



SOUTH CAROLINA REVENUE AND FISCAL AFFAIRS OFFICE
STATEMENT OF ESTIMATED FISCAL IMPACT
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This fiscal impact statement is produced in compliance with the South Carolina Code of Laws and House and Senate rules. The focus of the analysis is on governmental expenditure and revenue impacts and may not provide a comprehensive summary of the legislation.

Bill Number:	S. 0300	Introduced on January 10, 2023
Author:	Shealy	
Subject:	Baby Food Tax	
Requestor:	Senate Finance	
RFA Analyst(s):	Bryant	
Impact Date:	April 24, 2023	

Fiscal Impact Summary

This bill exempts baby food and formula from sales and use tax. Although baby food and formula are exempt from state sales and use tax under Section 12-36-2120(75), they are subject to local sales taxes in thirty-three counties that have a local option sales tax that does not currently exempt the gross proceeds of sales of unprepared food.

The Department of Revenue (DOR) will be able to administer the new exemption with existing staff and resources, as the department already administers several sales tax exemptions. Therefore, this bill will not impact expenditures for the agency.

This bill will have no impact on state revenue, as baby food and formula are currently exempt from state sales and use tax under Section 12-36-2120(75).

This bill will reduce local sales and use taxes in counties that have a local option sales tax that does not currently exempt the gross proceeds of sales of unprepared food. Overall, the bill will reduce local sales and use tax revenue by an estimated \$3,374,000 beginning in FY 2023-24.

Explanation of Fiscal Impact

Introduced on January 10, 2023

State Expenditure

This bill exempts baby formula and baby food, which includes but is not limited to food purees, puffs, teether crackers, puree pouches, and other food intended for sale for children under thirty-six months of age, from sales and use tax. Although baby food and formula are exempt from state sales and use tax under Section 12-36-2120(75), they are subject to local sales taxes in thirty-three counties that have a local option sales tax that does not currently exempt the gross proceeds of sales of unprepared food.

The bill requires DOR to administer an additional sales tax exemption. DOR will be able to administer the new exemption with existing staff and resources, as the department already administers several sales tax exemptions. Therefore, this bill will not impact expenditures for the agency.

State Revenue

This bill will have no impact on state revenue, as baby food and formula are currently exempt from state sales and use tax under Section 12-36-2120(75).

Local Expenditure

N/A

Local Revenue

This bill exempts baby formula and baby food, which includes but is not limited to food purees, puffs, teether crackers, puree pouches, and other food intended for sale for children under thirty-six months of age, from sales and use tax. Although baby food and formula are exempt from state sales and use tax under Section 12-36-2120(75), they are subject to local sales taxes in thirty-three counties that have a local option sales tax that does not currently exempt the gross proceeds of sales of unprepared food.

Please note that data regarding retail sales of baby food and formula in South Carolina are not available. Therefore, these estimates are based on average prices and overall nationwide figures. Additionally, the costs of baby food and formula have increased significantly over the past three years. Supply chain issues, consumer behavior, and a large recall of baby formula in 2022 led to shortages and caused manufacturers to raise prices, with the average cost of the most popular baby formula products increasing by as much as 18 percent in 2022.¹ According to the U.S. Bureau of Labor Statistics, the overall cost of feeding an infant or baby has increased by 6.7 percent per year since 2020, and recent reports suggest that consumers will continue to see price increases and formula shortages in 2023.^{2,3} We assume that the prices of baby food and formula will continue to increase by 6.7 percent in 2023 and 2024. However, if prices increase at a different rate, this will impact our estimates. Furthermore, these estimates do not include any potential shifts in the rate of breastfeeding or formula feeding in response to changes in the cost of baby formula.

According to the Office of the Surgeon General, 55 percent of infants receive formula, either exclusively or as a supplement, by three months of age.⁴ Infants are typically formula-fed for

¹ CBS News. May 10, 2022. "The nationwide baby formula shortage is getting worse." Retrieved from <https://www.cbsnews.com/news/baby-formula-shortage-rationing-national-crisis/>. Accessed on April 20, 2023.

² U.S. Bureau of Labor Statistics. January 19, 2023. "Looking at Recent Price Increases for Baby Food." Retrieved from <https://www.bls.gov/blog/2023/looking-at-recent-price-increases-for-baby-food.htm>. Accessed on April 20, 2023.

³ PBS News. February 25, 2023. "What's causing current shortages of baby formula and medicine for kids?" Retrieved from <https://www.pbs.org/newshour/show/whats-causing-current-shortages-of-baby-formula-and-medicine-for-kids>. Accessed April 20, 2023.

