

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: S.B. 100 (1st Edition)

SHORT TITLE: State Govt. Sales Tax Exemption

SPONSOR(S): Senator Kerr

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	(33.5)	(34.6)	(35.9)	(37.1)	(38.4)
EXPENDITURES					
State Agencies	(25.2)	(25.7)	(26.3)	(26.8)	(27.3)
UNC Hospitals	(8.3)	(8.9)	(9.6)	(10.3)	(11.1)
TOTAL Expenditures	(33.5)	(34.6)	(35.9)	(37.1)	(38.4)
NET IMPACT: No net change to the General Fund.					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: State agencies, UNC Constituent Institutions, UNC Hospitals.					
EFFECTIVE DATE: July 1, 2003					

BILL SUMMARY: Under current law, purchases by all major state agencies but one are subject to state and local sales taxes, unless the item purchased is exempt from tax for all purchasers. (The Department of Transportation is exempt from all local and state tax). However, the State receives a refund of the local sales taxes paid by its agencies, with the proceeds of this refund going to the general fund. Most state agencies file on a quarterly basis. Refunds of state and local taxes on purchases by the North Carolina Low Level Radioactive Waste Management Authority, the North Carolina Hazardous Waste Management Commission, constituent institutions of the University of North Carolina, and the University of North Carolina Hospitals at Chapel Hill are made on an annual basis and are refunded directly to the state agency. This bill exempts all state agencies from state and local sales tax. In order to qualify for the exemption, a state agency must obtain a sales tax exemption number from the Department of Revenue. If the state agency does not use the items purchased with its number, it is liable for the tax on that item. State agencies will continue to file quarterly for a refund of local sales taxes on indirect purchases. The Office of Management and Budget is charged with reducing 2003-04 agency allocations to reflect this change.

ASSUMPTIONS AND METHODOLOGY: This legislation will affect both revenues and expenditures.

REVENUES: According to the Department of Revenue, for FY 1999-00, state agency refunds of local taxes (excluding the UNC Hospitals) to the General Fund totaled \$14.2 million. Based on that refund data, Tax Research estimates that state agencies paid \$42.6 million in state and local sales taxes in 1999-00. Due to continuing budget and agency allocation reductions, actual refunds for local sales taxes paid on agency direct purchases in 2001-02 dropped to approximately \$8.5 million, suggesting that state agencies (excluding UNC Hospitals) paid a total of approximately \$27.3 million in state and local sales taxes on direct purchases (\$8.5 million in local taxes, \$18.6 million in state taxes, \$0.2 million in Mecklenburg additional ½ cent taxes). Given the current budget situation, it is assumed that agency purchases decline again in 2002-03 and 2003-04 and then slowly increase in the out years. Estimated potential state agency refunds for sales that occur in a given fiscal year are as follows:

	State	Local	Mecklenburg	TOTAL
2001-02	18,607,329	8,546,907	181,346	27,335,581
2002-03	18,269,013	9,134,507	172,279	27,575,799
2003-04	15,427,167	9,641,979	163,665	25,232,811
2004-05	15,735,710	9,834,819	166,938	25,737,467
2005-06	16,050,424	10,031,515	170,277	26,252,216
2006-07	16,371,433	10,232,146	173,682	26,777,261
2007-08	16,698,862	10,436,789	177,156	27,312,806

The amounts for 2003-04 and 2004-05 are the amounts that are anticipated to be backed out of individual agencies by the Office of State Budget and Management in its budget certification process.

The above analysis does not include the UNC Hospitals, although they will be affected by the legislation. According to returns filed with the Department of Revenue, UNC Hospitals paid \$7,043,970 in sales tax in 2001-02 on direct purchases. Under the legislation, these sales would now become tax-exempt. Historic data on sales tax refund claims filed by UNC Hospitals indicates that over the past three years claim amounts have grown by an average of 7.6%. Using this historic rate to estimate future potential claims suggests the following potential UNC Hospital refunds for sales that occur in a given fiscal year:

2002-03	7,691,674
2003-04	8,276,241
2004-05	8,905,236
2005-06	9,582,034
2006-07	10,310,268
2007-08	11,093,849

The amounts for 2003-04 and 2004-05 are the amounts that are anticipated to be backed out of individual agencies by the Office of State Budget and Management in its budget certification process.

NOTE: Indirect purchases are not included in these estimates, as they are not affected by the legislation.

EXPENDITURES:

The primary impact of the legislation on expenditures is the reduction in agency budgets to reflect the sales tax exemption. Under the bill, the Office of Management and Budget is directed to determine the amount of sales tax each agency would have spent and reduce their funding allocation by the amount. After the first year, this process will become unnecessary. This fiscal note assumes that the Office of Management and Budget will be able to back out the sales tax numbers and that 2003-04 and 2004-05 allocations will be reduced to reflect the reduced cost of doing business. Therefore, the net impact of the bill is no change to the General Fund.

SOURCES OF DATA: NC Department of Revenue, Office of State Budget and Management, and the constituent institutions of the University of North Carolina.

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