

SOUTH DAKOTA LEGISLATIVE RESEARCH COUNCIL

2023 South Dakota Legislature

FISCAL NOTE 2023-FN1075A

HB1075, An Act to lower the state sales tax rate and the state use tax rate on food to zero percent.

This bill would lower the state sales and use tax rate on food from 4.5% to 0.0%. "Food" and "food ingredient" would be redefined also to exclude "alcoholic beverage", "tobacco product", "cigarette", "cannabis", or "cannabis product", as those terms are defined by law, from the definition of "food" and "food ingredient". Currently, the definition of "food" and "food ingredient" excludes prepared food.

Survey data from the U.S. Bureau of Labor Statistics (BLS) provides annual observations for the proportion of consumer spending on what it refers to as food at home. BLS defines food at home as the total expenditures for food at grocery stores (or other food stores) excluding nonfood items. The average value was 7.4% consumer spending from 2013 to 2019. Some larger deviations from the average were seen in 2020 and 2021, likely the result of unique economic circumstances, so those years are excluded for the purposes of identifying a normalized value for the percent of consumer spending attributable to food.

The estimated fiscal impact of this bill is a reduction in state sales tax revenue of \$115,578,750, which is calculated by taking the sales tax revenue estimate of \$1,561,875,000 for FY 2024, which the Joint Committee on Appropriations adopted on February 15, 2023, times 0.074.

A continuation of higher food inflation in the short-term, like what was seen in 2020 and 2021, could result in the estimated revenue reduction to be greater.

APPROVED BY: /s/ Reed Holwegner
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