DEPARTMENT OF TAXATION
2019 Fiscal Impact Statement

1. Patron Jennifer B. Boysko

2. Bill Number SB 1715
House of Origin:
_____ **Introduced**
_____ **Substitute**
_____ **Engrossed**

3. Committee Passed House and Senate

4. Title Retail Sales and Use Tax; Personal Hygiene Products

Second House:
_____ **In Committee**
_____ **Substitute**
_X_ **Enrolled**

5. Summary/Purpose:

This bill would modify the categories of products that are subject to a reduced Retail Sales and Use Tax rate to include "essential personal hygiene products," in addition to "food purchased for human consumption." "Essential personal hygiene products" would be defined as nondurable incontinence products such as diapers, disposable undergarments, pads, and bed sheets; and menstrual cups and pads, pantyliners, sanitary napkins, tampons, and other products used to absorb or contain menstrual flow.

Currently, the state Retail Sales and Use Tax rate on food purchased for human consumption is one and one-half percent. The one percent local sales and use tax rate is also applicable to these purchases. This bill would extend the reduced rate on food purchased for human consumption to essential personal hygiene products, resulting in a combined tax rate of two and one-half percent on essential personal hygiene products. Further, this bill would exempt these categories of products from the additional one percent sales and use tax in the Historic Triangle and the 0.7 percent tax in Northern Virginia and Hampton Roads.

This bill would be effective January 1, 2020.

6. Budget amendment necessary: Yes.
Page 1, Revenue Estimates

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

8. Fiscal implications:

Administrative Costs

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

Revenue Impact

The rate reduction proposed in this bill is estimated to reduce Retail Sales and Use Tax revenues by $1.86 million in Fiscal Year 2020, $4.61 million in Fiscal Year 2021, $4.76 million in Fiscal Year 2022, $4.9 million in Fiscal Year 2023, $5.06 million in Fiscal Year 2024 and $5.22 million in Fiscal Year 2025. The estimated revenue losses resulting from the rate reduction are reflected through Fiscal Year 2025 in the following chart:

SB 1715-S1: Impact of taxing Personal Hygiene Products like Food for Home Consumption
Effective January 1, 2020
(all figures in dollars)

Fund	FY 2020*	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025
State Sales and Use Tax	$ (1,645,000)	$ (4,070,000)	$ (4,198,000)	$ (4,331,000)	$ (4,467,000)	$ (4,606,000)
GF - Unrestricted (1)	$ (1,188,000)	$ (2,940,000)	$ (3,032,000)	$ (3,128,000)	$ (3,226,000)	$ (3,326,000)
GF - Restricted (2)	$ -	$ -	$ -	$ -	$ -	$ -
Education School Age 1/8%	$ (74,000)	$ (182,000)	$ (188,000)	$ (194,000)	$ (200,000)	$ (206,000)
Education SOQ - 1/4%	$ (147,000)	$ (365,000)	$ (376,000)	$ (388,000)	$ (400,000)	$ (413,000)
Transportation (3)	$ (177,000)	$ (437,000)	$ (452,000)	$ (466,000)	$ (481,000)	$ (496,000)
Local Option	$ -	$ -	$ -	$ -	$ -	$ -
HMOF (GF transfer)	$ (59,000)	$ (146,000)	$ (150,000)	$ (155,000)	$ (160,000)	$ (165,000)
Regional Trans. Funds (0.7%)	$ (218,000)	$ (540,000)	$ (557,000)	$ (575,000)	$ (592,000)	$ (611,000)
Hampton Roads (TPO)	$ (75,000)	$ (187,000)	$ (193,000)	$ (199,000)	$ (205,000)	$ (211,000)
Northern Virginia (NVTA)	$ (143,000)	$ (353,000)	$ (364,000)	$ (376,000)	$ (387,000)	$ (400,000)
Total Sales and Use Tax (4)	$ (1,863,000)	$ (4,610,000)	$ (4,755,000)	$ (4,906,000)	$ (5,059,000)	$ (5,217,000)

Notes:
1) Includes: 2.025% General Fund Unrestricted, -0.01% Dealer Discount.
2) Includes: 1% Education 1% based on school age population, -0.01% Dealer Discount.
3) Includes 0.5% TTF, 0.175% HMOF, 0.050% IPROCF, and 0.075% Mass Transit Fund.
4) After dealer discount.
*FY 2020 assumes a 5-month impact given January 1, 2020 effective date

9. Specific agency or political subdivisions affected:

Department of Taxation

10. Technical amendment necessary: No.

11. Other comments:

Generally

The Retail Sales and Use Tax is imposed upon the charge for the sale or use of tangible personal property, unless an exemption applies. Virginia law defines “tangible personal property” as personal property that may be seen, weighed, measured, felt, or touched, or is in any other manner perceptible to the senses.

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 one-half percent 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 one and one-half percent.

The January 1, 2000 one-half 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
- General Fund revenue growth of at least one percent from the preceding fiscal year.

When these conditions were not met, the initial one-half percent reduction was the only reduction to take effect pursuant to the 1999 legislation.

As a result of legislation enacted by the 2004 General Assembly, the state sales and use tax on food for human consumption was reduced one-half percent per year for a period of three years beginning July 1, 2005 and ending July 1, 2007.

The current rate of state tax on food for human consumption is one and one-half percent. The reduced rate does not affect the one percent local sales and use tax rate.

The definition of "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.

Proposal

This bill would modify the categories of products that are subject to a reduced Retail Sales and Use Tax rate to include "essential personal hygiene products," in addition to "food purchased for human consumption." "Essential personal hygiene products" would be defined as nondurable incontinence products such as diapers, disposable undergarments, pads, and bed sheets; and menstrual cups and pads, pantyliners, sanitary napkins, tampons, and other products used to absorb or contain menstrual flow.

Currently, the state Retail Sales and Use Tax rate on food purchased for human consumption is one and one-half percent. The one percent local sales and use tax rate is also applicable to these purchases. This bill would extend the reduced rate on food purchased for human consumption to essential personal hygiene products, resulting in a combined tax rate of two and one-half percent on essential personal hygiene products. Further, this bill would exempt these categories of products from the additional one percent sales and use tax in the Historic Triangle and the 0.7 percent tax in Northern Virginia and Tidewater.

This bill would be effective January 1, 2020.

Similar Legislation

House Bill 2540 is identical to this bill.

cc : Secretary of Finance
Date: 3/7/2019 sk
DLAS File Name: SB1715FER161