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MEMORANDUM

TO: Interim Joint Committee on Appropriations and Revenue
All Legislative Members

FROM: Katy Jenkins, Legislative Committee Analyst
Appropriations and Revenue Committee

RE: Potential Fiscal Impact Associated with 2024 Regular Session Bill Request
178

DATE: September 12, 2023

Per your request, this memo examines the potential fiscal impact of the exemption of 2024 Regular Session BR 178 which proposes to exempt both non-adult and adult diapers from the Kentucky sales and use tax.

Exempting non-adult and adult diapers from the sales and use tax is expected to decrease General Fund collections by \$6.1 million under full implementation.

Methodology and Estimate

Staff used data from the Bureau of Labor Statistics' *Consumer Expenditure Survey* (CES) to estimate the potential fiscal impact of exempting diapers from the sales and use tax. While the CES does not provide a specific spending category for non-adult diapers, it does provide mean household spending on infant underwear for children under the age of two. While this category may contain some spending on underwear other than diapers, it is likely that most of this spending is on non-adult diapers. The CES does not provide an estimate of diaper spending beyond the age of two. Since there is no

estimate of household spending past the age of two, the fiscal impact estimate presented here may under-estimate the impact of exempting non-adult diapers from the sales and use tax. The CES does provide a mean annual household spending estimate for adult diapers.

Estimates presented are for a full fiscal year. To the extent that spending in Kentucky on non-adult and adult diapers differs from the national spending estimates from the CES, these estimates may over- or underestimate the true fiscal impact.

Using the mean household spending data from the CES, and the number of Kentucky households, total spending on both non-adult and adult diapers was estimated to be approximately \$101.4 million annually. All CES household spending amounts were adjusted for inflation using the Producer Price Index for sanitary paper products.

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