

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: House Bill 479 (First Edition)

SHORT TITLE: Reduce Construction Equipment Tax

SPONSOR(S): Representatives Sutton and Hall

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>	<u>FY 2006-07</u>	<u>FY 2007-08</u>
REVENUES					
General fund	(\$187,031)	(\$190,772)	(\$194,587)	(\$198,479)	(\$202,448)
EXPENDITURES					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: NC Department of Revenue					
EFFECTIVE DATE: This act becomes effective July 1, 2003					

BILL SUMMARY: The proposed bill changes the G.S. 105-164.3 by including a definition of construction equipment as self-propelled and not designed primarily for transportation, housing, or recreation. In addition, the bill amends G.S. 105-164.4(a) by adding a new subdivision that puts a \$600 cap on the State sales tax rate on purchasing construction equipment. The local sales tax rate is unaffected.

ASSUMPTIONS AND METHODOLOGY: Effective until July 1, 2003, the general sales tax rate in North Carolina is 4½ percent, after which date the sales tax rate is reduced to 4 percent. Since the proposed bill becomes effective on July 1, 2003, the tax rate of 4 percent is used for its fiscal impact analysis.

The fiscal impact of the bill is estimated by analyzing the data obtained from the U.S. Census Bureau and Machinery Trader web portal. The Bureau provides information on total amount of sales in the construction sector on the national and state levels. According to the data, overall construction sales in North Carolina constitute 3.13 percent of the national sales. Based on this estimate and the Census Bureau data on national monthly sales of construction machinery, the average monthly sales of construction equipment in North Carolina was estimated to be \$489,261.

Using data provided by Machinery Trader web portal, a list of construction equipment dealers in North Carolina was obtained. According to the costs of construction equipment listed by the

North Carolina dealers, average estimated price for a construction equipment unit is \$75,000. At this price, 6.5 units of construction equipment on average are sold in North Carolina per month. Based on this estimate at the 4 percent tax rate, the annual revenue from sales of construction equipment in North Carolina is \$234,000. After the passage of the bill, the maximum annual revenue from the construction equipment sales tax would be \$46,969 (\$3,914 per month). It is likely that this revenue would actually be lower, since some equipment is priced below \$15,000 and, therefore, tax levied on its sale would be less than the maximum cap of \$600. The minimum monthly revenue loss would constitute \$15,586 per month, or \$187,031 annually (\$234,000 - \$46,969). Recent articles in associated trade magazines suggest that the current international situation makes it extremely difficult to make out year construction equipment sales forecasts. As such, 2% growth is used for the out years.

SOURCES OF DATA:

U.S. Census Bureau (<http://www.census.gov>)
Machinery Trader (<http://www.machinerytrader.com/>)
North Carolina Construction Equipment Dealers.

TECHNICAL CONSIDERATIONS: None

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