

GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2009

Legislative Fiscal Note

BILL NUMBER: Senate Bill 1215 (Second Edition)

SHORT TITLE: Economic Incentives Alignment & Changes.

SPONSOR(S): Senator Jenkins

FISCAL IMPACT (\$ In Millions)					
	Yes (X)	No ()	No Estimate Available ()		
	<u>FY 2010-11</u>	<u>FY 2011-12</u>	<u>FY 2012-13</u>	<u>FY 2013-14</u>	<u>FY 2014-15</u>
REVENUES:					
Modification of G.S. 105-164.14(h)		\$1.04	\$2.21	\$2.01	\$2.08
Modification of G.S. 105-164.14(m)					\$1.35
EXPENDITURES:					
POSITIONS (cumulative):					
PRINCIPAL DEPARTMENT(S) & PROGRAM(S) AFFECTED:					
NC Department of Revenue					
EFFECTIVE DATE: July 1, 2010					

BILL SUMMARY: Under current law, many of the economic incentives enacted as the Article 3 credits, the income tax credits, and the sales and use tax benefits have some combination of reporting requirements¹ and sunset provisions; however, those requirements are not uniformly set out in each incentive. Where reporting requirements are set out, there are inconsistencies with respect to itemization by taxpayer,² itemization by credit,³ the reporting entity,⁴ and other miscellaneous differences.

¹ Currently, there is no reporting requirement for Article 3H or for sales and use tax refunds for analytical services, for railroad intermodal facilities, or for vehicle parts for motorsports racing teams.

² While itemization by taxpayer for economic incentives credits is generally required, it is not currently required by the reporting requirements of Articles 3B, 3D, or 3E.

³ Both Articles 3B and 3J contain multiple credits. While Article 3J's reporting provisions require itemization by credit, Article 3C's reporting provisions do not.

Furthermore, under current law, there are two economic incentives that are not utilized. The first is the credit in Article 3C for large recycling facilities. This credit was intended for Wisconsin Tissue; however, that company never located in North Carolina. The second credit is the credit for major computer manufacturing facilities in Article 3G. Other than the Dell facility for which the credit was enacted, no other taxpayer has utilized that credit.

This bill would (1) harmonize sunset and reporting features and requirements across the State's various economic incentives, (2) create a single, unified economic incentives report that contains the information currently reported separately for each economic incentive, and (3) delete obsolete credits under Articles 3C and 3G. This bill was a recommendation of the Revenue Laws Study Committee.

ASSUMPTIONS AND METHODOLOGY: The changes in Section 1.18 of SB 1215 modify existing statutes. These changes increase General Fund availability by applying sunsets to two sales tax refunds under G.S. 105-164-14 where no limitations were previously in place. The first sunset, January 1, 2011, applies to sales tax refunds for manufacturing machinery purchased under G.S. 105-164.14(h). The second sunset, January 1, 2014, applies to eligible purchases of professional motor racing vehicle parts as defined under G.S. 105-164(m).

The Department between 2006 and 2009 awarded an average of \$2.1 million in sales tax refunds under G.S. 105-164.14(h). This refund for manufacturing machinery purchased for use in a low tier county has been processed and reported by the Department annually. According to the DOR Tax Expenditure Report, G.S. 105-164.14(m), the sales tax refund for professional motor sports vehicle parts is expected to generate \$2.6 million in tax refunds during the 2009-10 fiscal year. Companies under each provision apply for sales and use tax refunds during the six months following the fiscal year in which the eligible purchases were made. Fiscal Research calculated the impact of the sunset provisions by earmarking the annual refund figures for inflation and changes in the sales and use tax rate.

Applying a January 2011 sunset to the refund provided by G.S. 105-164.14(h), will increase General Fund availability by \$1.04 million during the 2011-12 fiscal year, one half of a full year's impact. The refund will no longer be available after January 2011 increasing General Fund availability annually by \$2.2 in subsequent fiscal years.

Enacting a January 2014 sunset for G.S. 105-164.14(m) will increase General Fund availability in FY 2014-15 by \$1.35 million, an amount equal to a half-year of refunds. In future fiscal years, the sunset will generate a \$3.0 million gain to the General Fund.

SOURCES OF DATA:

North Carolina Department of Revenue, "Sales and Use Tax Business Incentive Refunds, Summary of Refunds Claimed during Calendar Year 2006," Available at: http://www.dornc.com/publications/salestax_incentive_07/2006_summary.pdf.

⁴ Generally speaking, the reporting entity for each economic incentives report required is the Department of Revenue; however, Article 3C (in which Revenue and Commerce jointly report) and for the credit for utilizing State ports to export cigarettes while increasing employment (in which the corporation claiming the credit is the reporting entity) differ.

North Carolina Department of Revenue, "Sales and Use Tax Business Incentive Refunds, Summary of Refunds Claimed during Calendar Year 2007," Available at: http://www.dornrc.com/publications/cred_inct/salestaxinrefund2007sum07.pdf.

North Carolina Department of Revenue, "Sales and Use Tax Business Incentive Refunds, Summary of Refunds Claimed during Calendar Year 2008," Available at: http://www.dornrc.com/publications/salestax_incentive_09/2008summary.pdf.

North Carolina Department of Revenue, "Sales and Use Tax Business Incentive Refunds, Summary of Refunds Claimed during Calendar Year 2009," Available at: http://www.dornrc.com/publications/salestax_incentive_10/2009_incentive_summary.pdf.

2009 Tax Expenditure Report, North Carolina Department of Revenue; Moody's Economy.com

TECHNICAL CONSIDERATIONS: None

FISCAL RESEARCH DIVISION: (919) 733-4910

PREPARED BY:

Sandra Johnson, Fiscal Analyst

APPROVED BY: Marilyn Chism, Director
Fiscal Research Division

DATE: June 16, 2010



Signed Copy Located in the NCGA Principal Clerk's Offices