

DEPARTMENT OF TAXATION

2005 Fiscal Impact Statement

1. **Patron** Ryan T. McDougale

2. **Bill Number** HB 1875

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 would repeal the current schedule for reducing the state sales and use tax on food for human consumption and totally exempt food for human consumption from the state sales and use tax effective July 1, 2005. Food for human consumption would still be subject to the 1% local sales and use tax.

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

6a. Expenditure Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Positions</i>	<i>Fund</i>
2004-05	\$144,550	0	GF
2005-06	\$362,030	0	GF

6b. Revenue Impact:

<i>Fiscal Year</i>	<i>Dollars</i>	<i>Fund</i>
2004-05	\$0	GF
2005-06	(\$100.2 million) (\$52.0 million)	GF – Restricted TTF
2006-07	(\$113.3 million) (\$58.2 million)	GF – Restricted TTF
2007-08	(\$116.5 million) (\$59.9 million)	GF – Restricted TTF
2008-09	(\$120.0 million) (\$61.7 million)	GF – Restricted TTF
2009-10	(\$123.7 million) (\$63.5 million)	GF – Restricted TTF
2010-11	(\$127.4 million) (\$65.4 million)	GF – Restricted TTF

- 7. Budget amendment necessary:** Yes.
Items 284 and 286, Department of Taxation

8. Fiscal implications:

Administrative Costs Impact

TAX is in the final stages of preparing for an August changeover to an entirely new system developed over many years through a public-private partnership. Legislative changes that become effective before the new system is in place must be made to both the old and new systems. However, TAX must “freeze” both systems for several months while its existing records and other data are converted to the new system, and will not be able to resume system modifications until the new system is stable. This freeze is required both by the physical requirements of a major system upgrade and the fact that all personnel capable of modifying either system will be fully committed to the changeover.

TAX would incur costs of \$144,550 for FY 05 and \$362,030 for FY 06 to implement this bill, including necessary systems changes. Although the system cannot be modified consistent with the effective date of this bill, TAX has determined that temporary processes can be utilized until the system can be modified. The administrative costs reflect both the temporary processes and the delayed systems work.

Revenue Impact

The Executive Budget assumes the elimination of the unrestricted general fund portion of the state sales and use tax on food. The incremental revenue loss for the Transportation Trust Fund would be \$52.0 million for FY 2006, \$58.2 million for FY 2007, \$59.9 million for FY 2008, \$61.7 million for FY 2009, \$63.5 million for FY 2010, and \$65.4 million for FY 2011. In addition, localities would lose \$101.2 million for FY 2006, \$113.3 million for FY 2007, \$116.5 million for FY 2008, \$120.0 million for FY 2009, \$123.7 million for FY 2010, and \$127.4 million for FY 2011. The local revenue loss is attributable to the repeal of the 1% portion of the sales and use tax that is distributed to localities based on school age population.

9. Specific agency or political subdivisions affected:

Department of Taxation
Department of the Treasury

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 reduce the state sales and use tax on food for human consumption 3% effective July 1, 2005. Only the 1% local sales and use tax would be imposed on food for human consumption.

This bill is identical to **House Bill 1635**.

This bill is similar to **House Bills 1634, 1638, 2017, 2339, and 2421 and Senate Bills 708, 751, and 1193** that would reduce the state sales and use tax on food for human consumption $1\frac{1}{2}\%$ on July 1, 2005.

cc : Secretary of Finance

Date: 1/18/2005 WBS
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