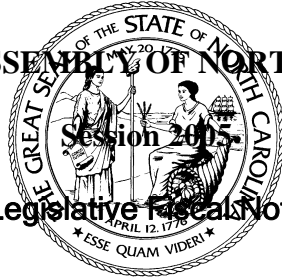


GENERAL ASSEMBLY OF NORTH CAROLINA



Legislative Fiscal Note

BILL NUMBER: House Bill 1938 (First Edition)

SHORT TITLE: Amend Taxation of Logging Machinery.

SPONSOR(S): Representatives Wainwright, Church, McComas, and Underhill

FISCAL IMPACT					
	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:	(2.87)	(2.87)	(2.87)	(2.87)	(2.87)
EXPENDITURES:					
POSITIONS (cumulative):					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: North Carolina Department of Revenue.					
EFFECTIVE DATE: July 1, 2006					

BILL SUMMARY: Historically mill machinery, including commercial logging equipment, has been subject to state sales tax at the rate of 1.0%, with an \$80 cap per item. Because such special sales tax rates do not conform to the Streamlined Sales Tax Agreement, to which North Carolina is a party, in 2001 the General Assembly chose to move this remove this special treatment from the sales tax statutes, and instead created a special privilege tax of the same amount. This change effectively exempted these purchases of mill machinery from sales tax, but made the purchaser liable for remitting a similar amount of tax under the privilege tax statutes, directly to the Department of Revenue. This change became effective January 1, 2006. The legislation exempts commercial logging equipment from this new privilege tax, treating it the same as agricultural equipment.

ASSUMPTIONS AND METHODOLOGY: No data specific to loggers or logging operations is available from the North Carolina Department of Revenue. Thus an alternative means of estimating is required.

Information from the North Carolina Division of Forestry and the North Carolina Forestry Association indicates that there are approximately 1,000 independent logging contractors in North Carolina with one or more crew members that have completed specialized continuing education for logging professionals. There are approximately 50 additional logging operations in the state that do not employ anyone who has completed these continuing education courses. Given this, the total number of logging operations estimated by the Division of Forestry is approximately 1,050.

A February 2006 issue of Texas Logger magazine suggests the following taxable operating costs for a biomass logging facility:

<u>Operating Costs:</u>	
Repair/Maintenance (100% of depreciation):	113, 250
Diesel Fuel (Off highway)	141,039
<u>Large Parts (Tires, etc.)</u>	<u>16,200</u>
Total	270,489

Using this number as a proxy for the operating costs associated with a North Carolina logging facility suggests that exempting these purchases from tax would result in a revenue loss of approximately \$2.84 million annually ($\$270,489 \times 1,050 \text{ loggers} \times 1.0\% \text{ tax}$).

The same Texas Logger magazine article suggests that a logging operation requires approximately \$755,000 in capital investment. This amount represents purchase of six (6) items: a feller buncher, grapple skidder, whole tree chipper, bulldozer and two service trucks. According to “The Used Connection” web site, the used prices for all these items exceed \$8,000. As such, all six items would be taxed at the maximum amount of \$80.00 per item, for a total tax on equipment of \$480.00. Assuming this equipment is replaced every 15 years suggests that 70 loggers will replace their equipment each year. Thus the annual revenue loss associated with these purchases is \$33,600 ($\$480 \times 70 \text{ loggers}$).

The total annual loss associated with this legislation is reflected in the fiscal impact box.

SOURCES OF DATA: North Carolina Division of Forestry, North Carolina Forestry Association, Texas Logger magazine.

TECHNICAL CONSIDERATIONS: None

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