

South Carolina Board of Economic Advisors

Statement of Estimated State Revenue Impact

Date: January 26, 2009

Bill Number:

S.B. 149

Author: Campsen

Committee Requesting Impact: Senate Finance Committee

Bill Summary

A bill to amend Section 12-36-2120 of the 1976 Code, relating to sales tax exemptions, to clarify the application of the sales tax exemption allowed for items of unprepared food.

REVENUE IMPACT ^{1/}

This bill would reduce state sales and use tax revenue by an estimated \$15,490,818 in FY2009-10. Of this amount, General Fund sales and use tax would be reduced by \$10,327,212, E.I.A. fund would be reduced by \$2,581,803, and the Homestead Exemption Fund would be reduced by \$2,581,803 in FY2009-10. This amendment would reduce local sales and use tax revenue by an estimated \$244,496 in FY2009-10.

Explanation of Amendment (January 22, 2009) – By the Sales & Income Tax Subcommittee

This amendment would amend Section 12-36-2120(75) to extend the state sales and use tax exemption on unprepared food that lawfully may be purchased with U.S. Department of Agriculture food coupons to include sales of eligible items to or by vending machine operators for sale through vending machines. According to the latest data from the National Automatic Merchandising Association (NAMA), vending machine sales totaled \$36,000,000,000 nationwide in 2007. Items sold in vending machines include hot and cold beverages, snack foods, sandwiches, cigarettes, and other products such as stamps, CD's and DVD's, condoms, and lottery tickets. According to the Department of Revenue, several items, such as, cigarettes and hot beverages would not meet the criteria for eligible food items or unprepared food items. Other items, such as DVD's would also not qualify as unprepared food. Based on NAMA data, 67% of items sold through vending machines would qualify as eligible food items to be exempt from sales and use tax. Multiplying \$36,000,000,000 of U.S. vending machine sales by a one percent factor to adjust for S.C. sales, and multiplying by 67% of eligible unprepared food sales yields \$241,200,000 of qualifying food sales in the state. Applying a state sales and use tax rate of six percent yields a reduction of sales and use tax of an estimated \$14,472,000 in FY2009-10. This amendment would also exempt eligible unprepared food items sold and delivered, but not resold, to businesses for consumption by the business's employees. Based on data from the U.S. Census Bureau, an estimated 7.3% of unprepared food sales are accounted by the state's business owners. After adjusting for inflation and multiplying business food sales of \$232,606,889 by 7.3 percent and applying a sales and use tax rate of six percent yields a reduction of sales and use tax of an estimated \$1,018,818 in FY2009-10. Also, this amendment would extend the sales and use tax exemption on unprepared food sold through vending machines and eligible food items sold and delivered, but not resold, to businesses in those counties that exempt unprepared food from the local option sales and use tax. Counties that currently exempt unprepared food from local sales and use tax include, Cherokee, Chesterfield Darlington, Dillon, Jasper, Lee, and Lexington. Horry County is scheduled to exempt unprepared food from local sales and use tax beginning March 1, 2009. Based on data from the Department of Revenue, these counties accounted for 9.5% of total local option sales and use taxes. Including the exemption for vending machine sales and business sales of unprepared food yields a reduction of local option sales and use tax of an estimated \$244,496 in FY2009-10.

/s/ WILLIAM C. GILLESPIE, PH.D.

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^{1/} This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.