

**DEPARTMENT OF TAXATION  
2005 Fiscal Impact Statement**

1. **Patron** Vincent F. Callahan, Jr.

2. **Bill Number** HB 1638

3. **Committee** House Finance

**House of Origin:**

  X   **Introduced**

      **Substitute**

      **Engrossed**

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

**Second House:**

      **In Committee**

      **Substitute**

      **Enrolled**

5. **Summary/Purpose:**

This bill accelerates the food tax reduction relief by reducing the state sales and use tax rate on food for human consumption to 1.5 percent effective July 1, 2005. Current law provides that the state sales and use tax on food shall be imposed at the rate of 2.5 percent beginning July 1, 2005; 2 percent beginning July 1, 2006; and 1.5 percent beginning July 1, 2007. This bill does not affect the 1 percent local sales and use tax rate.

The effective date of this bill is not specified.

6. **No Fiscal Impact:** See Line 8.

7. **Budget amendment necessary:** No.

8. **Fiscal implications:**

**Administrative Costs Impact**

As a result of legislation enacted in 2004, the sales tax rate on food was already scheduled to be reduced by  $\frac{1}{4}$  of 1% on July 1, 2005. To implement this bill, the Department would incur minimal administrative costs to change the amount of the rate reduction affecting funds.

**Revenue Impact**

The **Executive Budget assumes passage** of an identical acceleration of the phase-out of the unrestricted portion of the state sales tax on food. Therefore, there is no revenue loss associated with this bill. If the phase-out of the sales tax on food is not accelerated by passage of this bill, then General Fund revenue would be increased by \$99.1 million in FY 2006 and \$57.7 million in FY 2007.

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

Department of Taxation

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

**11. Other comments:**

**Original Food Tax Reduction Program**

The 1999 General Assembly established the Food Tax Reduction Program to reduce the state sales and use tax rate on food for human consumption by  $\frac{1}{2}\%$  per year over a four-year period, beginning January 1, 2000 and extending through April 1, 2003. Effective April 1, 2003, when fully implemented, the state sales and use tax rate on food for human consumption would have been  $1\frac{1}{2}\%$ .

The January 1, 2000  $\frac{1}{2}\%$  reduction was implemented. However, in order for the remaining reductions to be implemented, the law required the following:

- The next level of the Car Tax Relief had to be implemented for the fiscal year; and
- General Fund revenue growth of at least 1% from the preceding fiscal year.

When these conditions were not met, the initial  $\frac{1}{2}\%$  reduction was the only reduction to take effect.

**Current Food Tax Reduction Schedule**

As a result of legislation enacted by the 2004 General Assembly, the state sales and use tax on food for human consumption is to be reduced  $\frac{1}{2}\%$  per year for a period of three years beginning July 1, 2005 and ending July 1, 2007.

**This Proposal**

This bill would eliminate the entire  $1\frac{1}{2}\%$  remaining general fund portion of the state sales tax on July 1, 2005. This bill does not affect the 1% local sales and use tax rate. As under current law, the 1% local option sales tax, the 1% portion of the state sale tax redistributed to localities on the basis of school age population, and the  $\frac{1}{2}\%$  tax allocated to the Transportation Trust Fund remain in effect.

This bill is identical to **House Bills 1634, 2017, 2339, and 2421 and Senate Bills 708, 751, and 1193.**

This bill is similar to **House Bills 1635 and 1875** that totally repeals the state sales and use tax on food for home consumption effective July 1, 2005. These would reduce the rate of tax to the 1% local sales tax.

