

**NORTH CAROLINA GENERAL ASSEMBLY**

**LEGISLATIVE FISCAL NOTE**

**BILL NUMBER:** House Bill 975 (First Edition)

**SHORT TITLE:** No Sales Tax on Free Publications

**SPONSOR(S):** Representatives Nesbitt, Blue & Morris

<b>FISCAL IMPACT</b>					
	<b>Yes (X)</b>	<b>No ( )</b>	<b>No Estimate Available ( )</b>		
	<b><u>FY 2001-02</u></b>	<b><u>FY 2002-03</u></b>	<b><u>FY 2003-04</u></b>	<b><u>FY 2004-05</u></b>	<b><u>FY 2005-06</u></b>
<b>REVENUES</b>					
General Fund	(\$4,600,000)	(\$4,600,000)	(\$4,600,000)	(\$4,600,000)	(\$4,600,000)
Local Governments	(\$2,300,000)	(\$2,300,000)	(\$2,300,000)	(\$2,300,000)	(\$2,300,000)
<b>EXPENDITURES</b>					
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> Department of Revenue – Sales and Use Tax Division, City & County Governments					
<b>EFFECTIVE DATE:</b> This act becomes effective July 1, 2001, and applies to sales made on or after that date.					

**BILL SUMMARY:**

This bill exempts the paper, ink, and other ingredients used to produce free circulation publications from the state and local sales and use tax.

**BACKGROUND:**

Prior law granted a sales tax exemption for sales of paper, ink, and other tangible personal property to commercial printers and publishers for use as component parts in free circulation publications that contained advertising of a general nature. The exemption applied to general shoppers guides but not to more specialized publications such as real estate guides. The First Amendment of the United States Constitution does not allow a state to discriminate between publications based on their content. The prior law exemption clearly violated this rule by exempting guides with general content but not those with narrower content. Section 10 of Senate Bill 1112 (S.L. 1999-438) repealed the exemption, effective October 1, 1999, so that supplies sold for all free publications are now subject to tax on a uniform basis.

**ASSUMPTIONS AND METHODOLOGY:**

Prior to the 2000 Session of the General Assembly, Department of Revenue field auditors were asked to collect free publications from their regions and forward them by courier mail to the central office in Raleigh. These documents were used to estimate the annual statewide sales volumes of free publications. The Tax Research Division of the Department of Revenue used the estimated sales data for free publications, as well as sales and use tax collections data and information from the North Carolina Press Association to estimate the fiscal impact of this proposed tax exemption. In a memo dated June 6, 2000, the Tax Research Division estimated that the exemption proposed in HB 975 will reduce General Fund revenues by \$4.6 million per year and will reduce local sales tax revenues by \$2.3 million per year. No growth rate was assumed for future years due to the lack of market information for free publications.

NOTE: To exempt just those free publications that were exempt prior to October 1, 1999 would cost \$2.1 million in state revenues and \$1.05 million in local revenues. However, returning to the prior law revives the constitutionality question.

**TECHNICAL CONSIDERATIONS:** The effective date will need to be changed to avoid paying a refund for taxes paid since July 1, 2001.

**FISCAL RESEARCH DIVISION 733-4910**

**PREPARED BY:** Richard Bostic

**APPROVED BY:** James D. Johnson

**DATE:** August 22, 2001



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