

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2013

Legislative Fiscal Note

BILL NUMBER: House Bill 179 (Second Edition)

SHORT TITLE: Joint Agencies Sales & Excise Tax Exemptions.

SPONSOR(S): Representative McElraft

FISCAL IMPACT					
(\$ in millions)					
<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No <input type="checkbox"/> No Estimate Available					
	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18
State Impact					
General Fund Revenues:	Minimal General Fund Impact				
General Fund Expenditures:					
Special Fund Revenues:	Total Reduction to Highway Trust Fund and Highway Fund Less Than \$1.0 Million				
Special Fund Expenditures:	Commercial/Non-Commercial LUST, Water & Air Quality Account, and Wildlife Resources Impact Negligible				
State Positions:					
NET STATE IMPACT	Likely budget cost. See Assumptions & Methodology section for additional details.				
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: North Carolina Department of Revenue and North Carolina Department of Transportation					
EFFECTIVE DATE: July 1, 2013					
TECHNICAL CONSIDERATIONS: None					

BILL SUMMARY: House Bill 179 would allow governmental joint agencies that provide fire protection, emergency services, or police protection a sales tax refund. The bill also provides joint agencies with an exemption from motor fuels excise tax.

Section 1 of House Bill 179 expands the types of joint agencies allowed annual refunds of sales and use taxes to include joint agencies providing fire protection, emergency services, or police protection.

Section 2 of House Bill (HB) 179 exempts joint agencies that provide fire protection, emergency services, or police protection from the motor fuels excise tax for fuel used by the agency.

ASSUMPTIONS AND METHODOLOGY:

To estimate the fiscal impact of HB 179, Fiscal Research relied on data from the Department of Revenue. The paragraphs below outline the methodology used to estimate the fiscal impact of HB 179. Section 1 of HB 179 expands the sales tax refunds allowed to joint agencies and impacts

General Fund availability. Section 2 of HB 179 exempts these same joint agencies from the motor fuels excise tax and reduces Highway Trust Fund and Highway Fund availability.

Section 1: General Fund Impact

This bill is expected to have minimal if any impact to the General Fund. The General Assembly accounted for the sales tax refund of many EMS and fire departments with the passage of Session Law 2009-233. Session Law 2009-233 provided fire and rescue agencies with a sales tax refund contingent on the organizations having an IRS 501 (c) designation.

HB 179 also expands the sales tax refund provided to certain governmental entities (G.S. 105-164.14(c)) to include agencies created via interlocal agreement (G.S. 160A-462) that provide fire protection, emergency services and/or police protection. According to the Department of Revenue, there are no outstanding sales and use tax refund requests for agencies created via interlocal agreement under G.S. 160A that provide fire or police protection. The fiscal impact of this change is expected to be minimal.

Section 2: Motor Fuel Tax Impact

HB 179 creates a new motor fuels excise tax exemption. This exemption applies to the motor fuels used by the fire protection, emergency services and/or police protection agencies created by interlocal agreement under G.S. 160A-462. Fiscal Research utilized sales and use tax refunds by certain governmental entities to estimate the fiscal impact of expanding the motor fuels exemption. This is a preliminary estimate. The impact of expanding the motor fuels exemption will reduce Highway Fund/Highway Trust Fund Availability by approximately \$1.0 million.

Though intended for the Western Carteret Fire & EMS Department, HB 179 creates a motor fuels exemption that extends to multiple agencies. According to the North Carolina State Firemen's Association, 1,259 fire and rescue departments operate in North Carolina. The majority of North Carolina's fire and rescue associations, 1,119 departments, are nonprofit entities with many created through interlocal agreement.

The sales and use tax refunds allowed to certain governmental entities under G.S. 105-164.14(c) account for five percent of the sales and use tax refunds allowed to Federal, state and local governments and certain governmental entities. Assuming that motor fuel consumption for certain governmental entities mirrors sales and use tax refund proportions, expanding the motor fuels exemption to all agencies allowed a sales tax refund under G.S. 105-164.14(c) would increase the number of non-taxable motor fuels sold to governmental entities by 5.3 percent.

Governmental units consumed 46.2 million gallons of motor fuels in FY 2010-11. If creating a motor fuels tax exemption mirrors the sales and use tax refund allowed to certain governmental agencies under G.S. 105-164.14(c), non-taxable motor fuel sales would increase by 5.3 percent annually, an additional 2.44 million gallons of non-taxable motor fuel sales. The share used by fire protection, emergency services and/or police protection agencies is unknown. At maximum, expanding the exemption reduces motor fuel tax revenues by \$915,776 in FY 2013-14 (2.44 million gallons * \$0.374 cents per gallon).

Reduction in motor fuel tax revenues impacts the following funds based on the statutory distribution of motor fuel revenues:

IMPACT FROM REDUCTION IN MOTOR FUEL REVENUES					
	FY2014	FY2015	FY2016	FY2017	FY2018
Highway Fund	\$ (682,259)	\$ (664,017)	\$ (695,029)	\$ (729,689)	\$ (747,931)
Highway Trust Fund	\$ (227,799)	\$ (221,708)	\$ (232,063)	\$ (243,636)	\$ (249,727)
Commercial LUST	\$ (2,719)	\$ (2,646)	\$ (2,770)	\$ (2,908)	\$ (2,980)
Non-Commercial LUST	\$ (429)	\$ (418)	\$ (437)	\$ (459)	\$ (471)
DENR Water & Air Quality Account	\$ (1,431)	\$ (1,393)	\$ (1,458)	\$ (1,530)	\$ (1,569)
Wildlife Resources	\$ (1,139)	\$ (1,108)	\$ (1,160)	\$ (1,218)	\$ (1,249)
TOTAL	\$ (915,776)	\$ (891,290)	\$ (932,917)	\$ (979,440)	\$ (1,003,926)

SOURCES OF DATA:

North Carolina Department of Revenue, North Carolina Statistical Abstract, Table 34: Sales and Use Tax Governmental Refunds by Type of Governmental Claimant.

North Carolina Department of Revenue, North Carolina Statistical Abstract, Table 54: Gallons of Fuel Sold In North Carolina Taxable and Non-Taxable.

TECHNICAL CONSIDERATIONS: None

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