REPORT OF THE

JOINT SUBCOMMITTEE STUDYING

EQUITABLE REVENUE SOURCES TO REPLACE

THE REVENUE FROM THE SALES TAX ON FOOD

TO

THE GOVERNOR

AND

THE GENERAL ASSEMBLY OF VIRGINIA

HOUSE DOCUMENT NO. 11

COMMONWEALTH OF VIRGINIA
RICHMOND
1980

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DIVISION OF LEGISLATIVE SERVICES
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John A. Garka, Economist
E. M. Miller, Jr., Senior Attorney
Jill M. Pope, Legislative Research Associate
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Report of the
Joint Subcommittee
of the House and Senate Finance Committees
Studying Equitable Revenue Sources to Replace
the Revenue from the Sales Tax on Food
December, 1979

To: Honorable John N. Dalton, Governor of Virginia
and
The General Assembly of Virginia

I. INTRODUCTION

House Joint Resolution No. 194 established a Joint Subcommittee of the House and Senate Finance Committees to study the sales tax on food products for home consumption. Specifically, the resolution directed the Joint Subcommittee to conduct a study of all practical means of replacing the revenues that would be lost if food products were exempted from the sales tax and to determine the most equitable means of replacing such lost revenue. The resolution reads as follows:

HOUSE JOINT RESOLUTION NO. 194

WHEREAS, the Virginia retail sales tax imposed upon purchases of food for home consumption only has often been called a "cruel tax" because it imposes additional hardships on poor families who often cannot afford their basic food requirements much less the taxes upon such purchases; and

WHEREAS, few, if any, of our Commonwealth's citizens would disagree with the proposition that the revenues of governments ought to be raised primarily from those who can best afford them and, thus, taxes on the purchases of food for home consumption only are undesirable; and

WHEREAS, the sales tax on all food sales is approximately one-fourth of all sales and use taxes collected and represents almost two hundred sixteen million dollars of State and local revenues annually; and

WHEREAS, it seems reasonable that the sales tax on food for home consumption only ought to be repealed and the most equitable means determined to replace such lost revenue; now, therefore, be it

RESOLVED by the House of Delegates, the Senate concurring, That the Finance Committees of the House and Senate are directed to jointly conduct a study of all practical means of replacing revenues lost to both the Commonwealth and her localities if the sales tax on food for home consumption only is repealed. Upon completion of the study, the Committees shall submit a report to the Governor and the General Assembly prior to the nineteen hundred eighty Session.

Pursuant to this directive, the following were appointed to serve on the Joint Subcommittee: Delegate Warren G. Stambaugh, Chairman; Senator Clive L. DuVal, 2d, Vice-Chairman; Delegate Johnny S. Joannou; Delegate George W. Jones; Senator William F. Parkerson, Jr.; and Senator William A. Truban.

The Joint Subcommittee wishes to acknowledge and note the assistance provided by Delegate James S. Christian, Jr. Delegate Christian was the patron of the resolution which started the study and provided valuable suggestions and comments to this Joint Subcommittee in the course of its deliberations.

The Joint Subcommittee was assisted in its study by the Division of Legislative Services. Specific staff assigned were John A. Garka, Economist, and E. M. Miller, Jr., Senior Attorney.

II. EXECUTIVE SUMMARY

The Joint Subcommittee has spent a considerable amount of time examining Virginia's revenue structure, the sales tax structure of Virginia and other states, the regressivity of the sales tax on food, and the gradual but steady trend of other states in phasing out or eliminating the sales tax on food. The Joint Subcommittee has also spent considerable time analyzing the anticipated revenue growth of Virginia's General Fund and the composition of that revenue growth.

The Joint Subcommittee notes that 26 states and the District of Columbia exempt (or tax at a lower rate) food products for home consumption from the sales tax base. Moreover, four states have taken action this year alone. The Joint Subcommittee also recognizes the regressivity of the tax which requires a lower income family to spend a greater percentage of its budget on food products for home consumption than does a higher income family. Of course, the burden of the tax is felt especially hard by those elderly who are on a relatively fixed income.

The Joint Subcommittee, however, has spent most of its time analyzing alternatives to make up the revenue loss associated with the exemption of food products for home consumption. Clearly, the revenue loss associated with the repeal of the sales tax on food reflects the importance of the food component of the sales tax as well as the importance of the sales tax in Virginia's General Fund. The sales tax on food represents an estimated 25% of the sales tax base. In fiscal year 1978-79 this represented an estimated $133.7 million of revenue to the Commonwealth and $44.6 million of revenue to Virginia's localities from the 1% local option sales tax.

The Joint Subcommittee has examined numerous alternatives to replace the revenue loss. The alternatives have come from a variety of sources, including those presented by interested citizens and groups at a public hearing that was held in Richmond on October 8.

THE JOINT SUBCOMMITTEE RECOMMENDS THAT IF THE GENERAL ASSEMBLY WISHES TO REPEAL THE SALES TAX ON FOOD PRODUCTS FOR HOME CONSUMPTION, VIRGINIA SHOULD UTILIZE THE ANTICIPATED SIGNIFICANT GROWTH OF OTHER GENERAL FUND REVENUES AND GRADUALLY ELIMINATE THE STATE SALES TAX ON FOOD OVER A SIX YEAR PERIOD. Specifically, the Joint Subcommittee recommends that the state sales tax on food be reduced by 1% on the first day of the next three bienniums starting on July 1, 1980.

The Commonwealth has been fortunate and will continue to be fortunate in continuing its robust General Fund revenue growth into the future. Under this recommendation, the Commonwealth could cushion the impact of the exemption as well as allow time to plan for its impact. The Joint Subcommittee notes that the Administration's General Fund projections for the next six fiscal years show annual growth in the 7-11% range. The Joint Subcommittee feels that a gradual phase out can be accomplished and would not significantly alter Virginia's General Fund growth. As the following shows, even with the proposed phase-out total General Fund revenue growth would continue unaltered, growing annually in the 6.5-11% range.

(millions of dollars)

	1980-1	1981-2	1982-3	1983-4	1984-5	1985-6
Estimated General Fund Revenue with phase out exemption	2462.0	2640.4	2836.3	3132.3	3394.9	3778.5
Percent Increase	+ 6.6%	+ 7.2%	+ 7.4%	+10.4%	+ 8.4%	+11.3%

It should be noted that even though the phase out will lead to relatively large losses of sales and use tax revenue from anticipated collections under the present structure, total sales and use tax collections in each biennium will increase over the previous biennium.

