

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

Legislative Fiscal Note

REVISED

BILL NUMBER: Senate Bill 1839 (First Edition)

SHORT TITLE: Local Government Meals Tax.

SPONSOR(S): Senator McKissick

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	(In Millions)				
	<u>FY 2008-09</u>	<u>FY 2009-10</u>	<u>FY 2010-11</u>	<u>FY 2011-12</u>	<u>FY 2012-13</u>
REVENUES					
General Fund	No General Fund Impact				
Durham County	\$2.1	\$4.1	\$4.1	\$4.2	\$4.3
EXPENDITURES					
POSITIONS (cumulative):					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:					
EFFECTIVE DATE: Effective when the bill becomes law.					

BILL SUMMARY: SB 1839 authorizes Durham County to levy a one percent sales tax on prepared food and beverages if approved by the voters. County commissioners may submit the one percent meals tax for public referendum on November 4, 2008. The tax applies to the sales price of prepared food and drink sold within the county including all municipalities. The tax does not apply to vending machines sales, sales to nonprofit or government institutions, or meals provided without charge to employees.

SB 1839 provides for the collection, administration, penalties, and refunds connected with the tax. If the tax passes public referendum, no more than three percent of the proceeds will be used to pay for the direct cost of administering and collecting the tax. The remainder will be used as decided by an interlocal agreement between Durham City and Durham County for the following:

- Eighty percent (80%) for direct expenditures and repayment of debt service for civic and cultural amenities.
- Ten percent (10%) for direct expenditures for marketing.

- Five percent (5%) for direct expenditures for workforce training.
- Five percent (5%) for direct expenditures for community cleanup.

ASSUMPTIONS AND METHODOLOGY: Since SB 1839 is a local bill, there is no General Fund impact. Fiscal Research estimates that a one percent tax on prepared food and drink would generate approximately four million in sales and use tax collections for Durham County each year, with the exception of the first year. Since the effective date for the tax must follow public referendum, FY 2008-09 estimates represent a half year of collections.

The meal tax estimates represent one percent of sales and use tax collections from prepared food sales in Durham County for the 2006-2007 fiscal year. Fiscal Research earmarked The FY 2006-07 sales and use tax collections on prepared food in Durham by annual inflation rates to estimate future collections.

The Department of Revenue reports the amount of State sales and use tax remitted by businesses that sell prepared food each fiscal year. The food category includes the sales and use taxes remitted by bakeries, candy and confectionary stores, vending machines operators and drink stands, grocery stores and meat markets, dairies, restaurants, taverns and night clubs, and other establishments. While the Department reports the tax remitted by food related businesses, all of the tax collections cannot be attributed to the sale of prepared food.

The fiscal estimate only includes 65 percent of sales by food related establishments—the sales of bakeries, candy and confectionary stores, dairies, restaurants, taverns and night clubs. The sales of grocery stores and meat markets and vending machine operators are excluded. Sales by Durham County bakeries, candy and confectionary stores, dairies, restaurants, taverns and night clubs would be subject to the one percent meals tax thus generating an additional four million dollars in collections.

SOURCES OF DATA:

North Carolina Department of Revenue. *Sales and Use Tax Statistics, For Fiscal Year 2006-2007*. Available at: <http://www.dornrc.com/publications/FY06-07SalesUseStats.pdf>.

TECHNICAL CONSIDERATIONS: None

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