⁴ Centers for Disease Control and Prevention. "Breastfeeding Rates." National Immunization Survey. Division of Nutrition, Physical Activity, and Obesity, National Center for Chronic Disease Prevention and Health Promotion. Retrieved from https://www.cdc.gov/breastfeeding/data/nis_data/results.html. Accessed on April 19, 2023.

approximately one year, which costs an average of \$1,350 per infant.⁵ Additionally, the U.S. Department of Agriculture reports that a moderate-cost food plan for a two to three year old child costs on average \$197 per month.⁶ Multiplying the number of infants and children under thirty-six months of age in counties that have a local option sales tax that does not currently exempt the gross proceeds of sales of unprepared food by the average cost yields an estimated total gross sales amount of approximately \$259,748,000 in FY 2023-24.

The sales of qualifying food items are exempt from both state and local sales and use tax when payment is made with food stamps or Special Supplemental Nutrition Program for Women, Infants and Children (WIC) vouchers, as outlined by DOR in the department's Information Letter #89-8. Therefore, we account for nontaxable sales of baby food and formula by estimating the number of WIC participants and amount of food benefits redeemed in each county using data published by the Department of Health and Environmental Control. We estimate that of the total sales amount of \$259,748,000 in FY 2023-24, approximately \$29,075,000 will be nontaxable.

Applying the local sales and use tax rate for each county to that county's total sales, less any exempted sales, yields an overall reduction in local sales and use tax of an estimated \$3,374,000 beginning in FY 2023-24. The estimated reductions in local revenue for each county that has a local option sales tax that does not currently exempt the gross proceeds of sales of unprepared are available on the following page.

⁵ Office of the Surgeon General. "Breastfeeding: Surgeon General's Call to Action Fact Sheet." U.S. Department of Health and Human Services. Retrieved from <https://www.hhs.gov/surgeongeneral/reports-and-publications/breastfeeding/factsheet/index.html>. Accessed on April 19, 2023.

⁶ U.S. Department of Agriculture. "Official USDA Food Plans: Cost of Food at Home at Three Levels, U.S. Average, February 2023." Retrieved from <https://fns-prod.azureedge.us/sites/default/files/media/file/CostofFoodFeb2023LowModLib.pdf>. Accessed on April 19, 2023.

Estimated Reduction in Local Sales Tax Revenue

County	Estimated FY 2023-24 Gross Proceeds of Baby Food and Formula Sales	Local Sales Tax Rate	Estimated FY 2023-24 Reduction in Local Sales Tax Revenue
Abbeville	\$1,928,000	1%	\$19,000
Allendale	\$574,000	1%	\$6,000
Bamberg	\$935,000	1%	\$9,000
Barnwell	\$1,894,000	1%	\$19,000
Berkeley	\$24,874,000	2%	\$497,000
Calhoun	\$1,053,000	1%	\$11,000
Charleston	\$38,661,000	2%	\$773,000
Cherokee	\$5,109,000	1%	\$51,000
Chester	\$3,060,000	1%	\$31,000
Chesterfield	\$3,620,000	1%	\$36,000
Clarendon	\$2,100,000	2%	\$42,000
Colleton	\$3,919,000	1%	\$39,000
Darlington	\$5,624,000	1%	\$56,000
Dillon	\$2,782,000	1%	\$28,000
Dorchester	\$15,862,000	1%	\$159,000
Edgefield	\$1,602,000	1%	\$16,000
Fairfield	\$1,389,000	1%	\$14,000
Florence	\$12,990,000	1%	\$130,000
Hampton	\$1,597,000	1%	\$16,000
Jasper	\$2,521,000	1%	\$25,000
Kershaw	\$6,285,000	1%	\$63,000
Lancaster	\$8,877,000	1%	\$89,000
Laurens	\$6,572,000	1%	\$66,000
Lee	\$1,222,000	1%	\$12,000
McCormick	\$2,389,000	1%	\$24,000
Marion	\$2,202,000	1%	\$22,000
Marlboro	\$351,000	1%	\$4,000
Pickens	\$12,110,000	1%	\$121,000
Richland	\$41,050,000	1%	\$821,000
Saluda	\$1,584,000	2%	\$16,000
Sumter	\$11,215,000	1%	\$112,000
Union	\$2,283,000	1%	\$23,000
Williamsburg	\$2,438,000	1%	\$24,000
TOTAL	\$230,672,000	-	\$3,374,000

Frank A. Rainwater, Executive Director