The Joint Subcommittee notes that the following General Fund revenues increases will be available in the next three bienniums to finance the gradual phase-out of the exemption:

(millions of dollars)		
1980-82	1982-84	1984-86
$ 744.7	$1,014.6	$1,412.0

In addition, the Joint Subcommittee believes that, based on its staff's work comparing recent General Fund estimates and collections, General Fund revenue estimates may be revised upward to provide even more funds to provide for a phase-out of the sales tax on food. Moreover, Administration officials have testified that the minimum anticipated surplus for the 1978-80 biennium is $190 million. This would also serve to increase the amount of available funds to finance the exemption.

Although the Joint Subcommittee has obtained accurate and detailed data on General Fund revenue growth, the Joint Subcommittee has been unable to ascertain from the Administration, on even a preliminary basis, General Fund expenditure requirements for the future. The Joint Subcommittee clearly recognizes that additional revenues will be needed in the future because inflation affects the State budget in exactly the same way it affects an individual's. The Joint Subcommittee recognizes the fixed expenditure requirements that must be addressed with the anticipated revenue growth. For example, the funding of the annexation package passed in the 1979 Session will require approximately $150 million of revenue in 1980-82, the funding of just the projected increase in Social Security taxes will require an additional $11 million in the 1980-82 biennium. Moreover, additional funds have been proposed for the Virginia Supplemental Retirement System and the Corrections Department to say nothing of cost-of-living increases for State employees and other priorities. The Joint Subcommittee reemphasizes that these fixed requirements must be addressed before the exemption of food can be funded.

THUS, THE JOINT SUBCOMMITTEE RECOMMENDS THE GRADUAL ELIMINATION OF THE STATE SALES TAX ONLY IF THE FUNDS ARE AVAILABLE FROM GENERAL FUND INCREASES AFTER FIXED AND NECESSARY EXPENDITURES FOR THE OBLIGATIONS OF THE GENERAL FUND ARE FUNDED.

In regard to localities, 1% of the State's 3% sales tax is distributed back to localities on the basis of school age population. THE JOINT SUBCOMMITTEE RECOMMENDS THAT THE STATE CONTINUE TO DISTRIBUTE THE REVENUE BACK TO LOCALITIES AS IF IT WERE COLLECTED. IN REGARD TO THE LOCAL OPTION 1% SALES TAX WHICH ALL LOCALITIES HAVE ADOPTED, THE JOINT SUBCOMMITTEE RECOMMENDS THAT AT THE END OF THE SIX YEAR PHASE OUT PERIOD, THE LOCALITIES BE GIVEN THE OPTION OF EXEMPTING FOOD PRODUCTS FROM THE LOCAL SALES TAX. The Joint Subcommittee believes it is up to the localities to make this decision.

III. BACKGROUND

PURPOSE

The Joint Subcommittee was established pursuant to House Joint Resolution No. 194 to study the most equitable method of replacing lost revenues if products for home consumption were exempted from the Virginia Retail Sales and Use tax.

The exemption of food products from the sales tax has been discussed many times in the past in the Commonwealth. The arguments for the exemption of food are numerous, but the primary reason is that the sales tax on food appears to impact lower and more moderate income families to a much greater extent than individuals with higher incomes because lower income individuals must spend a greater proportion of their income on food. This has become particularly evident in recent years with the rapid escalation of food prices relative to other prices. Those in favor of exempting food argue that the exemption would reduce the tax burden on the lower and middle income groups. Obviously, the problem with exempting food is the resulting significant loss of revenue to Virginia and its localities.

The Virginia Retail Sales and Use tax extends to the sale, rental, lease, and storage for either use or consumption of tangible personal property at its final level of consumption . Exempted from the sales and use tax base are a large number of items which have other taxes imposed. These include items such as automobiles, gasoline, liquor, and real property, as well as public utility, professional and nonprofessional services. The present sales tax rate is 4%, 3% State and 1% local. This rate has been unchanged since July 1, 1968. In fiscal year 1978-79, revenues from the State sales and use tax were $534.7 million (please see Appendix A) or 24.2% of total General Fund revenues, with localities receiving approximately $180 million from the 1% local option tax. For the Commonwealth, this represents the second largest source of general fund revenue. The largest source of general fund revenue is the Virginia individual income tax which yielded $966.6 million, or 43.7% of the General Fund. The third largest source of general fund revenue is the corporate income tax which yielded $196.2 million, or 8.9% of general fund revenues.

TAX RATES AND BASES

Table 1 presents a summary of current sales and use tax rates levied throughout the United States. As of December, 1979, forty-five states and the District of Columbia levied a general State sales tax; in addition, twenty-five states have localities imposing their own sales tax either supplemental to or in lieu of the State sales tax. The table also shows the states that presently exempt food products from the sales tax.

At the present time, twenty-six states and the District of Columbia exempt food from the sales tax base. In other words, only nineteen states extend the sales tax to food products. This year alone, four states have acted to exempt or partially exempt food products from the sales tax. West Virginia has enacted legislation that will over a three year period gradually exempt food products from the tax base by lowering the sales tax rate by 1% on July 1 for the next three years. By July 1, 1981, food products for home consumption will be entirely exempt. In addition, Nevada has exempted food products from the sales tax effective July 1, 1979 while Colorado has exempted food products effective January 1, 1980. Illinois has reduced the sales tax rate on food products by 1% effective January 1, 1980.

TABLE 1 - STATE AND LOCAL SALES
TAX RATES, STATES THAT EXEMPT FOOD
December, 1979

State	Food Exempt	State Rate	Local Rate (Maximum)
Alabama		4 %	3 %
Alaska		—	5
Arizona		4	2
Arkansas		3	1
California	X	4.75	1.25
Colorado	X**	3	4
Connecticut	X	7	
District of Columbia	X	5	
Florida	X	4	1
Georgia		3	1
Hawaii		4	
Idaho		3	
Illinois	X***	4	1
Indiana	X	4	
Iowa	X	3	
Kansas		3	1
Kentucky	X	5	.5
Louisiana	X	3	3
Maine	X	5	
Maryland	X	5	
Mass.	X	5	
Michigan	X	4	
Minnesota	X	4	1
Mississippi		5	
Missouri		3.125	1
Nebraska		3	1
Nevada	X	3	.5
New Jersey	X	5	
New Mexico		3.75	.5
New York	X	4	4
N. Carolina		3	1
N. Dakota	X	3	
Ohio	X	4	1.5
Oklahoma		2	3
Pennsylvania	X	6	
Rhode Island	X	6	
S. Carolina		4	
S. Dakota		4	2
Tennessee		4.5	2.25
Texas	X	4	2
Utah		4	1
Vermont	X	3	
Virginia		3	1
Washington	X	4.6	1
W. Virginia	X*	3	
Wisconsin	X	4	
Wyoming		3	1

Source: Prepared by John A. Garka from Commerce Clearing House, Inc.

