

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

Legislative Fiscal Note

BILL NUMBER: Senate Bill 1007 (First Edition)

SHORT TITLE: Expand Fuel Tax Refund.

SPONSOR(S): Senator Rand

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2008-09*</u>	<u>FY 2009-10</u>	<u>FY 2010-11</u>	<u>FY 2011-12</u>	<u>FY 2012-13</u>
REVENUES					
Highway Fund	(334,263)	(273,826)	(272,972)	(271,168)	(272,476)
Highway Trust Fund	(111,421)	(91,275)	(90,991)	(90,389)	(90,825)
General Fund	177,068	130,677	132,451	142,544	146,540
Local Governments	104,158	57,498	55,769	60,018	61,701
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: North Carolina Department of Revenue					
EFFECTIVE DATE: This act is effective when it becomes law and applies to motor fuel and alternative fuel consumed on or after January 1, 2007.					

* Includes refunds for period of 01/01/07 – 06/30/08. See Technical Considerations

BILL SUMMARY: Amends GS 105-449.107(b) 9 to allow a fuel tax refund for commercial tire service vehicles that pump air to operate machinery necessary to repair and replace tires of vehicles and off road equipment in the field. The refund is equal to 33 1/3% of the tax paid on the motor fuel consumed by the vehicle. Motor fuel not taxed by the motor fuels tax is subject to the 6.75% state and local sales tax. The motor fuels tax refund to the commercial vehicle owner is net of the sales tax payment.

ASSUMPTIONS AND METHODOLOGY: Under G.S. 105-449.107(b) owners of a number of vehicles are allowed an annual refund of a portion of the motor fuels tax paid when fuel was purchased for the vehicle. Generally, the vehicles are those that require the vehicle to run in place a large portion of the time to conduct their work. Examples include concrete mixing vehicles, tank wagons that deliver fuel, and blower trucks.

Data provided from the NC Tire Dealers & Retreaders Association indicate there are 460 commercial tire dealers in the state. They also suggest that on average each dealer has one and a

half commercial trucks that this legislation applies to, noting that while some smaller dealers have a truck some of the larger dealers have multiple trucks. It is estimated that these trucks use around 90 gallons of fuel per week which amounts to 4,680 gallons of fuel per year.

The refund equals the tax paid on one third of the motor fuel used, less the sales tax on the average wholesale price of fuel. The Office of State Budget and Management and other sources provided the projections for average wholesale price of fuel which determined the motor fuels tax used in the chart below. The sales tax rate charged on fuel exempt from fuel tax is 6.75% beginning January 1, 2008.

	Number of Trucks	Estimated Gallons	Refund on 1/3 of Gallons	Motor Fuels Tax	M.F. Tax Refund	Sales Tax Charge	Net Refund to Consumer
1/7/07-6/30/08	956	4,471,740	1,490,580	0.299	\$ 445,683	\$ 281,226	\$164,458
FY2008-09	650	3,042,000	1,014,000	0.299	\$ 303,186	\$ 188,058	\$ 115,128
FY 2009-10	663	3,102,840	1,034,280	0.353	\$ 365,101	\$ 188,174	\$ 176,926
FY 2010-11	676	3,164,897	1,054,966	0.345	\$ 363,963	\$ 188,221	\$ 175,743
FY 2011-12	690	3,228,195	1,076,065	0.336	\$ 361,558	\$ 202,562	\$ 158,996
FY 2012-13	704	3,292,759	1,097,586	0.331	\$ 363,301	\$ 208,242	\$ 155,059

The refund of motor fuel tax will produce a loss in the Highway Fund and the Highway Trust Fund. The Highway Fund receives 75% of the motor fuels tax and the Highway Trust Fund receives the remaining 25% of the tax. The loss to each fund due to the legislation is reflected in Table 2.

	M.F. Tax Refund	Highway Fund 75%	Highway Trust Fund 25%
01/07/07-6/30/08	\$ 445,683	\$ 334,263	\$ 111,421
FY 2008-09	\$ 303,186	\$ 227,390	\$ 75,797
FY 2009-10	\$ 365,101	\$ 273,826	\$ 91,275
FY 2010-11	\$ 363,963	\$ 272,972	\$ 90,991
FY 2011-12	\$ 361,558	\$ 271,168	\$ 90,389
FY 2012-13	\$ 363,301	\$ 272,476	\$ 90,825

Being exempt from the motor fuels tax then makes the fuel subject to the North Carolina sales and use tax. The applicable sales tax will be deducted from the motor fuel tax refunds and deposited into the General Fund and distributed to local governments as shown below in Table 3.

Table 3. Fiscal Impact to the General Fund and Local Governments from Expanding the Motor Fuels Tax Exemption, FY2008-09 thru FY2012-13		
	General Fund	Local Impact
01/07/07-6/30/08	\$ 177,068	\$ 104,068
FY 2008-09*	\$ 123,631	\$ 64,427
FY 2009-10*	\$ 130,677	\$ 57,498
FY 2010-11	\$ 132,451	\$ 55,769
FY 2011-12	\$ 142,544	\$ 60,018
FY 2012-13	\$ 146,540	\$ 61,701

* FY2008-09 estimates incorporate local and state sales tax rate changes occurring on October 1, 2008; Assumes local sales tax rate of 2.5% for three months and 2.25% for nine months; Also assumes state sales tax rate of 4.25% for three months and 4.5% for nine months

* FY2009-10 estimates incorporate local and state sales tax rate changes occurring on October 1, 2009; Assumes local sales tax rate of 2.25% for three months and 2.50 % for nine months; Also assumes state sales tax rate of 4.50% for three months and 4.75% for nine months.

SOURCES OF DATA:

Office of State Management and Budget

Tire Dealers and Retreaders Association

Fuel inflation rates—Moody’s Economy.com

Diesel fuel per gallon prices—Energy Information Administration. “What We Pay For in A Gallon of Diesel Fuel.” Available at: <http://tonto.eia.doe.gov/oog/info/gdu/dieselpump.html>

TECHNICAL CONSIDERATIONS:

The fiscal estimate to the General Fund assumes a diesel wholesale price of \$2.75 for the 2008-2009 fiscal year.

Since the bill applies to motor fuel and alternative fuel consumed on or after January 1, 2007 the fiscal impact for the period January 1, 2007 through June 30, 2008 was computed and added to the impact for fiscal year 2008-09.

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