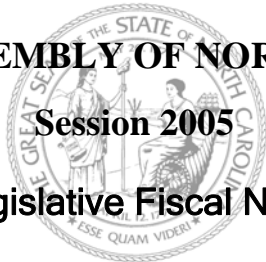


GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2005

Legislative Fiscal Note



BILL NUMBER: House Bill 1906 (First Edition)

SHORT TITLE: Home Heating Fuel Tax Exemption.

SPONSOR(S): Representatives Moore and Frye

| FISCAL IMPACT (\$ in millions) | | | | | |
|--|--------------------------|--------------------------|----------------------------------|--------------------------|--------------------------|
| | Yes (X) | No () | No Estimate Available () | | |
| | <u>FY 2006-07</u> | <u>FY 2007-08</u> | <u>FY 2008-09</u> | <u>FY 2009-10</u> | <u>FY 2010-11</u> |
| REVENUES: | | | | | |
| General Fund | (\$63.5) | (\$59.4) | (\$57.8) | (\$58.8) | (\$60.3) |
| Municipalities | (\$32.9) | (\$36.6) | (\$35.6) | (\$36.4) | (\$37.4) |
| PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: NC Department of Revenue, NC Municipal Governments | | | | | |
| EFFECTIVE DATE: July 1, 2006 | | | | | |

BILL SUMMARY: House Bill 1906 would exempt home heating fuel sold for residential purposes from sales tax. The exemption would include residential uses of fuel oil, kerosene, propane, wood and coal. It would also exempt natural gas sold for residential purposes from the piped gas tax.

ASSUMPTIONS AND METHODOLOGY: Sales of fuel oil, propane, kerosene and other deliverable fuel sources used for home heating purposes are subject to the combined general sales tax rate of 7 percent. Piped natural gas sold in North Carolina is subject to a piped gas excise tax that is based on the amount of gas used on a monthly basis. The tax rate is \$0.047 per therm for the first 200 therms. The rate structure allows for lower rates for higher volumes of consumption, however, average monthly usage figures indicate that a predominant number of residential customers use 200 therms per month or less. This analysis assumes that all residential consumption is taxable at the \$0.047 rate.

Piped Natural Gas Tax Exemption

According to the NC Utilities Commission, residential piped natural gas consumption was 60,664,359 dekatherms during FY 2003-04. Based on a rate of \$0.047 per therm, the amount of piped gas excise tax collected from residential customers during FY 2003-04 is estimated to be \$28,512,249, or 48% of total collections. This percentage is used to estimate the amount of projected gas tax collections that would be exempted by this bill. Based on current law (not considering the proposed exemption), total piped gas tax collections are projected to increase at a rate of 5.2% per year.

The Department of Revenue distributes to municipalities an amount equal to one-half of the amount of excise tax attributable to activity within their jurisdiction. During FY 2004-05, this amount was \$25,000,000, or 42% of total piped gas tax collections. The remaining amount is deposited in the General Fund. For the purposes of this analysis, the percentage of revenue distributed to municipalities is assumed to be constant for future years. The table below shows the total revenue loss attributable to the residential piped gas tax exemption and the corresponding state and local share of the loss. The figures are adjusted for FY 2006-07 to reflect a lag of one month in collections. Because distributions to municipalities are made on a quarterly basis, the figures are also adjusted to reflect the fact that only three of the distributions in the first year of implementation would be affected by the bill.

| Estimated Impact of Residential Piped Gas Tax Exemption | | | | | |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | FY 2006-07 | FY 2007-08 | FY 2008-09 | FY 2009-10 | FY 2010-11 |
| General Fund | (\$17,614,369) | (\$19,610,716) | (\$20,632,489) | (\$21,707,499) | (\$22,838,520) |
| Municipalities | (\$9,593,722) | (\$14,241,386) | (\$14,983,401) | (\$15,764,078) | (\$16,585,431) |
| Total | (\$27,208,091) | (\$33,852,101) | (\$35,615,890) | (\$37,471,577) | (\$39,423,951) |

Sales Tax Exemption

Projected sales for home heating fuels in North Carolina are calculated by estimating the amount of fuel sold in North Carolina and multiplying by the projected price of fuel. The most significant types of home heating fuel subject to sales tax in North Carolina are distillate fuel oils, which include No. 2 fuel oil and kerosene, and propane gas. The Energy Information Administration reports distillate fuel consumption by state through 2004. Estimated volumes for future years are projected by applying the average rate of change for the previous five years, which is negative 2 percent. Similarly, consumption data for propane was obtained from the NC Propane Gas Association and projected for future years based on average rates of change for the previous five years. The calculated average annual change in propane consumption in North Carolina is 0.5 percent. The table below provides North Carolina estimated consumption data for No. 2 Fuel Oil, Kerosene and Propane.

| North Carolina Residential Distillate Fuel and Propane Consumption (thousands of gallons) | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
| No. 2 Fuel | 116,488 | 114,689 | 112,918 | 111,174 | 109,457 | 107,766 |
| Kerosene | 77,010 | 75,820 | 74,649 | 73,496 | 72,361 | 71,244 |
| Propane | 291,147 | 292,680 | 294,220 | 295,768 | 297,325 | 298,889 |

Fuel price information for the distillate fuel category and propane was obtained from the Energy Information Administration and projected for future years based on forecast index data from Economy.com. The price of kerosene is calculated as 10% higher than the reported price for distillate fuel, based on information from the NC Petroleum Marketers Association.

The next step in calculating the impact of the tax exemption is to multiply the projected consumption data by the estimated price to obtain an estimate of fuel sales. The sales figures are then multiplied by the respective state and local rates to determine the amount of tax loss. The table below shows the estimated revenue loss for the state and municipalities resulting from the sales tax exemption for fuel oil, kerosene and propane. The first-year tax loss estimate is adjusted to account for a two-week lag in collections. The local government figure is also adjusted to account for the one-month lag in distributions from the Department of Revenue.

| Estimated Impact of Sales Tax Exemption for Residential Fuel Oil, Kerosene and Propane | | | | | |
|---|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| | FY 2006-07 | FY 2007-08 | FY 2008-09 | FY 2009-10 | FY 2010-11 |
| General Fund | (\$45,798,216) | (\$39,701,783) | (\$37,103,915) | (\$37,092,575) | (\$37,382,030) |
| Local Government | (\$23,323,166) | (\$22,056,546) | (\$20,613,286) | (\$20,606,986) | (\$20,767,794) |
| Total | (\$69,121,382) | (\$61,758,329) | (\$57,717,202) | (\$57,699,561) | (\$58,149,824) |

Wood and Coal

A small amount of wood and coal are used for residential heating purposes. The revenue loss from exempting these sources from sales tax is estimated to be less than \$100,000 per year.

SOURCES OF DATA: North Carolina Petroleum Marketers Association, NC Propane Gas Association, U.S. Energy Information Administration, NC Department of Revenue

TECHNICAL CONSIDERATIONS: None

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