

BILL # SB 1122

TITLE: sales tax exemption; pallets; containers

SPONSOR: Hamilton

STATUS: As Introduced

REQUESTED BY: Senate

PREPARED BY: Brian Schmitz and Bruce J. Groll

FISCAL YEAR

REVENUES

	2001	2002	2003
General Fund – Retail Sales and Use Taxes	\$ -0-	\$(1,878,900)	\$(1,890,000)

FISCAL ANALYSIS

Description

The bill provides exemptions from the retail sales tax and the use tax for sales of reusable or returnable pallets and containers to distributors or retailers who use the pallets and containers to transport, store, or carry products. The bill would become effective on the general effective date (roughly equivalent to the start of FY 2002).

Estimated Impact

This bill is estimated to have a General Fund cost of \$(1,878,900) in FY 2002 and \$(1,890,000) in FY 2003. The bill would also impact the counties and cities (see *Local Government Impact* section).

Assumptions

The following table shows the estimated sales for Arizona container and pallet manufacturing through FY 2003, along with estimated sales tax payments on these pallets and containers.

<u>Type of Shipment</u>	<u>Actual 1997</u> ^{1/}	<u>Annual Average Industry Growth</u> ^{2/}	<u>2001</u>	<u>2002</u>	<u>2003</u>
Wood (91%)	\$39,393,000	0.59%	\$39,625,400	\$39,859,200	\$40,094,400
All Other (9%) ^{3/}	<u>3,896,000</u>		<u>3,919,000</u>	<u>3,942,100</u>	<u>3,965,400</u>
Total	\$43,289,000		\$43,544,400	\$43,801,300	\$44,059,800
Total Sales Tax ^{4/5/}	\$2,164,500		\$ 2,177,200	\$ 2,452,900	\$ 2,467,300

^{1/} Arizona data from *Wood Container and Pallet Manufacturing, Industry Statistics for Selected States: 1997 Economic Census*, U.S. Census Bureau, U.S. Department of Commerce.

^{2/} Estimate based on a 1.8% change in national industry sales over a 3 year period, from 1996 to 1999, provided by the National Wooden Pallet and Container Association.

^{3/} Estimate based on industry survey of Material Composition of Pallets Purchased at Location and published by *Cahners Research/Modern Materials Handling: December 1999*.

^{4/} Sales tax rate for FY 2001 is 5.0%. The rate increases to 5.6% in FY 2002 and subsequent fiscal years.

^{5/} Total sales tax includes the General Fund portion and amounts shared with the counties and cities.

(Continued)

Assumptions (Continued)

This analysis assumes that sales taxes are currently being paid on sales of containers and pallets. However, we have not been able to verify this with the Department of Revenue. We also assume total Arizona wood container and pallet sales in 1997 of \$39,393,000 as reported in Wood Container and Pallet Manufacturing, Industry Statistics for Selected States: 1997 Economic Census, published by the U.S. Census Bureau, U.S. Department of Commerce. This figure forms the starting point for our estimate.

We have assumed an annual average industry growth factor of 0.6% based on the reported change in actual national industry sales of wood containers and pallets from 1996 to 1999. This growth rate was used to extrapolate Arizona's annual sales from FY 1998 through FY 2003. Furthermore, we have assumed that 91% of pallets and containers are made from wood and the other 9% are made from other materials, based on reported distributions from an industry survey of Material Composition of Pallets Purchased at Location and published by *Cahners Research / Modern Materials Handling: December 1999*. This assumption allows us to calculate an estimate for sales of non-wood containers and pallets.

Local Government Impact

Retail sales tax revenue is shared with the counties and cities. Under this bill, the counties' share of the reduced state sales tax collections would be \$(355,700) in FY 2002 and \$(357,800) in FY 2003. The cities' share would be \$(218,300) in FY 2002 and \$(219,500) in FY 2003.

2/13/01