

MINNESOTA · REVENUE

SALES TAX Bakery Goods Ready-To-Eat Meats

February 24, 2002

	Yes	No
Separate Official Fiscal Note Requested		X
Fiscal Impact		
DOR Administrative Costs/Savings		X

Department of Revenue
Analysis of S.F. 3248 (Rest) / H.F. 3503 (Daggett)

	<u>Revenue Gain or (Loss)</u>			
	<u>F.Y. 2002</u>	<u>F.Y. 2003</u>	<u>F.Y. 2004</u>	<u>FY2005</u>
	(000's)			
General Fund	\$(612)	\$(7,613)	\$(7,974)	\$(8,320)

Effective 30 days after final enactment. The analysis assumed an effective date of May 1, 2002.

EXPLANATION OF THE BILL

Current Law: A 2001 law change, enacted as part of the national streamlined sales tax project, provides a definition of taxable prepared food. "Prepared food" means 1) food sold in a heated state or heated by the seller; 2) two or more food ingredients mixed or combined by the seller for sale as a single item; or 3) food sold with eating utensils, including napkins and straws, provided by the seller.

This definition includes bakery goods made by the seller and meat products, such as sausages, where the seller has combined two or more ingredients to make the item.

Proposed Law: The bill amends the 2001 definition by exempting bakery items made by the seller, including bread, rolls, bagels, biscuits, croissants, doughnuts, pastries, pies, cakes, tortes, muffins, cookies, tortillas, etc. It also exempts unheated ready-to-eat meat and seafood made by the seller and sold by weight; and eggs, fish, meat, poultry, and foods containing these raw products when they are sold for human consumption and require cooking by the consumer to prevent food-borne illnesses as described in the US Food and Drug Administration code.

REVENUE ANALYSIS DETAIL

The analysis is of the effect of exempting bakery items and ready-to eat meat and seafood. There is no fiscal impact from the language on raw food products because food requiring cooking by the consumer is not subject to tax (Revenue Notice #01-12, p. 2; Sales Tax Fact Sheet #102, p. 2).

The estimate was based on national data from the 1997 Census of Retail Trade pertaining to the food items at issue. For unheated ready-to-eat meat and seafood it was assumed that 90% is sold by weight. The estimate from the national source was apportioned to Minnesota at 1.751%, the state's percentage of US population in 1997.

REVENUE ANALYSIS DETAIL (Cont.)

Annual growth to fiscal year 2005 was based on constant-dollar consumer spending for food and beverages plus the consumer price index. These factors were from DRI-WEFA, Inc. The estimate for fiscal year 2002 was adjusted to reflect an assumed effective date of May 1, 2002 (one month of impact).

ADMINISTRATIVE/OPERATIONAL IMPACT

There will be no significant administrative or operational costs or savings to DOR in administration of this bill.

Source: Minnesota Department of Revenue
Tax Research Division
<http://www.taxes.state.mn.us/polic.html#analyses>