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Grocery Sales Tax Death: the Specter Haunts Cities and Towns Again

SB 1328: by Sen. Gumm Elimination of Grocery Sales Tax

Sales tax is the most important revenue source for Oklahoma cities and towns. It provides half of all general fund revenues for the average community. Of this, grocery sales tax is most important, especially to rural communities without diversified economies. This is most important because Oklahoma is the only state in the union in which cities and towns do not receive any property tax for their general funds.

In this latest version to eliminate grocery sales tax, the state rebates the municipal sales tax back to cities and towns so why is it a bad idea? Remember cigarette tax and the sales tax holiday?

1. **Bad Tax Policy** – The legislature would be tying the hands of future legislatures when they hit another economic downturn by permanently eliminating the grocery sales tax. (Haven't we learned anything by the current budget situation?) Under this version, a strong one year spike in oil and gas revenues could permanently trigger the elimination of grocery sales tax. Estimated losses to the state treasury would be \$406 Million with \$190 Million of that to be rebated back to cities and counties. What if in some future budget shortfall the state decides that it can no longer afford to rebate the local share?
2. **Ignoring Local Voters** – Citizens of municipalities across Oklahoma voted sales taxes including grocery items to support their services. Why should the state usurp the system by which local voters govern their own communities?
3. **The Black Box** – The OTC would estimate the loss from grocery tax and rebate the lost revenues to cities and town. These are estimates at best. There is no way to verify if municipalities are actually receiving the taxes that they have lost. The black box philosophy is a "trust me" approach with municipal revenues at risk. Note that this approach was used with the sales tax holiday and tobacco tax with municipalities still wondering if the checks they receive equal lost revenues.
4. **Bad Timing** – If ever there was a time that municipalities don't need the state to mess with their most important revenue, sales tax, which provides half of revenue for the average municipality, this is it.

This version provides a sales tax exemption on the sale of eligible food and beverages as defined in the Streamlined Sales Tax and Use Agreement, dependent on a finding by the State Board of Equalization. The bill requires the Board of Equalization beginning at its February 2011 meeting and subsequent February meetings determine if the revenues have grown to 110 percent or more of the amount of the General Revenue Fund for the period ending June 30, 2008. If the amount of revenue growth is equal to or greater than 110 percent of the amount of sales tax revenue reduction, the bill directs the board to make a finding that applicable revenue growth authorizes implementation of the sales tax exemption. The measure also directs that for every fiscal year after the sales tax exemption

is implemented, an amount of revenue is to be apportioned to each municipality, county or authority equal to the amount of sales tax revenue exempted by the act.

For municipalities, all sales tax exemptions are bad. Grocery sales tax just has the highest price tag.