*Phase out of sales tax on food has been enacted. Rate decreased from 3% to 2% on July 1, 1979, to 1% on July 1, 1980 and complete exemption on and after July 1, 1981.
** Exempted food products from the sales tax base effective January 1, 1980.
***Rate on food reduced 1% effective January 1, 1980.

It is interesting to note that of the twenty-five states with a State sales tax and which exempt food products (or tax food at a lower rate), nineteen have state tax rates which are higher than Virginia, while seven states have identical state sales tax rates. No state which exempts food has a state sales tax rate lower than Virginia's.

Also interesting are the population figures for those states which currently impose a full sales tax on food. These nineteen states combined comprise only 23.4% of the U.S. population indicating that the states that have chosen to exempt food are among the larger and more populous.

To better understand the impact of exempting food from the sales and use tax, the Joint Subcommittee examined the major components of the sales tax base. Table 2 summarizes the composition of the Virginia sales and use tax base for calendar year 1978 by broad business classifications as developed by the Virginia Department of Taxation. The table clearly shows that the largest major source of sales tax revenue is the food group. This group encompasses approximately one-third of the base (34.2%) and consists of all products sold by establishments whose principal business is part of the food group. However, since grocery stores, for example, sell a wide variety of non-food items as well, this figure overestimates the amount of food products for home consumption which is directly subject to the tax. The next major component of the base is the general merchandise group (18.7%) and includes taxable products sold by department stores, dry good stores, and drug stores. These two major categories alone account for over one-half of the sales tax base.

TABLE 2 - COMPOSITION OF THE VIRGINIA SALES AND USE TAX BASE BY BUSINESS CLASSIFICATION CODE, 1978

GROUP	PERCENT OF TOTAL
Food	34.2%
General Merchandise	18.7%
Miscellaneous and Unidentifiable	11.7%
Lumber, Building Material	11.2%
Automotive	6.0%
Furniture, etc.	5.6%
Apparel	4.6%
Machinery, Equipment	2.9%
Hotels, Motels	2.7%
Fuels	2.4%
TOTAL	100.0%

SOURCE: Virginia Department of Taxation, *Taxable Sales, 1978* (Richmond, 1979).

REGRESSIVITY

The term regressive refers to a tax whose effective tax rate as measured against income decreases as income increases. This is the case with the sales tax because the sales tax is not levied uniformly on all final sales of goods and services even though the tax rate is uniform. Rather, it appears that lower income individuals spend a greater proportion of their income on consumer items, particularly on food and other goods such as those under the typical broad-based sales tax, than those with higher incomes. This situation arises even though the tax rate is the same regardless of income. Table 3 demonstrates the heavier burden a general sales tax imposes on lower income families.

The regressivity problem is even more acute when it comes to food expenditures because of the wide variations in budgets that go toward purchases of food. Table 4 presents estimated annual budget costs for a family of four for various consumption items at various income levels. The table clearly shows that a lower income family must spend a greater proportion of its budget on food products for home consumption (30.4%) than does a higher income family (20.5%).

TABLE 3 - ESTIMATED BURDEN OF STATE - LOCAL

GENERAL SALES TAXES FOR A FAMILY OF FOUR, BY INCOME GROUP, 1977

Family Income in Dollars	Rate, Percent
$16,000	1.3 %
$32,000	0.9 %
$64,000	0.7 %

SOURCE: *Significant Features of Fiscal Federalism* , 1978-79 Edition, Advisory Commission on Intergovernmental Relations, Washington, D. C., p. 31.

TABLE 4 - ANNUAL BUDGET COSTS FOR A 4-PERSON FAMILY, 1977, VARIOUS BUDGET LEVELS

Item	Lower Budget	Intermediate Budget	Higher Budget
TOTAL COST	100.0%	100.0%	100.0%
Total consumption	82.6	76.2	71.2
Food	30.4	24.0	20.5
Housing	19.9	23.5	24.1
Transportation	7.7	8.6	7.6
Clothing, personal care	10.6	9.1	9.0
Medical care	9.4	5.8	4.1
Other	4.7	5.3	5.9
Other items	4.5	4.5	5.1
Social Security	6.0	5.6	3.9
Personal income taxes	6.9	13.7	19.8

IV. THE COST OF EXEMPTING FOOD

The Joint Subcommittee estimates that a complete exemption of all food products for home consumption would reduce both State and local option sales and use tax revenues by approximately 25%. Since the tax on food is the largest single source of sales and use tax revenue, the associated revenue loss reflects this significance. The exemption of food from the sales tax base would cost the State approximately 6.0 % of its General Fund revenues. To the State and its localities, this translates into the following revenue losses:

Fiscal Year	Total Sales Tax Collections (State only)	Estimated Revenue Loss (millions of dollars) State loss	Local loss
1977-78	$489.2 (act)	$122.3	$40.8
1978-79	534.7 (act)	133.7	44.6
1979-80	581.5 (est)	145.4	48.5
1980-81	636.5	159.1	53.0
1981-82	684.1	171.0	57.0
1982-83	741.0	185.2	61.7
1983-84	809.1	202.3	67.4
1984-85	886.2	221.6	73.9
1985-86	976.0	244.0	81.3

V. RECOMMENDATION

The Joint Subcommittee has examined and carefully considered a number of different options for replacing lost revenues if food products are exempted from the sales tax. The Joint Subcommittee believes that the large, anticipated increases in the General Fund, if not totally expended for fixed requirements, should be used to fund the six year gradual phase out of the State sales tax on food products for home consumption. Thus, the Joint Subcommittee recommends the following option:

OPTION 1 - UTILIZE EXISTING GENERAL FUND REVENUE GROWTH TO ALLOW FOR THE GRADUAL ELIMINATION OF THE SALES TAX ON FOOD.

