



March 3, 2023

SUMMARY OF BILL: Exempts infant formula and diapers and wipes designed to be used by infants and children from the sales and use tax through FY23-24.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – \$16,679,800/FY23-24

Increase State Expenditures – \$6,954,100/FY23-24

Decrease Local Revenue – Net Impact – \$318,900/FY23-24

Assumptions:

- This legislation applies to any liquid or powder that is to be used for a special dietary use solely as food for infants and children by nature of its simulation of human milk and diapers and wipes designed to be used by infants and children.

Infant Formula

- According to Allied Market Research, the U.S. baby infant formula market was valued at \$3,889,000,000 in 2020.
- According to 2020 Census data, Tennessee represents approximately 2.09 percent (6,910,840 / 331,449,281) of the U.S. population; therefore, the estimated sales of baby infant formula were \$81,280,100 ($\$3,889,000,000 \times 2.09\%$) in Tennessee in 2020.
- Based on inflationary rates in FY20-21 and FY21-22, and estimated rates for FY22-23 and FY23-24, the sales of baby infant formula are estimated to be \$94,689,323 in FY23-24.
- Pursuant to Tenn. Code Ann. § 67-6-338(a), all sales for which the consideration is a voucher issued under the Special Supplemental Food Program for Women, Infants, and Children (WIC) are exempt from taxation.
- Based on information from the U.S. Department of Agriculture, approximately 55 percent of infant formula is purchased with WIC; therefore, it is assumed that 55 percent of infant formula is currently not subject to taxation.
- The estimated sales of baby formula that is not currently exempt from sales tax are \$42,610,195 ($\$94,689,323 \times 45\%$).
- The current state sales tax rate on the retail sales of food and food ingredients is 4.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the

effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 4.0276 percent.

- Pursuant to Tenn. Code Ann. § 67-6-710(g), local governments will be held harmless from the loss of revenue resulting from the sales tax holiday. However, according to the DOR, such provision does not include the state-shared portion of 4.0276 percent.
- The decrease in state revenue is estimated to be \$1,635,761 [(\$42,610,195 x 4.0%) – (\$42,610,195 x 4.0% x 4.0276%)] in FY23-24.
- The decrease in local revenue from the state sales apportionment is estimated to be \$68,647 (\$42,610,195 x 4.0% x 4.0276%) in FY23-24.
- The increase in state expenditures, as a result of holding locals harmless, is estimated to be \$1,065,255 (\$42,610,195 x 2.5%) in FY23-24.

Diapers

- Tennessee currently has a yearly three-day sales tax holiday which exempts diapers from taxation. For the purpose of this analysis, it is assumed a disproportionate number of diapers are purchased during this holiday accounting for six days' worth of sales.
- According to the Department of Health, there are 79,122 infants and 323,222 children ages 1 to 4 living in the state as of 2021.
- For the purposes of this analysis, it is assumed that about 75 percent of children ages 1 to 4 use diapers and that the population has grown 0.8 percent per year from 2021 to 2023; therefore, it is assumed that approximately 326,704 $\{[(323,222 \times 75\%) + 79,122] \times 100.8\% \times 100.8\%$ } Tennessee children use diapers.
- It is further assumed that a child using diapers uses an average of six diapers a day and that the average diaper costs 25 cents.
- The estimated sales of diapers in 2022 not currently exempt from sales tax are \$175,930,104 (326,704 children x 6 diapers x \$0.25 cost x 359 days).
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- Pursuant to Tenn. Code Ann. § 67-6-710(g), local governments will be held harmless from the loss of revenue resulting from the sales tax holiday. However, according to the DOR, such provision does not include the state-shared portion of 4.0276 percent.
- The decrease in state revenue is estimated to be \$11,869,670 [(\$175,930,104 x 7.0%) – (\$175,930,104 x 7.0% x 3.617%)] in FY23-24.
- The decrease in local revenue from the state sales apportionment is estimated to be \$445,437 (\$175,930,104 x 7.0% x 3.617%) in FY23-24.
- The increase in state expenditures, as a result of holding locals harmless, is estimated to be \$4,398,253 (\$175,930,104 x 2.5%) in FY23-24.

Infant Wipes

- Children in Tennessee are estimated to use an average of 20 wipes per day for a total of 2,384,939,200 wipes per year (326,704 children x 20 wipes x 365 days). These numbers are assumed to remain constant into perpetuity.
- The average cost per wipe is estimated to be \$0.025. Total annual taxable sales of wipes are estimated to be \$59,623,480 (2,384,939,200 x \$0.025).

- Pursuant to Tenn. Code Ann. § 67-6-710(g), local governments will be held harmless from the loss of revenue resulting from the sales tax holiday. However, according to the DOR, such provision does not include the state-shared portion of 4.0276 percent.
- The decrease in state sales tax revenue is estimated to be \$4,022,683 [(\$59,623,480 x 7.0%) – (\$59,623,480 x 7.0% x 3.617%)] in FY23-24.
- The decrease in local revenue from state sales apportionment is estimated to be \$150,961 (\$59,623,480 x 7.0% x 3.617%) in FY23-24.
- The increase in state expenditures, as a result of holding locals harmless, is estimated to be \$1,490,587 (\$59,623,480 x 2.5%) in FY23-24.

Total

- The decrease in state revenue is estimated to be \$17,528,114 (\$1,635,761 + \$11,869,670 + \$4,022,683) in FY23-24.
- The decrease in local revenue is estimated to be \$665,045 (\$68,647 + \$445,437 + \$150,961) in FY23-24.
- The total increase in state expenditures is estimated to be \$6,954,095 (\$1,065,255 + \$4,398,253 + \$1,490,587) in FY23-24.
- Fifty percent of tax savings, or \$12,573,627 [(\$17,528,114 + \$665,045 + \$6,954,095) x 50%] will be spent in the economy on other sales-taxable goods and services.
- The increase in state revenue is estimated to be \$848,319 [(\$12,573,627 x 7.0%) – (\$12,573,627 x 7.0% x 3.617%)] in FY23-24.
- The increase in local revenue is estimated to be \$346,176 [(\$12,573,627 x 2.5%) + (\$12,573,627 x 7.0% x 3.617%)] in FY23-24.
- The net decrease in state revenue is estimated to be \$16,679,795 (\$17,528,114 - \$848,319) in FY23-24.
- The net decrease in local revenue is estimated to be \$318,869 (\$665,045 - \$346,176) in FY23-24.
- The total increase in state expenditures is estimated to be \$6,954,095 in FY23-24.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista Lee Carsner, Executive Director

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