

FISCAL NOTE

SB 2753 - HB 3256

January 21, 2008

SUMMARY OF BILL: Reduces the state sales tax rate on food and food ingredients from 5.5% to 5.0%, effective July 1, 2008. Requires state to hold local governments harmless from any loss of state-shared sales tax revenue.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue - \$45,478,000
Increase State Expenditures - \$2,089,000

Other Fiscal Impact - In FY09-10, there will be approximately \$2,274,000 in forgone state sales tax revenue in addition to the recurring decrease. The extent of forgone revenues will increase in subsequent years due to the natural growth of taxable food sales.

Assumptions:

- “Food and food ingredients” means substances, whether in liquid, concentrated, solid, frozen, dried, or dehydrated form, that are sold for ingestion or chewing by humans and are consumed for their taste or nutritional value.
- According to the Department of Revenue, state sales tax collections derived from the sale of food and food ingredients in Tennessee for FY06-07 were approximately \$495,000,000.
- The state sales tax rate on food and food ingredients was 6.0% during FY06-07.
- FY06-07 taxable food sales were approximately \$8,250,000,000 ($\$495,000,000 \div 6.0\% = \$8,250,000,000$).
- Annual growth in taxable sales is estimated to be 5.0% per year (consumer price index on food prices increased 4.9% from December 2006 to December 2007).
- Adjusted taxable sales are estimated to be \$9,095,625,000 for FY08-09.
- The net decrease of state revenue resulting from the proposed 0.5% rate reduction for food sales is estimated to be \$45,478,000 ($\$9,095,625,000 \times 0.5\% = \$45,478,125$) in FY08-09.
- The estimated \$45,478,000 in state sales tax revenue would have been apportioned as follows in FY08-09: \$13,200,000 to the General Fund,

\$29,604,000 to education, \$2,089,000 to local governments, \$167,000 to the Department of Revenue (DOR), and \$418,000 to the Sinking Fund.

- Local governments are held harmless from the loss of state-shared sales tax revenue under this bill.
- The increase to state expenditures for holding local governments harmless is estimated to be \$2,089,000 in FY08-09.
- The state will forgo additional sales tax revenue in subsequent years due to the natural growth of taxable food sales.
- Forgone state sales tax revenue for FY09-10 is estimated to be \$2,274,000 ($\$45,478,000 \times 105\%$) - $\$45,478,000 = \$2,273,900$).

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

/rnc