NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: HB 1465 Tax Free Back to School

SHORT TITLE: Tax Free Back to School

SPONSOR(S): Rep. Hardaway

FISCAL IMPACT

Yes (X) No ( ) No Estimate Available ( )

($ Millions)

	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03	FY 2003-04
REVENUES					
General Fund	**(1.684)**	**(1.717)**	**(1.752)**	**(1.787)**	**(1.823)**
Local Governments	**(0.842)**	**(0.859)**	**(0.876)**	**(0.893)**	**(0.911)**
EXPENDITURES					
Dept. of Revenue	*** See Assumptions and Methodology ***				

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: North Carolina Department of Revenue, Sales Tax Division, County and City Governments.

EFFECTIVE DATE: When it becomes law.

BILL SUMMARY: The legislation creates a six week sales tax moratorium for certain purchases. Under the bill purchases of clothing by low-income individuals are exempt from sales tax from August 1 to September 15 each year. Eligible clothing includes apparel and footwear. It does not include watches, watchbands, jewelry, handbags, umbrellas, or backpacks. Only purchases made by individuals whose family qualifies for food stamps are eligible for the tax moratorium. Purchasers must present an electronic benefits transfer (EBT) card and give the seller their food stamp case number to qualify. The merchant must retain the case number in their records. The moratorium only applies to items with a sales price of $50.00 or less.

ASSUMPTIONS AND METHODOLOGY: The United States Department of Agriculture reports that in March 1999 (the most recent data available), 213,529 North Carolina households received food stamps. They also indicate that the national average food stamp household size is 2.5 persons. The average national household size for households with children is 3.3 persons.

In Federal Fiscal Year 1998-99 a family of four is eligible for food stamps if their gross monthly income does not exceed $1,783. The income limit varies from a low of $873.00 for a family of one, to a high of $2,996.00 for a family of eight (after eight members a family is allowed $234.00 of income for each additional person). If a family of three (the nearest whole number to the food stamp household average) were to remain on food stamps year round, their total annual income could not exceed $17,748.00. The maximum gross income allowed for eligibility, on an annual basis, is as follows:

People in Household	**Gross Monthly Income Limit**	**Gross Annualize Income Limit**
1	$ 873.00	$ 10,476.00
2	$ 1,176.00	$ 14,112.00
3	$ 1,479.00	$ 17,748.00
4	$ 1,783.00	$ 21,396.00
5	$ 2,086.00	$ 25,032.00
6	$ 2,389.00	$ 28,668.00
7	$ 2,693.00	$ 32,316.00
8	$ 2,996.00	$ 35,952.00

According to the 1995 Consumer Expenditure Survey a family of three, with an income of $15,000 to $19,999 will spend $1,363 annual on apparel and footwear. The average annual expenditure on apparel and footwear, for all households with an income below $20,000 is listed below.

Income Level	Total Apparel & Services	Apparel and Footwear Only
0-4999	680	550
5000-9999	747	630
10000-14999	920	784
15000-19999	1187	981
TOTAL AVERAGE		$ 748.87

This note assumes the annual apparel and footwear expenditure will fall between $748.87 (the average of all households with income below $20,000) and $1,363 (the family of three expenditure noted above). Assuming 2% growth in clothing sales per year, the 1999 estimate would range from $810.60 to $1,475.

The bill creates a six-week tax moratorium. Six weeks represents approximately 11.5% of the tax year. However, two facts could alter the proportion of sales during the moratorium period. First, back-to-school shopping. Because back-to-school shopping may increase clothing purchases with or without the bill, Tax Research was asked to examine the proportion of sales normally made by Clothing/Apparel Stores and General Department Stores during the period in question. According to Tax Research, the actual dollar expenditure on clothing did not increase significantly during the months of August and September. Actually, from FY 1993-94 through FY 1998-99 the proportion of sales in those months was at or slightly below the monthly average for all twelve months. (The greatest proportion of sales and clothing sales occur in December and January). Therefore, back-to-school shopping is not included as a factor in the fiscal analysis.

The shifting of purchases, or the decision to make additional purchases, as a result of the tax moratorium could also impact the fiscal estimate. At this time two other states have a back to school moratorium in place, New York and Florida. New York's temporary sales tax exemption for clothing includes all items purchased for $500 or less (the bill addresses only sales of $50 or less) made during a one- week period each January and September. There is no means test for the New York exemption. A 1997 report from the New York State Office of Tax Policy Analysis indicates that actual sales during the January exemption week increased by 73.1% over the previous year. These officials indicate that much of the increase was due to consumers "simply shifting" purchases from prior or future weeks to take advantage of the exemption. They also suggest that some of the growth may be a result of New York residents shifting from shopping in New Jersey to shopping in New York. Because such a small proportion of North Carolinians live within fifty miles of a state border, North Carolina is unlikely to see such location shifting. At this time, no information is available from Florida.

Using the New York data as a guide, Fiscal Research assumes that food stamp recipient spending during the moratorium could increase as much as 50% over expected monthly average of 11.5%. As a result, Fiscal Research assumes that approximately 17.25% of food stamp recipient clothing purchases will be made during the moratorium period. If 17.25% of recipient clothing purchases were made during the period, the minimum amount of purchases impacted would be approximately $29,857,440 (213,529 households X $810.60 in total purchases X 17.25% of annual sales). Assuming a 6% sales tax would have applied to these purchases, the total minimum sales tax loss is $1,791,446. Approximately $1,194,298 of this loss will be borne by the state. The remaining $597,148 loss will be to local governments.

If the upper sales estimate of $1,475 is used, the bill would impact approximately $54,329,785 in sales (213,529 households X $1,475 in total purchases X 17.25% of annual sales). Assuming a 6% sales tax would have applied to these purchases, the total maximum sales tax loss is $3,259,787. Of this amount $2,173,191 will be a loss to the state. The remaining $1,086,596 is a loss to local governments.

The fiscal note assumes that the midpoints of these two estimates are the appropriate estimates to use for revenue loss calculations. A 2% growth rate is used to estimate future years.

These changes will likely increase resource pressure on the Department of Revenue, as it will create additional tracking and form processing demands. However, no expenditure estimate is available from Revenue at this time.

TECHNICAL CONSIDERATIONS: While the title of the bill suggests this a program is primarily for school aged children and young adults, the moratorium actually applies to all eligible clothing and footwear purchases made by families eligible for food stamps.

FISCAL RESEARCH DIVISION 733-4910
PREPARED BY:

APPROVED BY: Tom Covington

DATE: Monday, May 24, 1999

Official
Fiscal Research Division
Publication

Signed Copy Located in the NCGA Principal Clerk's Offices