

# DEPARTMENT OF TAXATION

## 2016 Fiscal Impact Statement

1. **Patron** Benjamin L. Cline

2. **Bill Number** HB 849

3. **Committee** House Appropriations

**House of Origin:**

X **Introduced**

       **Substitute**

       **Engrossed**

4. **Title** Retail Sales and Use Tax; Rate on Food for Home Consumption

**Second House:**

       **In Committee**

       **Substitute**

       **Enrolled**

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

This bill would reduce the state Retail Sales and Use Tax rate imposed on food purchased for human consumption, beginning July 1, 2016, from 1½ percent to 1 percent. The revenue from the tax would be dedicated to localities and distributed based on school-age population.

Under current law, food purchased for human consumption is subject to the state Retail Sales and Use Tax at the rate of 1½ percent and the local Retail Sales and Use Tax at the rate of 1 percent, for a total tax rate of 2½ percent. The ½ percent portion of the state tax is allocated to the Transportation Trust Fund and the remaining 1 percent is allocated to counties and cities based on school-age population.

The effective date of this bill is not specified.

6. **Budget amendment necessary:** Yes.

Page 1, Revenue Estimates

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

#### 7b. **Revenue Impact:**

<i><b>Fiscal Year</b></i>	<i><b>Dollars</b></i>	<i><b>Fund</b></i>
[2015-16]	\$0	TTF
[2016-17]	(\$ 92.3 million)	TTF
[2017-18]	(\$103.8 million)	TTF
[2018-19]	(\$107.9 million)	TTF
[2019-20]	(\$112.0 million)	TTF
[2020-21]	(\$116.2 million)	TTF
[2021-22]	(\$120.5 million)	TTF

## **8. Fiscal implications:**

### Administrative Costs Impact

The Department considers implementation of this bill as “routine” and does not require additional funding.

### Revenue Impact

This bill would result in a loss to the Transportation Trust Fund of \$92.3 million in Fiscal Year 2017, \$103.8 million in Fiscal Year 2018, \$107.9 million in Fiscal Year 2019, \$112 million in Fiscal Year 2020, \$116.2 million in Fiscal Year 2021, and \$120.5 million in Fiscal Year 2022.

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

Department of Taxation  
Transportation Trust Fund

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

## **11. Other comments:**

### Food Purchased for Human Consumption, Generally

Food purchased for human consumption is subject to a different state sales tax rate than other tangible personal property. 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 human consumption are alcoholic beverages, tobacco, and prepared hot foods sold for immediate consumption on and off the premises.

### History of the Food Tax Reduction

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 ½ percent per year over a four-year period, beginning January 1, 2000 and extending through April 1, 2003. At the time the legislation was enacted, the sales and use tax was imposed on food purchased for human consumption at a combined state and local rate of 4½ percent. The intent of the 1999 legislation was to ensure that effective April 1, 2003, when fully implemented, the state sales and use tax rate on food for human consumption would have been reduced 1½ percent. The January 1, 2000 ½ percent 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
- Actual General Fund revenues for the fiscal year preceding the proposed rate reduction exceeded the official revenue estimates for that preceding fiscal year by at least 1 percent.

When these conditions were not met, only the initial ½ percent reduction took effect. Legislation enacted by the 2005 General Assembly eliminated the entire 1½ percent remaining General Fund portion of the state sales tax on food for human consumption, effective July 1, 2005. As a result, the combined state and local sales and use tax rate on food purchased for human consumption is 2½ percent.

#### Disposition of Food Tax Revenues

The state sales tax rate on food was reduced from three percent to 1½ percent in July 2005. Of this 1½ percent, ½ percent is allocated to the Transportation Trust Fund and the remaining one percent is allocated to counties and cities based on school age population. The local sales tax rate remains at one percent. Thus the combined state and local sales and use tax rate on food purchased for human consumption is 2½ percent.

The Transportation Trust Fund was established in 1986 as a permanent fund and receives all of the revenue generated as a result of the ½ percent Retail Sales and Use Tax increase effective January 1, 1987. Moneys in this fund are dedicated to transportation needs in the Commonwealth.

#### Proposal

This bill would reduce the state Retail Sales and Use Tax rate imposed on food purchased for human consumption, beginning July 1, 2016, from 1½ percent to 1 percent. The revenue from the tax would be dedicated to localities and distributed based on school-age population.

The effective date of this bill is not specified.

#### Similar Legislation

**House Bill 216** would phase out the state and local retail sales and use tax on food purchased for human consumption over a five-year period, beginning July 1, 2016, by decreasing the state rate by 0.3 percent each fiscal year, and the local rate by 0.2 percent each fiscal year. The bill would also dedicate a portion of General Fund revenues to localities to make up for the loss of revenues used for education.

cc : Secretary of Finance

Date: 1/23/2016 KP  
DLAS File Name: HB849F161