

DEPARTMENT OF TAXATION

2018 Fiscal Impact Statement

1. **Patron** Mark J. Peake

3. **Committee** House Finance

4. **Title** Retail Sales and Use Tax; Agricultural Exemptions

2. **Bill Number** SB 332

House of Origin:

 Introduced

 Substitute

 Engrossed

Second House:

 X **In Committee**

 Substitute

 Enrolled

5. **Summary/Purpose:**

This bill would increase the sales tax exemption for sales of agricultural produce and eggs sold at farmers markets or roadside stands to \$2,500 per year.

Under current law, the exemption only applies if the individual selling the produce or eggs has an annual income from such sales of no more than \$1,000.

The effective date of this bill is not specified.

6. **Budget amendment necessary:** No.

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

8. **Fiscal implications:**

Administrative Costs

The Department of Taxation considers implementation of this bill as "routine," and does not require additional funding.

Revenue Impact

This bill would result in an unknown, likely minimal, state revenue loss beginning in Fiscal Year 2019. Assuming an effective rate of 2.49%, the increased exemption would result in a decrease in Retail Sales and Use Tax revenue of no more than \$37.35 per vendor.

The USDA's 2012 Agricultural Census, shows a total of 3,581 farms that sold agricultural products directly to individuals in 2012 in Virginia. Of these farms, 1,548 had sales below \$1,000 in 2012 and 1,191 had sales between \$1,000 and \$4,999 in 2012. Total direct sales for this second group of farmers was \$2.7 million in 2012, for an estimated \$67,000 in sales tax revenue (assuming a 2.49% effective tax rate). According to the USDA's 2015 Local Food Marketing Practices Survey, direct sales to consumers in Virginia, conceivably

encompassing farmers markets and roadside stands, have grown from \$41.7 million in 2012 to \$155 million in 2015.

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Retail Sales and Use Tax for Farmers

The Retail Sales and Use Tax generally applies to regular or recurring sales of farm products by farmers or peddlers or at a public market, roadside stand, farm, or any other place. However, current law provides an exemption from the sales tax for sales of agricultural produce and eggs raised and sold by an individual at local farmers markets and roadside stands when that individual's annual income from such sales does not exceed \$1,000. Wholesale sales, including those made by farmers are exempt. A farmer regularly engaged in selling tangible personal property at retail must register as a dealer and collect and remit the Retail Sales and Use Tax due on retail sales, just like any other retailer.

The Retail Sales and Use Tax is imposed at a reduced rate of 2.5% for food purchased for home consumption. Generally, this term includes most staple grocery food items and cold prepared foods packaged for home distribution. Farmers markets, supermarkets, and specialty meat and produce stores are among the list of retailers that are generally authorized to charge the reduced sales tax rate on sales of eligible food and beverages.

Proposal

This bill would increase the sales tax exemption for sales of agricultural produce and eggs sold at farmers markets or roadside stands to \$2,500 per year.

The effective date of this bill is not specified.

cc : Secretary of Finance

Date: 2/9/2018 VB
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