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FISCAL IMPACT STATEMENT

LS 6762 | **NOTE PREPARED:** Jan 13, 2003
BILL NUMBER: HB 1794 | **BILL AMENDED:**

SUBJECT: Uniform Food and Beverage and Innkeeper's taxes.

FIRST AUTHOR: Rep. Scholer | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State & Local
DEDICATED
FEDERAL

Summary of Legislation: The bill provides that taxes imposed under the Uniform County Innkeeper's Tax law may be used to enhance and conserve natural resources, promote and encourage economic and industrial development, and promote and encourage the development of the arts.

The bill authorizes a county, city, or town to adopt a 1% local Food and Beverage Tax under a uniform procedure. The bill provides that the tax may be used for reduction of the unit's property tax levy, targeted property tax relief, debt service or lease rentals, capital projects, operating revenue, pension liabilities, or any other purpose that the fiscal body determines is in the best interests of the unit.

Effective Date: July 1, 2003.

Explanation of State Expenditures: *Summary: Food and Beverage Tax*- The Department of State Revenue administrates, audits, and collects local food and beverage taxes. In 2001, the Department administrated, audited, and collected the Food and Beverage Tax at approximately $0.51 per $100 of revenue.

Explanation of State Revenues:

Explanation of Local Expenditures: *Summary: Innkeeper's Tax* - Additional distribution options of Innkeeper's revenue provided under the bill should not require any additional expenditures for tax collection or administration of a uniform county's Convention, Visitor, and Tourism Promotion Fund. The Innkeeper's Tax is collected locally by the county treasurer. The bill requires that at least 50% of Innkeeper's Tax revenue must be used for expenditures relating to conventions, visitors, and tourism in a county.

Food and Beverage Tax- The bill gives the fiscal body of a county, city, or town that has not already adopted the 1% Food and Beverage Tax, the option to adopt an ordinance to do so. (Six counties and five municipalities have already adopted the Food and Beverage Tax.) Upon adoption of an ordinance, the fiscal body would be required to send a certified copy of the ordinance to the Department of State Revenue.

If the Food and Beverage Tax is imposed, the county or municipality adopting the tax will receive monthly payments of the Food and Beverage Tax from the Treasurer of State on warrants issued by the Auditor of State.

Unit fiscal officers would be required to establish a Food and Beverage Tax Revenue Fund for revenue received from the Treasurer of State.

Explanation of Local Revenues: *Summary: Innkeeper's Tax* - Approximately $8.7 M in taxes were collected by counties under the Uniform Innkeeper's Tax law in FY 2002.

Food and Beverage Tax- A local unit would be allowed to adopt an ordinance between January 1 and August 1, of a given calendar year. Under the effective date of the bill, if a county, city, or town adopted an ordinance to impose the Food and Beverage Tax by August 1, 2003, the earliest such a unit could begin to receive revenue would be February of 2004. If every county that does not currently impose the 1% Food and Beverage Tax were to adopt the tax before August 1, 2003, the estimated combined revenue for the 86 counties that have not adopted the tax would be approximately $41.1 M in CY 2004.

If all cities and towns were to adopt the Food and Beverage Tax before August 1, 2003, the estimated revenue would be $62.3 M in CY 2004. Currently Brownsburg, Mooresville, Nashville, Plainfield, and Shipshewana have adopted the Food and Beverage Tax. In CY 2004, these units are projected to collect $1.5 M in Food and Beverage Tax revenue. This amount subtracted from the estimate above would lower the estimated revenue to cities and towns to $60.8 M for CY 2004.

Background: Food and Beverage Tax- Estimation methodology of Food and Beverage Taxes takes into account the following factors: total food and beverage sales in the county in CY 1997 adjusted to reflect sales of prepared foods (such as those sold at a grocery deli) which would be subject to the proposed tax but are not included in the U.S. Census data. In order to account for these prepared foods, an additional 10% adjustment is added to establish a CY 1997 baseline for the county. Given recent economic performance, the baseline is grown using state Sales Tax growth rates for FY 2001 (1%) and FY 2002 (2%) to reach a base for FY 2002. Projected years from FY 2003-2005 were grown using the state Sales Tax estimated growth rates from the December 18, 2002 state revenue forecast. These growth rates include the effects of raising the state sales tax rate from 5% to 6% under HEA 1001(ss)-2002. Removal of the effects of the increased sales tax rate yields projected growth rates of 4.2% in FY 2003, 4.3% in FY 2004, and 4.9% in FY 2005.

On an aggregate level, all cities and towns in Indiana are generally assumed to account for 95% of total food and beverage sales. This percentage is applied to the baseline for all counties, including those that currently impose the Food and Beverage Tax.

The estimate for CY 2004 only accounts for ten months of revenue received by local units. Under current law, a retailer may take between twenty and thirty days to remit the state Sales Tax from the previous month to the Department of State Revenue depending on the amount of remittance. Therefore, tax collections from the first month of implementation could take up to an additional month to remit to the Department.

(NOTE: The CY 2004 estimates assume all counties, cities and towns would adopt the tax by August 1, 2003. Actual revenue impact per calendar year would depend on local action.)

State Agencies Affected: Department of State Revenue.

Local Agencies Affected: Counties under the Uniform Innkeeper's Tax law, all local units of government adopting the 1% Food and Beverage Tax under the bill.

Information Sources: Department of State Revenue; U.S. Census Bureau.

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