

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: SB 1292 Conference Report

SHORT TITLE: Revenue Laws Changes 1

SPONSOR(S):

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	Millions				
	<u>FY 2002-03</u>	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>	<u>FY 2006-07</u>
REVENUES					
General Fund					
- DOR Administration	0.3		* No General Fund Impact *		
Local Governments					
-1/2 Cent Sales Tax*	188.1				
- DOR Administration	(0.3)				
Net to Local Governments	187.8				
EXPENDITURES					
General Fund					
Department of Revenue**	.3				
*Assumes 100 counties enact tax in December 2002					
**Up to \$275,000 can be withheld from local sales tax collections for implementing half-cent local option.					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: NC Department of Revenue, Local Governments.					
EFFECTIVE DATE: Local Sales Tax December 1, 2002. The remainder becomes effective when law.					

BILL SUMMARY: Section 1 of the bill authorizes local county commissioners to levy an additional 1/2 cent local sales tax, effective December 1, 2002. This tax would not apply to food. Section 2 makes conforming changes to the language to be used on the ballot, should county commissioners choose to place the local sales tax change before the public for a vote. Section 3 shortens the notice local governments must give to the Department of Revenue of their intent to levy the additional tax to thirty (30) days, provided the tax is to become effective before January 1, 2003. Section 4 allows the Department of Revenue to use up to \$275,000 of local sales tax revenue to fund implementation of the new tax. Section 5 exempts Department of Revenue from standard contract and bid requirements, but only as it relates to items needed to administer the additional local option sales tax. Section 6 clarifies that retailers will not be held liable for the

additional taxes if, through inadvertent error, the tax was not collected. This dispensation only applies to the taxes levied December 1, and requires that the retailer demonstrate to the Secretary of Revenue the reason for the error. Sections 7-9 make conforming language changes. Section 10 limits the local public notice requirements to 48 hours, but that limitation applies only to sales taxes to become effective on or before January 1, 2003.

BACKGROUND:

In 2001, the General Assembly approved a sales tax “swap”. Under this proposal, the state levies an additional ½ cent sales tax, bringing the state rate to 4.5%, and the total rate to 6.5%. This additional ½ cent sunset on June 30, 2003. Starting July 1, 2003, county commissioners are authorized to levy an additional ½ cent at the county level, moving the local rate to 2.5% but holding the combined rate at 6.5%.

ASSUMPTIONS AND METHODOLOGY:

The legislation allows county governments to levy an additional ½ cent of local sales tax seven (7) months earlier than existing law. This means that in counties that choose to levy the tax, the combined state and local sales tax rate will be 7.0% (4.5% state, 2.5% local) until the state sunsets its recently enacted ½ cent in July 2003. The rate in Mecklenburg County will be 7.5% for the same time period, assuming Mecklenburg chooses to levy the tax.

Fiscal Research believes that in FY 2001-02, each penny of local sales tax generated \$716.8 million in revenue. (This estimate does not include food). Using a growth rate of 1.2% suggests the following non-food, sales tax revenue stream for FY 2002-03:

<u>Fiscal Year</u>	<u>Revenue from 1 Cent</u>	<u>Revenue from 1/2 Cent</u>
2002-03	\$725.40	\$362.70

Once adjustments are made for the December effective date, the total estimated statewide potential revenue available to local governments from this additional ½ cent is approximately \$188.1 million. However, since the language is permissive and counties can decide to enact the tax at any time, no exact fiscal estimate is possible on this portion of the bill.

Section 4 allows the Department of Revenue to draw up to \$275,000 from the proceeds of this new tax to cover their costs of administering the tax.

NOTE: The estimated local revenue from the new sales tax shown above may be lower than the total of revenue estimates provided by the state’s local governments. According to the Local Government Commission’s interpretation of the new GASB Statements #33 and #36, North Carolina local units are to use full accrual accounting to recognize revenues. This means that sales made on June 30, 2003 are to be counted as 2002-03 local revenue. However, the State of North Carolina, per the Controller and longstanding state policy, continues to utilize modified accounting standards. Under this state standard, late June sales would not be including in 2002-03 revenue estimates. Therefore, Fiscal Research will continue to utilize modified accounting when estimating local revenues.

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