The following table shows the Administration's latest (as of November, 1979) General Fund revenue forecasts for the next three bienniums:

(millions of dollars)	1980-1	1981-2	1982-3	1983-4	1984-5	1985-6
Estimated Revenue	2515.0	2697.4	2959.8	3267.2	3616.5	4022.5
Amount Increase	+204.6	+182.4	+262.4	+307.4	+349.3	+406.0
Percentage Increase	+ 8.9%	+ 7.3%	+ 9.7%	+10.4%	+10.7%	+11.2%

Clearly, the Commonwealth appears to be fortunate in continuing its robust revenue growth into the future.

The Joint Subcommittee acknowledges that inflation affects the State budget, that additional funding may be needed for new programs or existing programs like Corrections or the Virginia Supplemental Retirement System. The Joint Subcommittee also recognizes that $150 million will be needed in 1980-82 to fund the annexation package and that an additional $11 million will be needed to pay for the increased employer Social Security tax in the 1980-82 biennium. The Joint

Subcommittee does recommend, however, that if funds remain after funding these fixed commitments that these funds be used to fund the phase out of the sales tax on food.

Under this option the Commonwealth could cushion the impact of the exemption by phasing the exemption in over a six year period. That is, the sales tax on food could be reduced by 1% on the first day of the next three bienniuims. Thus, the State's sales and use tax rate on food products would decrease from 3% to 2% on July 1, 1980, to 1% on July 1, 1982, and be eliminated on July 1, 1984. The following show the estimated revenue impacts for the next three bienniums:

	(millions of dollars)					
	1980-1	1981-2	1982-3	1983-4	1984-5	1985-6
Sales tax, present base	$636.5	$684.1	$741.0	$809.1	$886.2	$976.0
Sales tax, phase out	583.5	627.1	617.5	674.2	664.6	732.0
(Revenue loss from exemption)	(53.0)	(57.0)	(123.5)	(134.9)	(221.6)	(244.0)

Although the exemption will lead to relatively large losses of sales and use tax revenue, total sales and use tax collections in each biennium with this gradual phase-out will increase over the previous biennium. In other words, projected growth in the sales tax base will be greater than the loss of revenue from this phase-out.

The Joint Subcommittee notes that 1% of the State's 3% sales tax is distributed back to localities on the basis of school age population. The revenue losses assume that the State would continue to distribute the revenue back to localities as if it were collected. In terms of the local option 1%, the Joint Subcommittee believes that at the end of the state phase-out period (July 1, 1986), localities should be given the option of exempting food.

This gradual phase-out approach would not significantly alter Virginia's General Fund revenue growth. Virginia General Fund revenues would increase as follows:

	(millions of dollars)					
	1980-1	1981-2	1982-3	1983-4	1984-5	1985-6
Estimated General Fund Revenue with phase-out exemption	2462.0	2640.4	2836.3	3132.3	3394.9	3778.5
Amount Increase	+151.6	+178.4	+195.9	+296.0	+262.6	+383.6
Percentage Increase	+ 6.6%	+ 7.2%	+ 7.4%	+10.4%	+ 8.4%	+11.3%

Clearly, total General Fund revenue growth would continue unaltered, growing in the 7-11% range. It is also important to note that the Governor's revenue projections assume the current Federal General Revenue Sharing program will expire on September 30, 1980, and that Congress will not extend it. This means that the approximate $50 million of revenue that Virginia will receive in fiscal year 1979-80, will decrease in half in 1980-81 and be eliminated in the future. Many view the possibility of Congress dropping the program as remote. If the program were extended at its present dollar level, Virginia would receive an additional $25 million in fiscal year 1980-81 and $50 million in the following years at present funding levels. This would add an additional 1.5-2.0 percent annual increase to General Fund revenues from 1981-82 through 1985-86. It is interesting to note that this annual amount is approximately equal to the revenue loss in each of the 1980-81 and 1981-82 fiscal years.

This particular option may be particularly attractive at the present time because inflation has caused, and will cause, strong growth in the State's tax collections. The estimated surplus at the end of the 1978-79 fiscal year was reported by the Governor at $97.9 million. Administration officials concede that the surplus for the 1978-80 biennium will be at least $190 million. They attribute the surplus to strong revenue collections compared to estimates, the robust growth of the economy, and belt-tightening measures instituted by the Administration to slow expenditure growth.

VI. OTHER POSSIBLE ALTERNATIVES

The Joint Subcommittee also considered a number of other alternatives. Although the Joint Subcommittee does not present these alternatives as recommendations, the Joint Subcommittee has examined these approaches and presents them for informational purposes.

OPTION 2 - ELIMINATE THE SALES TAX ON FOOD AND INCREASE THE SALES TAX RATE ON THE REMAINING SALES TAX BASE

This option would raise the combined State and local sales tax rate from 4% to 5% while granting the localities an increase from 1% to 1-1/3% and increasing the State sales tax rate from 3% to 3-2/3%. The local rate of 1-1/3% would offset, in aggregate, the revenue loss to the localities. The increased State sales tax rate, however, would not completely cover the revenue loss to the State. The following summarizes the impact to the State assuming an effective date of July 1, 1980:

(millions of dollars)

	1980-1	1981-2	1982-3	1983-4	1984-5	1985-6
Sales tax, present base	$636.5	$684.1	$741.0	$809.1	$886.2	$976.0
Present tax rate, with exemption	477.4	513.1	558.8	606.8	664.7	732.0
3-2/3% rate, with exemption	583.4	627.2	683.0	741.7	812.5	894.7
(State revenue loss)	(53.1)	(56.9)	(58.0)	(67.4)	(73.7)	(81.3)

Although the State would experience a revenue loss compared to collections under the present tax, the losses could be offset by revenue growth from other State revenue sources. It is interesting to note that the revenue loss to the State approximates the revenues the Commonwealth receives in Federal General Revenue sharing.

OPTION 3 - INCREASE THE PRESENT COMBINED SALES AND USE TAX RATE TO 5% AND PHASE-OUT THE SALES TAX ON FOOD OVER THE 1980-82 BIENNIUM

At a 5% rate, the local sales and use tax would increase to 1-1/3% which would completely cover the local revenue loss in the aggregate and the State sales tax rate would rise to 3-2/3%. The State sales and use tax rate of 3-2/3% would not cover the revenue loss caused by exempting food products. Thus, this option proposes that on July 1, 1980 the sales and use tax rate on food would decrease from the present 4% to 2%. This two-year 2% rate on food would help cushion the revenue loss to the State. On July 1, 1982, with the start of the 1982-84 biennium, the sales tax on food could be completely eliminated. The following summarizes the impact to the State assuming an effective date of July 1, 1980:

(millions of dollars)

	1980-1	1981-2	1982-3	1983-4	1984-5	1985-6
Sales tax, present base	$636.5	$684.1	$741.0	$809.1	$886.2	$976.0
Sales tax, option 3	690.6	741.7	683.0	741.7	812.5	894.7
Change in revenues over present base and rate	+54.1	+57.6	(-58.0)	(-67.4)	(-73.7)	(-81.3)

As the table shows, the sales and use tax revenue increases which the State would experience in the 1980-82 biennium could be used to offset the decline in sales and use tax revenues in the 1982-84 biennium. In fiscal year 1984-85, the revenue loss of $73.7 million would represent approximately 2% of all General Fund revenues. This option does not address the question of the local option 1% tax on food.

