



LEGISLATIVE FISCAL OFFICE
Fiscal Note

Fiscal Note On: **HB 31** HLS 02- 49
 Bill Text Version: **ENROLLED**
 Opp Chamb Action:
 Sub Bill For: **REVISED**
 Proposed Amd:

Date: July 17, 2002 1:38 PM	Author: STELLY
Dept/Agy: Revenue	
Subject: Sales and Income Tax	Analyst: Greg Albrecht

TAX/TAXATION EN -\$63,300,000 GF RV See Note Page 1 of 1
 (Constitutional Amendment) Provides for a new limitation on individual income tax rates and prohibits the imposition of state sales and use taxes on certain items
Current law imposes a 3.9% statewide sales tax on food for home consumption, residential utilities (natural gas, electricity, water), and certain other transactions during FY03. The tax rate is 3.8% during FY04, and then 1% during subsequent years.

Proposed law limits a statewide sales tax on food for home consumption, residential utilities (natural gas, electricity, water), and prescription drugs to 2%, effective January 1, 2003. Effective July 1, 2003 state sales tax of these transactions is prohibited.

Also prohibits the state individual and joint income tax schedule of rates and brackets from exceeding those in place on January 1, 2003.

To be submitted at the statewide election on November 5, 2002. Effective January 1, 2003.

EXPENDITURES	2002-03	2003-04	2004-05	2005-06	2006-07	5 YEAR TOTAL
State General Fd.	\$0	\$0	\$0	\$0	\$0	\$0
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Stat. Deds./Other	\$0	\$0	\$0	\$0	\$0	\$0
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total	\$0	\$0	\$0	\$0	\$0	\$0

REVENUES	2002-03	2003-04	2004-05	2005-06	2006-07	5 YEAR TOTAL
State General Fd.	(\$63,300,000)	(\$237,500,000)	(\$242,400,000)	(\$246,400,000)	(\$251,300,000)	(\$1,040,900,000)
Agy. Self-Gen.	\$0	\$0	\$0	\$0	\$0	\$0
Stat. Deds./Other	(\$700,000)	(\$2,500,000)	(\$2,600,000)	(\$2,600,000)	(\$2,700,000)	(\$11,100,000)
Federal Funds	\$0	\$0	\$0	\$0	\$0	\$0
Local Funds	\$0	\$0	\$0	\$0	\$0	\$0
Annual Total	(\$64,000,000)	(\$240,000,000)	(\$245,000,000)	(\$249,000,000)	(\$254,000,000)	(\$1,052,000,000)

EXPENDITURE EXPLANATION:

There is no anticipated direct material effect on governmental expenditures as a result of this measure.

REVENUE EXPLANATION:

This fiscal note incorporates the reductions of 10% and then 20% of one of the 1% statewide sales tax levies during FY03 and FY04, respectively, as provided in Act 22 of the 2002 Regular Session (HB 169). For FY05 and subsequent years the fiscal note takes the perspective that the 3.8% taxation of food and utilities during FY04 will be continued into the future indefinitely (Act 22 does make 1% of levy permanent). From that perspective, this bill will result in annual reductions of state sales tax revenue as displayed in the table above. These revenue losses result from prohibiting state taxation of food for home consumption and residential utilities. Prohibiting state taxation of prescription drugs has no effect because the state does not tax those items.

Relative to the baseline perspective that taxation of food and utilities will continue into the future indefinitely, this bill reduces state general fund revenue collections as well as collections of the Tourism Promotion District and revenue available for the Economic Development/Workforce Commission dedication. The estimated loss of statutory dedication/other means-of-finance revenues depicted in the table above reflects the combined loss of revenue for these purposes. Of these amounts, approximately 60% is lost to the Tourism Promotion District and 40% is lost to the Economic Development/Workforce Commission dedication.

This bill is connected to HB 36 that modifies the personal income tax brackets and eliminates the 50% balance of the deduction allowed for excess federal itemized deductions (also assumed to remain limited to only a 50% deduction into the future indefinitely). That bill results in an increase in personal income tax collections. The estimated net impact of the two bills together is a \$9 million revenue reduction in FY03, a \$4 million increase in FY04, a \$18 million increase in FY05, a \$33 million increase in FY06, and a \$50 million increase in FY07. The net revenue gains tend to increase over time because the growth rate of income taxes (7.5% per year trend growth) tends to exceed the growth rate of sales taxes on food and utilities (1.8% per year projected growth). Actual annual results will differ from these estimates because actual annual growth will differ from historical trend and projected growth.

Obviously, should no taxation of food and utilities or only 1% of tax be continued beyond FY04, this bill (HB 31) would result in no loss of revenue or a smaller loss of revenue than is contemplated in this fiscal note.

Senate Dual Referral Rules
 13.5.1 >= \$500,000 Annual Fiscal Cost
 13.5.2 >= \$500,000 Annual Tax or Fee Change

House
 6.8(F) >= \$500,000 Annual Fiscal Cost
 6.8(G) >= \$500,000 Tax or Fee Increase or a Net Fee Decrease per year

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