



NORTH CAROLINA GENERAL ASSEMBLY

2025 Session

Legislative Fiscal Note

Short Title: Tax-Free Family Essentials Act.
Bill Number: House Bill 1200 (Second Edition)
Sponsor(s): Rep. Schietzelt, Rep. Rhyne, Rep. Campbell, and Rep. Chesser

SUMMARY TABLE

FISCAL IMPACT OF H.B. 1200 (V2) (\$ in millions)

	<u>FY 2026-27</u>	<u>FY 2027-28</u>	<u>FY 2028-29</u>	<u>FY 2029-30</u>	<u>FY 2030-31</u>
State Impact					
General Fund Revenue	(35.6)	(49.2)	(51.3)	(53.4)	(55.8)
Less Expenditures	-	-	-	-	-
General Fund Impact	(35.6)	(49.2)	(51.3)	(53.4)	(55.8)
NET STATE IMPACT	(35.6)	(49.2)	(51.3)	(53.4)	(55.8)
Local Impact					
Local Revenue	(17.5)	(24.2)	(25.2)	(26.3)	(27.5)
Less Local Expenditures	-	-	-	-	-
NET LOCAL IMPACT	(\$17.5)	(\$24.2)	(\$25.2)	(\$26.3)	(\$27.5)

FISCAL IMPACT SUMMARY

The bill would exempt several items from State and local sales tax, including baby wipes, diapers, and feminine hygiene products, which is estimated to reduce State sales tax revenues by about \$36 million and local revenues by about \$18 million in FY 2026-27 given the bill's October 1, 2026 effective date. The bill would reduce State revenues by about \$50 million annually and local revenues by about \$25 million annually beginning in FY 2027-28, the first full year that the exemption is in place.

FISCAL ANALYSIS

Under North Carolina tax law, sales of tangible personal property are subject to sales or use taxes unless the property is specifically exempted in statute. The proposed legislation would amend G.S. 105-164.13 as of October 1, 2026, to exempt several additional items from sales tax.

The North Carolina Department of Revenue does not collect data on the amount of tax revenue generated by sales of specific items in the State. However, multiple other states exempt some of these products from sales taxes, and financial estimates from those state governments were used to estimate the cost to North Carolina. Also, market share data on the items the bill would exempt from tax was used to calculate several estimates herein. FRD used the following methods to arrive at an estimate for each category of products the bill would exempt from sales tax.

Diapers

Baby Diapers. FRD used the average of three approaches to estimate the revenue loss associated with exempting baby diapers. First, FRD used two separate sources for national market data on baby diapers and used the state's share of national GDP to estimate sales attributable to the state. Second, FRD used the reported average monthly amount spent on baby diapers per child in the state from the National Diaper Bank Network, which was multiplied by 12 months and provided the average annual spending on baby diapers per child. FRD then multiplied this amount by the estimated number of children in the state likely wearing diapers based on OSBM estimates of population stratified by age to estimate annual sales for all babies in the state. FRD then applied the state rate and weighted local rate to determine the estimated tax these sales currently generate and averaged the results of the three approaches.

As a result of the above methodology, FRD estimates that exempting baby diapers from sales tax would reduce State sales tax collections annually by about \$22 million and local collections by about \$11 million in a full year of implementation.

Adult Diapers. FRD adjusted national adult diaper market data and adjusted for the state's share of GDP for this estimate using two different sources. This approach established comparable figures for the applicable sales tax base, to which FRD applied the state general rate and the weighted local rate. This method estimates that an exemption for adult diapers would annually reduce state revenues by about \$8 million and local revenues by about \$4 million in a full year of implementation.

Baby Wipes

FRD attempted to use two approaches to estimate the impact of this exemption but ultimately opted for a single approach. In this approach, FRD computed the state's share of national baby wipes sales using the state's share of national GDP using two different sources. The average of these two sources informed FRD's estimate that exempting baby wipes from sales tax would annually reduce State sales tax by about \$3.5 million annually and local revenues by about \$1.7 million.¹

¹ FRD also sought to use data from a trade group that competes with the baby diaper and baby wipe industry, once adjusted for the state's market share. After adjusting it for the state's estimated share, and in comparing it to one of the two products excluded (baby diapers), suggested this appeared to be an outlier.

