NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: S.B. 1327

SHORT TITLE: No Tax on Gas Cities

SPONSOR(S): Senators Dalton and Phillips

FISCAL IMPACT

Yes (X) **No ( )** **No Estimate Available ( )**

($ Millions)

	FY 1998-99	FY 1999-00	FY 2000-01	FY 2001-02	FY 2002-03
REVENUES					
State	**(7.6)**	**(7.8)**	**(7.9)**	**(8.1)**	**(8.2)**
Counties	**(1.3)**	**(1.3)**	**(1.4)**	**(1.4)**	**(1.4)**

PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: Department of Revenue, Counties, and Municipalities.

EFFECTIVE DATE: July 1, 1998.

BILL SUMMARY: In the natural gas industry there are three types of sellers: utility companies, gas marketers, and cities that sell their own gas. Several types of taxes are now applied to piped natural gas, with the rates and type of tax charged determined by the type of seller and buyer. Utility companies are responsible for a sales tax of 3% (2.83% if the customer is a manufacturer) and a gross receipts tax of 3.22% on the commodity price. Under current law the utilities are the only group responsible for sales tax. Gas marketers are responsible for a gross receipts tax on the transportation charge (not the commodity price). However, if the gas is sold to a customer with direct access, no gross receipts tax is payable. Gas cities pay no sales tax and pay a gross receipts tax on only the gas they purchase for resale, from a North Carolina utility. A use tax should be paid by the customers of out of state gas marketers. All taxes are based on the price paid for the gas.

On May 5, 1998, the Department of Revenue issued a directive concerning the sale of piped natural gas. As a result of the directive piped natural gas will be defined as tangible personal property, and its retail sale will be subject to the 4% state and 2% sales and use tax, unless specifically exempt by statute. Sales of piped natural gas by the producer will continue to be exempt from sales tax. The sale of piped gas by a city is not exempt, and is subject to either a 6%

or 3% sales tax. A gas marketer is not exempt and would be responsible for the 6% rate. All gas sold to farmers, manufacturers, or laundries would be subject to a 2.83% tax. Utilities will only be responsible for a 3% sales tax rate, or 2.83% if the gas is sold to farmers, manufacturers, or laundries. The Department of Revenue directive becomes effective July 1, 1998.

This bill would restructure the taxes on natural gas. The bill eliminates the distinction between sales by utilities and sales by others, and applies a uniform tax to all piped natural gas consumed in North Carolina. The uniform tax is an excise tax. The rate is structured as a “declining block” that decreases as the amount of gas consumed in a month increases. The tax rate will be based on the amount of gas consumed, rather than the price paid for the gas. The bill would also exempt the gas cities from the new tax.

ASSUMPTIONS AND METHODOLOGY: Actual sales and gross receipts tax collections (related to piped natural gas) in 1997 were estimated to be $58.4 million by the Public Staff of the Utilities Commission. This number was then increased to reflect the 2% growth rate used in the economic model. An adjustment was made to convert the calendar year numbers to a fiscal year basis. An additional $2.7 million was added to the revenue estimate to reflect the expected sales tax income from taxing the gas cities, per the May 1998 Department of Revenue directive. $6.2 million was included as the estimated additional tax income from taxing gas marketers at 6% (2.83% if the customer is a manufacturer), per the May 1998 Department directive. Approximately 1.3 million of the revenue from taxing gas marketers would be forwarded to the counties as local sales tax. In total, this created a 1998-9 revenue estimate from piped natural gas, under the current system and including the Department of Revenue directive, of $69.1 million. Future years were forecasted based on a 2% growth rate.

Estimates for tax income under the bill were based on actual volumes delivered in 1997. The 1997 deliveries were grouped into “rate blocks” and increased to reflect the 2% growth rate used in the economic model. An adjustment was made to convert the calendar year numbers to a fiscal year basis. Future years were forecasted based on a 2% growth rate.

TECHNICAL CONSIDERATIONS: The estimated revenue associated with the Department directive was included in the baseline estimate of potential revenue without the bill. It should also be noted that natural gas prices are highly violable and very sensitive to changes in climate and market forces. As such, year to year variations in the revenue associated with natural gas taxes, under the current system, could vary dramatically.

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