

# DEPARTMENT OF TAXATION

## 2010 Fiscal Impact Statement

1. **Patron** James M. Scott

3. **Committee** House Finance

4. **Title** Retail Sales and Use Tax; Optional Local  
Tax for Education

2. **Bill Number** HB 1150

**House of Origin:**

  X   **Introduced**

       **Substitute**

       **Engrossed**

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

### 5. **Summary/Purpose:**

This bill would authorize any county or city to levy an additional local Retail Sales and Use Tax at a rate of one-half percent. The proposed additional local Retail Sales and Use Tax would not apply to food purchased for home consumption. The revenue generated from the additional tax would be used solely for education purposes.

Under current law, localities are permitted to levy a local Retail Sales and Use Tax at the rate of one percent to provide revenue for the general fund of that locality. The 1% local tax rate is added to the rate of the state Retail Sales and Use Tax.

The effective date of this bill is not specified.

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

#### 6a. **Expenditure Impact:**

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Positions</b></i>	<i><b>Fund</b></i>
2009-10	\$0	0	GF
2010-11	\$292,000	0	GF
2011-12	\$ 27,000	0	GF
2012-13	\$ 28,000	0	GF
2013-14	\$ 29,000	0	GF
2014-15	\$ 29,000	0	GF
2015-16	\$ 30,000	0	GF

### 7. **Budget amendment necessary:** Yes.

ITEM(S): 262 and 264, Department of Taxation

## **8. Fiscal implications:**

### Administrative Costs

Assuming the earliest date of implementation for this bill would be January 1, 2011, TAX would incur administrative costs of \$292,000 in Fiscal Year 2011, \$27,000 in Fiscal Year 2012, \$28,000 in Fiscal Year 2013, \$29,000 in Fiscal Year 2014, \$29,000 in Fiscal Year 2015, and \$30,000 in Fiscal Year 2016 to implement this bill. The administrative costs would include costs for systems changes and costs to update and distribute new forms and coupons.

### Revenue Impact

The magnitude of any local revenue gain is dependent on whether a locality elects to adopt an ordinance imposing the tax, and when the higher rate becomes effective in those localities. If the additional tax were in effect for all localities with an effective date of January 1, 2011, the total statewide local revenue gain would be \$166.8 million in Fiscal Year 2011, \$437.9 million in Fiscal Year 2012, \$455.4 million in Fiscal Year 2013, \$475.7 million in Fiscal Year 2014, \$498.8 million in Fiscal Year 2015 and \$521.3 million in Fiscal Year 2016. All revenues collected pursuant to this bill would be deposited into a new special fund entitled "Collections of Local Sales Taxes for Education."

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

TAX  
All localities

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

## **11. Other comments:**

### Generally

In addition to the 4% state Retail Sales and Use Tax, localities are currently permitted to impose a local Retail Sales and Use Tax at the rate of 1%. The local Retail Sales and Use Tax is administered by the Tax Commissioner and subsequently credited to the account of the locality in which the sale was made, without regard to the city or county of possible use by the purchaser. Revenue from the 1% local Retail Sales and Use Tax is used to provide revenue for the general fund of the county or city in which the tax is imposed.

### Food Purchased for Human Consumption

Food purchased for human consumption is subject to the state Retail Sales and Use Tax at a lower rate than other tangible personal property. The state tax rate on food purchased for human consumption is 1½ %. The local Retail Sales and Use Tax rate, however, remains at 1%. The combined state and local Retail Sales and Use Tax rate on food purchased for home consumption is 2½%.

Food purchased for human consumption includes most staple grocery food items and cold prepared foods packaged for home consumption. Specifically excluded from the definition of food for home consumption are alcoholic beverages, tobacco, and prepared hot foods sold for immediate consumption on and off the premises.

### Vending Machines

Currently, dealers engaging in the sale of items through vending machines, or other means that make the collection of the Retail Sales and Use Tax impractical, may remit the tax on the wholesale cost of the products being sold at the rate of 5%. Dealers must still remit the additional 1% local Retail Sales and Use Tax, for a total state and local Retail Sales and Use tax rate of 6%.

### Proposal

This bill would authorize any county or city to levy an additional local sales and use tax at a rate of  $\frac{1}{2}\%$ . All revenues collected pursuant to this bill would be deposited into a new special fund, entitled, "Collections of Local Sales Taxes for Education." The revenue generated from the additional tax would be used solely for education purposes. "Education purposes" would be defined as capital projects for public school construction and public school infrastructure improvements including, but not limited to technology infrastructure; additions to, renovations of, and retrofitting of existing school buildings; new school construction; site acquisition; and debt service payments, but only for debt service payments on such capital projects completed subsequent to July 1, 1997, but prior to July 1, 2009.

In order to enact the additional  $\frac{1}{2}\%$  tax, local governing bodies would need to adopt the tax in their local ordinances. The tax would become effective the first day of a month at least 60 days after adoption of the local ordinance.

As with the current 1% local Retail Sales and Use Tax, the additional local tax would be collected by the Tax Commissioner and credited to the account of the city or county in which the sale was made.

The proposed additional local Retail Sales and Use Tax would not apply to food purchased for home consumption.

This bill would also increase the tax applied to sales made through vending machines. The increase proposed in this bill would require vending machine dealers located in any locality that levies the additional local Retail Sales and Use Tax to remit the tax on the wholesale cost of goods being sold at the total rate of  $6\frac{1}{2}\%$ .

The effective date of this bill is not specified.

cc : Secretary of Finance

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