



February 16, 2024

**SUMMARY OF BILL:** Exempts from the state sales and use tax the retail sale of food and food ingredients that are voucher-eligible under the Special Supplemental Food Program for Women, Infants, and Children (WIC).

**FISCAL IMPACT:**

**Decrease State Revenue – Net Impact – \$147,864,100/FY24-25 and Subsequent Years**

**Decrease Local Revenue – Net Impact – \$4,233,200/FY24-25 and Subsequent Years**

Assumptions:

- Pursuant to this legislation, such food and food ingredients will remain taxable by the local option sales tax.
- The current state sales tax rate on the retail sales of food and food ingredients is 4.0 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 4.0276 percent.
- Public Chapter 1131 of 2022 exempted food and food ingredients from the sales tax for the month of August.
- Accounting for sales tax that would have been collected in the absence of the August 2022 exemption, total collections from food sales tax would have been \$742,825,936 in FY22-23.
- Fiscal Review Committee staff's current estimates for total sales tax collection growth rates are 3.21 percent in FY23-24 and 4.14 percent in FY24-25.
- Assuming identical growth rates in sales tax collections from retail sales of food and food ingredients, total such collections under current law are estimated to be \$798,410,814 in FY24-25 ( $\$742,825,936 \times 1.0321 \times 1.0414$ ). For the purposes of this analysis, this number is assumed to remain constant into perpetuity.
- Total taxable food sales are estimated to be \$19,960,270,350 ( $\$798,410,814 / 4\%$ ).
- Pursuant to Tenn. Code Ann. § 67-6-338 and federal code in 42 U.S.C. 1786(c), all food sales using vouchers issued under WIC are exempt from sales tax.
- The proposed legislation would extend such exemption to purchases of WIC approved items using funds other than WIC vouchers.
- WIC approved items are limited to certain food items and vary based on brand, weight, type, quantity, ingredients, and benefit plan; further, there may be a shift in consumer spending from taxable to nontaxable food items.

- A precise estimate of food sales that will be exempt is difficult to quantify; however, based on the Bureau of Labor Statistics national food spending data, it is reasonably estimated that 20 percent of all food sales currently subject to the food sales tax will be exempt under this legislation.
- Taxable expenditures on WIC approved items are therefore estimated to be \$3,992,054,070 ( $\$19,960,270,350 \times 20\%$ ).
- The recurring decrease in state revenue is estimated to be \$153,250,804 [ $(\$3,992,054,070 \times 4\%) - (\$3,992,054,070 \times 4\% \times 4.0276\%)$ ].
- The recurring decrease in local revenue is estimated to be \$6,431,359 ( $\$3,992,054,070 \times 4\% \times 4.0276\%$ ).
- Fifty percent of tax savings, or \$79,841,082 [ $(\$153,250,804 + \$6,431,359) \times 50\%$ ], will be spent in the economy on non-food sales-taxable goods and services.
- 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.
- The total net recurring increase in state sales tax revenue as a result of 50 percent of tax savings being spent in the economy on non-food sales-taxable goods and services is estimated to be \$5,386,726 [ $(\$79,841,082 \times 7.0\%) - (\$79,841,082 \times 7.0\% \times 3.617\%)$ ].
- The total recurring increase in local sales tax revenue as a result of 50 percent of tax savings being spent in the economy on non-food sales-taxable goods and services is estimated to be \$2,198,177 [ $(\$79,841,082 \times 2.5\%) + (\$79,841,082 \times 7.0\% \times 3.617\%)$ ].
- The net recurring decrease in state revenue as a result of this legislation in FY24-25 and subsequent years is estimated to exceed \$147,864,078 ( $\$153,250,804 - \$5,386,726$ ).
- The net recurring decrease in state revenue as a result of this legislation in FY24-25 and subsequent years is estimated to exceed \$4,233,182 ( $\$6,431,359 - \$2,198,177$ ).

**CERTIFICATION:**

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



Krista Lee Carsner, Executive Director

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