It should be noted that although the sales tax on food is eliminated the State would continue to distribute funds based on what would have been collected under the sales tax on food to the localities on the basis of their school age population.

OPTION 4 - EXPAND THE PRESENT SALES AND USE TAX BASE TO INCLUDE A PACKAGE OF REPAIR AND SELECTED PERSONAL SERVICES WHILE PHASING OUT THE SALES TAX ON FOOD.

Under this option, the State sales and use tax rate on food products would decrease from 3% to 2% on July 1, 1980, to 1% on July 1, 1982 and be completely eliminated by July 1, 1984, while immediately expanding the sales tax base to certain services.

There are a number of arguments for expanding the sales and use tax base to include services. The first is the underlying philosophy of the sales tax, which is to cover as broad a base of consumption as feasible. There appear to be no inherent features of most services that precludes their inclusion in the sales and use tax base. In fact, a number of states tax services. Second, as personal income rises, expenditures on services tend to increase as a percentage of personal income. This extension of the tax base would therefore be borne to a greater extent by higher income groups and would tend to reduce some of the regressiveness of the sales tax. Finally, a number of services are rendered in conjunction with the sale of tangible personal property which is presently taxed. The compliance and the administration of the sales tax could be made much simpler if the entire charge were taxable rather than if a separation was made between a non-taxable service component and a taxable commodity component.

Although the taxation of some services could lead to problems in the area of administration and enforcement, it is possible to select a large number of services that could expand the sales tax base and substantially increase State and local sales tax revenues without causing undue enforcement problems. At least fourteen states and the District of Columbia extend the sales tax to some type of major repair, cleaning, and personal services.

One alternative to reduce the loss from exempting food from the sales tax would be to tax these services. Specifically, the repair services in this package would include: automobile repair, appliance repair, building maintenance and repair, and miscellaneous repair services (watch repair, electrical repair shops, reupholsterers, locksmiths, etc.). Personal services would include laundry and dry cleaning, auto parking, auto rental and leasing, beauty and barber shops, amusements and movies and miscellaneous personal services (health clubs, suit rentals, clothing rentals).

This suggested listing of services is based on research conducted by the Revenue Resources and Economic Commission a few years ago. Based on U. S. Census data for service establishments in Virginia, the inclusion of services would lead to a 10% expansion of the sales and use tax base.

The following table shows the estimated revenue impacts for the next three bienniums:

(millions of dollars)

	1980-1	1981-2	1982-3	1983-4	1984-5	1985-6
Sales tax present base	$636.5	$684.1	$741.0	$809.1	$886.2	$976.0
Sales tax revenue, tax on food phased out	583.5	627.1	617.5	674.2	664.6	732.0
Service revenue	63.6	68.4	74.1	80.9	88.6	97.6
State sales tax revenue, option 4	647.1	695.5	691.6	755.1	753.2	829.6
Revenue change	+10.6	+11.4	(-49.4)	(-54.0)	(-133.0)	(-146.4)

Under this option, in each of the first two years of the next biennium the State would actually collect more revenues because the additional revenue from the tax on services would exceed the loss of revenue from reducing the sales tax on food by one percentage point. In the 1982-84 biennium and the 1984-86 biennium, however, the State would sustain a loss over the estimated sales tax revenue under the present base. For example, in 1980-81 the State would actually experience a revenue increase of $10.6 million, while in fiscal year 1982-83 the State would actually experience a sales tax revenue decline of $49.4 million compared to estimated sales tax revenues under the present base.

It should be noted that the local option 1% sales tax is not specifically addressed in this option. However, localities will receive additional revenue due to the 1% local option tax which would be extended to selected services. This additional revenue for localities will be one-third of the revenues that will accrue to the State for services. For example, in fiscal year 1980-81 the localities will receive an estimated $21.2 million in additional revenues and this amount would increase to approximately $32.4 million by the 1985-86 fiscal year.

OPTION 5 - REPEAL THE PRESENT STATE SALES TAX ON FOOD AND ENACT A 10% SURCHARGE ON THE VIRGINIA INDIVIDUAL AND CORPORATE INCOME TAXES.

Under this option the Virginia individual income tax rates would change to those shown below:

VIRGINIA INDIVIDUAL INCOME TAX

TAXABLE INCOME	PRESENT RATE	PROPOSED RATE
$ 0 - $ 3,000	2.0 %	2.2 %
$3,001 - $ 5,000	3.0	3.3
$5,001 - $12,000	5.0	5.5
Over $12,000	5.75	6.325

The Virginia corporate income tax rate would increase from the present 6% to 6.6%. This option would have the following revenue impact:

(millions of dollars)

	1980-1	1981-2	1982-3	1983-4	1984-5	1985-6
Sales tax present base	$636.5	$684.1	$741.0	$809.1	$886.2	$976.0
Revenue loss from exemption	-159.1	-171.0	-182.2	-202.3	-221.5	-244.0
10% sur-charge on income tax	+143.4	+158.4	+177.1	+198.4	+222.7	+251.1
Net State impact	- 15.7	- 12.6	- 5.1	- 3.9	+ 1.2	+ 7.1

As the preceding table demonstrates, a 10% surcharge on the present individual and corporate income tax rates would almost completely offset the State revenue loss in the first few years, and because income tax collections are projected to increase faster than sales tax collections the revenues resulting from the surcharge would actually exceed the revenue losses by fiscal year 1984-85. This option would have the advantage of placing a greater reliance on a more progressive tax, while reducing the reliance on a more regressive tax. (Please note that because the individual tax is generally based on taxable years beginning on January 1, it would be preferable to change the tax rates effective on and after January 1 of a particular year. For simplicity, however, the revenue impacts are on an adjusted fiscal year basis.)

