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IMPACTS ON FOOD RETAILERS AND CONSUMERS OF A GRADUAL REDUCTION OF THE SALES TAX ON FOOD IN VIRGINIA

by

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Problem Addressed

House Joint Resolution No. 194 established a Joint Subcommittee of the House and Senate Finance Committee to study the sales and use tax on food products for home consumption. The Joint Subcommittee proposed that the state sales and use tax on food be reduced by one percent over the next three bienniums. The purpose of this report was to determine various costs to Virginia food retailers and to determine the sales and use tax savings to consumers with regard to this legislative proposal.

Methodology Used

Two general assumptions were made: (1) the respective food retailers would maintain the same level of service to the consumer as before the adoption of a differential tax structure, and (2) incremental costs to food retailers would necessarily be passed on to consumers in some fashion. To obtain additional labor costs, time-motion studies were carried out with various food retailers (convenience stores, food stores, and supermarkets) located in the Southwest region, the Central region, the Tidewater region, and the Eastern region of Virginia. To obtain estimates of additional capital costs, a telephone survey with a sample of Virginia Food Dealers Association (VFDA) headquarter stores throughout the state was conducted. Estimates of

the loss of state sales and use tax revenue due to a dual tax structure were obtained using historical data from the Virginia Department of Taxation.

Major Findings and Their Significance to Food Distribution

The estimated loss of state sales and use tax revenue attributable to this proposal would range from \$35 million in 1981 to almost \$200 million by 1986. This loss would be a tax savings to consumers, however, only if the Commonwealth did not attempt to recover the lost revenue by raising individual income taxes, corporate income taxes, property taxes, or other taxes. Food retailers, regardless of whether or not the Commonwealth attempted to recoup the lost revenue, due to the incidence of a dual tax structure would incur sizeable incremental costs depending on the mix of labor and capital utilized. The tax savings to consumers then would be offset not only by the recoupment of the lost revenue by the government at the state or local level, but also by the incremental costs incurred by the food retailers. In short, the proposed legislation to gradually reduce the state sales and use tax on food by one percent over the next three bienniums would not result in a net addition to the disposable incomes of Virginia consumers.
