



DEPARTMENT OF AUDITS AND ACCOUNTS

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January 6, 2017

Honorable Jay Powell
Chairman, House Ways and Means
133 Capitol
Atlanta, Georgia 30334

SUBJECT: Fiscal Note
House Bill (LC 43 0439)

Dear Chairman Powell:

The bill would eliminate the state sales tax exemption for sugar-sweetened beverages (SSB) and confections, which are currently defined as food not subject to sales tax. The bill defines a SSB as a beverage that contains added sugar and 25 or more calories per 12 fluid ounces or a powder or syrup designed to be used to create such a beverage. It excludes beverages containing more than 70 percent natural or vegetable juice, infant formula, and beverages consumed for nutritional therapy, rehydration, and other medical purposes. The bill defines a confection to be a preparation of sugar, honey, or other natural or artificial sweeteners, in combination with chocolate, fruit, nuts, or other ingredients, or flavorings in the form of bars, drops, or pieces. The bill's effective date is January 1, 2018.

Georgia State University's Fiscal Research Center (FRC) estimated that the bill would increase state sales tax revenue by \$52.9 million in fiscal year 2019, the first full year impacted by the bill. As shown in Table 1, the revenue increase would slightly decline in later years. Because food items are currently not exempt from local sales tax, the items included in the bill are already in the local sales tax base. Thus, there is no local revenue effect from this bill. The assumptions used by FRC are included in the appendix.

Table 1. Estimated State Revenue Gains from LC 43 0439

(\$ millions)	FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
SSBs	\$10.1	\$20.0	\$19.6	\$19.1	\$18.6
Confections	\$16.3	\$32.8	\$33.1	\$33.3	\$33.4
Total*	\$26.5	\$52.9	\$52.7	\$52.3	\$51.9

*Totals may not add due to rounding.

The Department of Revenue will need to develop internal and external training as a result of the bill. One-time costs for contract and part-time personnel for these tasks is estimated to be \$6,000.

Sincerely,



Greg S. Griffin
State Auditor



Teresa A. MacCartney, Director
Office of Planning and Budget

GSG/TAM/mt

Analysis by the Fiscal Research Center

The following summarizes the facts and assumptions used in the above estimates:

SSB Tax Estimate

- Based on data from the 2014 Consumer Expenditure Survey Diary files from the U.S. Bureau of Labor Statistics, per capita consumption of SSBs equaled \$56.9, excluding diet sodas.
- Applying the 2016 U.S. Census Bureau population figure of 10.3 million for Georgia produces a base of expenditures of \$587 million.
- Recent studies have found that increasing the price of SSBs by 1 percent results in a 1.2 percent decline in consumption of SSBs. Because this proposal increases the price of SSBs by 4 percent, we reduce the tax base by 4.8 percent (0.04×1.2) to \$559 million.
- Applying the state sales tax rate to this base produces a revenue estimate equal to \$22 million for 2014.
- Based on forecasted industry growth rates from IBISWorld, the revenue estimate is forecasted to decline at an average annual rate of 2.5 percent through 2022.

Confection Tax Estimate

- Based on data from the Consumer Expenditure Survey Diary files from the U.S. Bureau of Labor Statistics, per capita consumption of confections equaled \$77.2 in 2014.
- Applying the 2016 U.S. Census Bureau population figure of 10.3 million for Georgia produces a base of expenditures of \$796 million.
- Recent studies have found that increasing the price of confections by 1 percent results in a 0.34 percent decline in consumption of confections. Because this proposal increases the price of confections by 4 percent, we reduce the tax base by 1.4 percent (0.04×0.34) to \$785 million.
- Applying the state sales tax rate to this base produces a revenue estimate equal to \$31 million for 2014.
- Based on forecasted industry growth rates from IBISWorld, the revenue estimate is forecasted to increase at an average annual rate of 1 percent through 2022.