Although this option does not address the local option 1% tax, the estimate does assume that the Commonwealth would distribute the 1% sales tax revenue that would have been collected on food and distribute it on the basis of school age population.

INCOME TAX CREDIT OPTION

An alternative option that could be used to accomplish the same purpose as the exemption (i.e., refunding an approximate amount of sales tax paid on food products for home consumption) is an individual income tax credit. In addition, a credit against individual income tax liability could be more flexible than an exemption. For example, a credit would alleviate the administrative problems while permitting relief to vary over time and income level. Specifically, a credit could be designed so that it would benefit lower income consumers more than those at higher income levels.

If we divide the estimated sales and use tax revenue derived from food products (1978-79) by Virginia's population, we find the average amount of sales tax on food paid per person is approximately $34.00. This amount, of course, refers to all income levels and includes the food expenditures on luxury-type foods.

If the purpose of the income tax credit were to grant relief only to those income levels that were most affected by the regressivity, the income tax credit would be substantially less than the $34.00 per person.

OPTION 6 - GRANT AN INCOME TAX CREDIT OF $10.00 FOR EACH DEPENDENT AND PERSONAL EXEMPTION FOR ALL RESIDENT INCOME TAX RETURNS WITH AN ADJUSTED GROSS INCOME OF $5,000 OR LESS.

Under this example, a famliy of four would receive a $40.00 credit. If the credit was greater than the income tax liability the taxpayer would receive a refund. Some restrictions would have to be adopted so that a married couple would not file separate returns for the purpose of qualifying for the credit if their combined income was greater than the $5,000.

The cost of this option would be approximately $14.6 million in 1980. The cost would not significantly increase annually since the credit would be a fixed amount. In addition, as inflation increases peoples' incomes, fewer individuals would qualify for the credit, and thus the credit would likely tend to decrease in cost over time.

OPTION 7 - GRANT AN INCOME TAX CREDIT OF $12.00 FOR EACH DEPENDENT AND PERSONAL EXEMPTION FOR ALL RESIDENT INCOME TAX RETURNS WITH AN ADJUSTED GROSS INCOME OF LESS THAN $4,000 AND A $6.00 CREDIT FOR INCOME TAX RETURNS WITH AN ADJUSTED GROSS INCOME OF LESS THAN $6,000.

This type of approach would obviously grant more relief to individuals with less income than those with larger incomes. The cost of this option is estimated at approximately $18 million annually.

The Joint Subcommittee suggests that the attached legislation (see Appendix D) be introduced in the 1980 Session of the General Assembly if the General Assembly wishes to exempt food products for home consumption from the state sales and use tax.

Respectfully submitted,

Warren G. Stambaugh, Chairman
Clive L. DuVal, 2d, Vice-Chairman
Johnny S. Joannou
George W. Jones
William F. Parkerson, Jr.
William A. Truban

APPENDIX TABLES

APPENDIX A

A COMPARISON OF FISCAL YEAR 1979 ACTUAL COLLECTIONS TO OFFICIAL FISCAL YEAR 1979 ESTIMATED COLLECTIONS (As of August 8, 1979)

	Fiscal Year 1979 Estimate	Fiscal Year 1979 Actual Collections	Difference	Percentage Change Actual Over Estimate
MAJOR TAX SOURCES				
Corporation - Income	$ 187,200,000	$ 196,220,228	9,020,228	4.82%
Individual and Fiduciaries - Income	952,100,000	966,626,352	14,526,352	1.53
Public Service Corporation	95,300,000	96,419,659	1,119,659	1.17
State Sales and Use Tax	536,300,000	534,721,624	- 1,578,376	-0.29
Total Major Tax Sources	$1,770,900,000	$1,793,987,863	23,087,863	1.30
MISCELLANEOUS TAXES AND OTHER REVENUES				
A.B.C. Profits	28,800,000	29,590,813	790,813	2.75
Alcoholic Beverages State Tax	35,500,000	36,732,466	1,232,466	3.47
Bank Stock	1,500,000	2,828,138	1,328,138	88.54
Beer & Beverage Excise Tax	32,200,000	31,262,130	- 937,870	- 2.91
Capital Not Otherwise Taxed	11,700,000	10,917,739	- 782,261	- 6.69
Corporate Franchise and Charters	6,000,000	6,080,984	80,984	1.35
Excess & Other Fees From Officers	11,300,000	12,689,749	1,389,749	12.30
Inheritance and Gifts	21,800,000	26,275,293	4,475,293	20.53
Institutional Revenues	3,000,000	3,031,442	31,442	1.05
Insurance Company - Premiums	70,900,000	73,319,721	2,419,721	3.41
Interest & Rents	25,000,000	48,326,954	23,326,954	93.31
Licenses and Permits	4,500,000	4,279,669	- 220,331	- 4.90
Miscellaneous Taxes and Penalties	5,400,000	6,984,053	1,584,053	+ 29.33
Other Miscellaneous Revenues	9,600,000	8,163,619	- 1,436,381	- 14.96
Tobacco Products Tax	17,900,000	17,478,831	- 421,169	- 2.35
Transfers per Appropriation Act	12,100,000	7,711,850	- 4,388,150	- 36.27
Transfer from Appropriation Reversion- State Health Department	9,600,000	9,605,058	5,058	0.05
Wills, Suits, Deeds & Contracts	30,800,000	32,852,871	2,052,871	6.67
Total Miscellaneous Taxes & Other Revenues	$ 337,600,000	$ 368,131,380	30,531,380	9.04
TOTAL GENERAL FUND REVENUES (Own Sources)	$2,108,500,000	$2,162,119,243	53,619,243	2.54
FEDERAL GENERAL FUND REVENUE SHARING	$ 48,100,000	$ 50,103,804	2,003,804	4.17
TOTAL GENERAL FUND REVENUES	$2,156,600,000	$2,212,223,047	55,623,047	2.58

APPENDIX B

Recent Action of Other States

Since 1975, a number of states have taken action with respect to exempting food. The state of Washington exempted food products as a result of a statewide referendum on November 8, 1977. The exemption became effective July 1, 1978. Before the referendum, the Governor estimated that this exemption would cost the state $167 million in revenues, and local government approximately $22.5 million. Although the Governor warned of drastic cuts in government services, the tax collection increases from "...economic growth exceeded anticipated levels and have more than made up the revenue loss from elimination of food from the sales tax base." It appears that the revenue growth from the other revenue sources was the primary source of funding the exemption. (It is interesting to note that total tax revenues for Virginia are approximately the same as Washington with a revenue loss from food of a similar magnitude.)

