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## FISCAL IMPACT REPORT

**SPONSOR** Neville **ORIGINAL DATE** 1/23/08  
**LAST UPDATED** \_\_\_\_\_ **HB** \_\_\_\_\_  
**SHORT TITLE** Food Tax Retail Food Store Definition **SB** 162  
**ANALYST** Schardin

### REVENUE (dollars in thousands)

Estimated Revenue			Recurring or Non-Rec	Fund Affected
FY08	FY09	FY10		
	(1,666.4)	(1,749.7)	Recurring	General Fund

(Parenthesis ( ) Indicate Revenue Decreases)

### SOURCES OF INFORMATION

LFC Files

No Response Received From

Taxation and Revenue Department (TRD)

### SUMMARY

#### Synopsis of Bill

Senate Bill 162 expands the definition of retail food store so that establishments with over 75 percent of sales attributable to bottled water, ice and coffee can receive the gross receipts tax deduction for food enacted in 2004. The deduction only applies to food sold for home consumption.

The effective date of this bill's provisions is July 1, 2008.

### FISCAL IMPLICATIONS

An analysis of the same proposal provided by TRD in 2007 estimated that taxable gross receipts eligible for the proposed deduction for water, ice and coffee will be about \$23 million in FY08. Since that tax base was expected to grow by about 5 percent per year, the base would be \$24.2 million in FY09. With an FY09 statewide gross receipts tax rate of 6.9 percent, revenue will be reduced by about 1,666.4 thousand. Since local governments are held harmless from revenue losses associated with the food deduction expanded in this bill, the entire revenue loss will be borne by the general fund.

**SIGNIFICANT ISSUES**

LFC notes that while individual deductions from the gross receipts tax may have small fiscal impacts, their cumulative effect significantly narrows the gross receipts tax base. Narrowing the gross receipts tax base increases revenue volatility and requires a higher tax rate to generate the same amount of revenue.

**ADMINISTRATIVE IMPLICATIONS**

TRD will potentially need to troubleshoot systems, revise forms and instructions, prepare taxpayer education materials and instructions, and retrain personnel.

Implementation of the food and medical deductions has been unusually complicated and expensive for TRD because of the programming needed to do hold harmless distributions for local governments. Increasing the list of food items eligible for the food gross receipts tax deduction will increase the cost of administering the local hold harmless distributions.

**TECHNICAL ISSUES**

The original intent of the food deduction enacted in 2004 was to include food for home consumption as defined by the federal Food Stamp program. This bill would include receipts from companies that sell water to businesses as well as to individuals for home consumption. Companies delivering bottled water to both homes and businesses will have to separate home and business sales to qualify for the deduction.

SS/jp