



NORTH CAROLINA GENERAL ASSEMBLY

2025 Session

Legislative Fiscal Note

Short Title: Repeal Two Percent Local Grocery Tax.
Bill Number: House Bill 1032 (First Edition)
Sponsor(s): Rep. Chesser, Rep. Paré, Rep. Reeder, and Rep. Schietzelt

SUMMARY TABLE

FISCAL IMPACT OF H.B. 1032, V.1 (\$ in millions)

	<u>FY 2026-27</u>	<u>FY 2027-28</u>	<u>FY 2028-29</u>	<u>FY 2029-30</u>	<u>FY 2030-31</u>
Local Impact					
Local Revenue	412.5	566.3	579.5	590.8	601.0
<u>Less Local Expenditures</u>	_____ -	_____ -	_____ -	_____ -	_____ -
NET LOCAL IMPACT	\$412.5	\$566.3	\$579.5	\$590.8	\$601.0

FISCAL IMPACT SUMMARY

House Bill 1032 repeals the two percent sales tax on groceries. The Fiscal Research Division (FRD) estimates that this will decrease local revenue by approximately \$550 million to \$600 million annually. With an effective date of October 1, 2026, the impact for FY 2026-27 would be about \$415 million. Since all revenue generated from the two percent sales tax on groceries is distributed to local governments, there is no State-level fiscal impact from this bill.

FISCAL ANALYSIS

Two methods were used to estimate the amount of revenue generated from the two percent local sales tax on groceries. In the first, FRD calculated the share of taxable sales subject to the tax. Retail sales account for most taxable sales, and about 12% of retail sales are made in grocery stores (Moody’s Analytics). Some items sold in grocery stores, however, are non-food items or prepared food, which are not subject to the local grocery tax. Based on industry data, FRD assumes that about 75% of sales in grocery stores are taxable food items (The Food Industry Association). Due to data limitations, FRD is unable to account for any additional sales of taxable food items outside of grocery stores (e.g. convenience stores and specialty food stores).

In FY 2023-24, taxable sales in North Carolina were about \$236 billion. After adjusting for inflation, FRD estimates that taxable sales will be around \$250 billion in FY 2026-27. Using the

equation below, FRD estimates that repealing the two percent tax on groceries would **reduce local sales tax revenue by approximately \$450 million.**

$$\text{Local Grocery Tax Revenue} = \$250 \text{ billion} \times 0.12 \times 0.75 \times 0.02$$

A second method to estimate the local impact of repealing the two percent tax on groceries is to use tax expenditures on food for home consumption from the Biennial Tax Expenditure Report (NCDOR). This is an estimate of the tax revenue foregone by exempting food from the state sales tax. For FY 2026-27, this estimate is about \$1.5 billion. Dividing this \$1.5 billion by the state sales tax rate of 4.75 will provide the amount of revenue foregone for each cent of the sales tax. Multiplying that value by two provides an estimate of the revenue generated by a two percent tax on food for home consumption. Using this method, FRD estimates that eliminating the two percent tax on groceries would **reduce local sales tax revenue by approximately \$650 million.**

FRD finds that the average fiscal impact of the two methods used to estimate repealing the two percent local sales tax on groceries is **approximately \$550 million.** However, the actual impact may fall between \$450 to \$650 million. With an effective date of October 1, 2026, the impact in FY 2026-27 is estimated to be around \$415 million. Estimates for the following fiscal years are adjusted for the rate of inflation for food, per Moody's Analytics.

TECHNICAL CONSIDERATIONS

It is possible that removing the tax on groceries will contribute to fewer purchases of food items subject to the state sales tax, which would reduce state tax revenue. The estimates provided by FRD do not account for this potential dynamic effect.

DATA SOURCES

NCDOR; MOODY'S ANALYTICS; THE FOOD INDUSTRY ASSOCIATION.

LEGISLATIVE FISCAL NOTE – PURPOSE AND LIMITATIONS

This document is an official fiscal analysis prepared pursuant to Chapter 120 of the General Statutes and rules adopted by the Senate and House of Representatives. The estimates in this analysis are based on the data, assumptions, and methodology described in the Fiscal Analysis section of this document. This document only addresses sections of the bill that have projected direct fiscal impacts on State or local governments and does not address sections that have no projected fiscal impacts.

CONTACT INFORMATION

Questions on this analysis should be directed to the Fiscal Research Division at (919) 733-4910.

ESTIMATE PREPARED BY

Alannah Knight

ESTIMATE APPROVED BY

Brian Matteson, Director of Fiscal Research
Fiscal Research Division
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