Feminine Hygiene Products

FRD used the average of three approaches to estimate the fiscal impact of exempting feminine hygiene products. First, FRD obtained state-level estimates of sales tax foregone due to feminine hygiene sales tax exemptions in Connecticut, Florida, Minnesota, New Jersey, New York, and the District of Columbia. These were adjusted based on the states or district's sales tax rate and population to calculate per capita spending on feminine hygiene products. The per capita spending rates across these states and the District of Columbia were averaged, and the average per capita spending was multiplied by North Carolina's population to estimate annual spending on feminine hygiene products in the State.

Using this method and applying the State rate and local weighted rate, FRD estimates exempting feminine hygiene products would reduce State revenues by about \$10.7 million and local revenues by about \$5.1 million in a full year of implementation. Second, FRD obtained global data on the feminine hygiene market and adjusted for the United States' share and then the State's share. This resulted in an estimate of exempting feminine hygiene products reducing State sales tax revenues by about \$15.6 million and local revenues by about \$7.4 million annually. Third, FRD repeated the previous market share approach using a different source, which led to estimating this exemption would reduce State revenues by about \$9.5 million and local revenues by about \$4.5 million annually. FRD took an average of these two approaches and arrived at an estimate of this exempting reducing state revenues by about \$12.0 million and local revenues by about \$5.7 million in a full year of implementation.

These various exemptions together are estimated to annually reduce State revenues by about \$46 million and local revenues by about \$22 million in a full year. After adjusting for the October 1, 2026 effective date, the bill is estimated to reduce FY 2026-27 State sales tax collections by about \$36 million and local collections by about \$18 million. FRD then used the full estimates and adjusted them for future years' estimates based on anticipated changes in consumer spending.²

TECHNICAL CONSIDERATIONS

The bill's October 1, 2026, effective date may not provide retailers and the Department of Revenue sufficient time to implement the exemptions. However, the estimates herein assume sales on and after that date are exempt from sales tax. An additional quarter-year may provide sufficient time for the Department to begin administering the exemption, which would reduce FY 2026-27 revenues proportionally.

DATA SOURCES

National Diaper Bank Network; US Department of Commerce-Bureau of Economic Analysis; US Government Accountability Office; Moody's Analytics. Ken Research; Grand View Research; Cotton, Inc.; Connecticut General Assembly, Office of Fiscal Analysis, *Connecticut Tax Expenditure Report, February 2022*; District of Columbia Office of Revenue Analysis, *Tax Expenditure Report [December 2020 and September 2022]*; Minnesota Department of Revenue, Tax Research Division, *Tax*

² The estimated loss to the State's General Fund would be reduced by the statutory 6% transfer for transportation purposes; the Highway and Highway Trust Fund would correspondingly be reduced by their respective share of this 6% loss to reflect the decreased revenue..

Expenditure Budget, Fiscal Years 2022-2025; Moody's Analytics; New Jersey Office of the Governor, Fiscal Year 2023 Tax Expenditure Report; New York Department of Taxation and Finance, Division of the Budget, FY 2022 and FY 2023 Annual Report on New York State Tax Expenditures; State of Florida Revenue Estimating Conference, 2021 and 2022 Florida Tax Handbook; Streamlined Sales Tax Governing Board, Inc.; US Census Bureau; Mordor Intelligence; SNS Insider; JAMA-Pediatrics; SkyQuest Technology Consulting Pvt. Ltd.; Eminent Research and Advisory Services; Market Data Forecast; IMARC Group; World Bank Group; Coherent Market Insights.

LEGISLATIVE FISCAL NOTE – PURPOSE AND LIMITATIONS

This document is an official fiscal analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts.

CONTACT INFORMATION

Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

ESTIMATE PREPARED BY

Brent Lucas

ESTIMATE APPROVED BY

Brian Matteson, Director of Fiscal Research
Fiscal Research Division
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