

# Fiscal Note

**BILL #** SB 1033

**TITLE:** TPT; diapers; feminine hygiene; exemption

**SPONSOR:** Shope

**STATUS:** As Introduced

**PREPARED BY:** Hans Olofsson

## Description

The bill would exempt feminine hygiene products and disposable diapers (child diapers and adult incontinence products) from the state Transaction Privilege Tax (TPT) and Use Tax. The same exemption would apply to municipal taxes.

The bill would become effective on the first day of the month following the general effective date.

## Estimated Impact

We estimate that the bill would reduce state General Fund revenue by up to \$(13.8) million in FY 2024. As shown in *Table 1* below, the feminine hygiene exemption is projected to reduce revenues by \$(3.8) million while the diaper/adult incontinence exemption would cost the General Fund \$(10.0) million. (Since the bill would become effective on the first day of the month following the general effective date, the estimated FY 2024 impact ultimately depends on when the Legislature adjourns.)

<b><u>Product</u></b>	<b><u>Impact</u></b>
Feminine Hygiene	(3.8)
Child Diapers/Adult Incontinence <sup>1/</sup>	<u>(10.0)</u>
<b>Total</b>	<b>(13.8)</b>

<sup>1/</sup> This estimate includes the combined impact of exempting both child diapers and adult incontinence products from state TPT.

The Executive Budget includes the feminine hygiene TPT exemption at a cost of \$24 million. It also includes the child diaper exemption (but not adult incontinence) at a cost of \$16 million.

## Analysis

Since the bill would exempt 2 categories of retail items from the state transaction privilege tax (TPT) and use tax, we have included a discussion on each of these retail items below.

### Feminine Hygiene Products

The bill would exempt various items used for feminine hygiene such as tampons, sanitary napkins, and menstrual sponges from state TPT. Statista, a large, international market research and business data online platform, estimates the feminine hygiene product market in the U.S. to be \$4.5 billion in 2023 and \$4.7 billion in 2024.

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As of July 1, 2022, the U.S. Census Bureau reports that Arizona has 2.19% of the United States' female population. Based on this information, we estimate that Arizona's share of national sales will be approximately \$103 million in 2024. Thus, under the bill, state TPT revenue would be reduced by an estimated \$(5.2) million in 2024 [= \$103 million x 5.0% state TPT rate].

Under the statutory state TPT distribution formula, 73.8% of this revenue loss, or \$(3.8) million in 2024, would be incurred by the General Fund while the remaining 26.2% of the loss, or \$(1.4) million, would be incurred by counties and cities.

Diapers

The bill would exempt all disposable diapers used by individuals from state TPT. Therefore, the exemption would not be limited to children but also include adults. For this reason, we have derived 2 separate estimates, as outlined below.

*Child Diapers*

According to data provided by Statista, the child diaper market in the U.S. is estimated to total \$7.74 billion in 2023 and \$7.96 billion in 2024. As of July 1, 2022, the U.S. Census Bureau reports that Arizona has 2.13% of the United States' population between the age of 0 and 5. Based on this information, we estimate that Arizona's share of the US child diaper market will be approximately \$170 million in 2024. This means that if child diapers were exempted from sales tax, state TPT revenue would be reduced by an estimated \$(8.5) million in 2024 [= \$170 million x 5.0% state TPT rate].

Under the statutory state TPT distribution formula, 73.8% of this revenue loss, or \$(6.2) million in 2024, would be incurred by the General Fund while the remaining 26.2% of the loss, or \$(2.3) million, would be incurred by counties and cities.

*Adult Incontinence Products*

According to Statista, the adult incontinence product market in the U.S. is estimated to total \$4.06 billion in 2023 and \$4.25 billion in 2024. As of July 1, 2022, the U.S. Census Bureau reports that Arizona has 2.41% of the United States' population age 65 and older. Based on this information, we estimate that Arizona's share of the US adult incontinence product market will be approximately \$102 million in 2024. Therefore, under the proposed sales tax exemption for adult incontinence products, state TPT revenue would be reduced by an estimated \$(5.1) million in 2024 [= \$102 million x 5.0% state TPT rate].

Under the statutory state TPT distribution formula, 73.8% of this revenue loss, or \$(3.8) million in 2024, would be incurred by the General Fund while the remaining 26.2% of the loss, or \$(1.3) million, would be incurred by counties and cities.

The combined General Fund revenue loss from exempting both child diapers and adult incontinence products from state TPT is an estimated \$(10.0) million in 2024.

**Local Government Impact**

The combined impact on local governments from decreased distributions of state TPT, municipal TPT, county excise taxes, and transportation taxes levied by the Maricopa Association of Governments (MAG) and Pima Association of Governments (PAG) is estimated to total \$(15.7) million in FY 2024, as shown in *Table 2* below.

<b>Table 2</b>				
<b>Local Revenue Impact of TPT Exemptions</b>				
<b>(\$ Millions)</b>				
<b>Revenue Source</b>	<b>Counties</b>	<b>MAG/PAG</b>	<b>Cities/Towns</b>	<b>Total</b>
State-Shared Tax Revenues	(3.0)		(1.9)	(4.9)
Local Tax Revenues	<u>(1.0)</u>	<u>(1.6)</u>	<u>(8.2)</u>	<u>(10.8)</u>
<b>Total</b>	<b>(4.0)</b>	<b>(1.6)</b>	<b>(10.1)</b>	<b>(15.7)</b>