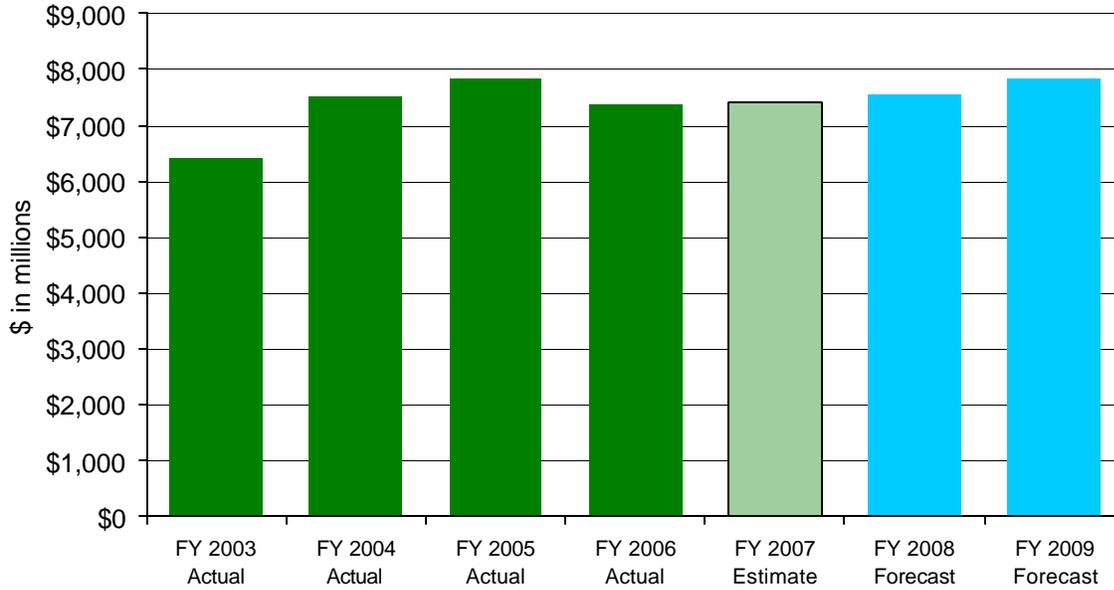


Sales and Use Tax

GRF Revenues from the Sales and Use Tax

(in millions)



	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	FY 2009
	Actual	Actual	Actual	Actual	Estimate	Forecast	Forecast
Revenue	\$6,397.9	\$7,530.6	\$7,827.1	\$7,368.2	\$7,418.0	\$7,556.1	\$7,824.7
Growth	6.0%	17.7%	3.9%	-5.9%	0.7%	1.9%	3.6%

Under statutory law, the state sales and use tax is levied at a rate of 5.5% on retail sales of tangible personal property, rental of some tangible personal property, and selected services. Major exemptions to the sales and use tax include: food for human consumption off the premises where sold, newspapers and magazine subscriptions sent by second class mail, motor fuel (taxed separately), packaging and packaging equipment, prescription drugs and medical supplies, and property used primarily in manufacturing or used directly in mining or agriculture, and there is a credit for trade-ins on purchases of new motor vehicles. Under statutory law, the revenue collected is disposed of as follows: 95.2% to the General Revenue Fund, 4.2% to the Local Government Fund, and 0.6% to the Local Government Revenue Assistance Fund. However, for FYs 2002-2007, the distributions to these three local government funds have been frozen under temporary law at their FY 2001 levels. The GRF baseline forecast assumes statutory distributions to the local government funds in the next biennium, which decreases GRF revenue growth in FY 2008.

For forecasting purposes, the tax is separated into two parts: auto and nonauto. Auto sales and use tax includes revenue collected from the sale of motor vehicles. Nonauto sales and use tax includes all other sales and use tax collections. Auto taxes arising from auto leases are paid immediately at the lease signing and mostly recorded under the nonauto tax, instead of the auto tax. The level of auto sales has become dependent on the level of incentives provided by manufacturers and dealers. The incentives have also changed the way consumers decide whether to purchase or lease their vehicles. As the share of vehicles leased and manufacturers' incentives have varied over the years, the auto tax has become more volatile. Also, those changes have affected the nonauto sales tax because taxes arising from leases are recorded under the nonauto sales tax. Although still a small percentage of total sales, the growth in Internet sales on which use tax is not collected affects receipts from the sales and use tax. Am. Sub. H.B. 95 (125th General Assembly) temporarily increased the tax rate to 6% for FY 2004 and FY 2005. Am. Sub. H.B. 66, the current budget act, increased the previous statutory rate of 5.0% to 5.5%. Growth in the tax base of the sales and use tax has been meek in the last few years. Significant increases and decreases in receipts in the last few years have been due to legislative tax changes.