

NORTH CAROLINA GENERAL ASSEMBLY

LEGISLATIVE FISCAL NOTE

BILL NUMBER: SB 527 <1st Edition>

SHORT TITLE: Schools Sales Tax Exemption

SPONSOR(S): Sen. Kerr

FISCAL IMPACT					
	Yes (X)	No ()	No Estimate Available ()		
	(\$ Millions)				
	<u>FY 2001-02</u>	<u>FY 2002-03</u>	<u>FY 2003-04</u>	<u>FY 2004-05</u>	<u>FY 2005-06</u>
REVENUES					
General Fund					
Recurring	0	(1.8)	(1.9)	(2.0)	(2.1)
Non-Recurring	0	(42.0)	0	0	0
TOTAL	0	(43.8)	(1.9)	(2.0)	(2.1)
Local Schools	0	1.8	1.9	2.0	2.1
EXPENDITURES: Due to the delayed implementation, there should be no additional mailing cost to the Department of Revenue as notice of the proposed change could be included in the normal annual mailing to merchants and other interested parties. There should be a cost reduction to schools, as they will no longer have the expenses associated with filing for a refund.					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED: NC Department of Revenue, Local School Systems.					
EFFECTIVE DATE: July 1, 2002 and applies to taxes paid on or after that date.					

BILL SUMMARY: The bill replaces the annual refund of state and local sales taxes allowed school boards with an exemption from those same taxes. To be eligible the local unit must register with the Department of Revenue and make the purchases by the unit's check, credit card, procurement card, or credit account. In addition, the finance officer shall register for the exemption, sign the exemption certificate, and provide all additional information required by the Secretary of Revenue. The purchased items must be included on a signed purchase order from the school administrative unit. That purchase order must include the exemption number of the school unit and a description of the property purchased. The school unit is liable for taxes, plus interest, if that school unit does not use the item.

ASSUMPTIONS AND METHODOLOGY: There are two costs associated with the bill.

Recurring Interest Loss: The shift from a refund to an exemption would reduce interest income for the State and add to investment earnings of local units. This shift is because refunds are paid the year after the purchase is made. A review of the refunds paid by month for a recent fiscal year indicates that the average refund to local units is paid in November of the fiscal year following the purchase. In analyzing the cost of the exemption, it was assumed that exempt purchases would be made at an even rate throughout the year. Thus the “average purchase” is made around January 1. This means that a sales tax exemption, rather than a refund, would accelerate sales tax relief from November back to January, a period of 11 months. The assumed interest rate used for the calculation of the interest income loss to the State (and gain to local units) was 5.25%, based on a recent estimate by the Office of the State Treasurer for the 2001-02 fiscal year. This means that the effective interest loss is equal to 4.8125%. (5.25% for 11 months) times the exemption amount.

In FY 1999-00, the only fiscal year for which data is available, the Department of Revenue refunded \$33,303,389 to local school administrative units. This amount was increased by the overall expected North Carolina sales tax revenue growth rates (5.7%, 5.7%, 6.4%, 5.9%, 6.0%, 6.0%) to create future year cost estimates. The refund amount was then moved back one year to obtain an estimate of the exemption dollars. The resulting interest losses to the general fund are listed below.

COST	2001-02	2002-03	2003-04	2004-05	2005-06
Schools		1,795,726	1,898,082	2,019,559	2,138,713

These general fund losses result in an equal revenue increase to local school systems.

One-time Revenue Loss: The bill will also result in a one-time loss to the General Fund. Currently the state budget is prepared on a cash basis and refunds to local school units are made in the year after the actual purchases. The combination of these factors mean that in the first year the exemption is granted the state has to pay both the refund and the exemption amounts (current year exemptions plus refunds for previous year purchases). According to the Local Government Commission, most local units list the potential refund as a “receivable” in the purchase year. As a result, there will be no one time gain or loss to local school systems.

EXPENDITURES: There will be no expenditure side impact to traditional state agencies. Local school systems should see a reduction as the process is greatly simplified.

FISCAL RESEARCH DIVISION 733-4910

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