

## DEPARTMENT OF TAXATION 2001 Fiscal Impact Statement

1. **Patron:** Marye

3. **Committee:** Senate Finance

4. **Title:** Retail Sales and Use Tax:  
Food Tax Reduction Program

2. **Bill No:** SB 783

**House of Origin:**

  X   Introduced

      Substitute

      Engrossed

**Second House:**

      In Committee

      Substitute

      Enrolled

**5. Summary/Purpose:**

This bill would eliminate the revenue growth safeguard provided in the Food Tax Reduction Program that requires actual General Fund (GF) revenues exceed the official GF revenue estimates by at least one percent in order for each level of the rate reduction to take effect. This bill would ensure that the next food tax rate reduction, scheduled for April 1, 2001, will take effect.

This bill contains an emergency clause and would become effective upon passage.

**6. Fiscal Impact Estimates are:** Tentative. (See Line 8).

**6a. Expenditure Impact:**

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Fund</b></i>
2000-01	\$38,400	GF

**6b. Revenue Impact:** (See Line 8).

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Fund</b></i>
2000-01	(\$7.9 million)	GF
2001-02	(\$47.0 million)	GF
2002-03	(\$48.1 million)	GF

**7. Budget amendment necessary:** Tentative.

**8. Fiscal implications:**

Expenditure Impact

This bill would result in administrative costs to the department of \$38,400 in fiscal year 2001. These costs are associated with printing and mailing charges for postcard notification to taxpayers that the rate change will take effect.

Revenue Impact

Under current law, the sales and use tax rate reduction on food for human consumption scheduled for April 1, 2001 will not take effect. This bill would eliminate the revenue growth requirement and permit the rate reduction to take effect as scheduled when the Food Tax Reduction Program was enacted. As a result, this bill would have an estimated negative impact on the GF revenues of \$7.9 million in fiscal year 2001, \$47.0 million in fiscal year 2002, and \$48.1 in fiscal year 2003.

The revenue growth requirement of the Food Tax Reduction Program was intended to ensure that a scheduled rate reduction would not occur unless there was sufficient GF surplus revenue to fund it.

**9. Specific agency or political subdivisions affected:**

Department of Taxation

**10. Technical amendment necessary:** No.

**11. Other comments:**

**Food Tax Reduction Program**

The legislation enacting the Food Tax Reduction Program provides that following the initial sales and use tax rate reduction, effective January 1, 2000, the next tax rate reduction would take effect for any twelve-month period beginning on or after April 1, 2001 if two conditions are satisfied. First, the next level of the phase-out of the Personal Property Tax Relief Act of 1998 (car tax relief) must take effect for that fiscal year. Second, actual GF revenues for the fiscal year preceding a fiscal year in which a rate reduction is contemplated must exceed the official revenue estimates for that preceding fiscal year by at least 1 percent.

For fiscal year 2000, GF revenues exceeded the official revenue estimates by 0.1%. Therefore, the next scheduled ½% reduction in the sales tax, scheduled for April 1, 2001, will not take effect under current law.

This bill would eliminate the revenue growth condition and ensure that the reduction scheduled for April 1, 2001 would take effect. The subsequent rate reductions would take effect contingent upon the remaining safeguard relating to the car tax relief program.

### **Personal Property Tax Relief Act of 1998**

The Personal Property Tax Relief Act of 1998 requires that certain fiscal conditions be met annually in order to continue the annual phase-out of the relief. Specifically, the annual phase-out is contingent upon meeting revenue growth projections and staying within a cost of not more than 8.5% of the GF. The provisions of the Food Tax Reduction Program and the provisions of this bill would not become effective unless the revenue growth conditions are met to phase-out each level of the personal property tax relief.

### **Effective Date**

This bill contains an emergency clause that would make the bill effective on the date of passage.

### **Other Legislation**

House Bill 1750 would amend the definition of food for purposes of applying the reduced sales tax rate under the Food Tax Reduction Program.

House Bill 2242 and Senate Bill 1264 (identical bills) would eliminate the state and local sales and use taxes on food for home consumption, effective July 1, 2001.

cc: Secretary of Finance

**Date:** 1/21/01/VHM

**Document:** S:/2001leg/WorkInProgress/OTPWork/SenateBills/SB783F161.DOC

