formula is designed to reflect the proportion of actual food stamp redemptions that were actually made in a given county. This estimate assumes that the entire \$6.41 million (\$6,406,639.30) reimbursement is repealed, creating a loss for the counties and a gain to the state.

FISCAL RESEARCH DIVISION 733-4910

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