

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: SB 100 (HCS)

SHORT TITLE: State Govt. Sales Tax Exempt

SPONSOR(S): Senator Kerr

FISCAL IMPACT				
Yes (X)	No ()	No Estimate Available ()		
(\$ millions)				
<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>
REVENUES				
General Fund	(25.7)	(26.3)	(26.8)	(27.3)
EXPENDITURES				
State Agencies	(25.7)	(26.3)	(26.8)	(27.3)
Schools	* See Assumptions and Methodology *			
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: State agencies, Office of State Budget, and the selected educational cooperatives.				
EFFECTIVE DATE: Sales tax provisions become effective July 1, 2004. Associated administrative changes become effective January 1, 2004. The balance becomes effective when law.				

BILL SUMMARY: Under current law, purchases by all major state agencies but one are subject to state and local sales taxes, unless the item purchased is exempt from tax for all purchasers. (The Department of Transportation is exempt from all local and state tax.) However, the State receives a refund of the local sales taxes paid by its agencies, with the proceeds of this refund going to the General Fund. Most state agencies file on a quarterly basis. Refunds of state and local taxes on purchases by the North Carolina Low Level Radioactive Waste Management Authority, the North Carolina Hazardous Waste Management Commission, constituent institutions of the University of North Carolina, and the University of North Carolina Hospitals at Chapel Hill are made on an annual basis and are refunded directly to the state agency. This bill exempts all state agencies from state and local sales tax. In order to qualify for the exemption, a state agency must obtain a sales tax exemption number from the Department of Revenue. If the state agency does not use the items purchased with its number, it is liable for the tax on that item. State agencies will continue to file quarterly for a refund of local sales taxes on indirect purchases. The Office of Management and Budget is charged with reducing 2004-05 agency allocations to reflect this change.

ASSUMPTIONS AND METHODOLOGY: This legislation will affect both revenues and expenditures.

REVENUES: According to the Department of Revenue, for FY 1999-00 state agency refunds of local taxes (excluding the UNC Hospitals) to the General Fund totaled \$14.2 million. Based that refund data, Tax Research estimates that state agencies paid \$42.6 million in state and local sales taxes in 1999-00. Due to continuing budget and agency allocation reductions, actual refunds for local sales taxes paid on agency direct purchases in 2001-02 dropped to approximately \$8.5 million, suggesting that state agencies (excluding UNC Hospitals) paid a total of approximately \$27.3 million in state and local sales taxes on direct purchases (\$8.5 million in local taxes, \$18.6 million in state taxes, \$0.2 million in Mecklenburg additional ½ cent taxes). Given the current budget situation, it is assumed that agency purchases decline again in 2002-03 and 2003-04 and then slowly increase in the out years. Estimated potential state agency refunds for sales that occur in a given fiscal year are as follows:

	State	Local	Mecklenburg	TOTAL
2001-02	18,607,329	8,546,907	181,346	27,335,582
2002-03	18,269,013	9,134,507	172,279	27,575,799
2003-04	15,427,167	9,641,979	163,665	25,232,811
2004-05	15,735,710	9,834,819	166,938	25,737,467
2005-06	16,050,424	10,031,515	170,277	26,252,216
2006-07	16,371,433	10,232,146	173,682	26,777,261
2007-08	16,698,862	10,436,789	177,156	27,312,807

The amount for 2004-05 is the amount anticipated to be backed out of individual agencies by the Office of State Budget and Management in their budget certification process.

NOTE: Indirect purchases are not included in these estimates, as they are not affected by the legislation.

The second revenue impact associated with the bill relates to educational cooperatives. The legislation allows cooperatives formed by a group of public school systems to receive a sales tax refund. At this point Fiscal Research is only aware of one educational cooperative that would likely qualify for the new tax treatment. "SECURE", which stands for Southeast Cooperative Utilizing Resources Efficiently purchases food service related materials, supplies, equipment and services for nine Southeastern North Carolina county school systems. The exact annual revenue loss associated with this provision is unknown but is expected to be less than \$20,000 per year. Because the organization would receive its first refund in November 2004 for purchases made in 2003-04, no 2003-04 impact is expected.

EXPENDITURES:

The primary impact of the legislation on expenditures is the reduction in agency budgets to reflect the sales tax exemption. Under the bill, the Office of Management and Budget is directed to determine the amount of sales tax each agency would have spent and reduce their funding allocation by the amount. After the first year, this process will become unnecessary. This fiscal SB 100 (HCS)

note assumes that the Office of Management and Budget will be able to back out the sales tax numbers and that 2003-04 and 2004-05 allocations will be reduced to reflect the reduced cost of doing business. Therefore, the net impact of the bill is no change to the General Fund.

SOURCES OF DATA: NC Department of Revenue, Office of State Budget and Management and Tax Research.

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