GENERAL ASSEMBLY OF NORTH CAROLINA

Session 2015

Legislative Fiscal Note

BILL NUMBER: House Bill 81 (Second Edition)

SHORT TITLE: Expand 1%/$80 Rate for Mill Machinery.

SPONSOR(S): Representatives Malone, Lewis, Collins, and S. Martin

FISCAL IMPACT

($ in millions)

☑ **Yes** ☐ **No** ☐ **No Estimate Available**

State Impact	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19	FY 2019-20
General Fund Revenues:	General Fund Revenue loss of $4.8 - $8.4 million annually				
General Fund Expenditures:					
State Positions:					
NET STATE IMPACT					

Local Impact					
Revenues:	Local revenue loss of $1.2 - $2.4 million annually				
Expenditures:					
NET LOCAL IMPACT					

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: NC Dept of Revenue; NC Local Governments

EFFECTIVE DATE: July 1, 2015

TECHNICAL CONSIDERATIONS:
None

BILL SUMMARY:

HB 81, Expand 1%/$80 for Mill Machinery, amends G.S. 105-187.51B (a), Article 5F adding subsection (6). Subsection (6) imposes a privilege tax at a rate of 1% on the sales price of capitalized equipment or personal property up to $80 per item. This special 1%/$80 rate applies to a company engaged in the fabrication of metal work. This preferential rate applies to purchases of equipment or an attachment or repair part that is (1) capitalized by the company for tax purposes and (2) used by the company in the fabrication of metal products or used to create equipment for the fabrication of metal products.

ASSUMPTIONS AND METHODOLOGY:

Expanding Article 5F, the 1% or $80 privilege license tax for mill machinery will reduce General Fund Availability by $4.2 - $ 8.4 million per fiscal year. Local revenues are reduced by $1.2 - $2.4 million. Fiscal Research relied on data from the 2012 Economic Census (EC) and the Annual

Capital Expenditures Survey (ACES) to estimate the fiscal impact of expanding the preferential rate provided to mill machinery to metal fabricators.

According to the 2012 Economic Census, these North Carolina industries made an investment of $275 million in capital. The ACES provides data at the national level on capital spending for new and used structures and equipment by all U.S. nonfarm businesses. A majority, 80.84% of all manufacturing capital expenditures were associated with the cost of equipment. Fiscal Research applied this percentage to capital investment purchases in the metal fabrication industry to estimate the net amount expended on equipment used in the fabrication process.

After estimating the amount spent annually on manufacturing equipment for the metal fabrication industry, Fiscal Research calculated the difference between current sales tax collections and projected collections under Article 5F, the 1%/$80 tax. The Department of Revenue indicates the many metal fabricator purchases may already be taxed at the 1%/$80 rate. Therefore, a range estimate was developed assuming that between 50% and 100% of purchases are taxed at the general sales tax rate. The amount of tax that would be collected at the 1%/$80 rate is subtracted from the range sales tax estimate to determine the net revenue loss. The local sales tax loss is calculated using the same methodology assuming a current sales tax rate of 2%.

SOURCES OF DATA: U.S. Census Bureau, Annual Capital Expenditures Survey; 2012 Economic Census; North Carolina Department of Revenue

TECHNICAL CONSIDERATIONS: None

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DATE: April 15, 2015

Official Fiscal Research Division Publication

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