

Tax Incentive Evaluation: Grocery Sales Tax Exemption

DOAA summary of report prepared by Georgia State University's Fiscal Research Center

BACKGROUND

Georgia's enactment of House Bill 265 in the 1996 legislative session phased in a state sales tax exemption on food purchased for off-premises consumption. The applicable tax rate was lowered to 2% effective October 1, 1996, to 1% a year later, and to 0% beginning October 1, 1998. Local sales taxes are not impacted. The provision—O.C.G.A. § 48-8-3(57)—is commonly referred to as the grocery sales tax exemption.

This review was requested by the House Ways and Means Committee and performed in accordance with O.C.G.A. § 28-5-41.1. Georgia State University's Fiscal Research Center (FRC) prepared the report.

ECONOMIC ACTIVITY

Sales tax exemption is targeted to consumers, not companies. Therefore, the economic impact is a result of the additional money consumers can spend on goods and services.

While the grocery tax exemption was not created for the purpose of economic development, the increased spending by consumers benefiting from the exemption does result in additional jobs and economic activity. The figures to the right are estimated for FY 2021 by FRC, though the figures do not account for opportunity costs.

O.C.G.A. § 28-5-41.1 requires an analysis of net economic activity, which includes opportunity cost of the forgone revenue. If the exempted tax revenue of \$691.4 had been collected and expended by the state, FRC estimated the creation of 18,577 jobs and economic output of \$1.45 billion.



REVENUE

The exemption is estimated to grow from \$691.4 million in FY 2021 to \$838.4 million in FY 2023. In 2023, the resulting economic activity is estimated to bring in \$28.9 million in state revenue and \$27.9 million in local revenue.

FRC estimated that the alternate use of the revenue in FY 2023 would have generated \$54.0 million in state revenue and \$20.3 million in local revenue.

COST

The Department of Revenue reported **negligible cost** associated with the exemption.

PUBLIC BENEFIT

The exemption **lowers the price of food**, making the cost for Georgians to feed themselves more affordable.

The exemption on groceries makes Georgia's sales tax less regressive. Lower income households spend a greater portion of their income on food than higher income households. For example, the 4% tax savings represent 1.66% of the income of those making less than \$15,000. By contrast, it represents just 0.19% of the income of households with incomes between \$100,000 and \$150,000.