

# Fiscal Note

**BILL #** SB 1063

**TITLE:** food; municipal tax; exemption

**SPONSOR:** Borrelli

**STATUS:** As Introduced

**PREPARED BY:** Hans Olofsson

## Description

The bill, as introduced, would eliminate the municipal Transaction Privilege Tax (TPT) on food for home consumption. The bill would become effective on the first day of the month following the general effective date.

## Estimated Impact

We estimate that SB 1063 would reduce municipal TPT by up to \$(182.9) million in FY 2024, \$(189.3) million in FY 2025, and \$(195.6) million in FY 2026. As discussed in the *Analysis* section below, the estimated amount of the FY 2024 impact ultimately depends on when the Legislature adjourns. The bill does not have a state General Fund impact.

The bill would have no impact on the General Fund since the state does not levy TPT on food for home consumption.

## Analysis

According to data provided by the Department of Revenue (DOR), 65 of Arizona's 91 incorporated cities and towns taxed food for home consumption in FY 2022, for a total of \$158.3 million. Under current law, we estimate that municipal TPT collections will grow to \$175.1 million in FY 2023, \$182.9 million in FY 2024, \$189.3 million in FY 2025, and \$195.6 million in FY 2026.

The projections above assume that the annual percentage increase of food sales is the sum of the projected annual percentage increase of the Consumer Price Index (CPI) for food and the projected annual percentage increase of the Arizona population. Based on a recent forecast by S&P Global for inflation and Arizona population growth, we calculated the projected growth rates for food sales to be 10.6% in FY 2023, 4.4% in FY 2024, 3.5% in FY 2025, and 3.3% in FY 2026.

The elimination of municipal TPT on food for home consumption would become effective on the first day of the month following the general effective date, which is 90 days after the close of the legislative session. For this reason, the first-year impact, which would occur in FY 2024, ultimately depends on when the Legislature adjourns. For example, if the legislative session ends in May, the bill would become effective on September 1, 2023. Sales tax activity occurring in September are filed and paid in the following month. Thus, under this hypothetical example, the revenue loss in FY 2024 would be \$(137.2) million, or  $9/12 \times \$182.9$  million.

1/30/23

