

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

**BILL NUMBER:** Senate Bill 1388, Finance Committee Substitute

**SHORT TITLE:** Tax Reduction of 1996

**SPONSOR(S):**

**FISCAL IMPACT:**

<b>Expenditures:</b>	<b>Increase ( )</b>	<b>Decrease ( )</b>
<b>Revenues:</b>	<b>Increase ( )</b>	<b>Decrease (X)</b>
<b>No Impact ( )</b>		
<b>No Estimate Available ( )</b>		

**FUND AFFECTED:**      **General Fund (X)**    **Highway Fund ( )**    **Local Govt. ( )**  
                                  **Other Funds ( )**

**BILL SUMMARY:** The act reduces the state sales tax on food from four percent to three percent, reduces the corporate income tax rate to 7.5%, and reduces the excise tax on soft drinks by 25%.

**EFFECTIVE DATE:** The sales tax and corporate income tax changes are effective January 1, 1997. The soft drink changes are effective upon ratification.

**PRINCIPAL DEPARTMENT(S)/PROGRAM(S) AFFECTED:** Department of Revenue

**FISCAL IMPACT**

(\$million)

	<u>FY</u> 1996-97	<u>FY</u> 1997-98	<u>FY</u> 1998-99	<u>FY</u> 1999-00	<u>FY</u> 2000-01
<b>REVENUES:</b>					
<b>GENERAL FUND</b>					
Reduce Food Tax	(36.7)	(87.0)	(89.6)	(92.3)	(95.0)
Reduce Corp. tax	(14.2)	(31.8)	(32.2)	(32.5)	(32.4)
Reduce Soft Drink tax	_____	(9.9)	(10.2)	(10.5)	(10.8)
	(50.9)	(128.7)	(132.0)	(135.3)	(138.2)

**ASSUMPTIONS AND METHODOLOGY:**

**Food tax reduction from 4% to 3%**

The estimate of sales tax paid on food is based on a 1961 field survey by Department of Revenue auditors assigned to tabulate the impact of eliminating the food tax exemption. The earlier numbers have been updated for growth by data from the monthly "type of business establishment" reports of the Department of Revenue. As a check on the data, estimates of food tax exemptions from other states were reviewed. Finally, the estimates are consistent with nationwide food consumption data compiled by the U. S. Department of Commerce. (and allocated to North Carolina) The future year estimates are based on 3% annual growth in food tax purchases.

Although the tax reduction begins in mid fiscal year, the impact is less than 50% due to the lag between the retail sale and the remittance.

### **Corporate Income Tax reduction to 7.5%**

The taxable income of corporations doing business in North Carolina is 2.1% of US pre-tax corporate profits. The first fiscal year revenue loss is equal to 45% of the annual tax loss or the equivalent of two estimated tax payments for tax year 1997. Little or no growth is anticipated for this tax in the next five years.

### **Soft Drink Tax Reduction**

The 1995 General Assembly reduced the soft drink tax by ¼ cent for soft drinks sold in containers, ¼ cent per ounce on dry base product and 25 cents per gallon on liquid base product effective July 1, 1996. This act reduces the tax another ¼ cent on containers and dry base and 25 cents on liquid base effective July 1, 1997. A 3% growth factor is used for the revenue loss in future years.

### **SOURCES OF DATA:**

### **TECHNICAL CONSIDERATIONS:**

**FISCAL RESEARCH DIVISION**

**733-4910**

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