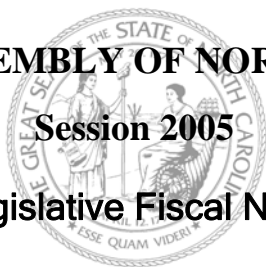


GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2005

Legislative Fiscal Note

**BILL NUMBER:** Senate Bill 2011 (First Edition)

**SHORT TITLE:** Railroad Cars Sales Tax Changes.

**SPONSOR(S):** Senator Hoyle

	<b>FISCAL IMPACT</b>				
	<b>(millions)</b>				
	<b>Yes (X)</b>	<b>No ( )</b>	<b>No Estimate Available (X)</b>		
	<b><u>FY 2006-07</u></b>	<b><u>FY 2007-08</u></b>	<b><u>FY 2008-09</u></b>	<b><u>FY 2009-10</u></b>	<b><u>FY 2010-11</u></b>
<b>REVENUES:</b>					
State	(0.37)	(0.66)	(0.66)	(0.66)	(0.66)
Local	(0.21)	(0.41)	(0.41)	(0.41)	(0.41)
<b>POSITIONS</b> <b>(cumulative):</b>					
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> North Carolina Department of Revenue.					
<b>EFFECTIVE DATE:</b> July 1, 2006.					

**BILL SUMMARY:** Prior to 2005 railway cars, locomotives, and related parts were subject to a 3% State sales tax, with a cap of \$1,500 per item. In 2005, as a part of multiple changes to conform to the Streamlined Sales Tax Agreement, the General Assembly altered the taxation of these items. Currently the purchase of railway cars, locomotives, and related parts are subject to the 7.0% general rate of tax with no cap on the total tax paid per item. Interstate carriers can apply for an annual refund of this tax. The legislation extends the special tax treatment granted to interstate carriers to utilities, under certain circumstances. In particular, the legislation allows a refund for taxes paid by utility companies in association with recurring, periodic payments for lease or rental agreements for railway cars that they leased, if the item would have been considered transportation equipment if it were used in interstate commerce. It also enacts a new GS 105-164.14(a2) allowing a utility company a refund of sales and use taxes paid on the purchase in NC of railway cars and locomotives operated by the company, with an associated apportionment formula.

**ASSUMPTIONS AND METHODOLOGY:** The North Carolina Department of Revenue reports that in 2004-05 sales taxes of \$11.4 million were collected from businesses that reported selling boats, airplanes and railway cars. This was at the 3.0% rate. Because of the way the data is collected the amount for railway cars, locomotives, and associated parts cannot be separated from the larger group. Also, there is no way to determine what proportion of the money collected on the sale of railway cars, locomotives and associated parts would be attributable to utility companies, nor the proportion that would be subject to a refund under the apportionment formula noted in the bill. Given this lack of Department data, Fiscal Research requested data from the affected industry. Representatives of the power companies indicate that, in total, the companies will have annual taxable leases of approximately \$16.6 million. Applying the appropriate state and local sales taxes, and the affective date, to the \$16.6 million annual base suggests the fiscal impacts noted in the box above.

**NOTE:** The fiscal analysis assumes the refund is annual on a calendar year basis.

**SOURCES OF DATA:** North Carolina Department of Revenue.

**TECHNICAL CONSIDERATIONS:** None

**FISCAL RESEARCH DIVISION:** (919) 733-4910

**PREPARED BY:** Linda Struyk Millsaps

**APPROVED BY:** Lynn Muchmore, Director  
Fiscal Research Division



**DATE:** June 7, 2006

**Signed Copy Located in the NCGA Principal Clerk's Offices**