The State of West Virginia enacted legislation during its 1979 Session to phase in a food exemption. The West Virginia sales tax rate is 3% (no local sales tax). The rate of tax on food will be removed by reducing the tax by 1 percentage point on July 1, 1979, July 1, 1980, and July 1, 1981. This phase-in was designed so that the remaining sales tax revenues will increase at approximately the same rate as the loss of revenues from food. In other words, this phase out will cause sales tax revenues to grow only marginally instead of the normal rate which reflects inflation, population growth, and real growth. Of course, after the completion of the phase out period, sales tax revenues will resume their previous growth. It should be noted that the loss of revenue to West Virginia represents a much smaller amount of revenue than the magnitude to Virginia. Complete exemption would only cost West Virginia approximately $50 million compared to a State loss of $122 million and a local loss of $41 million.

The State of Nevada has recently passed a comprehensive tax reform package that provides substantial tax relief through the property tax and sales tax and places limitations on future growth of state and local expenditures. A special referendum was held on June 5, 1979, where the people of Nevada voted to remove the sales tax on food for human consumption effective July 1, 1979. The Nevada sales tax is 3-1/2% (2% state, 1% to schools, and 1/2% to localities) and the state will reimburse the school districts and localities so that they would not lose any revenues. Nevada is financing this exemption by placing a limitation on the future growth of government spending and relying on revenue growth from existing tax sources.

The state of Colorado also took action in 1979. Effective January 1, 1980, food products for home consumption will be exempt from the sales tax. This measure resulted, at least in part, from the enactment in 1977 of a limitation on state general fund appropriations.

The state of Illinois has reduced the sales tax applicable to food products by 1% effective January 1, 1980.

APPENDIX C

MEMORANDUM

TO: Members of the Joint Subcommittee Studying the Sales Tax on Food

FROM: John A. Garka

SUBJECT: Food expenditures for home consumption by various family sizes and income levels

At the last meeting, the Joint Subcommittee requested additional data on food expenditures for home consumption by various family sizes and income levels. I have received data from the United States Department of Agriculture and the U. S. Bureau of Labor Statistics on these subjects. This memo attempts to summarize the data into a useful form.

Households vary widely in the kinds and amounts of food that they use and the amount of money they spend on food for home consumption. These variations occur because of a number of factors. For example, differences in household income, differences in the portion of income individuals chose to allocate for the purchase of food, the number of people in the particular family unit, sex, age, activity, and physical condition of individuals in the household. Another important factor which would affect food expenditures is the preference of individuals to eat meals away from home.

The United States Department of Agriculture has prepared food plans at four estimated cost (income) levels which provide nutritionally balanced meals. These plans reflect four different levels of ability to purchase food as well as incorporating various family sizes and other characteristics. They are based on actual surveys of food consumption modified to provide relatively nutritious meals. The first plan, called the thrifty food plan, was developed to provide a food plan menu for families and individuals who are eligible to receive food stamps and as well as other families with relatively little money income which can be allocated for food. This plan, as well as the other three, are designed to meet all dietary allowances. The associated food plan expenses represent an actual cost to provide an estimated balanced diet for these different income level individuals. Of course, actual expenses for food may be somewhat different than the expenses estimated by the U.S.D.A. because what one family consumes may differ from what is nutritionally provided for in these different food plans. However, it does provide a yardstick of expenditures. The estimated costs of the plans assume that all food products are purchased. Of course, if some of the products are grown in a garden or obtained in another way, the actual cost of a family plan would be less. The cost of these plans reflect actual costs in stores and is adjusted monthly.

The other three plans provided for by U.S.D.A. (low cost, modest cost, and liberal) provide cost estimates of various food plans which are nutritious but which tend to be more satisfactory to those with more income to spend on food, whether this is by choice or by means.

Table 1 provides the annual estimated cost of food consumed at home for these four different food plans for various categories of individuals and/or families. This table also provides the estimated sales tax on food which would be collected from such food expenditures as well as the tax per capita.

The table can be used to give a rough idea of the range of food expenditures at lower and higher income levels and by different family sizes and composition. The table shows that the minimum sales tax on food per person would be somewhere near $25.00. In other words, the table indicates that under the least cost plan the tax on food expenditures would be somewhere near $25.00. To be sure, some individuals will spend less and not have a balanced diet, but actual expenditures would appear to be near this.

It is interesting to note that the sales tax per person for the lower cost and moderate plans correspond very closely to the estimated State and local sales tax revenues derived from food products per person. This estimated amount, provided to the Joint Subcommittee in its first report, was slightly less than $34.00 in fiscal year 1978-79. In other words, the data considered by the Joint Subcommittee is consistent. Table A in the appendix gives a further breakdown of food expenditures for various other categories of individuals and family composition sizes.

The Joint Subcommittee also requested additional information regarding the percentage of income spent on food for different income levels. The information I previously presented to the Joint Subcommittee clearly showed that a lower income family spends a greater proportion of its budget on food than does a higher income family, but the previous information was lacking specific income levels. To gather information on this subject, I contacted the Bureau of Labor Statistics and consulted their report on surveys of consumption expenditures. In summary, I found that a lower budget family of four (defined as approximately $10,000-$11,000 of income) spends approximately 30.4% of its budget on food, an intermediate budget family ($15,000-$17,000) spends 24.0% of its budget on food, while a higher budget family (approximately $25,000) spends approximately 20.5% of income on food. As a point of comparison, the poverty level for a family of four in 1977 was defined as approximately $6,200.

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TABLE 1 - ANNUAL COST OF FOOD CONSUMED AT HOME, AND SALES TAX ESTIMATED FOR FOOD PLANS AT FOUR COST LEVELS, SEPTEMBER, 1979

	Thrifty Plan	Low-Cost	Moderate	Liberal
Family of 2 (55+)	$1,320	$1,716	$2,127	$2,553
Sales Tax	52.80	68.64	85.08	102.12
Sales Tax/Person	26.40	34.32	42.54	51.06
Family of 4	$2,506	$3,240	$4,082	$4,883
Sales Tax	100.24	129.60	163.28	195.32
Sales Tax/Person	25.06	32.40	40.82	48.83
Male (20-54)	$ 738	$ 967	$1,227	$1,472
Sales Tax	29.52	38.68	49.08	58.88
Male (55+)	$ 655	$ 853	$1,061	$1,279
Sales Tax	26.20	34.12	42.44	51.16
Female (20-54)	$ 603	$ 785	$ 983	$1,170
Sales Tax	24.12	31.40	39.32	46.80

SOURCE: Calculated from data provided by the U. S. Department of Agriculture

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TABLE 2 - ANNUAL FOOD COSTS FOR A 4 PERSON FAMILY AND A RETIRED COUPLE,
VARIOUS BUDGET LEVELS, 1977

	4 PERSON FAMILY		
	LOW INCOME (10,000-11,000)	INTERMEDIATE (15,000-17,000)	HIGHER (25,000-26,000)
FOOD EXPENDITURES	30.4 %	24.0 %	20.5 %

	RETIRED COUPLE		
	LOW INCOME (5,000)	INTERMEDIATE (7,000- 7,500)	HIGHER (10,000-11,500)
FOOD EXPENDITURES	30.5 %	28.3 %	23.8 %

SOURCE: U. S. Bureau of Labor Statistics Survey.

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TABLE A

Cost of Food at Home Estimated for Food Plans
at Four Cost Levels, September 1979, U.S. Average 1/

Sex-age groups	Cost for 1 week				Cost for 1 month			
	Thrifty plan 2/	Low-cost plan	Moderate-cost plan	Liberal plan	Thrifty plan 2/	Low-cost plan	Moderate-cost plan	Liberal plan
	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars	Dollars
FAMILIES								
Family of 2: 3/								
20-54 years	28.40	37.10	46.70	55.90	123.10	160.90	202.10	242.20
55 years and over	25.40	33.00	40.90	49.10	110.40	143.30	177.70	212.30
Family of 4:								
Couple, 20-54 years and children--								
1-2 and 3-5 years	40.00	51.70	64.70	77.50	173.60	224.20	280.20	335.70
6-8 and 9-11 years	48.20	62.30	78.50	93.90	208.90	270.40	339.60	407.10
INDIVIDUALS 4/								
Child:								
7 months to 1 year	5.70	6.90	8.50	10.00	24.70	30.10	36.80	43.50
1-2 years	6.40	8.20	10.10	12.10	27.90	35.50	43.90	52.20
3-5 years	7.80	9.80	12.10	14.60	33.80	42.40	52.60	63.30
6-8 years	9.90	12.70	16.00	19.10	43.00	55.20	69.20	83.00
9-11 years	12.50	15.90	20.00	24.00	54.00	68.90	86.70	103.90
Male:								
12-14 years	13.30	16.90	21.20	25.40	57.60	73.30	92.00	110.10
15-19 years	14.60	18.80	23.50	28.30	63.50	81.40	102.00	122.70
20-54 years	14.20	18.60	23.60	28.30	61.60	80.70	102.00	122.80
55 years and over	12.60	16.40	20.40	24.60	54.80	71.20	88.60	106.50
Female:								
12-19 years	11.90	15.20	18.80	22.50	51.60	65.70	81.50	97.30
20-54 years	11.60	15.10	18.90	22.50	50.30	65.60	81.70	97.40
55 years and over	10.50	13.60	16.80	20.00	45.60	59.10	72.90	86.50
Pregnant	14.60	18.70	23.00	27.40	63.40	81.00	99.70	118.50
Nursing	15.50	19.80	24.70	29.30	67.20	86.00	107.00	127.10

1/ Assumes that food for all meals and snacks is purchased at the store and prepared at home. Estimates for each plan were computed from quantities of foods published in the Winter 1976 (thrifty plan) and Winter 1975 (low-cost, moderate-cost, and liberal plans) issues of Family Economics Review. The costs of the food plans were first estimated using prices paid in 1965-66 by households from USDA's Household Food Consumption Survey with food costs at four selected levels. USDA updates these survey prices to estimate the costs for the food plans using information from the Bureau of Labor Statistics: "Estimated Retail Food Prices by Cities" from 1965-66 to 1977 and "CPI Detailed Report," tables 3 and 9, after 1977.

2/ Coupon allotment in the Food Stamp Program based on this food plan.

3/ Ten percent added for family size adjustment. See footnote 4.

4/ The costs given are for individuals in 4-person families. For individuals in other size families, the following adjustments are suggested: 1-person--add 20 percent; 2-person--add 10 percent; 3-person--add 5 percent; 5-or-6-person--subtract 5 percent; 7-or-more-person--subtract 10 percent.

U.S. Department of Agriculture
Science and Education Administration
Human Nutrition Center
Consumer and Food Economics Institute
Hyattsville, Maryland 20782

APPENDIX D

A BILL to amend the Code of Virginia by adding sections numbered 58-441.6:1 and 58-441.49:3, exempting certain foods from the Virginia Retail Sales and Use Tax.

Be it enacted by the General Assembly of Virginia:

1. That the Code of Virginia is amended by adding sections numbered 58-441.6:1 and 58-441.49:3 as follows:

§ 58-441.6:1. Graduated exemption of tax on certain foods.—A. Notwithstanding the provisions of §§ 58-441.4 or 58-441.5, on July one, nineteen hundred eighty, the rate of tax as levied in such sections applicable to food purchased for human consumption shall be reduced to two percent of gross sales. Beginning July one, nineteen hundred eighty-two, such rate of tax on food purchased for human consumption shall be further reduced to one percent of gross sales and on July one, nineteen hundred eighty-four, food purchased for human consumption shall be totally exempted from the tax imposed pursuant to §§ 58-441.4 and 58-441.5.

B. As used in this section "food purchased for human consumption" shall mean food and food products of the type usually sold by a grocer which are purchased by consumers for consumption off the premises where purchased. The term shall not include alcoholic beverages, soft drinks, sodas and similar beverages, coffee and coffee substitutes, tea, cocoa and cocoa products, refined sugar, candy, confectionery and chewing gum.

C. The Commissioner shall promulgate guidelines, rules and regulations for the administration of this section on or before July one, nineteen hundred eighty.

§ 58-441.49:3. Exemption of certain foods from local sales and use tax.—On and after July one, nineteen hundred eighty-six, the local governing body of any county, city or town may, by ordinance duly adopted, exempt from the tax imposed by such governing body pursuant to §§ 58-441.49 and 58-441.49:1, food purchased for human consumption as defined in § 58-441.6:1 and in accordance with the guidelines, rules and regulations promulgated by the Commissioner thereunder.

2. That the provisions of this act shall be effective beginning on and after July one, nineteen hundred eighty.